Financial Statements of

VALEMOUNT COMMUNITY FOREST COMPANY LTD.

Year ended December 31, 2018

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INDEPENDENT AUDITORS' REPORT

To the Shareholder of Valemount Community Forest Company Ltd.

Opinion

We have audited the financial statements of Valemount Community Forest Company Ltd. (the Company), which comprise:

- the balance sheet as at December 31, 2018
- the statement of earnings for the year then ended
- the statement of 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 financial position of the Company as at December 31, 2018 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 Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical 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. The financial statements are prepared for the purposes of the board of director's and shareholder's oversight of the Valemount Community Forest and its financial performance.

Our opinion is not modified in respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the bais of accounting described in Note 1(a) to the financial statements; this includes determining that the applicable financial framework is an acceptable basis for the presentation of the financial statements in the circumstance, 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 Company'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 Company or to cease operations, or has no realistic alternative but to do so.

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 Company'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 Company'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 Company 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

March 26, 2019

VALEMOUNT COMMUNITY FOREST COMPANY LTD.

Balance Sheet

December 31, 2018, with comparative information for 2017

	2018	2017
Assets		
Current assets:		
Cash and short-term investments	$ 4,734,643	$ 3,956,702
Accounts receivable	251,815	224,693
Sales tax receivable	18,260	496
Log inventory	4,336	41,200
Prepaid expenses	30,623	11,334
Current portion of loan receivable (note 2)	36,150	17,238
	5,075,827	4,251,663
Loan receivable (note 2)	359,529	302,449
Timber sale deposit (note 3)	59,277	133,828
Property and equipment (note 4)	562,577	479,369
Forest licenses (note 5)	1,549,765	1,451,005
Undistributed patronage allocations- Four Rivers Co-op	1,951	1,951
	$ 7,608,926	$ 6,620,265
Liabilities and Shareholder's Equity		
Current liabilities:		
Accounts payable and accrued liabilities (note 6)	$ 147,354	$ 220,301
Deferred revenue	-	2,719
Current portion of silviculture obligation (note 7)	294,000	368,550
	441,354	591,570
Silviculture obligation (note 7)	500,444	474,284
Provision for road decommissioning	200,000	200,000
	1,141,798	1,265,854
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	6,467,127	5,354,410
	6,467,128	5,354,411
	$ 7,608,926	$ 6,620,265

See accompanying notes to financial statements.

On behalf of the Board:

G. Carson Director

[signature] Director

VALEMOUNT COMMUNITY FOREST COMPANY LTD.

Statement of Earnings

Year ended December 31, 2018, with comparative information for 2017

	2018	2017
Revenue:		
Logging	$ 6,824,121	$ 8,679,566
Direct expenses:		
Silviculture	329,624	350,023
Stumpage	219,070	250,553
Subcontracting- logging and roads	4,211,638	5,891,548
	4,760,332	6,492,124
Operating margin	2,063,789	2,187,442
Expenses:		
Advertising	3,288	5,817
Amortization	29,030	19,405
Amortization- forest licenses	61,240	60,459
Consulting- forest inventory	143,183	139,337
Forest license rent	25,190	21,761
Grant writing fees	7,500	7,500
Grants	13,500	9,928
Insurance, licenses and permits	14,186	10,618
Log yard	70,438	136,605
Meals and entertainment	3,359	2,726
Memberships and dues	10,384	10,955
Office and general	78,052	49,060
Planning	56,052	44,212
Professional fees	75,200	40,527
Property taxes	21,505	20,153
Salaries and benefits	310,795	254,531
Telephone	5,263	4,513
Timber development	169,142	235,753
Vehicles	35,704	23,191
	1,133,011	1,097,051
Earnings from operations before other income	930,778	1,090,391
Other income:		
Grant	100,000	18,850
Interest	31,456	20,781
Miscellaneous	50,483	17,961
	181,939	57,592
Net earnings	$ 1,112,717	$ 1,147,983

See accompanying notes to financial statements.

VALEMOUNT COMMUNITY FOREST COMPANY LTD.

Statement of Retained Earnings

Year ended December 31, 2018, with comparative information for 2017

	2018	2017
Retained earnings, beginning of year	$ 5,354,410	$ 4,206,427
Net earnings	1,112,717	1,147,983
Retained earnings, end of year	$ 6,467,127	$ 5,354,410

See accompanying notes to financial statements.

VALEMOUNT COMMUNITY FOREST COMPANY LTD.

