

Financial Statements of

**TUMBLER RIDGE  
COMMUNITY FOREST CORP.**

Year ended December 31, 2017



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## **INDEPENDENT AUDITORS' REPORT**

To the Shareholder of Tumbler Ridge Community Forest Corp.

### *Report on Financial Statements*

We have audited the accompanying financial statements of Tumbler Ridge Community Forest Corp., (the "Corporation"), which comprise the balance sheet as at December 31, 2017, the statements of earnings and retained earnings and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

### *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 Corporation'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 Corporation'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 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 Tumbler Ridge Community Forest Corp. 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 described 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 the board of director's and shareholder's oversight of the Tumbler Ridge Community Forest Corp. and its financial performance. As a result, the financial statements may not be suitable for another purpose.

*KPMG LLP*

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Chartered Professional Accountants

May 7, 2018

Prince George, Canada



# TUMBLER RIDGE COMMUNITY FOREST CORP.

## Statement of Earnings and Retained Earnings

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

	2017	2016
Logging	\$ 1,763,702 ✓	\$ 580,906
Cost of sales:		
Silviculture	209,262	173,856
Stumpage	40,843	24,340
	<u>250,105 ✓</u>	<u>198,196</u>
Operating margin	1,513,597	382,710
Expenses:		
Advertising	-	1,437
Bookkeeping	3,969 ✓	4,139
Community support	20,762	8,700
Consulting fees	86,872 ✓	98,990
Forest license rent	18,500 ✓	7,400
Forestry development	93,856 ✓	118,142
Grant support	139,218	14,500
Insurance and licenses	4,693 ✓	4,628
Interest and bank charges	244 ✓	165
Meals and travel	2,922 ✓	3,594
Memberships and dues	5,176 ✓	10,118
Office and general	42,007	1,207
Other	13,096 ✓	-
Professional fees	10,335 ✓	9,597
Supplies	775 ✓	2,753
Training	817 ✓	14,122
	<u>443,242 ✓</u>	<u>299,492</u>
Earnings before the undernoted item	1,070,355	83,218
Interest income	31,202	16,912
Net earnings	1,101,557	100,130
Retained earnings, beginning of year	687,748 ✓	587,618
Retained earnings, end of year	<u>\$ 1,789,305 ✓</u>	<u>\$ 687,748</u>

See accompanying notes to financial statements.

# TUMBLER RIDGE COMMUNITY FOREST CORP.

## Statement of Cash Flows

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

	2017	2016
Cash provided by (used in):		
Operations:		
Net earnings	\$ 1,101,557	\$ 100,130
Changes in non-cash operating working capital:		
Trade receivable	7,070	14,349
Prepaid expenses	(270)	-
Accounts payable and accrued liabilities	1,374	21,308
Sales tax	2,245	(26,232)
Silviculture obligation	168,294	(114,441)
Increase (decrease) in cash	1,280,270	(4,886)
Cash, beginning of year	1,566,171	1,571,057
Cash, end of year	\$ 2,846,441	\$ 1,566,171

See accompanying notes to financial statements.

# TUMBLER RIDGE COMMUNITY FOREST CORP.

Notes to Financial Statements

Year ended December 31, 2017

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## Nature of operations:

Tumbler Ridge Community Forest Corp. (the "Corporation") was incorporated under the British Columbia Business Corporations Act on July 24, 2012. The Corporation has a community forest licence in the Tumbler Ridge, B.C. area.

## 1. Significant accounting policies:

The Corporation's significant accounting policies are as follows:

### (a) Basis of presentation:

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. Tumbler Ridge Community Forest Corp. is considered to be a GBE under Canadian Public Sector Accounting Standards and should be preparing IFRS financial statements.

Tumbler Ridge Community Forest Corp. 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 Tumbler Ridge Community Forest Corp. board of directors' oversight of Tumbler Ridge Community Forest Corp. and its financial performance. As a result, the financial statements may not be suitable for another purpose.

### (b) Equipment:

Equipment is stated at cost, less accumulated amortization. Amortization is provided using the straight-line method and following annual rate:

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Asset	Rate
Computer equipment	3 years

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# TUMBLER RIDGE COMMUNITY FOREST CORP.

