

McBRIDE COMMUNITY FOREST CORPORATION

FINANCIAL STATEMENTS

December 31, 2010

RHN SCHMITZ de GRACE
Chartered Accountants

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Chartered Accountants

Partners

- Lynn Ross CA
- Norm Hildebrandt BBA, CA
- Kerry Nichiporik CA
- Allison Twiss BComm, CA

• Denotes professional corporation

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of McBride Community Forest Corporation

We have audited the accompanying financial statements of the McBride Community Forest Corporation, which comprise the balance sheet as at December 31, 2010, and the statements of operations, and cash flow for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

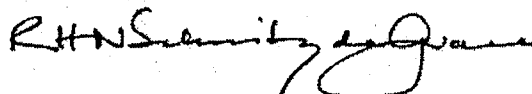
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the McBride Community Forest Corporation as at December 31, 2010, and its financial performance and its cash flow for the year then ended in accordance with Canadian generally accepted accounting principles.



April 28, 2011
Prince George, BC

Chartered Accountants

McBRIDE COMMUNITY FOREST CORPORATION
STATEMENT OF OPERATIONS AND RETAINED EARNINGS

For the year ended December 31, 2010

	2010	2009
REVENUE		
Sales		
Standing timber	\$ 788,164	\$ 450,946
Sort yard	2,375	5,358
Administration and consulting	124,464	70,626
Interest	23,423	56,293
Salvage licences	11,430	56,182
	949,856	639,405
EXPENSES		
Silviculture	343,157	140,017
Salaries and employee benefits	243,054	183,051
Stumpage	90,675	59,790
Office and general	79,031	42,986
Post harvest clean up	42,214	-
Grade 4 Cedar	36,918	-
Rent	30,500	30,808
Professional fees	30,411	10,976
Road construction	24,918	30,619
Raven Road contract	21,230	-
Road maintenance	12,127	20,364
Vehicle	11,220	6,191
Advertising and donations	10,838	14,933
Trucking and hauling	9,877	5,277
Repairs and maintenance	9,337	25,113
Insurance, licences and dues	8,672	17,236
Travel and entertainment	6,146	9,691
Equipment rental	1,831	-
Logging contractors	916	3,710
Interest and bank charges	884	735
Scaling and bucking lumber	166	1,784
Agriculture	-	3
Consulting fees	-	25,913
Bad debts (recovery)	(3,850)	(19,762)
Amortization (Note 2 (a))	4,798	7,791
	1,015,070	617,226
NET (LOSS) INCOME FOR THE YEAR	(65,214)	22,179
RETAINED EARNINGS AT BEGINNING OF THE YEAR	1,412,443	1,550,264
DIVIDENDS PAID (Note 8)	(170,000)	(160,000)
RETAINED EARNINGS AT END OF THE YEAR	\$ 1,177,229	\$ 1,412,443

See notes to the financial statements.

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McBRIDE COMMUNITY FOREST CORPORATION

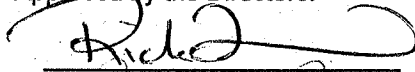
BALANCE SHEET

December 31, 2010

ASSETS

	<u>2010</u>	<u>2009</u>
CURRENT ASSETS		
Cash	\$ 74,562	\$ -
Term deposits	1,357,143	1,696,321
Accounts receivable	320,371	91,857
Inventory (Note 2(b))	10,254	37,400
Prepaid expenses	<u>77,524</u>	<u>29,015</u>
	1,839,854	1,854,593
DEFERRED LOGGING COSTS (Note 2(c))	332,555	341,224
PROPERTY AND EQUIPMENT (Notes 2(a) and 3)	<u>12,474</u>	<u>17,272</u>

Approved by the Directors:



Director



Director

\$ 2,184,883

\$ 2,213,089

LIABILITIES

	<u>2010</u>	<u>2009</u>
CURRENT LIABILITIES		
Bank overdraft	\$ -	\$ 4,568
Accounts payable and accrued liabilities	195,441	25,509
Silviculture liability	748,713	707,069
Agriculture liability	13,407	13,407
	<u>957,561</u>	<u>750,553</u>

SHAREHOLDER'S EQUITY

SHARE CAPITAL (Note 4)	20	20
CONTRIBUTED SURPLUS (Note 5)	<u>50,073</u>	<u>50,073</u>
	50,093	50,093
RETAINED EARNINGS	<u>1,177,229</u>	<u>1,412,443</u>
	<u>1,227,322</u>	<u>1,462,536</u>
	<u>\$ 2,184,883</u>	<u>\$ 2,213,089</u>

CONTINGENCY (Note 9)

See notes to the financial statements.

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McBRIDE COMMUNITY FOREST CORPORATION

STATEMENT OF CASH FLOW

For the year ended December 31, 2010

	<u>2010</u>	<u>2009</u>
OPERATING ACTIVITIES		
Net (loss) income for the year	\$ (65,214)	\$ 22,179
Item not involving cash:		
Amortization	<u>4,798</u>	<u>7,791</u>
	<u>(60,416)</u>	<u>29,970</u>
Changes in non-cash working capital items (Note 6)	<u>(38,301)</u>	<u>(17,415)</u>
Cash from operations	<u>(98,717)</u>	<u>12,555</u>
FINANCING ACTIVITIES		
Dividends paid	<u>(170,000)</u>	<u>(160,000)</u>
INVESTING ACTIVITIES		
Deferred logging costs	<u>8,669</u>	<u>30,620</u>
DECREASE IN CASH AND EQUIVALENTS	<u>(260,048)</u>	<u>(116,825)</u>
CASH AND EQUIVALENTS AT BEGINNING OF THE YEAR	<u>1,691,753</u>	<u>1,808,578</u>
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	<u>\$ 1,431,705</u>	<u>\$ 1,691,753</u>
Cash and equivalents are comprised of:		
Cash (bank overdraft)	\$ 74,562	\$ (4,568)
Term deposits	<u>1,357,143</u>	<u>1,696,321</u>
	<u>\$ 1,431,705</u>	<u>\$ 1,691,753</u>
During the year, the following payments were made for:		
Interest	\$ 884	\$ 735

See notes to the financial statements.

