

McBRIDE COMMUNITY FOREST CORPORATION

FINANCIAL STATEMENTS

December 31, 2013

RHB SCHMITZ de GRACE
Chartered Accountants

RHB SCHMITZ de GRACE

Chartered Accountants

Partners

- Lynn Ross, CPA, CA
- Norm Hildebrandt, CPA, CA
- Allison Beswick, CPA, CA

Associate

Josh Benham, CPA, CGA

- 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 ("the Corporation"), which comprise the balance sheet as at December 31, 2013 and the statements of operations and retained earnings, and of cash flow for the year then ended 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

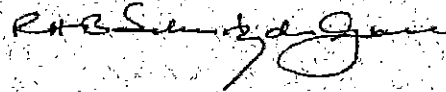
In our opinion, the financial statements of the McBride Community Forest Corporation for the year ended December 31, 2013 present fairly, in all material respects, the financial position of the McBride Community Forest Corporation as at December 31, 2013 and its financial performance and its cash flow for the year then ended in accordance with the basis of accounting described in Note 2 to the financial statements.

INDEPENDENT AUDITORS' REPORT, continued

Basis of Accounting

Without modifying our opinion, we draw attention to Note 2 of the financial statements which describes the Basis of Accounting. 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.

**March 7, 2014
Prince George, BC**



Chartered Accountants

RHB SCHMITZ de GRACE
Chartered Accountants

McBRIDE COMMUNITY FOREST CORPORATION
STATEMENT OF OPERATIONS AND RETAINED EARNINGS

For the year ended December 31, 2013

	2013	2012
REVENUE		
Sales		
Standing timber	\$ 1,265,740	\$ 1,260,278
Raw log sales	111,057	-
Interest	28,896	26,434
Project	24,171	30,745
Administration and consulting	4,043	8,500
Salvage licences and miscellaneous	28	44
	1,433,935	1,326,001
 EXPENSES		
Silviculture	542,014	448,669
Salaries and employee benefits	211,994	244,653
Professional fees	98,037	36,529
Stumpage	72,898	61,094
Block maintenance and layout	70,334	32,391
Road maintenance	67,210	14,704
Office and general	57,997	49,507
Logging subcontracting	53,920	-
Rent	33,400	30,500
Agriculture	22,850	-
Advertising and donations	20,263	7,990
Trucking and hauling	18,228	-
Vehicle	9,381	9,117
Interest and bank charges	9,316	730
Road construction	8,867	260,731
Insurance, licences and dues	8,649	9,069
Travel and entertainment	8,511	8,052
Bad debts (recovery)	6,890	(20,033)
Repairs and maintenance	6,186	10,350
Post harvest clean-up	5,280	2,305
Equipment rental	396	-
Amortization (Note 2)	5,435	7,683
	1,338,056	1,214,041
 NET INCOME FOR THE YEAR	95,879	111,960
 RETAINED EARNINGS AT BEGINNING OF THE YEAR	927,032	865,072
 DIVIDENDS PAID (Note 8)	(100,000)	(50,000)
 RETAINED EARNINGS AT END OF THE YEAR	\$ 922,911	\$ 927,032

RHB SCHMITZ de GRACE
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See notes to the financial statements

McBRIDE COMMUNITY FOREST CORPORATION

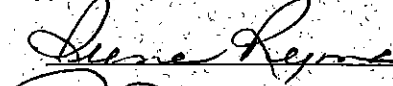
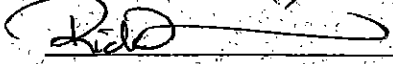
BALANCE SHEET

December 31, 2013

ASSETS

	<u>2013</u>	<u>2012</u>
CURRENT ASSETS		
Cash	\$ 969,493	\$ 754,009
Term deposits	639,831	730,967
Accounts receivable	134,315	206,636
Inventory (Note 2 and 3)	24,881	3,352
Prepaid expenses	88,022	67,067
	<u>1,856,542</u>	<u>1,762,031</u>
DEFERRED LOGGING COSTS (Note 2)	53,864	53,864
PROPERTY AND EQUIPMENT (Notes 2 and 4)	<u>13,963</u>	<u>19,398</u>

Approved by the Directors:

 Director
 Director

\$ 1,924,369

\$ 1,835,293

LIABILITIES

	<u>2013</u>	<u>2012</u>
CURRENT LIABILITIES		
Accounts payable and accrued liabilities, including government remittances of \$4,078 (2012 - \$18,372)	\$ 48,188	\$ 47,804
Dividend payable	50,000	-
Silviculture liability	816,920	796,957
Agriculture liability	36,257	13,407
	<u>951,365</u>	<u>858,168</u>

SHAREHOLDER'S EQUITY

SHARE CAPITAL (Note 5)	20	20
CONTRIBUTED SURPLUS (Note 6)	<u>50,073</u>	<u>50,073</u>
	50,093	50,093
RETAINED EARNINGS	<u>922,911</u>	<u>927,032</u>
	<u>973,004</u>	<u>977,125</u>
	<u>\$ 1,924,369</u>	<u>\$ 1,835,293</u>

