

McBRIDE COMMUNITY FOREST CORPORATION

FINANCIAL STATEMENTS

December 31, 2014

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, 2014 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, 2014 present fairly, in all material respects, the financial position of the McBride Community Forest Corporation as at December 31, 2014 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 20, 2015
Prince George, BC**

Chartered Accountants

McBRIDE COMMUNITY FOREST CORPORATION
STATEMENT OF OPERATIONS AND RETAINED EARNINGS

For the year ended December 31, 2014

	<u>2014</u>	<u>2013</u>
SALES (Schedule 1)	\$ 1,785,769	\$ 1,377,121
DIRECT EXPENSES (Schedule 1)	<u>1,150,441</u>	<u>862,321</u>
OPERATING PROFIT	635,328	514,800
OTHER REVENUE		
Contract	60,127	24,171
Interest	21,485	28,896
Administration and consulting	12,988	4,043
Salvage licences and miscellaneous	<u>322</u>	<u>28</u>
	<u>730,250</u>	<u>571,938</u>
GENERAL ADMINISTRATION EXPENSES		
Salaries and employee benefits	255,765	211,994
Professional fees	89,997	98,037
Office and general	42,311	57,997
Rent	35,950	33,400
Advertising and donations	23,501	20,263
Vehicle	16,416	9,381
Repairs and maintenance	16,067	6,186
Travel and entertainment	10,720	8,511
Insurance, licences and dues	8,983	8,649
Interest and bank charges	825	9,316
Bad debts (recovery)	159	6,890
Loss on disposal of assets	54	-
Amortization (Note 2)	<u>11,308</u>	<u>5,435</u>
	<u>512,056</u>	<u>476,059</u>
NET INCOME FOR THE YEAR	218,194	95,879
RETAINED EARNINGS AT BEGINNING OF THE YEAR	922,911	927,032
DIVIDENDS PAID (Note 9)	<u>(80,000)</u>	<u>(100,000)</u>
RETAINED EARNINGS AT END OF THE YEAR	<u><u>\$ 1,061,105</u></u>	<u><u>\$ 922,911</u></u>

See notes to the financial statements

McBRIDE COMMUNITY FOREST CORPORATION

BALANCE SHEET

December 31, 2014

ASSETS

	<u>2014</u>	<u>2013</u>
CURRENT ASSETS		
Cash	\$ 952,274	\$ 969,493
Term deposits	649,138	639,831
Accounts receivable	156,113	134,315
Inventory (Note 2 and 3)	104,344	24,881
Advances receivable (Note 7)	29,040	-
Prepaid expenses	83,801	88,022
	<u>1,974,710</u>	<u>1,856,542</u>
DEFERRED LOGGING COSTS (Note 2)	53,864	53,864
PROPERTY AND EQUIPMENT (Notes 2 and 4)	<u>84,244</u>	<u>13,963</u>

Approved by the Directors:

_____ Director

_____ Director

\$ 2,112,818

\$ 1,924,369

LIABILITIES

	<u>2014</u>	<u>2013</u>
CURRENT LIABILITIES		
Accounts payable and accrued liabilities, including government remittances of \$13,922 (2013 - \$4,078)	\$ 55,085	\$ 48,188
Dividend payable	-	50,000
Silviculture liability	910,145	816,920
Agriculture liability	36,390	36,257
	<u>1,001,620</u>	<u>951,365</u>

SHAREHOLDER'S EQUITY

SHARE CAPITAL (Note 5)	20	20
CONTRIBUTED SURPLUS (Note 6)	50,073	50,073
	50,093	50,093
RETAINED EARNINGS	1,061,105	922,911
	<u>1,111,198</u>	<u>973,004</u>
	<u>\$ 2,112,818</u>	<u>\$ 1,924,369</u>

CONTINGENCIES (Note 10)

McBRIDE COMMUNITY FOREST CORPORATION

STATEMENT OF CASH FLOW

For the year ended December 31, 2014

	<u>2014</u>	<u>2013</u>
OPERATING ACTIVITIES		
Net income for the year	\$ 218,194	\$ 95,879
Item not involving cash:		
Amortization	11,308	5,435
Loss on disposal of property and equipment	54	-
	<u>229,556</u>	<u>101,314</u>
Changes in non-cash working capital items		
Accounts receivable	(21,798)	72,321
Inventory	(79,463)	(21,529)
Advances receivable	(29,040)	-
Prepaid expenses	4,221	(20,955)
Accounts payable	6,897	384
Dividends payable	(50,000)	50,000
Silviculture liability	93,225	19,963
Agriculture liability	133	22,850
	<u>(75,825)</u>	<u>123,034</u>
Cash from operations	153,731	224,348
FINANCING ACTIVITIES		
Dividends paid	(80,000)	(100,000)
INVESTING ACTIVITIES		
Purchase of property and equipment	<u>(81,643)</u>	<u>-</u>
(DECREASE) INCREASE IN CASH AND EQUIVALENTS	(7,912)	124,348
CASH AND EQUIVALENTS AT BEGINNING OF THE YEAR	<u>1,609,324</u>	<u>1,484,976</u>
CASH AND EQUIVALENTS AT END OF THE YEAR	<u><u>\$ 1,601,412</u></u>	<u><u>\$ 1,609,324</u></u>
Cash and equivalents are comprised of:		
Cash	\$ 952,274	\$ 969,493
Term deposits	649,138	639,831
	<u><u>\$ 1,601,412</u></u>	<u><u>\$ 1,609,324</u></u>

