

Financial Statements of

**LOGAN LAKE COMMUNITY
FOREST CORPORATION**

Year ended December 31, 2015



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INDEPENDENT AUDITORS' REPORT

To the Shareholder of Logan Lake Community Forest Corporation

We have audited the accompanying financial statements of Logan Lake Community Forest Corporation, which comprise the balance sheet as at December 31, 2015, the statements of operations and 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 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 described in note 1 (a) to the financial statements. This includes determining that the basis of accounting is acceptable for the basis of 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 entity'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 entity'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.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Logan Lake Community Forest Corporation as at December 31, 2015, 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.



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Basis of Accounting and Restriction on Use

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 purpose of the District of Logan Lake's oversight of the Logan Lake Community Forest Corporation and its financial performance. As a result, the financial statements may not be suitable for another purpose. Our report is intended solely for the District of Logan Lake and the Logan Lake Community Forest Corporation and should not be used by parties other than the District of Logan Lake and the Logan Lake Community Forest Corporation.

KPMG LLP

Chartered Professional Accountants

April 13, 2016
Kamloops, Canada

LOGAN LAKE COMMUNITY FOREST CORPORATION

Balance Sheet

December 31, 2015, with comparative information for 2014

	2015	2014
Assets		
Current assets:		
Cash	\$ 39,757	\$ 146,894
Investments and marketable securities (note 2)	886,861	1,087,904
Accounts receivable	1,504	29,796
Prepaid expenses	15,745	2,900
	943,867	1,267,494
	\$ 943,867	\$ 1,267,494

Liabilities and Shareholder's Equity

Current liabilities:		
Accounts payable and accrued liabilities (note 3)	\$ 120,670	\$ 25,108
Deferred revenue	4,777	-
	125,447	25,108
Accrued silviculture liability (note 4)	7,159	7,159
	132,606	32,267
Shareholder's equity:		
Share capital (note 5)	120	120
Retained earnings	811,141	1,235,107
Economic dependence (note 7)	811,261	1,235,227
	\$ 943,867	\$ 1,267,494

See accompanying notes to financial statements.

On behalf of the Board:

_____ Director

_____ Director

LOGAN LAKE COMMUNITY FOREST CORPORATION

Statement of Operations and Retained Earnings

Year ended December 31, 2015, with comparative information for 2014

	2015	2014
Revenue:		
Logging	\$ 51,791	\$ 330,294
Grants	12,223	-
	64,014	330,294
Expenses:		
Administrative	18,154	20,865
Consulting fees	336,014	128,912
Forest licence fees	20,801	7,304
Professional fees	9,957	12,393
Project sponsorships	101,698	286,611
Stumpage and supplies	23	-
Travel	290	8,644
	486,937	464,729
Loss before the undernoted items	(422,923)	(134,435)
Other income (expense):		
Investment income	39,645	25,597
Loss from investments and marketable securities measured at fair value (note 2)	(40,688)	(35,770)
	(1,043)	(10,173)
Loss for the year	(423,966)	(144,608)
Retained earnings, beginning of year	1,235,107	1,379,715
Retained earnings, end of year	\$ 811,141	\$ 1,235,107

See accompanying notes to financial statements.

LOGAN LAKE COMMUNITY FOREST CORPORATION

Statement of Cash Flows

Year ended December 31, 2015, with comparative information for 2014

	2015	2014
Cash provided by (used in):		
Operations:		
Loss for the year	\$ (423,966)	\$ (144,608)
Items not involving cash:		
Loss from investments and marketable securities measured at fair value	40,688	35,770
Change in non-cash operating working capital:		
Accounts receivable	28,292	(29,599)
Prepaid expenses	(12,845)	5,990
Accounts payable and accrued liabilities	95,562	11,311
Deferred revenue	4,777	-
	(267,492)	(121,136)
Investing:		
Purchase of investments and marketable securities	(39,645)	(1,125,134)
Proceeds on disposal of investments and marketable securities	200,000	51,460
	160,355	(1,073,674)
Decrease in cash	(107,137)	(1,194,810)
Cash, beginning of year	146,894	1,341,704
Cash, end of year	\$ 39,757	\$ 146,894

See accompanying notes to financial statements.

LOGAN LAKE COMMUNITY FOREST CORPORATION

Notes to Financial Statements

Year ended December 31, 2015

Logan Lake Community Forest Corporation (the "Corporation") was incorporated on January 25, 2007, under the laws of the Province of British Columbia and its major activity is utilizing certain timber rights pursuant to a permanent Community Forest Agreement issued on December 1, 2011.

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") in preparing their general purpose financial statements.

The Corporation is considered to be a GBE under Canadian Public Sector Accounting Standards and should be preparing IFRS financial statements. The Corporation has not prepared general purpose IFRS financial statements. Rather, these special purpose 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 District of Logan Lake's oversight of the Corporation and its financial performance. As a result, the financial statements may not be suitable for another purpose.

