

McBRIDE COMMUNITY FOREST CORPORATION

FINANCIAL STATEMENTS

December 31, 2007

RHN SCHMITZ de GRACE
Chartered Accountants

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Chartered Accountants

Partners

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- Denotes professional corporation

AUDITORS' REPORT

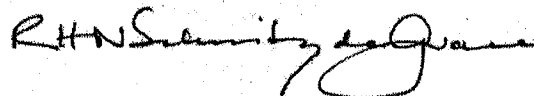
To the Shareholder of
McBride Community Forest Corporation

We have audited the balance sheet of McBride Community Forest Corporation as at December 31, 2007 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, 2007 and the results of its operations and cash flow for the year then ended in accordance with Canadian generally accepted accounting principles.

Prince George, BC
February 26, 2008



Chartered Accountants

McBRIDE COMMUNITY FOREST CORPORATION
STATEMENT OF OPERATIONS AND RETAINED EARNINGS

For the year ended December 31, 2007

	2007	2006
REVENUE		
Sales		
Raw logs	\$ 3,966,084	\$ 3,615,862
Standing timber	1,151,879	962,589
Sort yard	1,047,036	53,485
Lumber	3,472	-
Salvage licences	23,210	236,521
Administration and consulting	77,902	34,489
Interest	92,433	28,708
	6,362,016	4,931,654
EXPENSES		
Logging contractors	2,016,590	1,319,165
Trucking and hauling	1,623,469	744,920
Silviculture	480,694	425,676
Stumpage	225,301	346,297
Salaries and employee benefits	174,307	155,346
Consulting fees	157,081	98,707
Road construction	133,247	217,673
Road maintenance	92,639	26,222
Office and general	61,618	21,742
Sealing and bucking lumber	36,889	-
Rent	34,199	34,276
Travel and entertainment	20,367	3,257
Repairs and maintenance	17,422	31,595
Insurance, licences and dues	11,641	6,344
Professional fees	8,112	4,613
Vehicle	7,181	8,395
Advertising and promotion	6,558	2,099
Interest and bank charges	4,896	1,540
Lumber manufacturing	4,810	-
Equipment rental	-	5,334
Bad debts	(3,931)	10,793
Amortization (Note 2 (a))	9,693	5,585
	5,122,783	3,469,579
INCOME BEFORE OTHER ITEM	1,239,233	1,462,075
OTHER ITEM		
Gain on sale of assets	-	410
NET INCOME FOR THE YEAR	1,239,233	1,462,485
RETAINED EARNINGS AT BEGINNING OF THE YEAR	1,673,371	360,886
DIVIDENDS PAID (Note 8)	(1,400,000)	(150,000)
RETAINED EARNINGS AT END OF THE YEAR	\$ 1,512,604	\$ 1,673,371

See notes to the financial statements.

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McBRIDE COMMUNITY FOREST CORPORATION

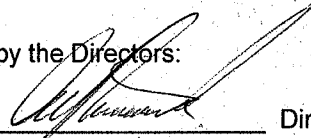
BALANCE SHEET

December 31, 2007

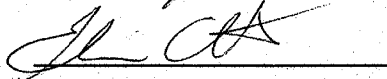
ASSETS

	<u>2007</u>	<u>2006</u>
CURRENT ASSETS		
Cash	\$ 37,192	\$ 246,156
Term deposits	1,743,285	1,452,177
Accounts receivable	276,824	739,956
Inventory (Note 2(b))	48,093	-
Prepaid expenses	49,401	12,558
	<u>2,154,795</u>	<u>2,450,847</u>
DEFERRED LOGGING COSTS (Note 2(c))	267,947	110,168
CAPITAL ASSETS (Notes 2(a) and 3)	<u>28,369</u>	<u>33,443</u>

Approved by the Directors:



Director



Director

\$ 2,451,111

\$ 2,594,458

LIABILITIES

	<u>2007</u>	<u>2006</u>
CURRENT LIABILITIES		
Accounts payable and accrued liability	\$ 48,094	\$ 388,950
Silviculture liability	<u>840,320</u>	<u>482,044</u>
	<u>888,414</u>	<u>870,994</u>

SHAREHOLDER'S EQUITY

SHARE CAPITAL (Note 4)	20	20
CONTRIBUTED SURPLUS (Note 5)	<u>50,073</u>	<u>50,073</u>
	50,093	50,093
RETAINED EARNINGS	<u>1,512,604</u>	<u>1,673,371</u>
	<u>1,562,697</u>	<u>1,723,464</u>
	<u>\$ 2,451,111</u>	<u>\$ 2,594,458</u>

See notes to the financial statements.

