

Financial Statements of

**LOGAN LAKE
COMMUNITY FOREST
CORPORATION**

And Independent Auditors' Report thereon

Year ended December 31, 2019



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INDEPENDENT AUDITORS' REPORT

To the Shareholder of Logan Lake Community Forest Corporation

Opinion

We have audited the financial statements of Logan Lake Community Forest Corporation (the Entity), which comprise:

- the balance sheet as at December 31, 2019
- the statement of operations and retained earnings 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 financial position of the Entity as at December 31, 2019, 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 "***Auditors' Responsibilities for the Audit of the Financial Statements***" section of our auditors' report.

We are independent of the Entity 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 - Basis of Accounting

We draw attention to Note 1(a) in 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 opinion is not modified in respect of this matter.



Restriction of Use

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.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Canadian accounting standards for private enterprises, 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 Entity'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 Entity or to cease operations, or has no realistic alternative but to do so.

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 Entity'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 Entity'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 Entity 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.

A handwritten signature in black ink that reads 'KPMG LLP' with a horizontal line underneath.

Chartered Professional Accountants

Kamloops, Canada

May 6, 2020

LOGAN LAKE COMMUNITY FOREST CORPORATION

Balance Sheet

December 31, 2019, with comparative information for 2018

	2019	2018
Assets		
Current assets:		
Cash	\$ 602,011	\$ 408,506
Investments and marketable securities (note 2)	2,235,873	2,606,522
Accounts receivable	536,641	68,181
Prepaid expenses	45,718	11,836
	<u>\$ 3,420,243</u>	<u>\$ 3,095,045</u>
Liabilities and Shareholder's Equity		
Current liabilities:		
Accounts payable and accrued liabilities (note 3)	\$ 203,438	\$ 234,853
<u>Current portion of silviculture liability (note 4)</u>	<u>213,303</u>	<u>283,313</u>
	416,741	518,166
<u>Accrued silviculture liability (note 4)</u>	<u>656,033</u>	<u>520,885</u>
	1,072,774	1,039,051
Shareholder's equity:		
Share capital (note 5)	120	120
<u>Retained earnings</u>	<u>2,347,349</u>	<u>2,055,874</u>
	2,347,469	2,055,994
<u>Related party transactions (note 6)</u>		
	<u>\$ 3,420,243</u>	<u>\$ 3,095,045</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, 2019, with comparative information for 2018

	2019	2018
Revenue:		
Logging	\$ 1,177,505	\$ 2,675,255
Miscellaneous revenue	199,627	202,633
Grants	10,000	10,781
	<u>1,387,132</u>	<u>2,888,669</u>
Expenses:		
Administrative	20,065	22,447
Consulting fees	745,097	537,769
Forest licence fees	8,912	8,910
Professional fees	15,305	15,063
Roads (recovery)	-	(31,780)
Silviculture	412,502	567,135
Stumpage and supplies	61,174	86,046
Travel	3,143	3,084
	<u>1,266,198</u>	<u>1,208,674</u>
Earnings before the undernoted items	120,934	1,679,995
Other income (expenses):		
Accretion income	80,749	99,889
Cash donations to the District of Logan Lake	-	(1,631,145)
Investment income	62,491	65,673
Investment management fees	(22,358)	(13,378)
Gain on sale of investments	14,671	-
Project sponsorships	(145,120)	(74,800)
Unrealized gain (loss) from investments and marketable securities measured at fair value (note 2)	180,108	(85,065)
	<u>170,541</u>	<u>(1,638,826)</u>
Net earnings for the year	291,475	41,169
Retained earnings, beginning of year	2,055,874	2,014,705
Retained earnings, end of year	<u>\$ 2,347,349</u>	<u>\$ 2,055,874</u>

See accompanying notes to financial statements.

