

Financial Statements of

**VALEMOUNT COMMUNITY FOREST
LIMITED PARTNERSHIP**

And Independent Auditor's Report thereon

Year ended December 31, 2022



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INDEPENDENT AUDITOR'S REPORT

To the Partners of Valemount Community Forest Limited Partnership

Opinion

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

- the balance sheet as at December 31, 2022
- the statement of earnings for the year then ended
- the statement of partners' equity 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 balance sheet of the Partnership as at December 31, 2022 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 "***Auditor's Responsibilities for the Audit of the Financial Statements***" section of our auditor's 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.

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 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.

Auditor's 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 auditor's 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.



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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 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 auditor's 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 auditor's 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

May 29, 2023

VALEMOUNT COMMUNITY FOREST LIMITED PARTNERSHIP

Balance Sheet

December 31, 2022, with comparative information for 2021

	2022	2021
Assets		
Current assets:		
Cash	\$ 2,154,835	\$ 860,667
Accounts receivable	869,626	755,462
Guaranteed investment certificates	1,047,985	1,023,043
Log inventory (note 2)	84,812	415,352
Prepaid expenses	99,321	105,716
	4,256,579	3,160,240
Due from related party (note 3)	2,400,000	1,900,000
Property and equipment (note 4)	167,579	56,025
Forest licences and contracts (note 5)	1,270,366	1,583,680
Undistributed patronage allocations - Four Rivers Co-op	3,070	3,070
	\$ 8,097,594	\$ 6,703,015

Liabilities and Partners' Equity

Current liabilities:		
Accounts payable and accrued liabilities (note 6)	\$ 480,806	\$ 830,517
Due to partner (note 7)	2,407,853	2,511,686
Current portion of silviculture obligation (note 8)	314,618	265,989
Current portion of Evergreen contract payable	-	98,667
	3,203,277	3,706,859
Silviculture obligation (note 8)	265,298	195,156
Provision for road decommissioning	21,530	5,418
	3,490,105	3,907,433
Partners' equity	4,607,489	2,795,582
Basis of accounting (note 1(a))		
	\$ 8,097,594	\$ 6,703,015

See accompanying notes to financial statements.

On behalf of the Board:

_____ Partner _____ Partner

VALEMOUNT COMMUNITY FOREST LIMITED PARTNERSHIP

Statement of Earnings

Year ended December 31, 2022, with comparative information for 2021

	2022	2021
Revenue:		
Logging	\$ 13,167,685	\$ 9,105,791
Direct expenses:		
Amortization	25,617	15,631
Amortization - forest licences	71,986	82,664
Log purchases	139,166	144,346
Log yard	135,535	62,900
Other	62,557	43,122
Salaries and benefits	389,914	363,905
Silviculture	437,782	354,507
Stumpage	640,912	458,755
Subcontracting - logging and roads	8,991,690	5,671,544
Supplies	8,516	-
Timber development	64,399	68,158
	<u>10,968,074</u>	<u>7,265,532</u>
Operating margin	2,199,611	1,840,259
Expenses:		
Advertising	7,180	9,320
Consulting - forest inventory	25,709	19,772
Forest licence rent	51,172	36,745
Grant writing fees	8,000	8,000
Insurance	2,030	-
Meals and entertainment	2,786	3,064
Memberships and dues	10,780	11,144
Office and general	40,008	44,370
Planning	57,031	83,940
Professional fees	95,076	77,912
Rent	75,000	75,000
Grants	32,212	18,200
Telephone	5,104	5,133
Vehicles	48,562	54,583
	<u>460,650</u>	<u>447,183</u>
Earnings from operations before other income	1,738,961	1,393,076
Other income:		
Gain on disposal of property and equipment and contract	44,265	-
Interest on guaranteed investment certificates	24,942	15,809
Miscellaneous	3,739	46,876
	<u>72,946</u>	<u>62,685</u>
Net earnings	<u>\$ 1,811,907</u>	<u>\$ 1,455,761</u>

See accompanying notes to financial statements.

