



McBride Community Forest Corporation

2015 Annual Report



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Chair's Report

Annual General Meeting of the Shareholders

October 22, 2016

Introduction

The McBride Community Forest Corporation (MCFC), is now in its 14th year of operations. The past fiscal year has been one of great challenge and transition for the corporation. This document is intended as an overview of the activities and focus of the Board of Directors of the MCFC for the fiscal year 2015.

In December 2014, following the November municipal election, the new Mayor and Council made a decision to take on the role of the board of directors on an interim basis. There were a number of outstanding issues of concern with the management and governance of the MCFC and Mayor and Council were determined to understand the business firsthand.

Board of Directors Composition

As of January 1, 2015, the interim Board consisted of five elected Council members from the Village of McBride and one from the Regional District of Fort George (RDFG). Early in the year, one of the Council members resigned, thereby losing their seat on the MCFC Board. The RDFG representative left the Board in August.

2015/2016 has admittedly been a difficult period, with tough choices that affected many people. So it is with sincere gratitude that I want to thank the former directors for their support and guidance, as well as for their patience.

Edee Tracy

Ralph Bezanson

Sharon Reichert

Dannielle Alan

Current Status: In August 2016, an Expression of Interest was advertised in the local newspapers for Directors with financial, forestry and local knowledge and experience to fill vacant seats with members from the community. The MCFC board of directors is now comprised of 5 members, one elected representative of the Shareholder and four members from the community at large reflecting the commitment in the original community forest concept and is more inclusive than in the past.

Early 2015 Board Activities

For the first number of months the Board worked to gather information from staff to better understand the operations of MCFC. A concerted effort was made to learn about the status of the forest operations, all contractual commitments, unionized agreements and contracts, finances, and litigation underway. The Board reviewed sales plans, local mill needs, and logging operations and made decisions in support of local loggers and manufacturers. Additionally, the Board reviewed all correspondence with Ministry of Forests, Lands and Natural Resource Operations (MFLNRO) regarding investigations into compliance and enforcement issues on the community forest.

Staff and Interim Management Team

In 2015 MCFC staff unionized under the Christian Labour Association of Canada along with staff from the Village of McBride, as a common employer. The Operations Supervisor remains responsible for the oversight of operations on the ground. A new part-time Administrative Assistant was hired and is responsible for office and financial administration.

In August 2015, the General Manager of the MCFC, was removed. Given the change, the Board hired Bruce Blackwell and Associates. Jeff McWilliams, RPF and Wes Bieber, RPF became the interim management team to assist in the transition period and began a review of the financial records of the corporation, conducted a full investigation of the MCFC forest management obligations and practices and initiated conversations with those affected by the operation of the community forest. By the end of 2015, the review was still underway.

With the assistance of BA Blackwell,

- the Board resolved the overcutting by restarting the five-year cut control period, resulting in an approximately 26% reduction in the Annual Allowable Cut (AAC);
- worked with local mill owners to ensure short term log supply to local mills, given the reduction in AAC;
- resolved the outstanding waste assessment discrepancy with the Ministry;
- oversaw the operations of the community forest, ensuring compliance with regulations.
- As well, three outstanding Compliance and Enforcement investigations were completed in 2015 resulting in \$11,000 in fines.



Financial and Legal

In 2015, the Ministry of Finance came forward informing the Board that the Ministry was challenging the tax exempt status of the corporation and requested that the corporation amend its financials back to

Current Status: The challenge has now has been resolved. The Ministry stated that the McBride Community Forest Corporation (LGT-1057-5026) is exempt from tax under section 149 of the Income Tax Act and that they have decided to not challenge that status as long as the CRA still allows it.

KPMG has been engaged to provide recommendations on alternative legal structures to ensure MCFC's tax exempt status and to limit liability to the Village.

2012 and submit some logging tax. The Board hired new auditors who along with completing year-end financials, also represented the corporation.

At year end in 2015 the corporation reported a loss \$220,000. This was in large part due to the mediated settlement with the former employee. The mediation also removed the corporation from any further obligation to pay legal costs incurred by the former employee.

Additionally, the Board made a decision to try to mitigate the economic impact of the reduction in AAC, by taking a small loss to ensure continued cedar supply.

Status: The Corporation currently has an outstanding lawsuit stemming from 2011.

The Carrier Deal

The purchase of a portion of Carrier Lumber's volume in the Robson Valley was considered a priority for the MCFC management and the board and was an opportunity to expand the community forest land base.

