

Financial Statements of

**VALEMOUNT COMMUNITY
FOREST COMPANY LTD.**

Year ended December 31, 2017



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INDEPENDENT AUDITORS' REPORT

To the Shareholder of Valemount Community Forest Company Ltd.

We have audited the accompanying financial statements of Valemount Community Forest Company Ltd., (the "Company") which comprise the balance sheet as at December 31, 2017, the statements of earnings, retained earnings and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information. The financial statements have been prepared by the management in accordance with the basis of accounting in Note 1(a) to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the financial statements 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 Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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



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Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Valemount Community Forest Company Ltd. as at December 31, 2017, and its results of operations and its cash flows for the year then ended in accordance with the basis of accounting in Note 1(a) to the financial statements.

Basis of Accounting

Without modifying our opinion, we draw attention to Note 1(a) to the financial statements, which describes the basis of accounting. The financial statements are prepared for the purposes of Valemount Community Forest Company Ltd.'s Board of Directors' oversight of Valemount Community Forest Company Ltd. and its financial performance. As a result, the financial statements may not be suitable for another purpose.

Restriction on Use

Our report is intended solely for the Board of Directors of the Company and the shareholder, the Corporation of the Village of Valemount, and should not be used by parties other than the Company and the Corporation of the Village of Valemount.

A handwritten signature in black ink that reads 'KPMG LLP'. The signature is written in a cursive, slightly slanted style. Below the signature is a horizontal line that starts under the 'K' and ends under the 'P'.

Chartered Professional Accountants

March 27, 2018

Prince George, Canada

VALEMOUNT COMMUNITY FOREST COMPANY LTD.

Balance Sheet

December 31, 2017, with comparative information for 2016

	2017	2016
Assets		
Current assets:		
Cash and short-term investments	\$ 3,956,702	\$ 2,482,682
Accounts receivable	224,693	556,901
Sales tax receivable	496	-
Log inventory	41,200	240,999
Prepaid expenses	11,334	14,527
Current portion of loan receivable (note 2)	17,238	-
	<u>4,251,663</u>	<u>3,295,109</u>
Loan receivable (note 2)	302,449	251,372
Timber sale deposit (note 3)	133,828	133,828
Property and equipment (note 4)	479,369	468,163
Forest licenses (note 5)	1,451,005	1,511,464
Undistributed patronage allocations- Vanderhoof Co-op	1,951	1,951
	<u>\$ 6,620,265</u>	<u>\$ 5,661,887</u>

Liabilities and Shareholder's Equity

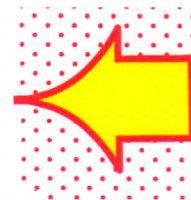
Current liabilities:		
Accounts payable and accrued liabilities (note 6)	\$ 220,301	\$ 482,127
Deferred revenue	2,719	900
Current portion of silviculture obligation (note 7)	368,550	284,000
	<u>591,570</u>	<u>767,027</u>
Silviculture obligation (note 7)	474,284	488,432
Provision for road decommissioning	200,000	200,000
	<u>1,265,854</u>	<u>1,455,459</u>
Shareholder's equity:		
Share capital:		
Class A voting common shares with no par value per share, authorized unlimited shares; issued 1 share	1	1
Retained earnings	5,354,410	4,206,427
	<u>5,354,411</u>	<u>4,206,428</u>
	<u>\$ 6,620,265</u>	<u>\$ 5,661,887</u>

See accompanying notes to financial statements.

On behalf of the Board:

Gordon Carson Director

[Signature] Director



VALEMOUNT COMMUNITY FOREST COMPANY LTD.

