

**McBRIDE COMMUNITY FOREST CORPORATION**

**FINANCIAL STATEMENTS**

**December 31, 2008**

**RHN SCHMITZ de GRACE**  
Chartered Accountants

# RHN SCHMITZ de GRACE

Chartered Accountants

**Partners**

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- Denotes professional corporation

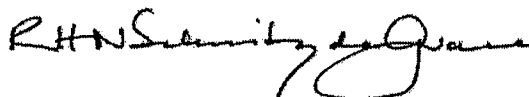
## AUDITORS' REPORT

To the Shareholder of  
McBride Community Forest Corporation

We have audited the balance sheet of McBride Community Forest Corporation as at December 31, 2008 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, 2008 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  
March 31, 2009

Chartered Accountants

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

For the year ended December 31, 2008

	<b>2008</b>	<b>2007</b>
<b>REVENUE</b>		
Sales		
Standing timber	\$ 873,339	\$ 1,151,879
Sort yard	62,770	1,047,036
Raw logs	24,624	3,966,084
Lumber	-	3,472
Administration and consulting	282,049	77,902
Interest	77,012	92,433
Salvage licences	46,658	23,210
	<b>1,366,452</b>	<b>6,362,016</b>
 <b>EXPENSES</b>		
Salaries and employee benefits	302,514	174,307
Silviculture	200,865	480,694
Stumpage	108,993	225,301
Bad debts	64,555	(3,931)
Consulting fees	63,842	157,081
Trucking and hauling	62,660	1,623,469
Repairs and maintenance	41,590	17,422
Office and general	35,668	61,618
Rent	34,179	34,199
Advertising and donations	26,086	6,558
Road construction	22,360	133,247
Road maintenance	17,960	92,639
Agriculture	13,404	-
Vehicle	12,718	7,181
Travel and entertainment	12,297	20,367
Professional fees	10,003	8,112
Insurance, licences and dues	9,643	11,641
Logging contractors	6,750	2,016,590
Scaling and bucking lumber	2,025	36,889
Interest and bank charges	1,473	4,896
Lumber manufacturing	-	4,810
Amortization (Note 2 (a))	9,207	9,693
	<b>1,058,792</b>	<b>5,122,783</b>
 <b>NET INCOME FOR THE YEAR</b>	<b>307,660</b>	<b>1,239,233</b>
 <b>RETAINED EARNINGS AT BEGINNING OF THE YEAR</b>	<b>1,512,604</b>	<b>1,673,371</b>
 <b>DIVIDENDS PAID (Note 8)</b>	<b>(270,000)</b>	<b>(1,400,000)</b>
 <b>RETAINED EARNINGS AT END OF THE YEAR</b>	<b>\$ 1,550,264</b>	<b>\$ 1,512,604</b>

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See notes to the financial statements.

McBRIDE COMMUNITY FOREST CORPORATION

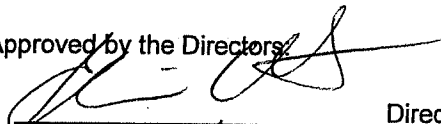
BALANCE SHEET

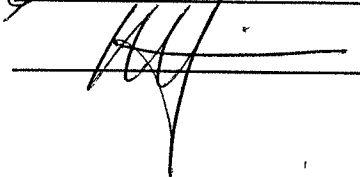
December 31, 2008

ASSETS

	<u>2008</u>	<u>2007</u>
<b>CURRENT ASSETS</b>		
Cash	\$ 1,704	\$ 37,192
Term deposits	1,806,874	1,743,285
Accounts receivable	116,055	276,824
Inventory (Note 2(b))	44,471	48,093
Prepaid expenses	30,028	49,401
	<u>1,999,132</u>	<u>2,154,795</u>
<b>DEFERRED LOGGING COSTS (Note 2(c))</b>	371,844	267,947
<b>PROPERTY AND EQUIPMENT (Notes 2(a) and 3)</b>	<u>25,063</u>	<u>28,369</u>