VALEMOUNT COMMUNITY FOREST LIMITED PARTNERSHIP

Statement of Partners' Equity

Year ended December 31, 2022, with comparative information for 2021

2022	Partnership interest %	Balance, beginning of year	Net earnings	Balance, end of year
Valemount Community Forest Company Ltd.	0.01	\$ 280	\$ 181	\$ 461
The Corporation of the Village of Valemount	99.99	2,795,302	1,811,726	4,607,028
	100.00	\$ 2,795,582	\$ 1,811,907	\$ 4,607,489

2021	Partnership interest %	Balance, beginning of year	Net earnings	Balance, end of year
Valemount Community Forest Company Ltd.	0.01	\$ 134	\$ 146	\$ 280
The Corporation of the Village of Valemount	99.99	1,339,687	1,455,615	2,795,302
	100.00	\$ 1,339,821	\$ 1,455,761	\$ 2,795,582

See accompanying notes to financial statements.

VALEMOUNT COMMUNITY FOREST LIMITED PARTNERSHIP

Statement of Cash Flows

Year ended December 31, 2022, with comparative information for 2021

	2022	2021
Cash provided by (used in):		
Operations:		
Net earnings	\$ 1,811,907	\$ 1,455,761
Items not involving cash:		
Amortization	25,617	15,631
Gain on disposal of property and equipment and contract	(44,265)	-
Amortization - forest licences	71,986	82,664
Silviculture accrual	437,782	354,507
Reversal of Evergreen contract termination liability	(98,667)	-
	2,204,360	1,908,563
Change in non-cash operating working capital:		
Accounts receivable	(114,164)	(7,001)
Log inventory	330,540	(355,732)
Prepaid expenses	6,395	(40,085)
Accounts payable and accrued liabilities	(349,709)	(146,628)
Silviculture obligations paid	(319,012)	(413,706)
Provision for road decommissioning	16,112	5,418
	1,774,522	950,829
Financing:		
Advances repaid to partner	(103,833)	(69,882)
Proceeds from repayment of Evergreen contract termination	281,905	-
	178,072	(69,882)
Investing:		
Guaranteed investment certificates	(24,942)	(15,809)
Advances to related party	(500,000)	(1,900,000)
Acquisition of property and equipment	(139,984)	-
Proceeds from disposal of property and equipment	6,500	-
	(658,426)	(1,915,809)
Increase (decrease) in cash	1,294,168	(1,034,862)
Cash, beginning of year	860,667	1,895,529
Cash, end of year	\$ 2,154,835	\$ 860,667

See accompanying notes to financial statements.

VALEMOUNT COMMUNITY FOREST LIMITED PARTNERSHIP

Notes to Financial Statements

December 31, 2022

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.

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%

VALEMOUNT COMMUNITY FOREST LIMITED PARTNERSHIP

Notes to Financial Statements (continued)

December 31, 2022

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 - A93987	25
Forest licence - Community Forest Agreement K2T	25
Forest licence - Community Forest Agreement K5Q	25
Woodlot licence - WL 277	25
Evergreen Contract	3

(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. Items subject to such estimates and assumptions include the silviculture obligation, accrued liabilities, carrying value of forest licences and contracts, property and equipment, log inventory 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.

VALEMOUNT COMMUNITY FOREST LIMITED PARTNERSHIP

Notes to Financial Statements (continued)

December 31, 2022

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.

In the case of financial instruments that originate as a result of related party transactions, initial measurement will be at exchange amount of carrying value in accordance with Section 3840, Related Party Transactions, rather than a fair value. If the sole relationship is in the capacity of management, the parties involved are deemed to be unrelated for purposes of Section 3856, Financial Instruments, and as such, transactions will be initially measured at fair value.

VALEMOUNT COMMUNITY FOREST LIMITED PARTNERSHIP

Notes to Financial Statements (continued)

December 31, 2022

1. Significant accounting policies (continued):

(j) Silviculture obligation:

The Partnership 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.

(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:

	2022	2021
Opening inventory balance	\$ 415,352	\$ 59,620
Harvesting costs	8,661,150	6,027,275
Cost of goods sold	(8,991,690)	(5,671,543)
Ending inventory balance	\$ 84,812	\$ 415,352

3. Due from related party:

	2022	2021
Valemount Industrial Park Limited Partnership	\$ 2,400,000	\$ 1,900,000

The balance due from Valemount Industrial Park Limited Partnership, related by way of common ownership, is unsecured and has no specified terms of repayment.