Current Status: As part of their due diligence responsibilities, in early 2016, the Board set up a committee comprised of eight experienced locals and MCFC representatives to review the offer. The committee was a new and valuable experience for the MCFC because in reaching out to the community brought important experience and a wider variety of input to the review of the offer. The committee had concluded that the offer on the table was not workable for a number of reasons, but was still interested in accessing more volume. MCFC learned in mid-June that the purchase of a portion of Carrier's volume was no longer on the table.

Governance and Community Engagement

Historically, the corporation has held four public meetings annually to update the community on the current activities of the MCFC. However, there were numerous complaints as previously the majority of

MCFC's business was conducted in camera and none of the records of the decisions or outcomes were shared with the community.

A major effort in 2015 was made by the Board to conduct business fairly and communicate with more openness and in a transparent manner. In September 2015 as part of the restructuring of the corporation, Susan Mulkey with the BC Community Forest Association was engaged in to help MCFC develop an effective approach to governance and community engagement. Many of the critical steps needed to implement any changes were delayed due to the number of urgent issues on the table.

Throughout 2015 the Board continued with public meetings, which included information and input sessions, question and answer sessions and direct access to the professionals. In between public meetings updates were provided on important matters through press releases, the MCFC website and shared on social media.

Finally, in late 2015, a survey to gauge community priorities and community meetings were held to seek community input. The survey results and subsequent news releases have been regularly posted on the MCFC website and articles have been submitted to the local press about the activities and developments of the MCFC.

Current Status: A second survey was conducted in January 2016 that sought community feedback on recommendations put forward by the Board and that closely linked to the direction as expressed in the original community forest concept paper.

Recommendations have been made to the Shareholder regarding the definition of the community served by the community forest, the definition of the purpose of the MCFC, director selection process and terms, guiding principles, and a revised legal structure. It is only the Shareholder with the power to make decisions on these issues. The discussions are ongoing.

The governance review is also addressing existing policy and shareholder/corporation relationships to ensure the MCFC is operating under best practices. A compendium of Board Policy has been adopted which includes a clear description of roles and responsibility and Directors Accountability Agreements. All of the current directors have signed the Agreement.

Community Support – Paying it Forward

With the reduced harvest levels and reduced profits it has been difficult for the Board to provide funding and assistance for community projects.

In 2015 a total of \$22,630 was approved (\$49,659 was requested). The following groups received funding in 2015:

Dunster Fine Arts School Society

McBride Centennial Elementary School

McBride and District Public Library

McBride Elks Lodge

McBride Secondary School PAC (Live Different Club)

McBride Secondary School PAC (Ski and Snow Board Team)

McBride Seventh Day Adventist Church

Robson Valley Arts and Culture Council

Robson Valley Mountain Bike Association

Robson Valley Spay and Neuter Society

Robson Valley Support Society

Robson Valley Tourism

Roundhouse Theatre Society

Wishbone productions

Yellowhead Ski Club

Current Situation: With the reduced harvest levels and planning for the future required, it is unlikely there will be much funding available for grants this year.

MCFC will continue to look for opportunities to leverage the community forest for greater opportunities and employment locally and in its commitment to create processes that are fair, inclusive, open and transparent.

Respectfully Submitted,

Loranne Martin, Chair MCFC



General Manager's Report

Introduction

In mid-2015 the Board of the MCFC made a decision to terminate the management of the McBride Community Forest Corporation (MCFC). Operations were curtailed in September while an investigation of MCFC was conducted. Harvesting resumed in late 2015 under new interim managers.

So far 2016 has been a year of transition for MCFC as many changes were implemented to the management of the community forest and the business practices of MCFC. Additional changes are still likely required before the journey will be complete. This report summarizes the key activities of the MCFC for 2015 and to date in 2016 and includes some thoughts on strategic plans for the future.

