

Financial Statements of

**MCBRIDE COMMUNITY
FOREST CORPORATION**

And Independent Auditors' Report thereon

Year ended December 31, 2021



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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, 2021
- the statement of operations 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 balance sheet of the Corporation as at December 31, 2021 and its results of operations and its cash flows for the year then ended in accordance with Canadian accounting standards for private enterprises.

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.

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 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

June 9, 2022

MCBRIDE COMMUNITY FOREST CORPORATION

Balance Sheet

December 31, 2021, with comparative information for 2020

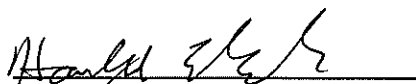
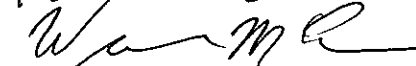
	2021	2020
Assets		
Current assets:		
Cash and cash equivalents	\$ 833,750	\$ 1,129,361
Accounts receivable (note 2)	60,040	237,835
Inventories (note 3)	33,601	28,534
Prepaid expenses (note 4)	68,196	158,149
	995,587	1,553,879
Property and equipment (note 5)	63,069	77,524
	\$ 1,058,656	\$ 1,631,403

Liabilities and Shareholder's Equity

Current liabilities:		
Accounts payable and accrued liabilities (note 6)	\$ 161,969	\$ 59,603
Current portion of silviculture obligation (note 7)	338,700	396,850
Agricultural obligation	36,390	36,390
	537,059	492,843
Silviculture obligation (note 7)	467,778	467,613
	1,004,837	960,456
Shareholder's equity:		
Share capital (note 8)	20	20
Contributed surplus (note 9)	50,073	50,073
Retained earnings	3,726	620,854
	53,819	670,947
Contingency (note 14)		
	\$ 1,058,656	\$ 1,631,403

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, 2021, with comparative information for 2020

	2021	2020
Revenue:		
Bio material	\$ 819	\$ 12,418
Culvert sales	3,618	822
Firewood sales	5,168	32,895
Interest income	8,898	15,418
Other income	5,003	6,067
Raw logs	2,159,777	2,160,934
Seedlings	-	9,864
Standing timber	-	372,163
Trucking, hauling and unloading	18,256	11,862
	<u>2,201,539</u>	<u>2,622,443</u>
Cost of sales (Schedule 1):		
Planning	241,178	172,605
Annual rent	6,167	16,958
Development	74,314	179,852
Logging and hauling	1,156,591	1,381,891
Sort yard	74,859	88,543
Stumpage	80,448	91,057
Post harvest clean-up expense	40,320	2,694
Salaries and benefits	188,385	162,916
Silviculture expense	291,731	263,648
	<u>2,153,993</u>	<u>2,360,164</u>
Gross profit	47,546	262,279
General and administrative expenses (Schedule 2)	664,795	300,142
Loss before the undernoted item	(617,249)	(37,863)
Gain on disposal of property and equipment	121	-
Net loss	(617,128)	(37,863)
Retained earnings, beginning of year	620,854	658,717
Retained earnings, end of year	<u>\$ 3,726</u>	<u>\$ 620,854</u>

See accompanying notes to financial statements.

MCBRIDE COMMUNITY FOREST CORPORATION

Statement of Cash Flows

Year ended December 31, 2021, with comparative information for 2020

	2021	2020
Cash provided by (used in):		
Operations:		
Net loss	\$ (617,128)	\$ (37,863)
Items not involving cash:		
Amortization	14,227	15,574
Gain on disposal of property and equipment	(121)	-
	(603,022)	(22,289)
Changes in non-cash operating working capital:		
Accounts receivable	177,795	(136,802)
Prepaid expenses	89,953	(88,908)
Accounts payable and accrued liabilities	102,366	2,445
Silviculture obligation	(57,985)	(48,475)
Inventories	(5,067)	3,111
	(295,960)	(290,918)
Investing:		
Acquisition of property and equipment	-	(12,476)
Proceeds on sale of property and equipment	349	-
	349	(12,476)
Decrease in cash and cash equivalents	(295,611)	(303,394)
Cash and cash equivalents, beginning of year	1,129,361	1,432,755
Cash and cash equivalents, end of year	\$ 833,750	\$ 1,129,361

See accompanying notes to financial statements.

