

**McBRIDE COMMUNITY FOREST CORPORATION**

**FINANCIAL STATEMENTS**

**December 31, 2004**

**SCHMITZ & de GRACE**  
Chartered Accountants

# SCHMITZ & de GRACE

Chartered Accountants

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## AUDITORS' REPORT

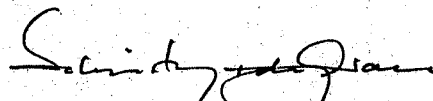
To the Shareholder of  
McBride Community Forest Corporation

We have audited the balance sheet of McBride Community Forest Corporation as at December 31, 2004 and the statements of operations and retained earnings and of cash flow for the year then ended. These financial statements are the responsibility of the company's management. 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 plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2004 and the results of its operations and cash flow for the year then ended in accordance with generally accepted accounting principles. As required by the B.C. Company Act, we report that, in our opinion, these principles have been consistently applied.

Prince George, BC  
March 11, 2005



CHARTERED ACCOUNTANTS

**McBRIDE COMMUNITY FOREST CORPORATION**  
**STATEMENT OF OPERATIONS AND RETAINED EARNINGS**

For the year ended December 31, 2004

	<u>2004</u>	<u>2003</u>
<b>REVENUE</b>		
Log sales	\$ 1,632,075	\$ -
Salvage licences	169,353	40,248
Administration and consulting	32,529	4,349
Government grants	16,011	48,611
Interest	1,353	311
	<u>1,851,321</u>	<u>93,519</u>
<b>EXPENSES</b>		
Logging contractors	616,710	-
Stumpage	377,055	-
Salaries and employee benefits	153,719	74,822
Silviculture	96,845	-
Road construction	56,398	-
Consulting fees	39,581	10,569
Licence fee	25,625	-
Rent	12,000	-
Repairs and maintenance	10,315	1,409
Vehicle	4,991	1,551
Professional fees	4,901	4,739
Advertising and promotion	4,385	1,283
Insurance, licences and dues	3,991	1,603
Travel and entertainment	3,186	2,760
Office and general	1,655	867
Bad debts	956	357
Interest and bank charges	719	277
Freight	-	16
Amortization (Note 1)	11,626	6,723
	<u>1,424,658</u>	<u>106,976</u>
<b>NET INCOME (LOSS) FOR THE YEAR</b>	426,663	(13,457)
<b>DEFICIT AT BEGINNING OF THE YEAR</b>	(13,457)	-
<b>DIVIDENDS PAID</b>	(49,930)	-
<b>RETAINED EARNINGS (DEFICIT) AT END OF THE YEAR</b>	<u>\$ 363,276</u>	<u>\$ (13,457)</u>

See notes to the financial statements.

**SCHMITZ & de GRACE**  
Chartered Accountants

McBRIDE COMMUNITY FOREST CORPORATION


BALANCE SHEET

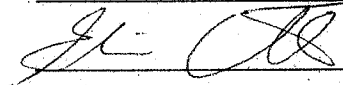
December 31, 2004

ASSETS

	<u>2004</u>	<u>2003</u>
<b>CURRENT ASSETS</b>		
Cash	\$ 98,113	\$ 22,085
Term deposits	483,212	16,761
Accounts receivable	14,323	17,250
Prepaid expenses	1,555	1,989
Due from shareholder	<u>20</u>	<u>20</u>
	597,223	58,105
<b>DEFERRED LOGGING COSTS (Note 1(b))</b>	60,108	-
<b>CAPITAL ASSETS (Notes 1, 2 and 3)</b>	<u>28,508</u>	<u>38,188</u>

Approved by the Directors:

  
\_\_\_\_\_  
Director

  
\_\_\_\_\_  
Director

\$ 685,839      \$ 96,293

<b>LIABILITIES</b>		
	<u>2004</u>	<u>2003</u>
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 139,013	\$ 13,061
Silviculture liability	96,845	-
Current portion of long-term debt (Note 3)	<u>9,984</u>	<u>9,984</u>
	245,842	23,045
<b>LONG-TERM DEBT (Note 3)</b>	<u>26,628</u>	<u>36,612</u>
	<u>272,470</u>	<u>59,657</u>
<b>SHAREHOLDER'S EQUITY</b>		
<b>SHARE CAPITAL (Note 4)</b>	20	20
<b>CONTRIBUTED SURPLUS (Note 5)</b>	<u>50,073</u>	<u>50,073</u>
	50,093	50,093
<b>RETAINED EARNINGS (DEFICIT)</b>	<u>363,276</u>	<u>(13,457)</u>
	<u>413,369</u>	<u>36,636</u>
	<u>\$ 685,839</u>	<u>\$ 96,293</u>

See notes to the financial statements.

