Financial Statements of

MCBRIDE COMMUNITY FOREST CORPORATION

Year ended December 31, 2017

KPMG LLP
177 Victoria Street, Suite 400
Prince George BC V2L 5R8
Canada
Tel (250) 563-7151
Fax (250) 563-5693

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, 2017, 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.

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, 2017, and its results of operations and its cash flows for the year then ended in accordance with the basis of accounting 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 McBride Community Forest Corporation's Board of Director's and the shareholder's oversight of the McBride Community Forest Corporation and its financial performance. As a result, the financial statements may not be suitable for another purpose.

Restriction on Use

Our report is intended solely for the Board of Directors of the Corporation and the shareholder, the Corporation of the Village of McBride, and should not be used by parties other than the Corporation and Corporation of the Village of McBride.

KPMG LLP

Chartered Professional Accountants

Prince George, Canada

April 24, 2018

MCBRIDE COMMUNITY FOREST CORPORATION
Balance Sheet

December 31, 2017, with comparative information for 2016

	2017	2016
Assets		
Current assets:		
Cash and cash equivalents	$ 1,297,168	$ 1,277,528
Accounts receivable (note 3)	103,878	31,962
Inventories (note 4)	11,433	112,978
Prepaid expenses (note 5)	160,647	77,183
	1,573,126	1,499,651
Property and equipment (note 6)	83,713	91,839
	$ 1,656,839	$ 1,591,490
Liabilities and Shareholder's Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 29,932	$ 49,444
Current portion of silviculture obligation (note 7)	300,000	300,000
Agricultural obligation	36,390	36,390
	366,322	385,834
Silviculture obligation (note 7)	847,557	674,243
	1,213,879	1,060,077
Shareholder's equity:		
Share capital (note 8)	20	20
Contributed surplus (note 9)	50,073	50,073
Retained earnings	392,867	481,320
	442,960	531,413
	$ 1,656,839	$ 1,591,490

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, 2017, with comparative information for 2016

	2017	2016
Revenue:		
Sales	$ 2,345,458	$ 1,607,575
Interest income	2,329	6,587
Other income	5,873	4,549
	2,353,660	1,618,711
Cost of sales:		
Sub-contracts	1,434,891	1,071,631
Silviculture expense	243,473	218,989
Inventories adjustment	115,153	12,034
Stumpage	98,206	59,469
Road maintenance	10,572	10,833
Scaling and bucking	6,024	11,784
Post harvest clean-up expense	5,417	839
Seedling expense	26	-
Culvert and bridge lumber purchases	-	1,367
	1,913,762	1,386,946
Gross profit	439,898	231,765
General and administrative expenses:		
Advertising	3,040	3,288
Amortization	13,246	16,320
Donations	1,800	2,717
Insurance	9,315	8,097
Interest and bank charges	1,194	426
Licenses and dues	7,707	9,104
Office and general	17,957	14,500
Professional fees	299,437	252,409
Rent	29,226	30,500
Repairs and maintenance	4,470	4,484
Salaries and benefits	133,930	223,968
Travel and entertainment	3,207	3,037
Vehicles	9,383	21,845
	533,912	590,695
Loss before the undernoted item	(94,014)	(358,930)
Gain on disposal of property and equipment	(5,561)	-
Net loss	(88,453)	(358,930)
Retained earnings, beginning of year	481,320	840,250
Retained earnings, end of year	$ 392,867	$ 481,320

See accompanying notes to financial statements.

