

McBRIDE COMMUNITY FOREST CORPORATION

FINANCIAL STATEMENTS

December 31, 2011

RHN SCHMITZ de GRACE
Chartered Accountants

RHN SCHMITZ de GRACE

Chartered Accountants

Partners

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

1116 Sixth Avenue
Prince George, BC, V2L 3M6
Tel. (250) 564-2515
Fax (250) 562-8722
E-mail: office@rhngroup.ca

- Denotes professional corporation

INDEPENDENT AUDITORS' REPORT

To the Shareholders of McBride Community Forest Corporation

We have audited the accompanying financial statements of the McBride Community Forest Corporation ("the Corporation"), which comprise the balance sheets as at December 31, 2011, December 31, 2010 and January 1, 2010 and the statements of operations and retained earnings, and of cash flow for the years ended December 31, 2011 and December 31, 2010, and a summary of significant accounting policies and other explanatory information. The financial statements have been prepared by management based on financial reporting provisions described in Note 2 to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the basis of accounting described in Note 2 to the financial statements, 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 financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 of the McBride Community Forest Corporation for the years ended December 31, 2011 and December 31, 2010 present fairly, in all material respects, the financial position of the McBride Community Forest Corporation as at December 31, 2011, December 31, 2010 and January 1, 2010 and its financial performance and its cash flow for the years then ended in accordance with basis of accounting described in Note 2 to the financial statements.

RHN SCHMITZ de GRACE

Chartered Accountants

Partners

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

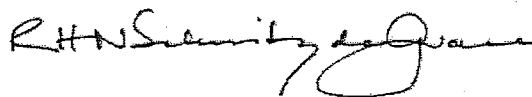
• Denotes professional corporation

1116 Sixth Avenue
Prince George, BC, V2L 3M6
Tel. (250) 564-2515
Fax (250) 562-8722
E-mail: office@rhngroup.ca

INDEPENDENT AUDITORS' REPORT, continued

Basis of Accounting

Without modifying our opinion, we draw attention to Note 2 of the financial statements which describes the adoption of Accounting Standards for Private Enterprises. The financial statements are prepared using a framework appropriate for a commercial operation, although the Corporation, strictly speaking, operates in the public sector. As a result, the financial statements may not be suitable for all purposes.



April 12, 2012
Prince George, BC

Chartered Accountants

McBRIDE COMMUNITY FOREST CORPORATION

STATEMENT OF OPERATIONS AND RETAINED EARNINGS

For the year ended December 31, 2011

	<u>2011</u>	<u>2010</u>
REVENUE		
Sales		
Standing timber	\$ 699,727	\$ 788,164
Sort yard	1,600	2,375
Administration and consulting	202,415	124,464
Interest	28,174	23,423
Salvage licences	-	11,430
	<u>931,916</u>	<u>949,856</u>
EXPENSES		
Silviculture	324,652	343,157
Salaries and employee benefits	224,680	243,054
Raven Road contract	81,959	21,230
Trucking and hauling	65,983	9,877
Stumpage	65,326	90,675
Office and general	44,693	63,923
Bad debts (recovery)	44,211	(3,850)
Road maintenance	43,185	12,127
Professional fees	35,493	30,411
Rent	30,500	30,500
Grade 4 Cedar	28,367	36,918
Consulting fees	23,595	15,108
Road construction	18,634	24,918
Repairs and maintenance	11,199	9,337
Travel and entertainment	10,223	6,146
Vehicle	9,412	11,220
Insurance, licences and dues	9,108	8,672
Advertising and donations	6,141	10,838
Logging contractors	6,136	916
Bridge maintenance	1,880	-
Scaling and bucking lumber	1,309	166
Equipment rental	1,027	1,831
Interest and bank charges	967	884
Gain on sale of assets	(196)	-
Post harvest clean up	-	42,214
Amortization (Note 2)	5,589	4,798
	<u>1,094,073</u>	<u>1,015,070</u>
NET LOSS FOR THE YEAR	(162,157)	(65,214)
RETAINED EARNINGS AT BEGINNING OF THE YEAR	1,177,229	1,412,443
DIVIDENDS PAID (Note 8)	(150,000)	(170,000)
RETAINED EARNINGS AT END OF THE YEAR	\$ 865,072	\$ 1,177,229