MCBRIDE COMMUNITY FOREST CORPORATION

Notes to Financial Statements

Year ended December 31, 2021

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 (note 10).

1. Significant accounting policies:

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 the Corporation and its financial performance.

(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, 2021

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 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, 2021

1. Significant accounting policies (continued):

(f) Silviculture and agricultural obligations:

The Corporation harvests timber under a community forest licence (note 10) 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.

All 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 measured 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 period, 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, 2021

1. Significant accounting policies (continued):

(h) Financial instruments (continued):

In the case of financial instruments that originate as a result of related party transactions, initial measurement will be at exchange amount or carrying value in accordance with Section 3840, Related Party Transactions, rather than fair value. If the sole relationship is in the capacity of management, the parties involved are deemed to be unrelated for purposes of Section 3856, Financial Instruments, and as such, transactions will be initially measured at fair value.

(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. Items subject to estimates and assumptions included in the financial statements are the collectability of aged accounts receivable, the net realizable value of inventories, the useful life of property and equipment, the accrued silviculture and agricultural obligations and other accrued liabilities.

The accrued silviculture and agricultural obligations are significant estimates in 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 loss 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 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.

MCBRIDE COMMUNITY FOREST CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2021

2. Accounts receivable:

	2021	2020
Sales tax receivable	\$ -	\$ 29,340
Trade receivables	60,040	208,495
	<u>\$ 60,040</u>	<u>\$ 237,835</u>

3. Inventories:

Inventories are comprised of the following:

	2021	2020
Culverts	\$ 23,379	\$ 21,607
Bridge lumber	10,222	6,927
	<u>\$ 33,601</u>	<u>\$ 28,534</u>

The cost of inventories recognized as an expense during the year ended December 31, 2021 was \$25,956 (2020 - \$11,818).

4. Prepaid expenses:

	2021	2020
Prepaid seedlings	\$ 39,144	\$ 136,583
Other	29,052	21,566
	<u>\$ 68,196</u>	<u>\$ 158,149</u>

MCBRIDE COMMUNITY FOREST CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2021

5. Property and equipment:

	2021		
	Cost	Accumulated amortization	Net book value
Automotive	\$ 35,000	\$ 31,656	\$ 3,344
Computer equipment and software	6,300	6,300	-
Furniture and fixtures	48,146	40,418	7,728
Leasehold improvements	34,700	23,379	11,321
Road costs	53,864	33,826	20,038
Small tools and equipment	41,481	20,842	20,638
	<u>\$ 219,491</u>	<u>\$ 156,421</u>	<u>\$ 63,069</u>

	2020		
	Cost	Accumulated amortization	Net book value
Automotive	\$ 35,000	\$ 30,223	\$ 4,777
Computer equipment and software	6,300	6,300	-
Furniture and fixtures	48,146	38,480	9,666
Leasehold improvements	34,700	19,909	14,791
Road costs	53,864	31,600	22,264
Small tools and equipment	47,261	21,235	26,026
	<u>\$ 225,271</u>	<u>\$ 147,747</u>	<u>\$ 77,524</u>

6. Accounts payable and accrued liabilities:

	2021	2020
Trade payables	\$ 143,428	\$ 49,044
Deposits	3,000	3,000
Government remittances payable	8,519	343
Wages and related costs payable	7,022	7,216
	<u>\$ 161,969</u>	<u>\$ 59,603</u>

MCBRIDE COMMUNITY FOREST CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2021

7. Silviculture obligation:

	2021	2020
Silviculture obligation, beginning of year	\$ 864,463	\$ 912,937
Increase in obligation due to current year logging	168,694	263,648
Actual silviculture costs incurred in the year	(226,679)	(312,122)
Silviculture obligation, end of year	806,478	864,463
Less: current portion	(338,700)	(396,850)
Long-term portion	\$ 467,778	\$ 467,613

8. Share capital:

Share capital is comprised of the following:

	2021	2020
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. 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 the Agreement.

MCBRIDE COMMUNITY FOREST CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2021

11. Financial risks and concentration of risk:

The Corporation's financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, agricultural obligation and silviculture obligation. It is management's opinion that the Corporation is not exposed to any currency or interest rate 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.

There has been no change to the risk exposure from 2020.

(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.

Risk exposure has increased from 2020 due to the current year net loss and reduction in cash flow.

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.