Statement of Earnings

Year ended December 31, 2017, with comparative information for 2016

	2017	2016
Revenue:		
Logging	\$ 8,679,566	\$ 8,378,664
Direct expenses:		
Silviculture	350,023	212,211
Stumpage	250,553	1,362,050
Subcontracting- logging and roads	5,891,548	5,274,042
	<u>6,492,124</u>	<u>6,848,303</u>
Operating margin	2,187,442	1,530,361
Expenses:		
Advertising	5,817	3,009
Amortization	19,405	21,596
Amortization- forest licenses	60,459	52,119
Consulting- forest inventory	139,337	138,711
Forest license rent	21,761	22,458
Grant writing fees	7,500	6,654
Grants	9,928	5,010
Insurance, licenses and permits	10,618	7,536
Interest and bank charges	-	17
Log yard	136,605	93,006
Meals and entertainment	2,726	1,707
Memberships and dues	10,955	11,098
Office and general	49,060	52,979
Planning	44,212	26,533
Professional fees	40,527	70,180
Property taxes	20,153	18,242
Road costs- West Canoe upgrade	-	206,238
Salaries and benefits	254,531	246,561
Telephone	4,513	4,090
Timber development	235,753	168,411
Vehicles	23,191	22,451
	<u>1,097,051</u>	<u>1,178,606</u>
Earnings from operations before other income	1,090,391	351,755
Other income:		
Grant	18,850	-
Interest	20,781	10,512
Miscellaneous	17,961	6,207
Rental	-	500
	<u>57,592</u>	<u>17,219</u>
Net earnings	<u>\$ 1,147,983</u>	<u>\$ 368,974</u>

See accompanying notes to financial statements.

VALEMOUNT COMMUNITY FOREST COMPANY LTD.

Statement of Retained Earnings

Year ended December 31, 2017, with comparative information for 2016

	2017	2016
Retained earnings, beginning of year	\$ 4,206,427	\$ 3,837,453
Net earnings	1,147,983	368,974
Retained earnings, end of year	\$ 5,354,410	\$ 4,206,427

See accompanying notes to financial statements.

VALEMOUNT COMMUNITY FOREST COMPANY LTD.

Statement of Cash Flows

Year ended December 31, 2017, with comparative information for 2016

	2017	2016
Cash provided by (used in):		
Operations:		
Net earnings	\$ 1,147,983	\$ 368,974
Items not involving cash:		
Amortization	19,405	21,596
Amortization- forest licenses	60,459	52,119
Provision for road decommissioning	-	100,000
Interest earned on loan receivable	(12,371)	(1,395)
Silviculture accrual	350,023	212,211
Undistributed patronage allocations - Vanderhoof Co-op	-	(197)
	1,565,499	753,308
Change in non-cash operating working capital:		
Accounts receivable	332,207	(72,574)
Sales tax receivable	(496)	(14,173)
Log inventory	199,799	(240,999)
Prepaid expenses	3,192	3,299
Accounts payable and accrued liabilities	(261,824)	126,392
Deferred revenue	1,819	900
Silviculture obligations paid	(279,621)	(208,665)
	1,560,575	347,488
Investing:		
Loan advances paid	(163,730)	(249,977)
Purchase of property and equipment	(30,611)	(24,892)
Purchase of forest licenses	-	(1,563,583)
Collection of loan receivable	107,786	-
	(86,555)	(1,838,452)
Increase (decrease) in cash and short-term investments	1,474,020	(1,490,964)
Cash and short-term investments, beginning of year	2,482,682	3,973,646
Cash and short-term investments, end of year	\$ 3,956,702	\$ 2,482,682

See accompanying notes to financial statements.

VALEMOUNT COMMUNITY FOREST COMPANY LTD.

Notes to Financial Statements

Year ended December 31, 2017

Nature of operations:

Valemount Community Forest Company Ltd. (the "Company") was incorporated under the British Columbia Business Corporations Act on July 27, 2007. The Company has Community Forest Agreements in the Valemount, B.C. area (note 2).

1. Significant accounting policies:

(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. The Company is considered to be a GBE under Canadian Public Sector Accounting Standards and should be preparing IFRS financial statements.

The Company 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 the Company's Board of Directors' oversight of the Company and its financial performance. As a result, the financial statements may not be suitable for another purpose.