Approved by the Directors

  
\_\_\_\_\_  
Director

  
\_\_\_\_\_  
Director

\$ 2,396,039

\$ 2,451,111

**LIABILITIES**

	<u>2008</u>	<u>2007</u>
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued liabilities	\$ 49,638	\$ 48,094
Silviculture liability	732,640	840,320
Agriculture liability	<u>13,404</u>	<u>-</u>
	<u>795,682</u>	<u>888,414</u>

**SHAREHOLDER'S EQUITY**

<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</b>	<u>1,550,264</u>	<u>1,512,604</u>
	<u>1,600,357</u>	<u>1,562,697</u>
	<u>\$ 2,396,039</u>	<u>\$ 2,451,111</u>

**CONTINGENCY (Note 9)**

See notes to the financial statements.

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**McBRIDE COMMUNITY FOREST CORPORATION**

**STATEMENT OF CASH FLOW**

For the year ended December 31, 2008

	<b>2008</b>	<b>2007</b>
<b>OPERATING ACTIVITIES</b>		
Net income for the year	\$ 307,660	\$ 1,239,233
Item not involving cash:		
Amortization	9,207	9,693
	316,867	1,248,926
Changes in non-cash working capital items (Note 6)	91,031	395,616
Cash from operations	407,898	1,644,542
<b>FINANCING ACTIVITIES</b>		
Dividends paid	(270,000)	(1,400,000)
<b>INVESTING ACTIVITIES</b>		
Deferred logging costs	(103,897)	(157,778)
Purchase of property and equipment	(5,900)	(4,620)
	(109,797)	(162,398)
<b>INCREASE IN CASH AND EQUIVALENTS</b>	28,101	82,144
<b>CASH AND EQUIVALENTS AT BEGINNING OF THE YEAR</b>	1,780,477	1,698,333
<b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR</b>	\$ 1,808,578	\$ 1,780,477
Cash and equivalents are comprised of:		
Cash	\$ 1,704	\$ 37,192
Term deposits	1,806,874	1,743,285
	\$ 1,808,578	\$ 1,780,477
During the year, the following payments were made for:		
Interest	\$ 1,473	\$ 4,896

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, 2008**

**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) Property, Equipment and Amortization

Property and equipment are recorded at cost. Amortization of property and equipment 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 realizable 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, 2008

**3. PROPERTY AND EQUIPMENT**

	<u>2008</u>			<u>2007</u>
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>	<u>Net Book Value</u>
Automotive	\$ 23,540	\$ 13,736	\$ 9,804	\$ 14,006
Small tools and equipment	17,870	7,394	10,476	13,095
Office equipment	8,801	4,018	4,783	1,268
	<u>\$ 50,211</u>	<u>\$ 25,148</u>	<u>\$ 25,063</u>	<u>\$ 28,369</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

		<u>2008</u>	<u>2007</u>
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, 2008

6. CHANGES IN NON-CASH WORKING CAPITAL ITEMS

	<u>2008</u>	<u>2007</u>
Accounts receivable	\$ 160,769	\$ 463,132
Inventory	3,622	(48,093)
Prepaid expenses	19,373	(36,843)
Accounts payable	1,543	(340,856)
Silviculture liability	(107,680)	358,276
Agriculture liability	13,404	-
	<u>\$ 91,031</u>	<u>\$ 395,616</u>

7. FINANCIAL INSTRUMENTS

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

a) Credit Risk

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

b) Interest Rate Risk

The term deposits bear interest at fixed rates; therefore, interest rate risk is minimal.

c) Fair Value

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

8. RELATED PARTY TRANSACTIONS

During the year, the company purchased services in the amount of \$28,152 (2007 - \$40,968) and paid rent in the amount of \$12,000 (2007 - \$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 \$270,000 (2007 - \$1,400,000).

Accounts payable includes \$nil (2007 - \$3,042) 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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**NOTES TO THE FINANCIAL STATEMENTS**

**For the year ended December 31, 2008**

**9. CONTINGENCY**

During the year, a contractor commenced proceedings against the company claiming damages of approximately \$20,000 relating to a logging contract. While the company has contested this claim, which management believes to be groundless, the outcome cannot be determined at this time.