

Financial Statements of

**MCBRIDE COMMUNITY
FOREST CORPORATION**

Year ended December 31, 2016



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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, 2016, 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, 2016, 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 of the McBride Community Forest Corporation and its financial performance. As a result, the financial statements may not be suitable for another purpose.

A handwritten signature in black ink that reads 'KPMG LLP' with a horizontal line underneath.

Chartered Professional Accountants

May 8, 2017

Prince George, Canada

MCBRIDE COMMUNITY FOREST CORPORATION

Balance Sheet

December 31, 2016, with comparative information for 2015

	2016	2015
Assets		
Current assets:		
Cash and cash equivalents	\$ 1,277,528	\$ 1,393,984
Accounts receivable	31,962	71,393
Deposit	-	141,086
Inventory (note 3)	112,978	137,443
Advances receivable	-	67,231
Prepaid expenses	77,183	88,792
	<u>1,499,651</u>	<u>1,899,929</u>
Property and equipment (note 4)	91,839	108,158
	<u>\$ 1,591,490</u>	<u>\$ 2,008,087</u>
Liabilities and Shareholder's Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 49,444	\$ 128,911
Current portion of silviculture obligation	300,000	300,000
Agricultural obligation	36,390	36,390
	<u>385,834</u>	<u>465,301</u>
Silviculture obligation	674,243	652,443
	<u>1,060,077</u>	<u>1,117,744</u>
Shareholder's equity:		
Share capital (note 5)	20	20
Contributed surplus (note 6)	50,073	50,073
Retained earnings	481,320	840,250
	<u>531,413</u>	<u>890,343</u>
	<u>\$ 1,591,490</u>	<u>\$ 2,008,087</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, 2016, with comparative information for 2015

	2016	2015
Revenue:		
Sales	\$ 1,607,575	\$ 1,576,655
Interest income	6,587	12,048
Other income	4,549	5,000
	1,618,711	1,593,703
Cost of sales:		
Sub-contracts	1,071,631	787,839
Silviculture expense	218,989	330,551
Stumpage	59,469	68,592
Scaling and bucking	11,784	32,066
Seedling expense	-	13,613
Inventory adjustment	12,034	13,040
Road maintenance	10,833	6,154
Post harvest clean-up expense	839	5,700
Culvert and bridge lumber purchases	1,367	-
	1,386,946	1,257,555
Gross profit	231,765	336,148
General and administrative expenses:		
Advertising	3,288	2,261
Amortization	16,320	31,553
Bad debts	-	1,686
Donations	2,717	28,531
Insurance	8,097	3,066
Interest and bank charges	426	13,284
Licenses and dues	9,104	8,715
Office and general	14,500	21,588
Professional fees	252,409	140,608
Rent	30,500	33,821
Repairs and maintenance	4,484	32,304
Salaries and benefits	223,968	221,062
Travel and entertainment	3,037	7,582
Vehicles	21,845	10,943
	590,695	557,004
Net loss	(358,930)	(220,856)
Retained earnings, beginning of year	840,250	1,061,106
Retained earnings, end of year	\$ 481,320	\$ 840,250

See accompanying notes to financial statements.

MCBRIDE COMMUNITY FOREST CORPORATION

Statement of Cash Flows

Year ended December 31, 2016, with comparative information for 2015

	2016	2015
Cash provided by (used in):		
Operations:		
Net loss	\$ (358,930)	\$ (220,856)
Item not involving cash:		
Amortization	16,320	31,553
	(342,610)	(189,303)
Changes in non-cash operating working capital:		
Accounts receivable	39,431	84,720
Loans receivable	67,231	(38,191)
Prepaid expenses	11,609	(4,992)
Accounts payable	(79,467)	73,828
Silviculture obligation	21,799	42,298
Deposits	141,086	(141,086)
Inventory	24,465	(33,099)
	(116,456)	(205,825)
Investing:		
Purchase of property and equipment	-	(1,603)
<hr/>		
Decrease in cash and cash equivalents	(116,456)	(207,428)
Cash and cash equivalents, beginning of year	1,393,984	1,601,412
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Cash and cash equivalents, end of year	\$ 1,277,528	\$ 1,393,984

See accompanying notes to financial statements.

MCBRIDE COMMUNITY FOREST CORPORATION

Notes to Financial Statements

Year ended December 31, 2016

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 accounting:

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's 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:

Cash and cash equivalents include cash on hand and short-term deposits, which are highly liquid with original maturities of less than three months from the date of acquisition.

MCBRIDE COMMUNITY FOREST CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2016

1. Significant accounting policies (continued):

(c) Property and equipment:

Property, plant and equipment are stated at cost, less accumulated amortization. Amortization is provided using the following methods and annual rates:

Asset	Method	Rate
Automotive	Declining balance	30%
Computer software	Declining balance	55%
Leasehold improvements	Straight-line	10 years
Road costs	Declining balance	10%
Small tools and equipment	Declining balance	20%
Furniture and fixtures	Declining balance	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.

(e) Inventory:

Inventory is valued at the lower of the acquisition cost and net realizable value. The acquisition 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.

MCBRIDE COMMUNITY FOREST CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2016

1. Significant accounting policies (continued):

(f) Silviculture and agricultural 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.

(g) 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.

(h) 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, 2016

1. Significant accounting policies (continued):

(i) 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 agricultural obligations.

The accrued silviculture and agricultural obligations 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 agricultural 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. Inventory:

Inventory is comprised of the following:

	2016	2015
Logs	\$ 101,545	\$ 125,666
Culverts	4,506	4,850
Bridge lumber	6,927	6,927
	\$ 112,978	\$ 137,443

MCBRIDE COMMUNITY FOREST CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2016

4. Property and equipment:

	2016		
	Cost	Accumulated amortization	Net book value
Automotive	\$ 25,000	\$ 21,429	\$ 3,571
Furniture and fixtures	48,146	24,240	23,906
Small tools and equipment	17,871	16,114	1,757
Computer software	6,300	6,300	-
Leasehold improvements	34,700	6,029	28,671
Road costs	53,864	19,930	33,934
	<u>\$ 185,881</u>	<u>\$ 94,042</u>	<u>\$ 91,839</u>

	2015		
	Cost	Accumulated amortization	Net book value
Automotive	\$ 25,000	\$ 19,899	\$ 5,101
Furniture and fixtures	48,146	17,933	30,213
Small tools and equipment	17,871	15,674	2,197
Computer software	6,300	5,498	802
Leasehold improvements	34,700	2,560	32,140
Road costs	53,864	16,159	37,705
	<u>\$ 185,881</u>	<u>\$ 77,723</u>	<u>\$ 108,158</u>

MCBRIDE COMMUNITY FOREST CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2016

5. Share capital:

Share capital is comprised of the following:

	2016	2015
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
	\$ 20	\$ 20

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. 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.

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.

8. 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.

MCBRIDE COMMUNITY FOREST CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2016

9. Related party transactions:

Included in the accounts for the year are the following transactions with related parties:

	2016	2015
The Corporation of the Village of McBride, shareholder:		
Rent	\$ 12,000	\$ 14,440
Culvert sales	-	1,768
Other income	1,320	-
Salaries and benefits	(1,632)	-
Crazy Horse Contracting Ltd., owned by a Director:		
Accounts payable	\$ 2,888	\$ -
Road construction	32,576	-
Subcontracting	67,412	-
Vehicles	5,895	-

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.

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:

The financial statements have been reclassified, where applicable, to conform to the presentation used in the current year. The changes do not affect prior year's earnings.