LOGAN LAKE COMMUNITY FOREST CORPORATION

Statement of Cash Flows

Year ended December 31, 2019, with comparative information for 2018

	2019	2018
Cash provided by (used in):		
Operations:		
Net earnings for the year	\$ 291,475	\$ 41,169
Items not involving cash:		
Unrealized loss (gain) from investments and marketable securities measured at fair value	(180,108)	85,065
Gain from sale of investments and marketable securities	(14,670)	-
Accretion income	(80,749)	(99,889)
Change in non-cash operating working capital:		
Accounts receivable	(468,460)	23,026
Prepaid expenses	(33,882)	110,883
Accounts payable and accrued liabilities	(31,415)	(133,265)
Silviculture liability	145,887	43,331
Road liability	-	(36,046)
	(371,922)	34,274
Investing:		
Purchase of investments and marketable securities	(61,930)	(3,065,446)
Proceeds on disposal of investments and marketable securities	627,357	1,513,590
	565,427	(1,551,856)
Increase (decrease) in cash	193,505	(1,517,582)
Cash, beginning of year	408,506	1,926,088
Cash, end of year	\$ 602,011	\$ 408,506

See accompanying notes to financial statements.

LOGAN LAKE COMMUNITY FOREST CORPORATION

Notes to Financial Statements

Year ended December 31, 2019

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, 2019

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, 2019

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. These investments are carried at fair market value.

	2019	2018
Balance, beginning of year	\$ 2,606,522	\$ 1,139,731
Purchases	61,930	3,065,446
Disposals	(627,357)	(1,513,590)
Fair value adjustment	180,108	(85,065)
Gain on disposal	14,670	-
Balance, end of year	\$ 2,235,873	\$ 2,606,522

3. Accounts payable and accrued liabilities:

Included in accounts payable and accrued liabilities are government remittances payable of \$nil (2018 - \$8,800).

LOGAN LAKE COMMUNITY FOREST CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2019

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.

	2019	2018
Silviculture liability at the beginning of year	\$ 804,198	\$ 860,756
Provisions made during the year	145,887	43,331
Accretion income	(80,749)	(99,889)
Reforestation obligation at end of year	869,336	804,198
Less: current portion of reforestation obligation	213,303	283,313
	\$ 656,033	\$ 520,885

5. Share capital:

	2019	2018
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, 2019

6. Related party transactions:

During the year, the Corporation donated \$6,122 (2018 - \$1,645,145) to the District of Logan Lake for contributions to be used towards community events and various capital projects. These amounts are included in cash donations expense and project sponsorships. The Corporation paid other expenses totaling \$1,617 (2018 - \$2,517) to the District of Logan Lake. Amounts due to the District of Logan Lake of \$221 are included in accounts payable as at December 31, 2019. The District of Logan Lake paid for expenses totaling \$100,000 (2018 - \$59,213) related to the Corporation.

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. Financial instruments

Credit risk:

Credit risk is the risk the Corporation will suffer a financial loss due to a third party failing to meet its financial contractual obligations with the Corporation. The maximum credit risk exposure for relates to the trade accounts receivable which are due from the Corporation's customers. As there have been no changes to the credit policy, there has been no change to the credit risk exposure from 2018.

Liquidity risk:

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they come due. The Corporation prepares budgets to mitigate this risk. The Corporation does not consider its exposure to liquidity risk to be material at this time. There has been no change to the liquidity risk exposure from 2018.

Concentration of risk:

During the year, the Corporation earned approximately 75.5% of its logging income from one private forest company. The Corporation enters short term contracts with this company. The Corporation relies on contracts with private forest companies in order to operate. The Corporation operates in the forestry sector and a decline in demand for forest products would adversely effect financial results.

LOGAN LAKE COMMUNITY FOREST CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2019

8. Subsequent events:

Subsequent to December 31, 2019 the COVID-19 outbreak was declared a pandemic by the World Health Organization. The situation is dynamic and the ultimate duration and magnitude of the impact on the economy and the financial effect on our business is not known at this time. These impacts could include the valuation of investments, potential future decreases in revenue or the profitability of our ongoing operations.