Financial Statements of

TUMBLER RIDGE COMMUNITY FOREST CORP.

Year ended December 31, 2019

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INDEPENDENT AUDITORS' REPORT

To the Shareholder of Tumbler Ridge Community Forest Corp.

Opinion

We have audited the financial statements of Tumbler Ridge Community Forest Corp. (the "Company"), 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 balance sheet of the Company as at December 31, 2019 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) of the financial statements.

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 Company 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. The financial statements are prepared for the purposes of the board of directors' 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. Our opinion is not modified in respect of this matter.

Responsibilities of Management and Those Charged with Governance 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 reporting framework in an acceptable basis for the preparation of the 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.

In preparing the financial statements, management is responsible for assessing the Company'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 Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

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 Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- 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 Company'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 Company 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

March 19, 2020

TUMBLER RIDGE COMMUNITY FOREST CORP.

Balance Sheet

December 31, 2019, with comparative information for 2018

		2019		2018
Assets				
Current assets:				
Cash	$	2,878,700	$	3,480,644
Sales tax receivable		6,692		-
Prepaid expenses		3,890		3,530
	$	2,889,282	$	3,484,174
Liabilities and Shareholder's Equity				
Current liabilities:				
Accounts payable and accrued liabilities (note 2)	$	68,469	$	10,549
Sales tax payable		-		20,562
Current portion of silviculture obligation (note 3)		41,732		67,079
		110,201		98,190
Silviculture obligation (note 3)		749,261		756,129
Shareholder's equity:				
Share capital:				
Class A voting common shares with no par value per share, authorized unlimited shares, issued 1 share		200,000		200,000
Retained earnings		1,829,820		2,429,855
		2,029,820		2,629,855
	$	2,889,282	$	3,484,174

See accompanying notes to financial statements.

On behalf of the Board:

____________ Director

____________ Director

TUMBLER RIDGE COMMUNITY FOREST CORP.

Statement of Operations and Retained Earnings

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

	2019	2018
Logging	$ -	$ 1,321,000
Cost of sales:		
Silviculture	48,170	169,789
Stumpage	-	46,428
	48,170	216,217
Operating (loss) margin	(48,170)	1,104,783
Expenses:		
Advertising	-	1,574
Bookkeeping	3,898	4,065
Community support	27,850	25,300
Consulting fees	70,936	79,006
Forest license rent	7,400	14,800
Forestry development	279,753	138,593
Grant support	172,474	216,554
Insurance and licenses	4,448	4,871
Interest and bank charges	93	185
Meals and travel	2,264	1,955
Memberships and dues	-	6,442
Office and general	9,405	1,794
Other	15,110	9,455
Professional fees	16,225	10,113
Supplies	1,360	716
Training	14,241	5,891
	625,457	521,314
(Loss) earnings before interest income	(673,627)	583,469
Interest income	73,592	57,080
Net (loss) earnings	(600,035)	640,549
Retained earnings, beginning of year	2,429,855	1,789,306
Retained earnings, end of year	$ 1,829,820	$ 2,429,855

See accompanying notes to financial statements.

TUMBLER RIDGE COMMUNITY FOREST CORP.

Statement of Cash Flows

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

	2019	2018
Cash provided by (used in):		
Operations:		
Net (loss) earnings	$ (600,035)	$ 640,549
Changes in non-cash operating working capital:		
Prepaid expenses	(360)	480
Accounts payable and accrued liabilities	57,920	(18,539)
Sales tax	(27,254)	13,461
Silviculture obligation	(32,215)	(1,748)
(Decrease) increase in cash	(601,944)	634,203
Cash, beginning of year	3,480,644	2,846,441
Cash, end of year	$ 2,878,700	$ 3,480,644

See accompanying notes to financial statements.

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:

Asset	Rate
Computer equipment	3 years

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.

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 m3 by dividing the cut-block reforestation cost (calculated as above) by the estimated cut-block volume. The reforestation cost per m3 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.

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 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, 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 (2018 - $46).

3. Silviculture obligation:

	2019	2018
Silviculture obligation, beginning of year	$ 823,208	$ 824,956
Increase in accrual due to current year logging	48,170	169,789
Actual silviculture costs paid in the year	(80,385)	(171,537)
Silviculture obligation, end of year	790,993	823,208
Less: current portion	(41,732)	(67,079)
Long-term portion	$ 749,261	$ 756,129

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:

The Company's financial instruments consist of cash, sales tax receivable receivable, accounts payable and accrued liabilities, sales tax payable, and silviculture liability.

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.

There has been no change to the risk exposure from 2019.

(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. There has been no change from risk exposure from 2018.

(c) Interest rate risk:

It is management's opinion that it is not exposed to interest rate risk

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.

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

(b) Limited counterparties:

A substantial portion of the Company's operating revenue is derived from the sale of products to one large customer. This one customer accounted for 0% (2018 - 92%) of revenue. The loss of this relationship would have a significant impact on the Company's revenue.