

Financial Statements of

**MCBRIDE COMMUNITY
FOREST CORPORATION**

And Independent Auditors' Report thereon

Year ended December 31, 2018



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INDEPENDENT AUDITORS' REPORT

To the Shareholder of McBride Community Forest Corporation

Opinion

We have audited the financial statements of McBride Community Forest Corporation (the "Corporation"), which comprise:

- the balance sheet as at December 31, 2018
- the statement of earnings and retained earnings for the year then ended
- the statement of cash flows for the year then ended
- and notes to the financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2018 and its results of operations 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 for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "**Auditors' Responsibilities for the Audit of the Financial Statements**" section of our auditors' report.

We are independent of the Corporation in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter - Financial Reporting Framework

We draw attention to Note 1(a) to the financial statements, which describes the applicable financial reporting framework. The financial statements are prepared for the purpose of the board of directors' and shareholders' oversight of the McBride Community Forest Corporation and its financial performance. As a result, the financial statements may not be suitable for another purpose. Our opinion is not modified in respect to this matter.



Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the basis of accounting described in Note 1(a) to the financial statements; this includes determining that the applicable financial reporting framework is an acceptable basis for the presentation of the 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.

In preparing the financial statements, management is responsible for assessing the Corporation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Corporation or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Corporation's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.



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- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Corporation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Corporation's to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG LLP

Chartered Professional Accountants

Prince George, Canada

April 30, 2019

MCBRIDE COMMUNITY FOREST CORPORATION


Balance Sheet

December 31, 2018, with comparative information for 2017


| | 2018 | 2017 |
|---|---------------------|---------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 1,577,633 | \$ 1,297,168 |
| Accounts receivable (note 3) | 63,878 | 103,878 |
| Inventories (note 4) | 25,208 | 11,433 |
| Prepaid expenses (note 5) | 142,373 | 160,647 |
| | <u>1,809,092</u> | <u>1,573,126</u> |
| Property and equipment (note 6) | 79,717 | 83,713 |
| | <u>\$ 1,888,809</u> | <u>\$ 1,656,839</u> |
| Liabilities and Shareholder's Equity | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities | \$ 59,748 | \$ 29,932 |
| Current portion of silviculture obligation (note 7) | 423,317 | 300,000 |
| Agricultural obligation | 36,390 | 36,390 |
| | <u>519,455</u> | <u>366,322</u> |
| Silviculture obligation (note 7) | 662,006 | 847,557 |
| | <u>1,181,461</u> | <u>1,213,879</u> |
| Shareholder's equity: | | |
| Share capital (note 8) | 20 | 20 |
| Contributed surplus (note 9) | 50,073 | 50,073 |
| Retained earnings | 657,255 | 392,867 |
| | <u>707,348</u> | <u>442,960</u> |
| Contingencies (note 13) | | |
| | <u>\$ 1,888,809</u> | <u>\$ 1,656,839</u> |

See accompanying notes to financial statements.

On behalf of the Board:



Director



Director

MCBRIDE COMMUNITY FOREST CORPORATION

Statement of Earnings and Retained Earnings

Year ended December 31, 2018, with comparative information for 2017

| | 2018 | 2017 |
|--|--------------|--------------|
| Revenue: | | |
| Sales | \$ 2,992,662 | \$ 2,345,458 |
| Interest income | 7,772 | 2,329 |
| Other income | 3,960 | 5,873 |
| | 3,004,394 | 2,353,660 |
| Cost of sales: | | |
| Sub-contracts | 1,779,795 | 1,434,891 |
| Silviculture expense | 465,886 | 243,473 |
| Inventories adjustment | 6,748 | 115,153 |
| Stumpage | 85,135 | 98,206 |
| Road maintenance | 31,731 | 10,572 |
| Scaling and bucking | 9,050 | 6,024 |
| Post harvest clean-up expense | - | 5,417 |
| Seedling expense | 498 | 26 |
| Culvert and bridge lumber expense | 12,038 | - |
| | 2,390,881 | 1,913,762 |
| Gross profit | 613,513 | 439,898 |
| General and administrative expenses: | | |
| Advertising | 2,095 | 3,040 |
| Amortization | 14,497 | 13,246 |
| Donations | 3,128 | 1,800 |
| Insurance | 11,534 | 9,315 |
| Interest and bank charges | 6,855 | 1,194 |
| Licenses and dues | 8,383 | 7,707 |
| Office and general | 15,977 | 17,957 |
| Professional fees | 135,028 | 299,437 |
| Rent | 31,521 | 29,226 |
| Repairs and maintenance | 24,980 | 4,470 |
| Salaries and benefits | 89,146 | 133,930 |
| Travel and entertainment | - | 3,207 |
| Vehicles | 5,981 | 9,383 |
| | 349,125 | 533,912 |
| Earnings (loss) before the undernoted item | 264,388 | (94,014) |
| Gain on disposal of property and equipment | - | 5,561 |
| Net income (loss) | 264,388 | (88,453) |
| Retained earnings, beginning of year | 392,867 | 481,320 |
| Retained earnings, end of year | \$ 657,255 | \$ 392,867 |

See accompanying notes to financial statements.