(b) Accrued silviculture liability:

The future estimated silviculture liability is accrued on the basis of the volume of timber cut from which revenue is earned by the Corporation. The obligation is accrued as the Corporation's share of the undiscounted estimated silviculture costs in the period in which the legal obligation was incurred.

In periods subsequent to the initial measurement, changes in the liability resulting from the passage of time and revisions to fair value calculation are recognized in the statement of operations as they occur.

(c) Revenue recognition:

The Corporation recognizes commission income on a fixed fee per cubic meter of scaled sawlog volumes delivered to a production facility, from the timber harvested pursuant to any cutting permits issued to the Corporation pursuant to the Community Forest Agreement ("CFA"). The income earned is recognized upon measurement and delivery to the mill yards, and collection of the receivable is reasonably assured.

Grant revenue is recorded when receivable and in the period in which the related expenses are incurred. Grant revenue received that relates to future expenses is included in deferred revenue. Investment income is reported as revenue in the period earned.

LOGAN LAKE COMMUNITY FOREST CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2015

1. Significant accounting policies (continued):

(d) Use of estimates:

The preparation of the financial statements, in conformity with ASPE, 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. Actual results could differ from those estimates.

(e) Financial instruments:

Financial instruments originating in an arm's length transaction are recorded at fair value on initial recognition. Freestanding derivative instruments that are not in a qualifying hedging relationship and 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 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. These costs are amortized using the straight-line method.

In the case of financial instruments that originate as a result of a related party transaction, initial measurement will be at exchange amount or carrying value in accordance with Section 3840, Related Party Transactions, rather than 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.

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 period, an impairment loss will be reversed to the extent of the improvement, not exceeding the initial impairment charge.

LOGAN LAKE COMMUNITY FOREST CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2015

1. Significant accounting policies (continued):

(f) Income taxes:

As a municipal corporation, the Corporation is exempt from tax under Section 149 of Division H of the Income Tax Act.

2. Investments and marketable securities:

The Corporation holds various mutual funds and deposit notes with Manulife Securities. As the investments mature in less than one year, they are presented as current assets. These investments are carried at fair market value.

	2015	2014
Balance, beginning of year	\$ 1,087,904	\$ 50,000
Purchases	39,645	1,125,134
Disposals	(200,000)	(51,460)
Fair value adjustment	(40,688)	(35,770)
Balance, end of year	\$ 886,861	\$ 1,087,904

3. Accounts payable and accrued liabilities:

Included in accounts payable and accrued liabilities are government remittances payable of \$11,868 (2014 - \$nil).

LOGAN LAKE COMMUNITY FOREST CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2015

4. Accrued silviculture liability:

The Corporation's accrued silviculture liability relates to its responsibility for reforestation under its timber licence. The total undiscounted amount of the estimated cash flows required to satisfy the Corporation's obligations is \$7,159 (2014 - \$7,159). The cash flows have not been discounted as management has concluded that such adjustments would not be significant. The timing of the reforestation payments is based on the estimated period required to attain free to grow status in the area which is generally between 12 to 15 years.

The above-noted silviculture liability arose under a previous management agreement which expired in 2008, whereby the Corporation was responsible for certain costs in fulfilling the reforestation obligation. Since 2009, the Corporation has been operating under an amended management agreement whereby the other company acts as the contractor to the Corporation to manage lands covered by the Community Forest Agreement ("CFA"). Under these terms, part of the services provided by the contractor would be to bear the majority of costs associated with fulfilling the obligations under the CFA including the associated costs of replanting and establishing healthy conifers on the area covered by the cutting permits issued to the Corporation. Moving forward from 2016 onward, the Corporation will retain the responsibility for all costs associated with fulfilling the obligations under the CFA.

5. Share capital:

	2015	2014
Authorized:		
Unlimited Class A common shares, voting, participating, no par value		
Unlimited Class B preferred shares, non-voting, participating, redeemable at \$1,000 per share, no par value		
Issued:		
120 Class A common shares	\$ 120	\$ 120
	\$ 120	\$ 120

LOGAN LAKE COMMUNITY FOREST CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2015

6. Related party transactions:

During the year, the Corporation donated \$5,000 to the District of Logan Lake for contributions to be used towards community events and various capital projects (2014 - \$148,000). The Corporation paid other expenses totalling \$2,676 (2014 - \$300) to District of Logan Lake. These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

7. Economic dependence:

During the year, the Corporation earned approximately 100% of its logging income from one private forest company. The Corporation has entered into a forest management contract with this company. The agreement is for 12,507 m³ of scaled volume at set prices from one timber licence held by the Corporation.

8. Subsequent events:

During the 2015 year, the Corporation engaged the services of a forestry consulting company to provide professional forest management services. Subsequent to the year end, a formal management contract with the forestry consulting company was finalized and approved by the Corporation. This contract engages the forestry consulting company to provide consulting services as specified and when requested by the Corporation, with compensation based on preapproved hourly rates and individual project budgets.