Financial Statements of

VALEMOUNT COMMUNITY FOREST LIMITED PARTNERSHIP

And Independent Auditors' Report thereon

From commencement of operations on January 14, 2019 to December 31, 2019

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INDEPENDENT AUDITORS' REPORT

To the Partners of Valemount Community Forest Limited Partnership

Opinion

We have audited the financial statements of Valemount Community Forest Limited Partnership (the "Partnership"), which comprise:

- the balance sheet as at December 31, 2019
- the statement of earnings for the period then ended
- the statement of partners' equity for the period then ended
- the statement of cash flows for the period 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 balance sheet of the Partnership as at December 31, 2019 and its results of operations and its cash flows for the period 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 Partnership 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 Partners and Board of Directors' oversight of the Partnership and its financial performance.

Our opinion is not modified in respect to this matter.

KPMG LLP, is a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity
KPMG Canada provides services to KPMG LLP.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the basis 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 Partnership'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 Partnership or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Partnership's financial reporting process.

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 Partnership's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- 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 Partnership'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 Partnership 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

April 24, 2020

VALEMOUNT COMMUNITY FOREST LIMITED PARTNERSHIP

Balance Sheet

December 31, 2019

Assets

Current assets:	
Cash	$ 1,117,501
Accounts receivable	439,609
Log inventory (note 2)	23,514
Prepaid expenses	19,957
	1,600,581
Property and equipment (note 3)	91,890
Forest licences (note 4)	1,749,007
	$ 3,441,478

Liabilities and Partners' Equity

Current liabilities:	
Accounts payable and accrued liabilities (note 5)	$ 529,189
Current portion of Evergreen contract payable (note 6)	98,667
Due to related party (note 8)	2,328,100
	2,955,956
Evergreen contract payable (note 6)	98,667
Silviculture obligation (note 7)	246,914
	3,301,537
Partners' equity	139,941
	$ 3,441,478

See accompanying notes to financial statements.

On behalf of the Board:

G Carson Partner

Gachman Partner

VALEMOUNT COMMUNITY FOREST LIMITED PARTNERSHIP

Statement of Earnings

From commencement of operations on January 14, 2019 to December 31, 2019

Revenue:	
Logging	$ 7,045,283
Direct expenses:	
Amortization	26,283
Amortization - forest licences	82,664
Log yard	31,093
Other	4,565
Salaries and benefits	347,702
Silviculture	246,914
Stumpage	333,764
Subcontracting - logging and roads	5,352,305
Supplies	500
Timber development	271,024
	6,696,814
Operating margin	348,469
Expenses:	
Advertising	8,235
Forest licence rent	33,153
Grant writing fees	7,500
Grants	15,366
Meals and entertainment	1,831
Memberships and dues	11,107
Office and general	28,819
Planning	39,644
Professional fees	42,350
Telephone	4,906
Vehicles	38,582
	231,493
Earnings from operations before other income	116,976
Other income:	
Interest	24
Miscellaneous	12,940
	12,964
Net earnings	$ 129,940

See accompanying notes to financial statements.

VALEMOUNT COMMUNITY FOREST LIMITED PARTNERSHIP

Statement of Partners' Equity

From commencement of operations on January 14, 2019 to December 31, 2019

	Initial investment	Partnership interest %	Balance, beginning of period	Net earnings	Balance, end of period
Valemount Community Forest Company Ltd.	$ 1	0.01	$ -	$ 13	$ 14
The Corporation of the Village of Valemount	10,000	99.99	-	129,927	139,927
	$ 10,001	100.00	$ -	$ 129,940	$ 139,941

See accompanying notes to financial statements.

