

Financial Statements of

**MCBRIDE COMMUNITY
FOREST CORPORATION**

Year ended December 31, 2015



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INDEPENDENT AUDITORS' REPORT

To the Shareholder of McBride Community Forest Corporation

We have audited the accompanying financial statements of McBride Community Forest Corporation, (the "Corporation"), which comprise the balance sheet as at December 31, 2015, the statements of operations and retained earnings and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information. The financial statements have been prepared by management in accordance with the basis of accounting in Note 1(a) 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 in Note 1(a) to the financial statements, this includes determining that the basis of accounting is an acceptable basis for the preparation of these financial statements in the circumstances, 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 our 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, we consider internal control relevant to the Corporation'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 Corporation'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.



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Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of McBride Community Forest Corporation as at December 31, 2015, and its results of operations and retained earnings and its cash flows for the year then ended in accordance with the basis of accounting described in Note 1(a) to the financial statements.

Basis of Accounting

Without modifying our opinion, we draw attention to Note 1(a) to the financial statements, which describes the basis of accounting. The financial statements are prepared for the purposes of the board of director's and shareholder's of the McBride Community Forest Corporation and its financial performance. As a result, the financial statements may not be suitable for another purpose.

KPMG LLP

Chartered Professional Accountants

June 30, 2016

Prince George, Canada

MCBRIDE COMMUNITY FOREST CORPORATION

Balance Sheet

December 31, 2015, with comparative information for 2014

	2015	2014
Assets		
Current assets:		
Cash	\$ 738,391	\$ 952,274
Investments	655,593	649,138
Accounts receivable	71,393	156,113
Deposit (note 3)	141,086	-
Inventory (note 4)	137,443	104,344
Advances receivable	67,231	29,040
Prepaid expenses	88,792	83,801
	<u>1,899,929</u>	<u>1,974,710</u>
Deferred charges	37,705	53,864
Property and equipment (note 5)	70,453	84,244
	<u>\$ 2,008,087</u>	<u>\$ 2,112,818</u>

Liabilities and Shareholder's Equity

Current liabilities:		
Accounts payable and accrued liabilities	\$ 128,911	\$ 55,084
Current portion of silviculture obligation	300,000	910,145
Agricultural obligation	36,390	36,390
	<u>465,301</u>	<u>1,001,619</u>
Silviculture obligation	652,443	-
	<u>1,117,744</u>	<u>1,001,619</u>
Shareholder's equity:		
Share capital (note 6)	20	20
Contributed surplus (note 7)	50,073	50,073
Retained earnings	840,250	1,061,106
	<u>890,343</u>	<u>1,111,199</u>
	<u>\$ 2,008,087</u>	<u>\$ 2,112,818</u>

See accompanying notes to financial statements.

On behalf of the Board:



Director



Director

MCBRIDE COMMUNITY FOREST CORPORATION

Statement of Operations and Retained Earnings

Year ended December 31, 2015, with comparative information for 2014

	2015	2014
Revenue:		
Sales	\$ 1,576,655	\$ 1,785,768
Interest income	12,048	21,485
Other income	5,000	73,438
	1,593,703	1,880,691
Cost of sales:		
Sub-contracts	787,839	584,017
Silviculture expense	330,551	424,136
Stumpage	68,592	107,569
Scaling and bucking	32,066	4,260
Seedling expense	13,613	11,725
Inventory adjustment	13,040	(79,463)
Road maintenance	6,154	70,580
Post harvest clean-up expense	5,700	15,013
Culvert and bridge lumber purchases	-	12,471
Amortization	-	133
	1,257,555	1,150,441
Gross profit	336,148	730,250
General and administrative expenses:		
Advertising and donations	30,792	23,501
Amortization of capital assets	31,553	11,308
Bad debts	1,686	159
Insurance, licenses and dues	11,781	8,983
Interest and bank charges	13,284	825
Loss on sale of property and equipment	-	54
Office and general	21,588	42,310
Professional fees	140,608	89,997
Rent	33,821	35,950
Repairs and maintenance	32,304	16,067
Salaries and benefits	221,062	255,765
Travel and entertainment	7,582	10,720
Vehicles	10,943	16,416
	557,004	512,055
Net (loss) earnings	(220,856)	218,195
Retained earnings, beginning of year	1,061,106	922,911
Dividends on common shares	-	(80,000)
Retained earnings, end of year	\$ 840,250	\$ 1,061,106

See accompanying notes to financial statements.