MCBRIDE COMMUNITY FOREST CORPORATION

Statement of Cash Flows

Year ended December 31, 2017, with comparative information for 2016

	2017	2016
Cash provided by (used in):		
Operations:		
Net loss	$ (88,453)	$ (358,930)
Items not involving cash:		
Amortization	13,246	16,320
Gain on sale of property and equipment	(5,561)	-
	(80,768)	(342,610)
Changes in non-cash operating working capital:		
Accounts receivable	(71,916)	39,431
Loans receivable	-	67,231
Prepaid expenses	(83,464)	11,609
Accounts payable	(19,512)	(79,467)
Silviculture obligation	173,314	21,799
Deposits	-	141,086
Inventories	101,545	24,465
	19,199	(116,456)
Investing:		
Acquisition of property and equipment	(5,559)	-
Proceeds on sale of property and equipment	6,000	-
	441	-
Increase (decrease) in cash and cash equivalents	19,640	(116,456)
Cash and cash equivalents, beginning of year	1,277,528	1,393,984
Cash and cash equivalents, end of year	$ 1,297,168	$ 1,277,528

See accompanying notes to financial statements.

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:

The Corporation'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.

1. Significant accounting policies (continued):

(c) Property and equipment:

Property 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%
Furniture and fixtures	Declining balance	20-45%
Leasehold improvements	Straight-line	10 years
Road costs	Declining balance	10%
Small tools and equipment	Declining balance	20%

(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) Inventories:

Inventories are 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 (loss).

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 income is recognized as revenue 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.

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.

(j) Related party transactions:

Monetary and non-monetary related party transactions and non-monetary related party transactions that have commercial substance are measured at the exchange amount when they are in the normal course of operations, except when the transaction is an exchange of a product or property held-for-sale in the normal course of operations. Where the transaction is not in the normal course of operations, it is measured at the exchange amount when there is a substantive change in the ownership of the item transferred and there is independent evidence of the exchange amount.

All other related party transactions are measured at the carrying amount.

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. Accounts receivable:

	2017	2016
Sales tax	$ 433	$ 138
Trade receivable	103,445	31,824
	$ 103,878	$ 31,962

4. Inventories:

Inventories are comprised of the following:

	2017	2016
Logs	$ -	$ 101,545
Culverts	4,506	4,506
Bridge lumber	6,927	6,927
	$ 11,433	$ 112,978

5. Prepaid expenses:

	2017	2016
Prepaid expenses	$ 25,260	$ 23,482
Prepaid seedlings	135,387	53,701
	$ 160,647	$ 77,183

6. Property and equipment:

						2017
		Cost		Accumulated amortization		Net book value
Automotive	$	25,000	$	22,500	$	2,500
Furniture and fixtures		48,146		29,141		19,005
Small tools and equipment		18,181		11,715		6,466
Computer software		6,300		6,300		-
Leasehold improvements		34,700		9,499		25,201
Road costs		53,864		23,323		30,541
	$	186,191	$	102,478	$	83,713

						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
	$	185,881	$	94,042	$	91,839

7. Silviculture obligation:

		2017		2016
Silviculture obligations, beginning of year	$	974,243	$	952,443
Increase in accrual due to current year logging		244,185		218,989
Actual silviculture costs paid in the year		(70,871)		(197,189)
Silviculture obligations, end of year		1,147,557		974,243
Less: current portion		(300,000)		(300,000)
Long-term portion	$	847,557	$	674,243

8. Share capital:

Share capital is comprised of the following:

		2017		2016
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

9. Contributed surplus:

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

10. 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.

11. 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.

12. Related party transactions:

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

		2017		2016
The Corporation of the Village of McBride, shareholder:				
Deposit receivable	$	200	$	-
Accounts payable		1,050		-
Other income		268		1,320
Expenses (recovery):				
Rent		12,000		12,000
Salaries and benefits		(2,086)		(1,632)
Crazy Horse Contracting Ltd., owned by a Director:				
Accounts payable	$	-	$	2,888
Expenses:				
Road construction		45,052		32,576
Subcontracting		235,625		67,412
Trucking/Hauling		136,875		-
Vehicles		-		5,895
Warren McLennan, Director:				
Subcontracting expense	$	110,546	$	-

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.

13. Contingencies:

A lawsuit is ongoing against the Corporation regarding an allegation of breach of contract by the Corporation under a log supply agreement. The likelihood or amount of any liability under this lawsuit cannot be reasonably determined as of the date of these financial statements and as such no liability has been accrued in these financial statements.

14. 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.

15. 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 net loss.