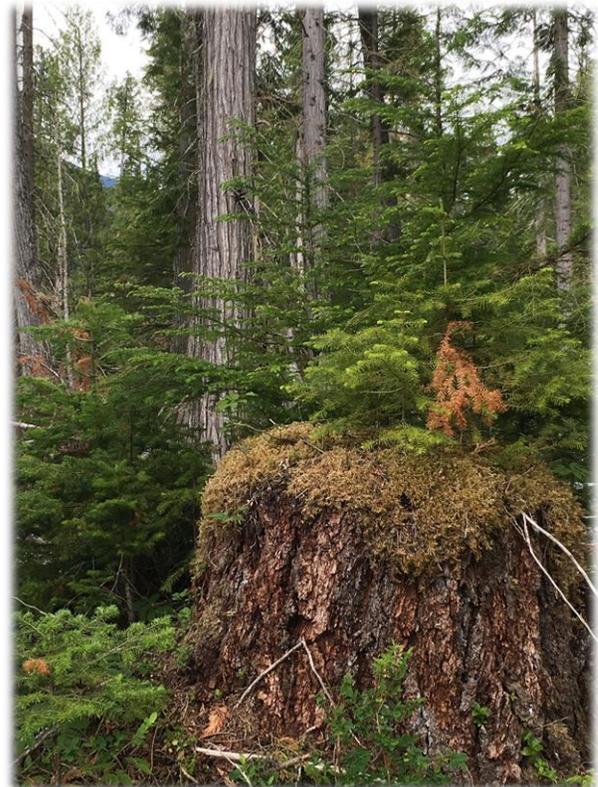
It is important to note that as I only took up the interim manager's duties in late 2015, much of the information here on activities in 2015 have been summarized from documents available. This has forced a limitation on the details that I am able to provide on activities before my engagement with the MCFC.

Harvesting, Roads and Log Sales

In 2015 MCFC harvested about 56,600 cubic meters. The vast majority of this volume was cut between January and August. For 2015, MCFC requested and received a volume exemption for about 6,600 cubic meters of grade 4 cedar which was delivered to local post and rail manufacturing businesses. Therefore, the net harvest attributable to the 5-year Annual Allowable Cut (AAC) was about 50,000. This equates to about 156% of the AAC of 32,035 cubic meters for 2015 to 2019 (reduced from 50,000 cubic meters due to past overcutting).

The majority of the 2015 harvest was completed under market log agreements (previously known as the small market logger program) with local contractors. Of the whitewood, saw logs produced the majority of the volume went to Carrier Lumber. Cedar saw logs went to Gilbert Smith Forest Products (GSFP) and local manufacturing facilities. All grade 4 cedar was supplied to local post and rail facilities. Small volumes of logs of different sorts also went to local manufacturing facilities.

In 2015 the vast majority of road building was within the harvested cutblocks. No bridges or major culverts were constructed.



2016 Update: To the end of September 2016, MCFC harvested about 34,000 cubic meters. The majority of the volume was cut over the 2015-2016 winter. Due to wet weather and a lack of suitable summer harvest areas, very little harvesting has occurred since breakup. Due to the un-expected expiry of Cutting Permit 1 in September and weather limitations, MCFC is only expecting limited deliveries of grade 4 cedar for the remainder of 2016.

In 2016 about 65% of the harvest was completed under logging contracts which were awarded to local contractors through competitive tendering processes. The remainder of the volume was logged under market log agreements to fulfill an existing multi-year contract with BKB and to complete Block 23 which was started under a small market logger agreement several years ago. Of the whitewood, saw logs produced the majority of the volume went to Carrier Lumber with small volumes sold to West Fraser and local facilities. Grade 4 cedar all went to local mills and small volumes of cedar saw logs were sold to GSFP and local mills.

In 2016 no significant road construction occurred outside of harvested cut blocks and no bridges or major culverts were constructed. Recently a semi-permanent road deactivation project was tendered and completed on Spinner Road to maintain drainage and minimize environmental impacts from storm events.

Silviculture (including waste disposal)

Approximately 150,000 spruce seedlings were planted in late spring, 2015.

2016 Update: About 197,000 spruce seedlings were planted in late spring on about 137 hectares. By the end of this planting program MCFC had less than 20 hectares of recently logged area which was Not Sufficiently Restocked (NSR).

Currently a total of about 670 piles within 14 blocks require disposal (by burning or utilization) for hazard abatement and/or reforestation. A Request for Proposals was recently advertised for removal and utilization of piled waste in Block 28.

Informal walk-through assessments were completed on many previously planted blocks in summer 2016. No significant areas of NSR or areas requiring brushing were identified. A significant silviculture survey program is planned for 2017 which will include mapping and assessment of the common residual mature component of timber in the harvested blocks.

Safety

No significant accidents or safety incidents were reported to MCFC during 2015.