Notes to Financial Statements (continued)

Year ended December 31, 2017

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## 1. Significant accounting policies (continued):

### (c) Impairment of long-lived assets:

Long-lived assets, including equipment subject to amortization, 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 asset's 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 for 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 Corporation 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 assets 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.

### (d) Revenue recognition:

The Corporation 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.

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

### (e) Reforestation:

The Corporation harvests timber under a forest licence (note 4) with the Province of British Columbia. Estimated future timber reforestation and silviculture obligations are accrued and expensed based on the per hectare silvicultural cost estimate in the current BC Interior Appraisal Manual (based on BEC Zone, subzone and variant of the cutblock) multiplied by the net area to be reforested from the Silviculture Prescription.

The reforestation and silviculture obligations are recorded in one of two methods. The preferred method is to map the ongoing harvested area (in a month period) and multiply the area harvested by the silviculture rate in the manual.

# TUMBLER RIDGE COMMUNITY FOREST CORP.

Notes to Financial Statements (continued)

Year ended December 31, 2017

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## 1. Significant accounting policies (continued):

### (e) Reforestation (continued):

The alternative method used if visits to the harvest site cannot be carried out as the block is harvested is as follows:

The reforestation liability cost is converted into a cost per m<sup>3</sup> by dividing the cut-block reforestation cost (calculated as above) by the estimated cut-block volume. The reforestation cost per m<sup>3</sup> is then accrued by tracking the harvest scale return volume from the cut-block in a given month. Once the entire cut-block is harvested, an adjustment is made to reflect the net area to be reforested from the Silviculture Prescription multiplied by the Appraisal Manual reforestation cost estimate. This adjustment is necessary because actual volume harvested generally does not equal estimated volume used in the initial calculations.

The accrual activity costs on all cut blocks with outstanding obligations are updated annually; replacing appraisal manual estimates with cost estimates reflecting current experienced costs. This process ensures a most accurate representation of liability costs going forward for all outstanding blocks not yet free to grow. The experienced cost estimates are collected and reviewed annually and used to forecast the ongoing silviculture obligations.

### (f) Use of estimates:

The preparation of the financial statements in conformity with Canadian accounting standards for private enterprises 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. Actual results could differ from those estimates

### (g) Income taxes:

The Corporation is filing its tax returns on the basis it is exempt from income taxes under paragraph 149(1)(d.5) of the Income Tax Act of Canada.

# TUMBLER RIDGE COMMUNITY FOREST CORP.

Notes to Financial Statements (continued)

Year ended December 31, 2017

## 1. Significant accounting policies (continued):

### (h) 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 recorded at cost or amortized cost, unless management has elected to carry the instruments at fair value. The Corporation 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 straight-line 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 Corporation 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 Corporation expects to realize by exercising its right to any collateral. If events and circumstances reverse in a future year, an impairment loss will be reversed to the extent of the improvement, not exceeding the initial carrying value.

## 2. Accounts payable and accrued liabilities:

Included in accounts payable and accrued liabilities are amounts owing to the District of Tumbler Ridge, the sole shareholder, of \$Nil (2016 - \$282).

## 3. Silviculture obligation:

	2017	2016
Silviculture obligations, beginning of year	\$ 656,662	\$ 688,833
Increase in accrual due to current year logging	209,262	173,856
Actual silviculture costs paid in the year	(40,968)	(206,027)
Silviculture obligations, end of year	824,956	656,662
Less: current portion	(119,920)	(31,519)
Long-term portion	\$ 705,036	\$ 625,143

# TUMBLER RIDGE COMMUNITY FOREST CORP.

Notes to Financial Statements (continued)

Year ended December 31, 2017

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## 4. Community Forest Agreement:

The Corporation has entered into a Community Forest Agreement with the Province of British Columbia pursuant to an agreement dated January 1, 2011 (the "Agreement") that was originally entered into by the District of Tumbler Ridge on behalf of the Corporation. The Agreement is for a twenty-five year term and gives the Corporation the right to harvest certain levels of timber on an annual basis and in total over the term of the Agreement.

## 5. 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.

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.

## 6. 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.