VALEMOUNT COMMUNITY FOREST LIMITED PARTNERSHIP

Statement of Cash Flows

From commencement of operations on January 14, 2019 to December 31, 2019

Cash provided by (used in):		
Operations:		
Net earnings	$	129,940
Items not involving cash:		
Amortization - forest licences		82,664
Amortization		26,283
Silviculture accrual		246,914
		485,801
Change in non-cash operating working capital:		
Accounts receivable		(439,609)
Log inventory		(23,514)
Prepaid expenses		(19,957)
Accounts payable and accrued liabilities		529,189
		531,910
Financing:		
Due to related party		585,591
Increase in cash	$	1,117,501

Non-cash investing and financing activities:		
Issuance of partnership units	$	10,001
Acquisition of property and equipment		(118,173)
Acquisition of forest tenure		(1,831,671)
Transfer of Evergreen liability		197,334

See accompanying notes to financial statements.

VALEMOUNT COMMUNITY FOREST LIMITED PARTNERSHIP

Notes to Financial Statements

From commencement of operations on January 14, 2019 to December 31, 2019

Nature of operations:

Valemount Community Forest Limited Partnership (the "Partnership") was created under the British Columbia Partnership Act on January 14, 2019. The Partnership has Community Forest Agreements and other forest tenure agreements in the Valemount, B.C. area (note 4).

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

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

(b) Cash:

Cash consists of cash-on-hand and cheques issued in excess of deposits.

(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.

(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
Computer and software	30%
Vehicles	20%

1. Significant accounting policies (continued):

(e) Forest licences:

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

	Years
Forest licence - Community Forest Agreement K2T	25
Forest licence - A93987	25
Forest licence - Community Forest Agreement K5Q	25
Woodlot licence - WL 277	25
Evergreen Contract	25

(f) 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, carrying value of forest licences, property and equipment and accounts receivable. Actual results could differ from those estimates.

(g) Impairment of long-lived assets:

Long-lived assets, including property and equipment and forest licences 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 Partnership 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):

(h) Revenue recognition:

The Partnership 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.

(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 Partnership 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 Partnership 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 Partnership 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:

The Partnership harvests timber under Community Forest Agreements (note 4) with the Province of British Columbia. Estimated future timber reforestation and silviculture obligations are accrued and expensed based on the volume of timber removed.

(k) Related party transactions:

Monetary related party transactions and non-monetary related party transactions that have commercial substance are measured at the exchange amount when they are in the normal course of business, except when the transaction is an exchange of a product of property held for sale in the normal course of operations. Where the transaction is not in the normal course of operations, it is measured at the exchange amount when there is a substantive change in the ownership of the item transferred and there is independent evidence of the exchange amount. All other related party transactions are measured at the carrying amount.

2. Log inventory:

	2019
Opening inventory balance	$ -
Harvesting costs	5,352,205
Cost of goods sold	(5,328,691)
Ending inventory balance	$ 23,514

3. Property and equipment:

	Cost	Accumulated amortization	Net book value 2019
Computer and software	$ 2,495	$ 745	$ 1,750
Vehicles	115,678	25,538	90,140
	$ 118,173	$ 26,283	$ 91,890

4. Forest licences and contracts:

The Partnership has entered into four Community Forest Tenure Agreements with the Province of British Columbia. The Agreements are for a twenty-five year term respectively and give the Partnership the right to harvest certain levels of timber on an annual basis and in total over the terms of the Agreements. The Evergreen Contract provides the right to harvest a specified annual amount of timber from the Partnership's Community Forest License K5Q and Forest License A93987.