2016 Update: No significant accidents or safety incidents were reported to date in 2016. All contractors hired by MCFC in 2016 were certified under the BC Forestry Safety Council. Prior to the spring planting program MCFC contracted a danger tree assessment and falling program to minimize danger to the planters from overhead hazards.

Planning

2016 Update: As of beginning of 2016 MCFC had a very limited inventory of planned cut blocks available for harvest. As a result, a major initiative in 2016 was to invest in developing a standing timber inventory (STI) to cover expected harvesting in 2017 and beyond. To date about \$30,000 has been spent to fully plan about 44,000 m3 and partially plan another 36,000 m3. MCFC now has the flexibility to develop annual harvest plans to meet objectives for AAC, forest values, local wood supply and financial performance. This investment in STI also allows MCFC to more effectively communicate our plans and incorporate feedback from the public and stakeholders into these plans.

The Forest Stewardship Plan (FSP) covering the McBride Community Forest expired several years ago. A new draft FSP has been completed and is currently available for public review and comments. A finalized FSP is expected to be submitted to government by the end of October. It is expected this plan will be approved in January 2017.

Compliance and Enforcement

In September, 2015 MCFC self-reported that some harvesting had occurred within a Riparian Reserve Zone of a default classified S3 stream adjacent to Block 28. The investigation of this incident by FLNRO is ongoing.

In November, 2015 MCFC was notified of an alleged failure to adequately protect stream banks during deactivation of a temporary access structure into Block 16. In Spring 2016 remediation work was completed and the case is now closed.

2016 Update: In 2016 MCFC is not aware of any new compliance and enforcement incidents.

Recreation and Community Support

In 2015 MCFC pulled weeds from Lasalle Lake around the swimming dock

In 2015 and 2016 the MCFC has made the following contributions to the community:

- Planting trees in the woodlots in the village lagoon cells
- Provided wood and material for the Ancient Cedar Park infrastructure
- Maintenance of the Lasalle Lake, Beaver and Halfway Lookout Recreation Sites within the CF
- Plowing of the Bell Mtn Road to the parking lot

2016 Update:

- MCFC delivered wood from local mills for building infrastructure at the Ancient Cedar Park.
- MCFC would like to acknowledge LDM for their work gravelling and grading the Beaver Rec Site

MCFC Business Practices

2016 Update: As a result of the review and as part of the restructuring of MCFC, the following new business practices have been implemented:

- Phasing out non-competitive small market logger agreements
- All harvesting and road building competitively tendered and awarded; preference for local contractors
- New contract templates developed to be used for all activities
- Contractors now required to have 3rd party liability insurance including coverage for fire fighting
- Obtained independent 3rd party liability insurance including coverage for firefighting for the MCFC.
- Obtained liability insurance for Board of Directors

Respectfully Submitted,

Jeff McWilliams, RPF

Interim Manager MCFC



Special Resolution - Composition and Terms of the Board of Directors

2016 AGM
October 22, 2016

McBRIDE COMMUNITY FOREST CORPORATION (Incorporation no. 655951)
Articles of Incorporation Section 14 - ELECTION AND REMOVAL OF DIRECTORS

Whereas: The Shareholders consider it to be in the best interests of the McBride Community Forest Corporation (MCFC) to ensure continued progress and consistency on the Board of Directors, and that the Shareholders recognize the learning curve required to get up to speed on the complexity of the business of the community forest enterprise;

And

Whereas: The current term for a director is one year and there is no direction in the Articles of Incorporation on composition of the Board of Directors;

Therefore, be it resolved that:

Composition and Terms of the Board of Directors

One of the Directors will be an elected official of the Village of McBride for the term of their office;

The other Directors, who will come from the community at large with forestry, financial, community volunteer experience and/or local knowledge, will have a term of two years.

For the first year of implementation (2016), of the four Directors from the community at large of the MCFC:

- Two of the Directors will have a two-year term and,
- Two of the Directors will have a three-year term, to be decided among themselves at the first meeting of the Directors.

The undersigned, being Shareholders of the McBride Community Forest Corporation, certify that the above is a true and correct copy of a special resolution of 22nd day of October, 2016, by a majority of not less than three quarters (75%) of the votes cast by the Shareholders of the Corporation who voted in respect of the resolution, and the resolution is in full force and effect, unamended as of the date below.

Date

Shareholder Signatures:

Loranne Martin

Rick Thompson

Edith Tracy

Ralph Bezanson

Sharon Reichert

2015 Financial Statements