**SCHMITZ & de GRACE**  
Chartered Accountants

**McBRIDE COMMUNITY FOREST CORPORATION**

**STATEMENT OF CASH FLOW**

**December 31, 2004**

	<u>2004</u>	<u>2003</u>
<b>OPERATING ACTIVITIES</b>		
Net income (loss) for the year	\$ 426,663	\$ (13,457)
Items not involving cash:		
Amortization	<u>11,626</u>	<u>6,723</u>
	<u>438,289</u>	<u>(6,734)</u>
Changes in non-cash working capital items		
Accounts receivable	2,927	(17,250)
Prepaid expenses	434	(1,989)
Due from shareholder	-	(20)
Accounts payable	125,952	13,061
Silviculture liability	96,845	-
Current portion of long-term debt	-	9,984
	<u>226,158</u>	<u>3,786</u>
Cash from operations	<u>664,447</u>	<u>(2,948)</u>
<b>FINANCING ACTIVITIES</b>		
Increase in long-term debt	(9,984)	36,612
Surplus contributed	-	50,073
Issuance of share capital	-	20
Dividends paid	<u>(49,930)</u>	<u>-</u>
	<u>(59,914)</u>	<u>86,705</u>
<b>INVESTING ACTIVITIES</b>		
Deferred Logging Costs	(60,109)	-
Purchase of capital assets	<u>(1,945)</u>	<u>(44,911)</u>
	<u>(62,054)</u>	<u>(44,911)</u>
<b>INCREASE IN CASH AND EQUIVALENTS</b>	542,479	38,846
<b>CASH AND EQUIVALENTS AT BEGINNING OF THE YEAR</b>	<u>38,846</u>	<u>-</u>
<b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR</b>	<u>\$ 581,325</u>	<u>\$ 38,846</u>
Cash and cash equivalents are comprised of:		
Cash	\$ 98,113	\$ 22,085
Term deposits	<u>483,212</u>	<u>16,761</u>
	<u>\$ 581,325</u>	<u>\$ 38,846</u>

See notes to the financial statement.

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**McBRIDE COMMUNITY FOREST CORPORATION**

**NOTES TO THE FINANCIAL STATEMENTS**

**For the year ended December 31, 2004**

**1. SIGNIFICANT ACCOUNTING POLICIES**

a) Amortization

Amortization of capital assets has been provided for on a declining balance basis at the following annual rates:

Automotive	30%
Equipment	20%

b) 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.

c) Income Taxes

The company is a 100% owned subsidiary of the Corporation of the Village of McBride, and is consequently not subject to corporate income taxes.

**2. CAPITAL ASSETS**

Capital assets are recorded at cost and are comprised of the following:

	<u>2004</u>		<u>2003</u>	
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>	<u>Net Book Value</u>
Automotive	\$ 44,633	\$ 18,076	\$ 26,557	\$ 37,938
Equipment	2,224	273	1,951	250
	<u>\$ 46,857</u>	<u>\$ 18,349</u>	<u>\$ 28,508</u>	<u>\$ 38,188</u>

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**McBRIDE COMMUNITY FOREST CORPORATION**

**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended December 31, 2004

**3. LONG-TERM DEBT**

The details of long-term debt are as follows:

	<u>2004</u>	<u>2003</u>
Ford Credit, interest-free term loan repayable in monthly instalments of \$832 (secured by specific equipment).	\$ 36,612	\$ 46,596
Less: Due within one year	<u>9,984</u>	<u>9,984</u>
	<u>\$ 46,596</u>	<u>\$ 36,612</u>

The portion of long-term debt payable in each of the next four years is:

2005	\$ 9,984
2006	9,984
2007	9,984
2008	6,660

**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:

	<u>2004</u>	<u>2003</u>
10 Class A common shares	\$ 10	\$ 10
10 Class B common shares	<u>10</u>	<u>10</u>
	<u>\$ 20</u>	<u>\$ 20</u>

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**NOTES TO THE FINANCIAL STATEMENTS**

**For the year ended December 31, 2004**

**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. FINANCIAL INSTRUMENTS**

The company's financial instruments are comprised of cash, term deposits, accounts receivable, accounts payable, and long-term debt.

a) **Credit Risk**

The company provides credit to its clients in the normal course of business and has carried out specific procedures to minimize the risk. Credit risk is minimal.

b) **Interest Rate Risk**

None of the financial instruments bear interest, therefore, the interest rate risk is nil.

c) **Fair Value**

The carrying value for primary instruments approximates fair value, due to their short term maturities. The carrying value of non current instruments approximates fair value because it is based upon interest rates currently available to companies in similar circumstances.

**8. USE OF ESTIMATES**

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of sales and expenses during the year. Actual results could differ from management's best estimates as additional information becomes available in the future.