Statement of Cash Flows

Year ended December 31, 2018, with comparative information for 2017

	2018	2017
Cash provided by (used in):		
Operations:		
Net earnings	$ 1,112,717	$ 1,147,983
Items not involving cash:		
Amortization	29,030	19,405
Amortization- forest licenses	61,240	60,459
Silviculture accrual	329,624	350,023
	1,532,611	1,577,870
Change in non-cash operating working capital:		
Accounts receivable	(27,122)	332,207
Sales tax receivable	(17,764)	(496)
Log inventory	36,864	199,799
Prepaid expenses	(19,289)	3,192
Accounts payable and accrued liabilities	(72,947)	(261,824)
Deferred revenue	(2,719)	1,819
Silviculture obligations paid	(378,014)	(279,621)
	1,051,620	1,572,946
Investing:		
Loan advances paid	(100,000)	(163,730)
Purchase of property and equipment	(112,238)	(30,611)
Collection of loan receivable	24,008	95,415
Acquisition of forestry license	(160,000)	-
Timber sale deposit	74,551	-
	(273,679)	(98,926)
Increase in cash and short-term investments	777,941	1,474,020
Cash and short-term investments, beginning of year	3,956,702	2,482,682
Cash and short-term investments, end of year	$ 4,734,643	$ 3,956,702

See accompanying notes to financial statements.

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.

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, and forest licenses 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.

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, carrying value of forest licenses, plant and equipment and receivables. 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.

1. Significant accounting policies (continued):

(j) Silviculture obligation and provision for road decommissioning:

The Company harvests timber under Community Forest Agreements (note 5) 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.

2. Loan receivable:

	2018	2017
Balance, beginning of year	$ 319,687	$ 251,372
Advances paid	100,000	163,730
Interest earned	17,542	12,371
Payment received	(41,550)	(107,786)
	$ 395,679	$ 319,687

	2018	2017
Comprised of:		
Current portion	$ 36,150	$ 17,238
Long-term portion	359,529	302,449
	$ 395,679	$ 319,687

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, 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.

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:

	Cost	Accumulated amortization	2018 Net book value	2017 Net book value
Buildings	$ 115,622	$ 17,419	$ 98,203	$ 102,295
Computer and software	14,667	12,172	2,495	2,441
Land	309,458	-	309,458	309,458
Land improvements	29,430	1,741	27,688	28,842
Log scales	24,560	15,506	9,054	11,317
Vehicles	217,650	101,972	115,679	25,016
	$ 711,387	$ 148,810	$ 562,577	$ 479,369

5. Forest licenses:

The Company has entered into three Community Forest Agreements with the Province of British Columbia pursuant to agreements dated March 29, 2012 (K2T), February 24, 2016 (K5Q), and June 29, 2018 (the "Agreements"). The Agreements are 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.

	Cost	Accumulated amortization	2018 Net book value	2017 Net book value
Forest licence - A93987	$ 96,414	$ 10,521	$ 85,893	$ 89,472
Forest licence - Community Forest Agreement K5Q	1,467,169	160,097	1,307,072	1,361,533
Forest licence - WL277	160,000	3,200	156,800	-
	$ 1,723,583	$ 173,818	$ 1,549,765	$ 1,451,005

6. Accounts payable and accrued liabilities:

	2018	2017
Trade payables	$ 81,529	$ 174,699
Holdbacks	29,894	14,507
Wages and related costs payable	28,121	27,122
Government remittances payable	7,810	3,973
	$ 147,354	$ 220,301

7. Silviculture obligation:

	2018	2017
Silviculture obligations, beginning of year	$ 842,834	$ 772,432
Increase in accrual due to current year logging	329,624	350,023
Actual silviculture costs paid in the year	(378,014)	(279,621)
Silviculture obligations, end of year	794,444	842,834
Less: current portion	(294,000)	(368,550)
Long-term portion	$ 500,444	$ 474,284

8. Financial risks and concentration of risk:

Financial risks:

(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.

(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 operating requirements.

There has been no change to the risk exposures from 2017.

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.

9. Income taxes:

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

10. Related party transactions:

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

	2018	2017
Ainslie Jackman, Director:		
Contracting	$ 19,110	$ 8,504
Accounts payable	-	946
Mickelson Investments Ltd., owned by a Director:		
Accounts payable	$ -	$ 2,545
Subcontracting- logging	3,027,730	3,878,377
The Corporation of the Village of Valemount, Shareholder:		
Accounts payable	$ -	$ 11,254
Grant writing fees	15,000	-
Expenses:		
Legal	22,673	1,092
Advertising	1,220	1,065
Office expenses	2,477	2,762
Cliff Jackman Construction Ltd., owned by the spouse of a Director:		
Subcontracting- logging	$ -	$ 162,815
Accounts payable	-	30,713
Gordon Carson, Director:		
Logging revenue	$ -	$ 13,533
Meals and entertainment	-	419
Subcontracting	-	400
Office expense	2,703	-
Truck/Hauling	12,878	-
Accounts payable	1,350	-
Greenstar Forest Solutions, owned by a Director:		
Timber development	$ 163,479	$ 210,726
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.

11. Subsequent event:

Subsequent to the year end, the Company transferred substantially all of its assets and liabilities to two limited partnerships. The partnerships are owned by the Village of Valemount and are called Valemount Community Forest Limited Partnership and Valemount Industrial Park Limited Partnership.