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McBRIDE COMMUNITY FOREST CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2010

1. DESCRIPTION OF OPERATIONS

McBride Community Forest Corporation (the "company") is a company incorporated in British Columbia. The company's primary purpose is to carry out logging operations in McBride, BC and the surrounding area.

2. SIGNIFICANT ACCOUNTING POLICIES

Property, Equipment and Amortization

Property and equipment are recorded at cost. Amortization of property and equipment has been provided for on a declining balance basis at the following annual rates:

Automotive	30%
Small tools and equipment	20%
Office equipment	20 - 45%

Inventory

Inventory is valued at the lower of the cost and net realizable value. The cost of inventory is determined using the average cost method.

Deferred Logging Costs

The costs of roads constructed to access standing timber are deferred until the related timber is harvested. Such costs are amortized over the total anticipated volume to be removed from each block, and are expensed based on production.

Income Taxes

The company is a 100% owned subsidiary of the Corporation of the Village of McBride, and is consequently not subject to corporate income taxes.

Revenue Recognition

Sales of logs, including those marketed through salvage licences, are recognized on delivery and scaling.

Interest is recognized in the period earned. Other revenue is recognized when service is provided.

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McBRIDE COMMUNITY FOREST CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2010

3. PROPERTY AND EQUIPMENT

	2010			2009
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Automotive	\$ 23,540	\$ 18,736	\$ 4,804	\$ 6,863
Small tools and equipment	17,870	11,166	6,704	8,382
Office equipment	8,801	7,835	966	2,027
	<u>\$ 50,211</u>	<u>\$ 37,737</u>	<u>\$ 12,474</u>	<u>\$ 17,272</u>

4. SHARE CAPITAL

Share capital is comprised of the following:

Authorized:

- 10,000 Class A common shares with a par value of \$1.00 each
- 10,000 Class B common shares with a par value of \$1.00 each
- 10,000 Class C common shares with a par value of \$1.00 each
- 100,000 Class D common shares with a par value of \$0.01 each
- 100,000 Class A preference shares with a par value of \$0.01 each
- 100,000 Class B preference shares with a par value of \$0.01 each
- 100,000 Class C preference shares with a par value of \$100.00 each
- 100,000 Class D preference shares with a par value of \$0.01 each
- 100,000 Class E preference shares with a par value of \$0.01 each
- 100,000 Class F preference shares with a par value of \$0.01 each

Issued:

	2010	2009
10 Class A common shares	\$ 10	\$ 10
10 Class B common shares	10	10
	<u>\$ 20</u>	<u>\$ 20</u>

5. CONTRIBUTED SURPLUS

The contributed surplus is comprised of contributions made to the company by its only shareholder, the Corporation of the Village of McBride.

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McBRIDE COMMUNITY FOREST CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2010

6. CHANGES IN NON-CASH WORKING CAPITAL ITEMS

	<u>2010</u>	<u>2009</u>
Accounts receivable	\$(228,514)	\$ 24,198
Inventory	27,146	7,071
Prepaid expenses	(48,509)	1,013
Accounts payable	169,932	(24,129)
Silviculture liability	41,644	(25,571)
Agriculture liability	-	3
	<u>\$ (38,301)</u>	<u>\$ (17,415)</u>

7. FINANCIAL INSTRUMENTS

The company's financial instruments are comprised of cash, term deposits, accounts receivable, accounts payable and accrued liabilities, silviculture liability and agriculture liability.

Credit Risk

The company provides credit to its clients in the normal course of business and carries out specific procedures to minimize the risk. Credit risk is minimal.

Interest Rate Risk

The term deposits bear interest at fixed rates; therefore, interest rate risk is minimal.

Fair Value

The fair value of cash, term deposits, accounts receivable, accounts payable and accrued liabilities, silviculture liability and agriculture liability is approximately equal to their carrying value due to their short-term maturity dates.

8. RELATED PARTY TRANSACTIONS

During the year, the company purchased services in the amount of \$29,682 (2009 - \$26,694) and paid rent in the amount of \$12,000 (2009 - \$12,000) to its parent.

During the year, the company's board of directors approved and paid dividends to the parent in the amount of \$170,000 (2009 - \$160,000).

These transactions were made in the normal course of business and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

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NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2010

9. CONTINGENCY

In 2008 a contractor commenced proceedings against the company claiming damages of approximately \$20,000 relating to a logging contract. While the company has contested this claim, which management believes to be groundless, the outcome cannot be determined at this time.

In December 2010, the company was notified of a recalculation of the stumpage rate for CP995 and an estimation of a stumpage bill of \$70,000 – 80,000. As of December 31, 2010, the stumpage advisory notice has not been issued. At this time, the company has retained legal counsel and will be seeking a judicial review of determination rather than waiting to appeal the stumpage advisory notice to the Forest Appeals Commission.

10. CAPITAL MANAGEMENT

The company receives its principal source of capital through logging and defines capital to be comprised primarily of retained earnings. The company is not subject to any external capital requirements or restrictions