(b) Cash and short-term investments:

Cash and short-term investments include cash-on-hand and short-term deposits which are highly liquid with original maturities of less than three months at the date of acquisition. These financial assets are convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

(c) Log inventory:

Log inventory consists of logs held for resale. Log inventory is valued at the lower of estimated cost and net realizable value.

VALEMOUNT COMMUNITY FOREST COMPANY LTD.

Notes to Financial Statements (continued)

Year ended December 31, 2017

1. Significant accounting policies (continued):

(d) Property and equipment:

Property and equipment is stated at cost, less accumulated amortization. Amortization is provided using the declining balance method and following annual rates:

Asset	Rate
Buildings	4%
Computer and software	30%
Land improvements	4%
Log scales	20%
Vehicles	30%

(e) Forest licenses:

Forest licenses include forest licenses with the Province of British Columbia. Forest licenses are carried at cost less accumulated amortization. Non-renewable licenses are amortized over the period of the license.

(f) Impairment of long-lived assets:

Long-lived assets, including property and equipment, 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 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 by 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 Company 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 asset 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.

VALEMOUNT COMMUNITY FOREST COMPANY LTD.

Notes to Financial Statements (continued)

Year ended December 31, 2017

1. Significant accounting policies (continued):

(g) Revenue recognition:

The Company 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.

Grant revenues are recognized when earned. Revenue unearned in the current period is reported on the balance sheet as deferred revenue.

Interest income is reported as revenue in the period that it is earned.

(h) Use of estimates:

The preparation of the 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 revenue and expenses during the year. Significant items subject to such estimates and assumptions include the silviculture obligation, provision for road decommissioning and carrying value of forest licenses. Actual results could differ from those estimates.

(i) 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 Company 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 effective interest rate 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 Company 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 Company 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.

VALEMOUNT COMMUNITY FOREST COMPANY LTD.

Notes to Financial Statements (continued)

Year ended December 31, 2017

1. Significant accounting policies (continued):

(j) Silviculture obligation and provision for road decommissioning:

The Company harvests timber under Community Forest Agreements (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.

In addition, the Company is also responsible for the costs to decommission any roads built by the Company or assumed by the Company. Costs are determined based on management's estimate of costs per kilometre of road to decommission.

(k) Income taxes:

The Company is exempt from income taxes under paragraph 149(1)(d.5) of the Income Tax Act.

2. Loan receivable:

	2017	2016
Balance, beginning of year	\$ 251,372	\$ -
Advances paid	163,730	249,977
Interest earned	12,371	1,395
Payment received	(107,786)	-
	<u>\$ 319,687</u>	<u>\$ 251,372</u>
	2017	2016
Comprised of:		
Current portion	\$ 17,238	\$ -
Long-term portion	302,449	251,372
	<u>\$ 319,687</u>	<u>\$ 251,372</u>

The term loan due from Cedar Valley Holdings Ltd. bears interest at a rate of Royal Bank of Canada prime plus 3.5% per annum (December 31, 2017 - 4.5%), is secured by specific property as defined in a general security agreement and is due in August 2031. Receivable in monthly instalments of \$2,595 from Cedar Valley Holdings Ltd.

VALEMOUNT COMMUNITY FOREST COMPANY LTD.

Notes to Financial Statements (continued)

Year ended December 31, 2017

3. Timber sale deposit:

Timber sale deposit is comprised of a deposit held with the Ministry of Forests under timber sale agreements. If the Company complies with all terms of the timber sale agreement, the Ministry of Forests deposit will be refunded to the Company.

4. Property and equipment:

			2017	2016
	Cost	Accumulated amortization	Net book value	Net book value
Buildings	\$ 115,622	\$ 13,327	\$ 102,295	\$ 106,557
Computer and software	13,490	11,049	2,441	2,264
Land	309,458	-	309,458	309,458
Land improvements	29,430	588	28,842	-
Log scales	24,560	13,243	11,317	14,147
Vehicles	106,590	81,574	25,016	35,737
	\$ 599,150	\$ 119,781	\$ 479,369	\$ 468,163

5. Forest licenses:

The Company has entered into two Community Forest Agreements with the Province of British Columbia pursuant to agreements dated March 29, 2012 (K2T) and February 24, 2016 (K5Q) (the "Agreements"). The Agreements are both for a twenty-five year term respectively and give the Company the right to harvest certain levels of timber on an annual basis and in total over the terms of the Agreements.