CONTINGENCIES (Note 9)

RHB SCHMITZ de GRACE
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McBRIDE COMMUNITY FOREST CORPORATION

STATEMENT OF CASH FLOW

For the year ended December 31, 2013

	<u>2013</u>	<u>2012</u>
OPERATING ACTIVITIES		
Net income for the year	\$ 95,879	\$ 111,960
Item not involving cash:		
Amortization	5,435	7,683
	<u>101,314</u>	<u>119,643</u>
Changes in non-cash working capital items		
Accounts receivable	72,321	(65,076)
Inventory	(21,529)	(2,432)
Prepaid expenses	(20,955)	(6,108)
Accounts payable	384	3,755
Dividends payable	50,000	-
Silviculture liability	19,963	101,446
Agriculture liability	22,850	-
	<u>123,034</u>	<u>31,585</u>
Cash from operations	224,348	151,228
FINANCING ACTIVITIES		
Dividends paid	(100,000)	(50,000)
INVESTING ACTIVITIES		
Deferred logging costs	-	260,729
INCREASE IN CASH AND EQUIVALENTS	124,348	361,957
CASH AND EQUIVALENTS AT BEGINNING OF THE YEAR	<u>1,484,976</u>	<u>1,123,019</u>
CASH AND EQUIVALENTS AT END OF THE YEAR	<u><u>\$ 1,609,324</u></u>	<u><u>\$ 1,484,976</u></u>
Cash and equivalents are comprised of:		
Cash	\$ 969,493	\$ 754,009
Term deposits	639,831	730,967
	<u><u>\$ 1,609,324</u></u>	<u><u>\$ 1,484,976</u></u>

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See notes to the financial statements

McBRIDE COMMUNITY FOREST CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2013

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

Basis of Accounting

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) is more appropriate in the circumstances. Consequently, ASPE has been used in the preparation of these financial statements.

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 acquisition cost and net realizable value.

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. See also Note 9.

MCBRIDE COMMUNITY FOREST CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2013

2. SIGNIFICANT ACCOUNTING POLICIES, continued

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.

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.

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.

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the year. These estimates are reviewed periodically, and, as adjustments become necessary, they are reported in earnings in the period in which they become known.

Significant estimates relate to the collectability of aged accounts receivable, the useful life of property and equipment, and the accrued silviculture and agriculture liability.

McBRIDE COMMUNITY FOREST CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2013

3. Inventory

Inventory is comprised of the following:

	2013	2012
Logs	\$ 19,506	\$ -
Culverts	5,375	3,352
	<u>\$ 24,881</u>	<u>\$ 3,352</u>

4. PROPERTY AND EQUIPMENT

	2013		2012	
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Automotive	\$ 25,000	\$ 14,588	\$ 10,412	\$ 14,875
Small tools and equipment	17,870	14,439	3,431	4,290
Office equipment	8,801	8,681	120	233
	<u>\$ 51,671</u>	<u>\$ 37,708</u>	<u>\$ 13,963</u>	<u>\$ 19,398</u>

5. SHARE CAPITAL

Share capital is comprised of the following:

	2013	2012
Issued:		
10 Class A common shares	\$ 10	\$ 10
10 Class B common shares	10	10
	<u>\$ 20</u>	<u>\$ 20</u>

6. CONTRIBUTED SURPLUS

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

McBRIDE COMMUNITY FOREST CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2013

7. FINANCIAL INSTRUMENTS

The Corporation is exposed to various risks through its financial instruments without being exposed to concentrations of risks. The following analysis provides a measure of the Corporation's risk exposure as at the balance sheet date, i.e. December 31, 2013.

Liquidity risk

Liquidity risk is the risk that a Corporation will encounter difficulty in meeting obligations associated with financial liabilities. The Corporation is exposed to this risk mainly in respect of its accounts payable.

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.

Market

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk. The Corporation is mainly exposed to interest rate 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 and floating interest rate financial instruments. Fixed-interest instruments subject the Corporation to fair value risk, since fair value fluctuates inversely to changes in market interest rates. Floating rate instruments subject the company to related cash flow risk. Management deems both these risks to be minimal.

8. RELATED PARTY TRANSACTIONS

During the year, the Corporation purchased services from its parent in the amount of \$38,640 (2012 - \$33,759) and paid rent in the amount of \$14,400 (2012 - \$12,000). The Corporation had amounts payable of \$5,894 (2012 - nil) as of December 31, 2013.

During the year, the Corporation's board of directors approved dividends to the parent in the amount of \$100,000 (2012 - \$50,000).

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.

McBRIDE COMMUNITY FOREST CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2013

9. CONTINGENCIES

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

In the previous year, a former contractor instituted proceedings alleging breach of contract and claiming indeterminable damages in connection therewith. The Corporation has contested this claim; and in management's opinion, the lawsuit is groundless.

As disclosed in Note 2, the Corporation is exempt from income tax as a wholly owned subsidiary of a municipality. However, its exempt status is currently being challenged by specific tax authorities, creating uncertainty about its future tax status.

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. 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.