(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 the profitability of the Corporation's operations.

(c) Limited counterparties:

A substantial portion of the Corporation's operating revenue is derived from the sale of products to one large customer. This one customer accounted for 52% (2020 - 50%) of revenue. The loss of this relationship would have a significant impact on the Corporation's revenue.

MCBRIDE COMMUNITY FOREST CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2021

12. Income taxes:

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

13. Related party transactions:

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

	2021	2020
The Corporation of the Village of McBride, shareholder:		
Accounts receivable	\$ 586	\$ -
Prepaid expenses	-	200
Accounts payable and accrued liabilities	1,150	1,150
Expenses (recoveries):		
Rent	1,200	11,000
Licenses	100	-
Salaries and benefits	(5,472)	(5,262)
Warren McLennan, Director:		
Accounts receivable	\$ -	\$ 116
Accounts payable and accrued liabilities	8,670	-
Sales	-	53,137
Expenses:		
Logging and hauling	402,907	154,254
Post harvest clean-up	25,044	-
Office and general	3,929	-
Rich Boyz Mechanical Ltd., owned by a Director:		
Accounts receivable	\$ -	\$ 1,289
Expenses:		
Office and general	2,210	2,071
Clausen Contracting, owned by a Director:		
Expenses:		
Silviculture	\$ 102,572	\$ 9,450
Other	1,625	4,458

These transactions were conducted within the normal course of operations 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, 2021

14. Contingency:

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 estimated as of the date of these financial statements and as such no liability has been accrued.

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.

MCBRIDE COMMUNITY FOREST CORPORATION

Schedule 1 - Cost of Sales

Year ended December 31, 2021, with comparative information for 2020

	2021	2020
Planning		
Consulting - layout and forestry	\$ 119,059	\$ 9,239
Consulting - mapping	31,001	125,318
Consulting - environmental	10,603	32,442
Consulting - silviculture	-	5,606
Consulting - VRI	20,293	-
Consulting - archaeological	42,018	-
Consulting - engineering	18,204	-
	<u>241,178</u>	<u>172,605</u>
Annual rent	6,167	16,958
Development		
Road maintenance	45,936	38,028
Road and cut block signs	475	1,146
Road rehabilitation	1,947	36,803
Road construction	-	88,514
Culvert inventory	25,956	11,818
Bridge maintenance	-	3,543
	<u>74,314</u>	<u>179,852</u>
Logging and hauling		
Logging contractors	608,596	738,107
Logging lowbedding	8,748	-
Logging trucking/hauling	538,162	643,434
Logging loading/unloading	1,085	350
	<u>1,156,591</u>	<u>1,381,891</u>
Sort yard		
Yard expenses	33,124	37,685
Scales expenses	36,217	48,016
Scaling/bucking	5,518	2,842
	<u>74,859</u>	<u>88,543</u>
Stumpage		
S&R	56,003	89,911
Holdbacks	24,445	1,146
	<u>80,448</u>	<u>91,057</u>
Post harvest clean-up		
Waste surveys	8,258	1,540
Clean-up	32,062	1,154
	<u>40,320</u>	<u>2,694</u>

MCBRIDE COMMUNITY FOREST CORPORATION

Schedule 1 - Cost of Sales (continued)

Year ended December 31, 2021, with comparative information for 2020

	2021	2020
Salaries and benefits		
Wages & salaries	148,921	129,108
EI	2,705	2,628
CPP	6,446	6,091
WCB	5,675	5,821
Employee benefits	11,352	6,853
Employee pension	12,667	12,415
Subcontractors	619	-
	188,385	162,916
Silviculture	291,731	263,648
	\$ 2,153,993	\$ 2,360,164

MCBRIDE COMMUNITY FOREST CORPORATION

Schedule 2 - General and Administrative Expenses

Year ended December 31, 2021, with comparative information for 2020

	2021	2020
Advertising	\$ 2,787	\$ 1,345
Amortization	14,227	15,574
Donations	2,393	8,101
Insurance	15,503	24,680
Interest and bank charges	1,720	71
Licenses and dues	5,370	6,985
Office and general	34,769	28,764
Professional fees	522,990	159,783
Rent	12,000	11,000
Repairs and maintenance	31,334	27,335
Vehicles	21,702	16,504
	<u>\$ 664,795</u>	<u>\$ 300,142</u>