See notes to the financial statements

McBRIDE COMMUNITY FOREST CORPORATION

SCHEDULE OF SALES AND DIRECT EXPENSES

For the year ended December 31, 2014

	<u>2014</u>	<u>2013</u>
SALES		
Standing timber	\$ 1,061,959	\$ 1,265,740
Raw log	709,700	111,057
Seedling	11,725	-
Culvert	2,385	324
	<u>\$ 1,785,769</u>	<u>\$ 1,377,121</u>
DIRECT EXPENSES		
Silviculture	\$ 424,136	\$ 542,014
Logging subcontracting	345,601	72,426
Trucking and hauling	178,684	19,228
Stumpage	107,569	72,898
Road maintenance	70,580	63,578
Block maintenance and layout	42,491	70,334
Road construction	17,241	8,867
Post harvest clean-up	15,013	5,280
Culvert and bridge lumber purchases	12,471	5,909
Seedling purchases	11,725	-
Scaling	4,260	-
Agriculture	133	22,850
Equipment rental	-	396
Inventory adjustment (Note 3)	(79,463)	(21,459)
	<u>\$ 1,150,441</u>	<u>\$ 862,321</u>

McBRIDE COMMUNITY FOREST CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2014

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.

Cash and Cash Equivalents

The Corporation's policy is to present under cash and cash equivalents bank balances and term deposits with a maturity period of twelve months or less from date of acquisitions.

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, except for leasehold improvements which are amortized on a straight-line basis, at the following annual rates:

Automotive	30%
Small tools and equipment	20%
Office equipment	20 - 45%
Leasehold improvements	10 years

Inventory

Inventory is valued at the lower of the acquisition cost and net realizable value. The cost is determined using the weighted average cost for logs, culverts and bridge lumber. Net realizable value is the estimated selling price in the ordinary course of business, less the costs of completion and costs necessary to make the sale. When the reversal of previously written down inventories is recognized, this reversal is recognized in net income.

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.

McBRIDE COMMUNITY FOREST CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2014

2. SIGNIFICANT ACCOUNTING POLICIES, continued

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.

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.

McBRIDE COMMUNITY FOREST CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2014

2. SIGNIFICANT ACCOUNTING POLICIES, continued

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. Estimations included in the financial statements include the collectability of aged accounts receivable, the useful life of property and equipment, and the accrued silviculture and agriculture liabilities.

The accrued silviculture liability is a significant estimate about which management makes various assumptions, that it considers reasonable, with respect to future conditions and reforestation costs of logged blocks. Any changes to the assumptions could have a significant impact on the Corporation's net income and financial position. The silviculture expense could increase or decrease in upcoming years depending on the amount of reforestation work that is required.

3. INVENTORY

Inventory is comprised of the following:

	<u>2014</u>	<u>2013</u>
Logs	\$ 90,377	\$ 19,506
Culverts	10,395	5,375
Bridge lumber	3,572	-
	<u>\$ 104,344</u>	<u>\$ 24,881</u>

4. PROPERTY AND EQUIPMENT

	<u>2014</u>		<u>2013</u>
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>
Automotive	\$ 25,000	\$ 17,712	\$ 7,288
Small tools and equipment	17,870	15,125	2,745
Office equipment	52,844	12,465	40,379
Leasehold improvements	34,700	868	33,832
	<u>\$ 130,414</u>	<u>\$ 46,170</u>	<u>\$ 84,244</u>
			<u>\$ 13,963</u>

McBRIDE COMMUNITY FOREST CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2014

5. SHARE CAPITAL

Share capital is comprised of the following:

	<u>2014</u>	<u>2013</u>
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.

7. ADVANCES RECEIVABLE

An amount was advanced to a contractor based on the number of loads the contractor hauled up to a maximum of \$50,000 in advances. The advancement is unsecured and is repayable starting May 2015.

8. 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, 2014.

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.

McBRIDE COMMUNITY FOREST CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2014

8. FINANCIAL INSTRUMENTS, continued

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.

9. RELATED PARTY TRANSACTIONS

During the year, the Corporation purchased services from its parent in the amount of \$17,734 (2013 - \$38,640), paid rent in the amount of \$14,400 (2013 - \$14,400) and received payment for contract services in the amount of \$60,127 (2013 - nil) administration services in the amount of \$8,227 (2013 - nil) and culvert sales in the amount of \$2,385 (2013 - \$324). The Corporation had amounts payable of nil (2013 - \$5,894) as of December 31, 2014.

During the year, the Corporation's board of directors approved dividends to the parent in the amount of \$80,000 (2013 - \$100,000).

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.

10. CONTINGENCIES

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

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.

McBRIDE COMMUNITY FOREST CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2014

11. CONTRACTUAL OBLIGATIONS

In October 2013 the Corporation entered into a Timber Purchase Agreement with a local logging company to supply them with a specified amount of logging volume over a term of six years from the commencement of the agreement.

On February 28, 2007, the Corporation entered into a Community Forest Agreement, with the Provincial Government of British Columbia. The agreement is for 25 years with a 10 year anniversary renewal date.

12. COMPARATIVE FIGURES

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