RHN SCHMITZ de GRACE
Chartered Accountants

McBRIDE COMMUNITY FOREST CORPORATION

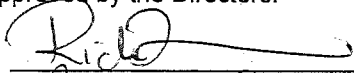
BALANCE SHEET

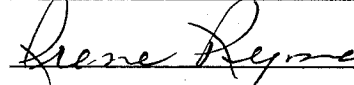
December 31, 2011

ASSETS

	<u>December 31 2011</u>	<u>December 31 2010</u>	<u>January 1 2010</u>
CURRENT ASSETS			
Cash	\$ 102,062	\$ 74,562	\$ -
Term deposits	1,020,957	1,357,143	1,696,321
Accounts receivable	141,560	320,371	91,857
Inventory (Note 2)	920	10,254	37,400
Prepaid expenses	60,959	77,524	29,015
	<u>1,326,458</u>	<u>1,839,854</u>	<u>1,854,593</u>
DEFERRED LOGGING COSTS (Note 2)	314,593	332,555	341,224
PROPERTY AND EQUIPMENT (Notes 2 and 3)	<u>27,081</u>	<u>12,474</u>	<u>17,272</u>

Approved by the Directors:

 Director

 Director

<u>\$ 1,668,132</u>	<u>\$ 2,184,883</u>	<u>\$ 2,213,089</u>
---------------------	---------------------	---------------------

LIABILITIES

	December 31 2011	December 31 2010	January 1 2010
CURRENT LIABILITIES			
Bank overdraft	\$ -	\$ -	\$ 4,568
Accounts payable and accrued liabilities, including HST of 15,365 (2010 - 16,974)	44,049	195,441	25,509
Silviculture liability	695,511	748,713	707,069
Agriculture liability	13,407	13,407	13,407
	<u>752,967</u>	<u>957,561</u>	<u>750,553</u>

SHAREHOLDER'S EQUITY

SHARE CAPITAL (Note 4)	20	20	20
CONTRIBUTED SURPLUS (Note 5)	<u>50,073</u>	<u>50,073</u>	<u>50,073</u>
	50,093	50,093	50,093
RETAINED EARNINGS	<u>865,072</u>	<u>1,177,229</u>	<u>1,412,443</u>
	<u>915,165</u>	<u>1,227,322</u>	<u>1,462,536</u>
	<u>\$ 1,668,132</u>	<u>\$ 2,184,883</u>	<u>\$ 2,213,089</u>

CONTINGENCIES (Note 9)

RHN SCHMITZ de GRACE
Chartered Accountants

McBRIDE COMMUNITY FOREST CORPORATION

STATEMENT OF CASH FLOW

For the year ended December 31, 2011

	<u>2011</u>	<u>2010</u>
OPERATING ACTIVITIES		
Net (loss) income for the year	\$ (162,157)	\$ (65,214)
Item not involving cash:		
Amortization	5,589	4,798
Gain on disposal of property and equipment	<u>(196)</u>	<u>-</u>
	(156,764)	(60,416)
Changes in non-cash working capital items (Note 6)	<u>116</u>	<u>(38,301)</u>
Cash from operations	<u>(156,648)</u>	<u>(98,717)</u>
FINANCING ACTIVITIES		
Dividends paid	<u>(150,000)</u>	<u>(170,000)</u>
INVESTING ACTIVITIES		
Deferred logging costs	17,962	8,669
Purchase of property and equipment	<u>(20,000)</u>	<u>-</u>
	<u>(2,038)</u>	<u>8,669</u>
DECREASE IN CASH AND EQUIVALENTS	(308,686)	(260,048)
CASH AND EQUIVALENTS AT BEGINNING OF THE YEAR	<u>1,431,705</u>	<u>1,691,753</u>
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	<u>\$ 1,123,019</u>	<u>\$ 1,431,705</u>
Cash and equivalents are comprised of:		
Cash	\$ 102,062	\$ 74,562
Term deposits	<u>1,020,957</u>	<u>1,357,143</u>
	<u>\$ 1,123,019</u>	<u>\$ 1,431,705</u>
During the year, the following payments were made for:		
Interest	\$ 967	\$ 884

RHN SCHMITZ de GRACE
Chartered Accountants

See notes to the financial statements

McBRIDE COMMUNITY FOREST CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2011

1. DESCRIPTION OF OPERATIONS

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

2. SIGNIFICANT ACCOUNTING POLICIES

Adoption of Accounting Standards for Private Enterprises

As the Corporation's operations are effectively controlled by its sole shareholder, the Corporation of the Village of McBride, Canadian generally accepted accounting principles dictate that its financial statements be prepared using the framework stipulated by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants. The Corporation's activities, however, are essentially commercial in nature, and it is, therefore, management's opinion that the framework set out in the Canadian accounting standards for private enterprise (ASPE) would be more appropriate in the circumstances.

Consequently, effective January 1, 2011, the Corporation adopted the requirements of the Canadian Institute of Chartered Accountants (CICA) Handbook – Accounting, electing to adopt the new accounting framework: Canadian accounting standards for private enterprises (ASPE). These are the Company's first financial statements prepared in accordance with ASPE and the transitional provisions of Section 1500, *First-time Adoption* have been applied. Section 1500 requires retrospective application of the accounting standards with certain elective exemptions and limited retrospective exceptions. The accounting policies set out in the this note have been applied in preparing the financial statements for December 31, 2011, the comparative information presented in these financial statements for the year ended December 31, 2010 and in the preparation of an opening ASPE balance sheet as of January 1, 2010 (the Corporation's date of transition).