MCBRIDE COMMUNITY FOREST CORPORATION

Statement of Cash Flows

Year ended December 31, 2018, with comparative information for 2017

| | 2018 | 2017 |
|--|--------------|--------------|
| Cash provided by (used in): | | |
| Operations: | | |
| Net income (loss) | \$ 264,388 | \$ (88,453) |
| Items not involving cash: | | |
| Amortization | 14,497 | 13,246 |
| Gain on sale of property and equipment | - | (5,561) |
| | 278,885 | (80,768) |
| Changes in non-cash operating working capital: | | |
| Accounts receivable | 40,000 | (71,916) |
| Prepaid expenses | 18,273 | (83,464) |
| Accounts payable | 29,815 | (19,512) |
| Silviculture obligation | (62,233) | 173,314 |
| Inventories | (13,775) | 101,545 |
| | 290,965 | 19,199 |
| Investing: | | |
| Acquisition of property and equipment | (10,500) | (5,559) |
| Proceeds on sale of property and equipment | - | 6,000 |
| | (10,500) | 441 |
| Increase in cash and cash equivalents | 280,465 | 19,640 |
| Cash and cash equivalents, beginning of year | 1,297,168 | 1,277,528 |
| Cash and cash equivalents, end of year | \$ 1,577,633 | \$ 1,297,168 |

See accompanying notes to financial statements.

MCBRIDE COMMUNITY FOREST CORPORATION

Notes to Financial Statements

Year ended December 31, 2018

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.

MCBRIDE COMMUNITY FOREST CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2018

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 equipment | Declining balance | 55% |
| Computer equipment and software | Declining balance | 100% |
| 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).

MCBRIDE COMMUNITY FOREST CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2018

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.

MCBRIDE COMMUNITY FOREST CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2018

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.

MCBRIDE COMMUNITY FOREST CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2018

3. Accounts receivable:

| | 2018 | 2017 |
|------------------|------------------|-------------------|
| Sales tax | \$ 1,212 | \$ 433 |
| Trade receivable | 62,666 | 103,445 |
| | <u>\$ 63,878</u> | <u>\$ 103,878</u> |

4. Inventories:

Inventories are comprised of the following:

| | 2018 | 2017 |
|---------------|------------------|------------------|
| Culverts | \$ 18,281 | \$ 4,506 |
| Bridge lumber | 6,927 | 6,927 |
| | <u>\$ 25,208</u> | <u>\$ 11,433</u> |

The cost of inventories recognized as an expense during the year ended December 31, 2018 was \$6,748 (2017 - \$115,153).

5. Prepaid expenses:

| | 2018 | 2017 |
|-------------------|-------------------|-------------------|
| Prepaid expenses | \$ 21,637 | \$ 25,260 |
| Prepaid seedlings | 120,736 | 135,387 |
| | <u>\$ 142,373</u> | <u>\$ 160,647</u> |

MCBRIDE COMMUNITY FOREST CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2018

6. Property and equipment:

| | 2018 | | |
|---------------------------------|-------------------|-----------------------------|-------------------|
| | Cost | Accumulated amortization | Net book value |
| Automotive | \$ 35,000 | \$ 25,250 | \$ 9,750 |
| Furniture and fixtures | 48,146 | 32,995 | 15,151 |
| Small tools and equipment | 18,681 | 13,083 | 5,598 |
| Computer equipment and software | 6,300 | 6,300 | - |
| Leasehold improvements | 34,700 | 12,969 | 21,731 |
| Road costs | 53,864 | 26,377 | 27,487 |
| | \$ 196,691 | \$ 116,974 | \$ 79,717 |

| | 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 equipment and 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 |

7. Silviculture obligation:

| | 2018 | 2017 |
|---|-------------------|-------------------|
| Silviculture obligations, beginning of year | \$ 1,147,557 | \$ 974,243 |
| Increase in accrual due to current year logging | 465,885 | 244,185 |
| Actual silviculture costs paid in the year | (528,119) | (70,871) |
| Silviculture obligations, end of year | 1,085,323 | 1,147,557 |
| Less: current portion | (423,317) | (300,000) |
| Long-term portion | \$ 662,006 | \$ 847,557 |

MCBRIDE COMMUNITY FOREST CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2018

8. Share capital:

Share capital is comprised of the following:

| | 2018 | 2017 |
|--|-------|-------|
| 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.

There has been no change to the risk exposure from 2017.

Concentration of risk:

(a) Industry:

The Corporation sells wood as part of its agreement with the Province of British Columbia. A decline in log prices 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, 2018

10. Financial risks and concentration of risk: (continued):

(b) Environment risk:

The Government of British Columbia is looking at protecting a certain species at risk by restricting access to crown land, if this goes through it will negatively impact profitable operations of the Community Forest.

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:

| | 2018 | 2017 |
|---|-----------|------------|
| The Corporation of the Village of McBride, shareholder: | | |
| Deposit receivable | \$ 200 | \$ 200 |
| Accounts receivable | 276 | - |
| Accounts payable | - | 1,050 |
| Other income | 4,905 | 268 |
| Expenses (recovery): | | |
| Rent | 12,250 | 12,000 |
| Salaries and benefits | (5,416) | (2,086) |
| Crazy Horse Contracting Ltd., owned by a Director: | | |
| Expenses: | | |
| Road construction | \$ 98,800 | \$ 45,052 |
| Subcontracting | 189,598 | 235,625 |
| Trucking/Hauling | 131,189 | 136,875 |
| Consulting | 63,420 | - |
| Warren McLennan, Director: | | |
| Subcontracting expense | \$ 35,462 | \$ 110,546 |
| Road construction | 462 | - |
| Cedar Three Products, owned by a Director: | | |
| Accounts receivable | \$ 10,349 | \$ - |
| Revenue | 2,986,505 | - |

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.

MCBRIDE COMMUNITY FOREST CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2018

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.