VALEMOUNT COMMUNITY FOREST LIMITED PARTNERSHIP

Notes to Financial Statements (continued)

December 31, 2022

4. Property and equipment:

				2022	2021
	Cost	Accumulated amortization		Net book value	Net book value
Computer and software	\$ 23,536	\$ 3,999	\$	19,537	\$ 858
Vehicles	224,976	76,933		148,042	55,167
	\$ 248,512	\$ 80,932	\$	167,579	\$ 56,025

5. 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 2022	Net book value 2021
Forest licence - A93987	\$ 85,893	\$ 15,617	\$	70,276	\$ 74,180
Forest licence - Community Forest Agreement K2T	1	-		1	1
Forest licence - Community Forest Agreement K5Q	1,307,072	2,376,450		1,069,422	1,128,835
Woodlot licence - WL277	156,800	26,133		130,667	137,200
Evergreen contract	-	-		-	243,464
	\$ 1,549,766	\$ 2,418,200	\$	1,270,366	\$ 1,583,680

VALEMOUNT COMMUNITY FOREST LIMITED PARTNERSHIP

Notes to Financial Statements (continued)

December 31, 2022

6. Accounts payable and accrued liabilities:

	2022	2021
Trade payables	\$ 344,891	\$ 684,184
Logging holdbacks	25,421	40,175
Wages payable	93,722	98,784
Government remittances payable	-	2,483
Sales tax payable	16,772	4,891
	<u>\$ 480,806</u>	<u>\$ 830,517</u>

7. Due to partner:

	2022	2021
Valemount Community Forest Company Ltd.	\$ 2,407,853	\$ 2,511,686

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

8. Silviculture obligation:

	2022	2021
Silviculture obligation, beginning of year	\$ 461,145	\$ 520,344
Increase in accrual due to current year logging	543,687	354,507
Actual silviculture costs paid in the year	(424,916)	(413,706)
Silviculture obligation, end of year	579,916	461,145
Less: current portion	(314,618)	(265,989)
Long-term portion	<u>\$ 265,298</u>	<u>\$ 195,156</u>

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

VALEMOUNT COMMUNITY FOREST LIMITED PARTNERSHIP

Notes to Financial Statements (continued)

December 31, 2022

9. Related party transactions:

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.

	2022	2021
Ainslie Jackman, Director of the general partner:		
Accounts payable	\$ 519	\$ 1,223
Contracting	6,181	8,778
Mickelson Investments Ltd., owned by a Director of the general partner:		
Accounts payable	\$ -	\$ 138,146
Subcontracting - logging	-	3,114,493
Log sort yard	-	53,246
Miscellaneous	-	181,782
Evergreen Contract payable (note 9)	-	98,667
The Corporation of the Village of Valemount, partner:		
Accounts payable	\$ -	\$ 8,000
Advertising	(125)	375
Legal	-	2,399
Grant writing fees	8,000	8,000
Grants expense	4,000	-
Cliff Jackman Contracting Ltd., owned by the spouse of a Director of the general partner:		
Subcontracting - road building/maintenance	\$ 314,269	\$ 216,084
Accounts payable	-	39,895
Road Construction	191,587	-
Greenstar Forest Solutions, owned by a Director of the general partner:		
Accounts payable	\$ -	\$ 1,890
Timber development	-	71,566

VALEMOUNT COMMUNITY FOREST LIMITED PARTNERSHIP

Notes to Financial Statements (continued)

December 31, 2022

9. Related party transactions (continued):

	2022	2021
Valemount Industrial Park Limited Partnership, related by way of common ownership:		
Rent	\$ 75,000	\$ 75,000
Accounts receivable	(363,681)	-
Miscellaneous	174	-
Road Bridges	568	-
Scales	8,553	-
Log sort year	1,600	-
Swift Creek Holdings, owned by a Director of the general partner:		
Account payable	\$ -	\$ 1,545
Subcontracting - logging and roads	27,156	24,228

10. Financial risks and concentration of risk:

The Partnership's financial instruments consist of cash, accounts receivable, accounts payable and accrued liabilities, silviculture obligation and provision for road decommissioning. In management's opinion, the Partnership is not subject to interest rate risk and currency risk as they do not make purchases denominated in foreign currency.

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 A. Fuhr Holdings Ltd its obligations on a timely basis or at a reasonable cost. The Partnership manages its liquidity risk by monitoring its operating requirements.

There has been no changes to the risk exposures from 2021.

VALEMOUNT COMMUNITY FOREST LIMITED PARTNERSHIP

Notes to Financial Statements (continued)

December 31, 2022

10. Financial risks and concentration of risk (continued):

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 two customers. Sales to the two customers accounted for 66% (2022 - 50%) of revenue. The loss of this relationship would have a significant impact on the Partnership's revenue.

11. Comparative information:

The financial statements have been reclassified, where applicable, to conform to the presentation used in the current year. The changes do not affect prior year earnings.