MCBRIDE COMMUNITY FOREST CORPORATION

Statement of Cash Flows

Year ended December 31, 2015, with comparative information for 2014

	2015	2014
Cash provided by (used in):		
Operations:		
Net (loss) earnings	\$ (220,856)	\$ 218,195
Items not involving cash:		
Amortization	31,553	11,308
Loss on sale of property and equipment	-	54
	(189,303)	229,557
Changes in non-cash operating working capital:		
Accounts receivable	84,720	(21,798)
Inventory	(33,099)	(79,463)
Advances receivable	(38,191)	(29,040)
Prepaid expenses	(4,992)	4,221
Accounts payable	73,828	6,896
Dividends payable	-	(50,000)
Silviculture obligation	42,298	93,225
Agricultural obligation	-	133
Garnishee deposit	(141,086)	-
	(205,825)	153,731
Financing:		
Dividends paid	-	(80,000)
Investing:		
Increase in investments	(6,455)	(9,307)
Purchase of property and equipment	(1,603)	(81,643)
	(8,058)	(90,950)
Decrease in cash	(213,883)	(17,219)
Cash, beginning of year	952,274	969,493
Cash, end of year	\$ 738,391	\$ 952,274

See accompanying notes to financial statements.

MCBRIDE COMMUNITY FOREST CORPORATION

Notes to Financial Statements

Year ended December 31, 2015

Nature of operations:

McBride Community Forest Corporation (the "Corporation") was incorporated under the British Columbia Business Corporations Act on November 8, 2005. The Corporation has a community forest licence in the McBride, British Columbia area.

1. Significant accounting policies:

These financial statements are prepared in accordance with Canadian accounting standards for private enterprises. The Company's significant accounting policies are as follows:

(a) Basis of presentation:

Canadian Public Sector Accounting Standards prescribe that government business enterprises ("GBE") must apply Part I of the CPA Canada Handbook - Accounting (International Financial Reporting Standards - "IFRS") as their financial reporting framework. McBride Community Forest Corporation is considered to be a GBE under Canadian Public Sector Accounting Standards and should be preparing IFRS financial statements.

McBride Community Forest Corporation has not prepared IFRS financial statements. Rather, these financial statements have been prepared in accordance with Part II of the CPA Canada Handbook - Accounting (Canadian Accounting Standards for Private Enterprises - "ASPE") for the purposes of McBride Community Forest Corporation board of directors' oversight of McBride Community Forest Corporation, and its financial performance. As a result, the financial statements may not be suitable for another purpose.

(b) 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.

MCBRIDE COMMUNITY FOREST CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2015

1. Significant accounting policies (continued):

(c) Property and equipment:

Property and equipment is stated at cost, less accumulated amortization. Amortization is provided using the straight-line and declining balance method and following annual rates:

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

(d) Impairment of long-lived assets:

Long-lived assets, including property and equipment subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability is measured by a comparison of the asset's carrying amount to the estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of the asset exceeds its estimated future cash flows, an impairment charge is recognized for the amount by which the carrying amount of the asset exceeds the fair value of the asset. When quoted market prices are not available, the Corporation uses the expected future cash flows discounted at a rate commensurate with the risks associated with the recovery of the asset as an estimate of fair value.

Assets to be disposed of would be separately presented in the balance sheet and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer amortized. The assets and liabilities of a disposed group classified as held for sale would be presented separately in the appropriate asset and liability sections of the balance sheet

MCBRIDE COMMUNITY FOREST CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2015

1. Significant accounting policies (continued):

(e) 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.

(f) Deferred charges:

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.

(g) Income taxes:

The Corporation is filing its tax returns on the basis it is exempt from income taxes under paragraph 149(1)(d.5) of the Income Tax Act of Canada.

(h) Silviculture and Agriculture Obligations:

The Corporation harvests timber under a community forest licence (note 2) with the Province of British Columbia. Estimated future timber reforestation and silviculture obligations are accrued and expensed based on the volume of timber removed.

The agricultural obligation is the estimated cost to restore agricultural lands that have been harvested to an agricultural state.

MCBRIDE COMMUNITY FOREST CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2015

1. Significant accounting policies (continued):

(i) Revenue recognition:

The Corporation recognizes revenue from log sales based on the volume of wood delivered and scaled and at the time the customer takes ownership, assumes the risk of loss and collection of the relevant receivable is probable.

Interest income is reported as revenue in the period it is earned.

Other revenue is recognized when service is provided.

(j) Financial instruments:

Financial instruments are recorded at fair value on initial recognition. Equity instruments that are quoted in an active market are subsequently measured at fair value. All other financial instruments are subsequently recorded at cost or amortized cost, unless management has elected to carry the instruments at fair value. The Corporation has not elected to carry any such financial instruments at fair value.