The Corporation issued financial statements for the year ended December 31, 2010 using Canadian generally accepted accounting principles prescribed by CICA Handbook – Accounting XFI. The adoption of ASPE had no impact on the previously reported assets, liabilities and equity of the Company, and accordingly; no adjustments have been recorded in the statement of financial position, statement of operations, statement of retained earnings and the cash flow statement. Certain of the Corporation's disclosures included in these financial statements reflect the new disclosure requirement of ASPE.

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%

McBRIDE COMMUNITY FOREST CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2011

2. SIGNIFICANT ACCOUNTING POLICIES, continued

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 Corporation 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.

Financial Instruments

Measurement of financial instruments

The Corporation initially measures its financial assets and financial liabilities at fair value. The Corporation subsequently measures all its financial assets and financial liabilities at cost, which are measured at fair value. Changes in fair value are recognized in net income.

Financial assets measured at cost include cash, term deposits, and accounts receivable.

Financial liabilities measured at cost include accounts payable and accrued liabilities, silvicultural liability and agriculture liability.

Impairment

Financial assets measured at cost are tested for impairment when there are indicators of impairment. The amount of write-down is recognized in net income. The previously recognized impairment loss may be reversed to the extent of the improvement, directly or by adjusting the allowance account, provided it is no greater than the amount that would have been reported at the date of the reversal had the impairment not been recognized previously. The amount of the reversal is recognized in net income.

McBRIDE COMMUNITY FOREST CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2011

2. SIGNIFICANT ACCOUNTING POLICIES, continued

Transaction costs

The Corporation recognizes its transaction costs in net income in the period incurred. However, the carrying amount of the financial instruments that will not be subsequently, measured at fair value is reflected in the transaction costs that are directly attributable to their origination, issuance or assumption.

3. PROPERTY AND EQUIPMENT

	December 31 2011		December 31 2010	January 1 2010
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Automotive	\$ 25,000	\$ 3,750	\$ 21,250	\$ 6,862
Small tools and equipment	17,870	12,508	5,362	8,382
Office equipment	8,801	8,332	469	2,028
	<u>\$ 51,671</u>	<u>\$ 24,590</u>	<u>\$ 27,081</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:

	December 31 2011	December 31 2010	January 1 2010
10 Class A common shares	\$ 10	\$ 10	\$ 10
10 Class B common shares	10	10	10
	<u>\$ 20</u>	<u>\$ 20</u>	<u>\$ 20</u>

McBRIDE COMMUNITY FOREST CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2011

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.

6. CHANGES IN NON-CASH WORKING CAPITAL ITEMS

	<u>2011</u>	<u>2010</u>
Accounts receivable	\$ 178,811	\$ (228,514)
Inventory	9,334	27,146
Prepaid expenses	16,565	(48,509)
Accounts payable	(151,393)	169,932
Silviculture liability	(53,201)	41,644
	<u>\$ 116</u>	<u>\$ (38,301)</u>

7. FINANCIAL INSTRUMENTS

Risks and Concentrations

The Corporation is exposed to various risks through its financial instruments, without being exposed to concentrations of risk. The following analysis provides a measure of the Corporations risk exposure at the balance sheet date, i.e. December 31, 2011.

Credit Risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Corporation's main credit risk relates to its accounts receivable. The Corporation provides credit to its clients in the normal course of business and carries out specific procedures to minimize the risk.

Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Corporation is exposed to interest rate risk on its fixed interest rate financial instruments. 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.

McBRIDE COMMUNITY FOREST CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2011

8. RELATED PARTY TRANSACTIONS

During the year, the Corporation purchased services from its parent in the amount of \$30,168 (2010 - \$29,682), contributed \$5,000 (2010-\$nil) for the computer system upgrade, and paid rent in the amount of \$12,000 (2010 - \$12,000). The Corporation received revenues from its parent in the amount of \$123,675 (2010-\$69,867).

During the year, the Corporation's board of directors approved and paid dividends to the parent in the amount of \$150,000 (2010 - \$170,000).

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.

9. CONTINGENCIES

The Corporation has taken action in small claims court to collect unpaid debts owed by certain customers.

The Corporation was notified by the Ministry of Forests, Lands and Natural Resource Operations of its intention to recalculate and increase stumpage on timber previously harvested. The Corporation has contested this claim which, in management's opinion, is without grounds.

The Corporation is aware that a third party is considering commencing legal action in conjunction with a contract issue.

The outcome of these matters is not known at this time, but the financial impact, if any, will be recorded in the year that it occurs.

10. COMPARATIVE FIGURES

Certain prior year figures, presented for comparative purposes, have been reclassified to conform to the current year's financial statement presentation.

11. CAPITAL MANAGEMENT

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