			2017	2016
	Cost	Accumulated amortization	Net book value	Net book value
Forest licence - A93987	\$ 96,414	\$ 6,942	\$ 89,472	\$ 93,200
Forest licence - Community Forest Agreement K5Q	1,467,169	105,636	1,361,533	1,418,264
	\$ 1,563,583	\$ 112,578	\$ 1,451,005	\$ 1,511,464

VALEMOUNT COMMUNITY FOREST COMPANY LTD.

Notes to Financial Statements (continued)

Year ended December 31, 2017

6. Accounts payable and accrued liabilities:

	2017	2016
Trade payables	\$ 174,699	\$ 407,232
Holdbacks	14,507	49,650
Wages and related costs payable	27,122	25,245
Government remittances payable	3,973	-
	<u>\$ 220,301</u>	<u>\$ 482,127</u>

7. Silviculture obligation:

	2017	2016
Silviculture obligations, beginning of year	\$ 772,432	\$ 768,886
Increase in accrual due to current year logging	350,023	212,211
Actual silviculture costs paid in the year	(279,621)	(208,665)
Silviculture obligations, end of year	842,834	772,432
Less: current portion	(368,550)	(284,000)
Long-term portion	<u>\$ 474,284</u>	<u>\$ 488,432</u>

VALEMOUNT COMMUNITY FOREST COMPANY LTD.

Notes to Financial Statements (continued)

Year ended December 31, 2017

8. Financial risks and concentration of risk:

The Company's financial instruments consist of cash and short term investments, accounts receivable, loan receivable, accounts payable and accrued liabilities, provision for road decommissioning and silviculture obligation. The fair value of these financial instruments approximate their carrying values, unless otherwise noted. The Company's loan receivable earns interest based on the Royal Bank of Canada prime rate. Any changes in this rate could affect the earning potential for the Company from this loan receivable. Unless otherwise noted, it is management's opinion that the Company is not exposed to further significant interest rate, currency or credit risks.

Industry risk:

The Company sells wood as part of its agreements with the Province of British Columbia. A decline in economic conditions or other adverse conditions could lead to reduced revenue and operating margin.

9. Income taxes:

The Company is exempt from income taxes under paragraph 149(1)(d.5) of the Income Tax Act.

VALEMOUNT COMMUNITY FOREST COMPANY LTD.

Notes to Financial Statements (continued)

Year ended December 31, 2017

10. Related party transactions:

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

	2017	2016
Ainslie Jackman, Director:		
Professional fees	\$ 8,504	\$ 12,648
Accounts payable	946	956
Mickelson Investments Ltd., owned by a Director:		
Accounts payable	\$ 2,545	\$ 275,921
Subcontracting- logging	3,878,377	3,719,283
The Corporation of the Village of Valemount, Shareholder:		
Accounts payable	\$ 11,254	\$ -
Grant writing fees	-	6,654
Expenses:		
Legal	1,092	-
Advertising	1,065	150
Office expenses	2,762	100
Cliff Jackman Construction Ltd., owned by the spouse of a Director:		
Subcontracting- logging	\$ 162,815	\$ 60,352
Accounts payable	30,713	-
Gordon Carson, Director:		
Logging revenue	\$ 13,533	\$ 6,928
Meals and entertainment	419	-
Subcontracting	400	-
Greenstar Forest Solutions, owned by a Director:		
Timber development	\$ 210,726	\$ 133,301
Accounts payable	2,480	-

The transactions were conducted within the normal course of business and were valued at exchange value, which is the amount agreed to by the parties.