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McBRIDE COMMUNITY FOREST CORPORATION

STATEMENT OF CASH FLOW

For the year ended December 31, 2007

	<u>2007</u>	<u>2006</u>
OPERATING ACTIVITIES		
Net income for the year	\$ 1,239,233	\$ 1,462,485
Items not involving cash:		
Amortization	9,693	5,585
Gain on disposal of assets	-	(410)
	<u>1,248,926</u>	<u>1,467,660</u>
Changes in non-cash working capital items (Note 6)	<u>395,616</u>	<u>33,490</u>
Cash from operations	<u>1,644,542</u>	<u>1,501,150</u>
FINANCING ACTIVITIES		
Dividends paid	(1,400,000)	(150,000)
Repayment of long-term debt	-	(26,626)
	<u>(1,400,000)</u>	<u>(176,626)</u>
INVESTING ACTIVITIES		
Deferred logging costs	(157,778)	(42,850)
Purchase of capital assets	(4,620)	(37,467)
Proceeds from disposal of capital assets	-	19,000
	<u>(162,398)</u>	<u>(61,317)</u>
INCREASE IN CASH AND EQUIVALENTS	82,144	1,263,207
CASH AND EQUIVALENTS AT BEGINNING OF THE YEAR	1,698,333	435,126
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	<u>\$ 1,780,477</u>	<u>\$ 1,698,333</u>
Cash and equivalences are comprised of:		
Cash	\$ 37,192	\$ 246,156
Term deposits	<u>1,743,285</u>	<u>1,452,177</u>
	<u>\$ 1,780,477</u>	<u>\$ 1,698,333</u>
During the year, the following payments were made for:		
Interest	\$ 4,896	
Income taxes	-	

See notes to the financial statements.

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McBRIDE COMMUNITY FOREST CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2007

1. DESCRIPTION OF OPERATIONS

McBride Community Forest Corporation (the "Company") is a company incorporated in British Columbia. The Company's primary purpose is to carry out logging operations in McBride, BC and the surrounding area.

2. SIGNIFICANT ACCOUNTING POLICIES

a) Capital Assets and Amortization

Capital assets are recorded at cost. Amortization of capital assets has been provided for on a declining balance basis at the following annual rates:

Automotive	30%
Small tools and equipment	20%
Computer equipment	45%

b) Inventory

Inventory is valued at the lower of the cost and net realized value. The cost of inventory is determined using the average cost method.

c) 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.

d) 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.

e) Revenue Recognition

Sales of logs, including those marketed through salvage licences, are recognized on delivery and scaling.

Interest is recognized in the period earned. Other revenue is recognized when service is provided.

McBRIDE COMMUNITY FOREST CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2007

3. CAPITAL ASSETS

	2007			2006
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Automotive	\$ 23,540	\$ 9,534	\$ 14,006	\$ 20,009
Equipment	17,870	4,775	13,095	11,173
Office equipment	2,900	1,632	1,268	2,261
	<u>\$ 44,310</u>	<u>\$ 15,941</u>	<u>\$ 28,369</u>	<u>\$ 33,443</u>

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

		2007	2006
Issued:			
10	Class A common shares	\$ 10	\$ 10
10	Class B common shares	10	10
		<u>\$ 20</u>	<u>\$ 20</u>

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.

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McBRIDE COMMUNITY FOREST CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2007

6. CHANGES IN NON-CASH WORKING CAPITAL ITEMS

	<u>2007</u>	<u>2006</u>
Accounts receivable	\$ 463,132	\$ (571,179)
Inventory	(48,093)	-
Prepaid expenses	(36,843)	510
Accounts payable	(340,856)	291,926
Silviculture liability	<u>358,276</u>	<u>312,233</u>
	<u>\$ 395,616</u>	<u>\$ 33,490</u>

7. FINANCIAL INSTRUMENTS

The company's financial instruments are comprised of cash, term deposits, accounts receivable, accounts payable and accrued liabilities and silviculture liability.

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, there is no interest rate risk.

c) Fair Value

The fair value of cash, term deposits, accounts receivable, accounts payable and accrued liabilities and silviculture liability is approximately equal to their carrying value due to their short-term maturity date.

8. RELATED PARTY TRANSACTIONS

During the year, the Company purchased services in the amount of \$40,968 (2006 - \$11,190) and paid rent in the amount of \$12,000 (2006 - \$12,000) to its parent.

During the year, the Company's board of directors approved and paid dividends to the parent in the amount of \$1,400,000 (2006 - \$150,000).

Accounts payable includes \$3,042 (2006 - nil) owing to the parent.

These transactions were made in the normal course of business and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

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