	Cost	Accumulated amortization	Net book value 2019
Forest licence - A93987	$ 85,893	$ 3,904	$ 81,989
Forest licence - Community Forest Agreement K2T	1	-	1
Forest licence - Community Forest Agreement K5Q	1,307,072	59,413	1,247,659
Woodlot licence - WL277	156,800	6,533	150,267
Evergreen Contract	281,905	12,814	269,091
	$ 1,831,671	$ 82,664	$ 1,749,007

5. Accounts payable and accrued liabilities:

	2019
Trade payables	$ 409,023
Logging holdbacks	61,684
Wages and related costs payable	58,063
Government remittances payable	419
	$ 529,189

6. Evergreen Contract payable:

		2019
Evergreen Contract payable	$	296,000
Payments made in the year		(98,666)
Evergreen Contract payable, end of year		197,334
Less: current portion		(98,667)
Long-term portion	$	98,667

7. Silviculture obligation:

		2019
Silviculture obligation, beginning of year	$	-
Increase in accrual due to current year logging		246,914
Actual silviculture costs paid in the year		-
Silviculture obligation, end of year	$	246,914

The silviculture obligation is in respect of harvesting undertaken subsequent to the transfer of the timber licenses to the Partnership.

8. Due to related party:

		2019
Valemount Community Forest Company Ltd.	$	2,328,100

The balance due to Valemount Community Forest Company Ltd. is unsecured, has no specified terms of repayment and is due on demand.

9. Related party transactions:

On January 14, 2019 the Partnership acquired the following assets and liabilities from a partner, Valemount Community Forest Company Ltd. These transactions are not in the normal course of operations and have been valued in these financial statements at the carrying amount.

	2019
Cash	$ 1,000,000
Forest licences:	
Forest licence - A93987	85,893
Forest licence - Community Forest Agreement K5Q	1,307,072
Forest licence - Community Forest Agreement K2T	1
Woodlot licence - WL277	156,800
Evergreen Contract	281,905
Property and equipment:	
Computer and software	2,495
Vehicles	115,678
Liabilities:	
Evergreen Contract payable	(296,000)
	$ 2,653,845

In addition to the promissory note issued for the acquisition of the above noted properties, the Partnership issued 9,900 Class B partnership units.

9. Related party transactions (continued):

During the course of the year the Partnership had the following transactions with related parties that were conducted within the normal course of business and were valued at exchange value, which is the amount agreed to by the parties.

		2019
Ainslie Jackman, Director of the general partner:		
Contracting	$	20,233
Mickelson Investments Ltd., owned by a Director of the general partner:		
Accounts payable	$	183,451
Subcontracting - logging		3,296,947
Log sort yard		33,472
Miscellaneous		(846)
Evergreen Contract payable (note 6)		197,334
The Corporation of the Village of Valemount, Partner:		
Advertising	$	735
Cliff Jackman Construction Ltd., owned by the spouse of a Director of the general partner:		
Subcontracting - roadbuilding/maintenance	$	39,239
Accounts payable		30,030
Truck/Hauling		1,353
Greenstar Forest Solutions, owned by a Director of the general partner:		
Accounts payable	$	7,806
Timber development		254,339

10. Financial risks and concentration of risk:

The Partnership's financial instruments consist of cash, accounts receivable, accounts payable and accrued liabilities, Evergreen contract payable and silviculture obligation.

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 Partnership deals with creditworthy counterparties to mitigate the risk of financial loss from defaults.

(b) Liquidity risk:

Liquidity risk is the risk that the Partnership will be unable to fulfill its obligations on a timely basis or at a reasonable cost. The Partnership manages its liquidity risk by monitoring its operating requirements.

(c) Interest rate risk:

It is management's opinion that the Partnership is not exposed to interest rate risk.

Concentration of risk:

(a) Industry:

The Partnership sells logs 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.

(b) Limited counterparties:

A substantial portion of the Partnership's operating revenue is derived from the sale of products to one large customer. Sales to this one customer accounted for 60% of revenue. The loss of this relationship would have a significant impact on the Partnership's revenue.

11. Subsequent event:

Subsequent to December 31, 2019, the COVID-19 outbreak was declared a pandemic by the World Health Organization and has had a significant financial, market and social dislocating impact. At this time, these factors present uncertainty over future cash flows, may cause significant changes to the assets or liabilities and may have a significant impact on future operations. An estimate of the financial effect is not practicable at this time.