Transaction costs incurred on the acquisition of financial instruments measured subsequently at fair value are expensed as incurred. All other financial instruments are adjusted by transaction costs incurred on acquisition and financing costs, which are amortized using the straight-line method.

Financial assets are assessed for impairment on an annual basis at the end of the fiscal year if there are indicators of impairment. If there is an indicator of impairment, the Corporation determines if there is a significant adverse change in the expected amount or timing of future cash flows from the financial asset. If there is a significant adverse change in the expected cash flows, the carrying value of the financial asset is reduced to the highest of the present value of the expected cash flows, the amount that could be realized from selling the financial asset or the amount the Corporation expects to realize by exercising its right to any collateral. If events and circumstances reverse in a future year, an impairment loss will be reversed to the extent of the improvement, not exceeding the initial carrying value.

MCBRIDE COMMUNITY FOREST CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2015

1. Significant accounting policies (continued):

(k) 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 or property and equipment, and the accrued silviculture and agriculture liabilities.

The accrued silviculture and agriculture liabilities are significant estimates about which management makes various assumptions, that it considers reasonable, with respect to future conditions, reforestation and restoration 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 and agriculture expenses could increase or decrease in upcoming years depending on the amount of reforestation or restoration work that is required.

2. Community Forest Agreement:

The Corporation has entered into a Community Forest Agreement with the Province of British Columbia pursuant to an agreement dated February 28, 2007 (the "Agreement"). The agreement is for a twenty-five year term and gives the Corporation the right to harvest certain levels of timber on an annual basis and in total over the term of Agreement.

3. Deposit:

Deposit is comprised of a deposit held with the Provincial Court for a court case that the Corporation was involved with at December 31, 2015. Subsequent to year end, this deposit was refunded to the Corporation.

4. Inventory:

Inventory is comprised of the following:

	2015	2014
Logs	\$ 125,666	\$ 90,377
Culverts	4,850	10,395
Bridge lumber	6,927	3,572
	\$ 137,443	\$ 104,344

MCBRIDE COMMUNITY FOREST CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2015

5. Property and equipment:

	2015		
	Cost	Accumulated amortization	Net book value
Automotive	\$ 25,000	\$ 19,899	\$ 5,101
Small tools and equipment	17,871	15,674	2,197
Office equipment	54,446	23,431	31,015
Leasehold improvements	34,700	2,560	32,140
	<u>\$ 132,017</u>	<u>\$ 61,564</u>	<u>\$ 70,453</u>

	2014		
	Cost	Accumulated amortization	Net book value
Automotive	\$ 25,000	\$ 17,712	\$ 7,288
Small tools and equipment	17,871	15,125	2,746
Office equipment	52,843	12,465	40,378
Leasehold improvements	34,700	868	33,832
	<u>\$ 130,414</u>	<u>\$ 46,170</u>	<u>\$ 84,244</u>

6. Share capital:

Share capital is comprised of the following:

	2015	2014
Class A common voting shares with a par value of \$1 per share. Authorized unlimited number of shares; issued 10 shares.	\$ 10	\$ 10
Class B common non-voting shares with a par value of \$1 per share. Authorized unlimited number of shares; issued 10 shares.	10	10
	<u>\$ 20</u>	<u>\$ 20</u>

MCBRIDE COMMUNITY FOREST CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2015

7. Contributed surplus:

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

8. Financial risks and concentration of risk:

(a) Credit risk:

Credit risk refers to the risk that a counterparty may default on its contractual obligations resulting in a financial loss. The Corporation deals with creditworthy counterparties to mitigate the risk of financial loss from defaults.

(b) Liquidity risk:

Liquidity risk is the risk that the Corporation will be unable to fulfill its obligations on a timely basis or at a reasonable cost. The Corporation manages its liquidity risk by monitoring its operation requirements.

(c) 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 rate. Floating rate instruments subject the company to related cash flow risk. Management deems both these risk to be minimal.

Concentration of risk:

(a) Industry:

The Corporation sells wood as part of its agreement with the Province of British Columbia. A decline in economic conditions or other adverse conditions could lead to reduced revenue and gross margin.

MCBRIDE COMMUNITY FOREST CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2015

9. Related party transactions:

During the year, the Corporation paid rent in the amount of \$14,400 (2014 - \$14,400) to its sole shareholder, the Village of McBride.

During the year, the Corporation received an amount for culvert sales in the amount of \$1,768 (2014 - \$2,385) from its sole shareholder, the Village of McBride.

These transactions were conducted within the normal course of business and were valued at the exchange value, 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 1, 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.

11. Contractual obligation:

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.

12. Comparative amounts:

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