

Financial Statements of

**LOGAN LAKE COMMUNITY
FOREST CORPORATION**

Year ended December 31, 2016



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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, 2016, 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. 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.



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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, 2016, 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 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.

A handwritten signature in black ink that reads 'KPMG LLP' in a cursive, slanted font. A horizontal line is drawn underneath the signature.

Chartered Professional Accountants

March 15, 2017
Kamloops, Canada

LOGAN LAKE COMMUNITY FOREST CORPORATION

Balance Sheet

December 31, 2016, with comparative information for 2015

	2016	2015
Assets		
Current assets:		
Cash	\$ 1,453,466	\$ 39,757
Investments and marketable securities (note 2)	1,107,093	886,861
Accounts receivable	1,032,544	1,504
Prepaid expenses	13,161	15,745
	<u>3,606,264</u>	<u>943,867</u>
	<u>\$ 3,606,264</u>	<u>\$ 943,867</u>

Liabilities and Shareholder's Equity

Current liabilities:		
Accounts payable and accrued liabilities (note 3)	\$ 330,208	\$ 120,670
Deferred revenue	273	4,777
Current portion of silviculture liability	209,150	-
	<u>539,631</u>	<u>125,447</u>
Accrued silviculture liability (note 4)	555,807	7,159
Accrued road liability	36,046	-
	<u>1,131,484</u>	<u>132,606</u>
Shareholder's equity:		
Share capital (note 5)	120	120
Retained earnings	2,474,660	811,141
	<u>2,474,780</u>	<u>811,261</u>
Related party transactions (note 6)		
	<u>\$ 3,606,264</u>	<u>\$ 943,867</u>

See accompanying notes to financial statements.

On behalf of the Board:

_____ Director _____ Director

LOGAN LAKE COMMUNITY FOREST CORPORATION

Statement of Earnings and Retained Earnings

Year ended December 31, 2016, with comparative information for 2015

	2016	2015
Revenue:		
Logging	\$ 3,180,026	\$ 51,791
Grants	9,739	12,223
	<u>3,189,765</u>	<u>64,014</u>
Expenses:		
Administrative	17,367	18,154
Consulting fees	470,127	336,014
Forest licence fees	12,697	20,801
Professional fees	12,534	9,957
Project sponsorships	121,131	101,698
Road expense	36,046	-
Silviculture	877,890	-
Stumpage and supplies	138,166	23
Travel	1,527	290
	<u>1,687,485</u>	<u>486,937</u>
Earnings (loss) before the undernoted items	1,502,280	(422,923)
Other income (expenses):		
Accretion income	89,599	-
Investment income	33,855	39,645
Unrealized gain (loss) from investments and marketable securities measured at fair value (note 2)	54,904	(40,688)
Loss on sale of investments	(17,119)	-
	<u>161,239</u>	<u>(1,043)</u>
Net earnings (loss) for the year	1,663,519	(423,966)
Retained earnings, beginning of year	811,141	1,235,107
Retained earnings, end of year	<u>\$ 2,474,660</u>	<u>\$ 811,141</u>

See accompanying notes to financial statements.

LOGAN LAKE COMMUNITY FOREST CORPORATION

Statement of Cash Flows

Year ended December 31, 2016, with comparative information for 2015

	2016	2015
Cash provided by (used in):		
Operations:		
Earnings (loss) for the year	\$ 1,663,519	\$ (423,966)
Items not involving cash:		
Unrealized (gain) loss from investments and marketable securities measured at fair value	(54,904)	40,688
Loss from sale of investments and marketable securities	17,118	-
Accretion income	(89,599)	-
Change in non-cash operating working capital:		
Accounts receivable	(1,031,040)	28,292
Prepaid expenses	2,584	(12,845)
Accounts payable and accrued liabilities	209,538	95,562
Silviculture liability	847,397	-
Deferred revenue	(4,504)	4,777
Road liability	36,046	-
	1,596,155	(267,492)
Investing:		
Purchase of investments and marketable securities	(463,797)	(39,645)
Proceeds on disposal of investments and marketable securities	281,351	200,000
	(182,446)	160,355
Increase (decrease) in cash	1,413,709	(107,137)
Cash, beginning of year	39,757	146,894
Cash, end of year	\$ 1,453,466	\$ 39,757

See accompanying notes to financial statements.

LOGAN LAKE COMMUNITY FOREST CORPORATION

Notes to Financial Statements

Year ended December 31, 2016

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 discounted 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 revenue 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, 2016

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. Significant items subject to such estimates and assumptions include the estimated silviculture liability and the recoverable amount of accounts receivable. 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, 2016

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. These investments are carried at fair market value.

	2016	2015
Balance, beginning of year	\$ 886,861	\$ 1,087,904
Purchases	463,797	39,645
Disposals	(298,469)	(200,000)
Fair value adjustment	54,904	(40,688)
Balance, end of year	\$ 1,107,093	\$ 886,861

3. Accounts payable and accrued liabilities:

Included in accounts payable and accrued liabilities are government remittances payable of \$718 (2015 - \$11,868).

LOGAN LAKE COMMUNITY FOREST CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2016

4. Accrued silviculture liability:

The Corporation's silviculture obligation relates to legislation that requires the Corporation to incur the cost of reforestation on its forest timber licenses and forest tenures.

	2016	2015
Silviculture liability at the beginning of year	\$ 7,159	\$ 7,159
Provisions made during the year	847,397	-
Accretion income	(89,599)	-
Reforestation obligation at end of year	764,957	7,159
Less: current portion of reforestation obligation	(209,150)	-
	\$ 555,807	\$ 7,159

5. Share capital:

	2016	2015
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

6. Related party transactions:

During the year, the Corporation donated \$117,000 (2015 - \$5,000) to the District of Logan Lake for contributions to be used towards community events and various capital projects. The Corporation paid other expenses totaling \$1,941 (2015 - \$2,676) to the 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.