

Financial Statements of

**TUMBLER RIDGE
COMMUNITY FOREST CORP.**

And Independent Auditor's Report thereon

Year ended December 31, 2022



KPMG LLP
177 Victoria Street, Suite 400
Prince George BC V2L 5R8
Canada
Tel 250-563-7151
Fax 250-563-5693

INDEPENDENT AUDITOR'S 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, 2022
- 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 in all material respects, the balance sheet of the Company as at December 31, 2022 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 "**Auditor's Responsibilities for the Audit of the Financial Statements**" section of our auditor's 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 - Basis of Preparation

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 for the Financial Statements

Management is responsible for the preparation and 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.

Auditor's 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.



Page 3

- 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 auditor's 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 auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- 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

May 11, 2023

TUMBLER RIDGE COMMUNITY FOREST CORP.

Balance Sheet

December 31, 2022, with comparative information for 2021

	2022	2021
Assets		
Current assets:		
Cash	\$ 75,336	\$ 97,578
Investments (note 2)	2,730,157	3,229,654
Sales tax receivable	6,724	2,847
Prepaid expenses	3,437	26,333
	<u>\$ 2,815,654</u>	<u>\$ 3,356,412</u>

Liabilities and Shareholder's Equity

Current liabilities:		
Accounts payable and accrued liabilities	\$ 48,243	\$ 35,066
Current portion of silviculture obligation (note 3)	160,500	149,500
	<u>208,743</u>	<u>184,566</u>
Silviculture obligation (note 3)	361,719	671,495
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	2,045,192	2,300,351
	<u>2,245,192</u>	<u>2,500,351</u>
	<u>\$ 2,815,654</u>	<u>\$ 3,356,412</u>

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, 2022, with comparative information for 2021

	2022	2021
Logging	\$ -	\$ 247,224
Cost of sales:		
Silviculture (adjustment)	(191,335)	33,686
Operating margin	191,335	213,538
Expenses:		
Bookkeeping	2,595	2,967
Community support	28,600	40,800
Consulting fees	54,725	71,681
Forest license rent	7,400	7,400
Forestry development	94,899	189,606
Grant support	37,500	126,214
Insurance and licenses	7,021	5,055
Interest and bank charges	375	171
Meals and travel	1,494	1,341
Memberships and dues	1,995	4,909
Office and general	3,453	4,486
Professional fees	19,166	20,997
Supplies	335	427
Training	2,051	133
	261,609	476,187
Loss before other income (expense)	(70,274)	(262,649)
Other income (expense):		
Investment income	66,385	53,263
Unrealized (loss) gain on investment	(251,273)	254,666
	(184,888)	307,929
Net (loss) earnings	(255,162)	45,280
Retained earnings, beginning of year	2,300,351	2,255,071
Retained earnings, end of year	\$ 2,045,189	\$ 2,300,351

See accompanying notes to financial statements.

TUMBLER RIDGE COMMUNITY FOREST CORP.

Statement of Cash Flows

Year ended December 31, 2022, with comparative information for 2021

	2022	2021
Cash provided by (used in):		
Operations:		
Net (loss) earnings	\$ (255,162)	\$ 45,280
Item not involving cash:		
Unrealized loss (gain) on investment	251,273	(254,666)
	(3,889)	(209,386)
Changes in non-cash operating working capital:		
Prepaid expenses	22,896	19,148
Accounts payable and accrued liabilities	13,177	3,114
Sales tax receivable	(3,877)	4,171
Silviculture obligation	(298,776)	(82,846)
	(270,469)	(265,799)
Investing:		
Investments	248,224	(840,664)
Decrease in cash	(22,245)	(1,106,463)
Cash, beginning of year	97,578	1,204,041
Cash, end of year	\$ 75,333	\$ 97,578

See accompanying notes to financial statements.

TUMBLER RIDGE COMMUNITY FOREST CORP.

Notes to Financial Statements

Year ended December 31, 2022

Nature of operations:

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

1. Significant accounting policies:

The Company'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) Investments:

Investments are recorded at fair value. The difference between historical cost and fair value is recorded as an unrealized gain or loss and recorded in the excess (deficiency) of revenue over expenditures in the period in which the difference occurred.

(c) Revenue recognition:

The Company 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.

TUMBLER RIDGE COMMUNITY FOREST CORP.

Notes to Financial Statements (continued)

Year ended December 31, 2022

1. Significant accounting policies (continued):

(d) Reforestation:

The Company harvests timber under forest licence K2O within the Province of British Columbia. Under the "licence agreement" the Company is obligated to reforest the harvest areas to a "free to grow" status. Free to grow is when the forest renewal stage has reached a level where it no longer needs human intervention, and the forest is considered "free to grow" naturally. The individual harvest opening reforestation obligations are recorded at the commencement of harvest of a cut block or harvest unit.

Prior to harvest, the Company, using over a decade of local historical experience determines what planned silviculture activities will be required by cut block ensure harvest area will achieve free to grow status.

Estimated future timber reforestation and silviculture obligations are accrued and expensed based on the per hectare silvicultural cost experienced in the last decade of historical silviculture activities undertaken on the licence area.

Each actual silviculture activity cost such as planting, or surveys are recorded at the time of "work done" and recorded as a per hectare cost. The per hectare costs are determined by dividing the current contracted cost of the activity on the block (such as planting) divided by the block area. Planned activity costs use these annual updated figures to predict the ongoing future silviculture obligations for all openings not yet free to grow. Once an activity on the opening has been successfully fulfilled, that activity cost for that opening is subtracted from the remaining block obligation cost.

The accrual activity costs on all cut blocks with outstanding obligations are updated annually with cost estimates reflecting current experienced costs. This process ensures an 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 by the Company and used to forecast the ongoing silviculture obligations for all outstanding blocks that have not yet met free to grow status.

(e) 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. A significant item subject to such estimates and assumptions include the silviculture obligation. Actual results could differ from those estimates

TUMBLER RIDGE COMMUNITY FOREST CORP.

Notes to Financial Statements (continued)

Year ended December 31, 2022

1. Significant accounting policies (continued):

(f) Income taxes:

The Company 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.

(g) 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 Company 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 Company 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 Company 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.

TUMBLER RIDGE COMMUNITY FOREST CORP.

Notes to Financial Statements (continued)

Year ended December 31, 2022

2. Investments:

2022	Cost	Fair value
Guaranteed investment certificates	\$ 388,000	\$ 390,722
Equities:		
Canadian	1,532,653	1,619,439
United States	718,106	719,996
	\$ 2,638,759	\$ 2,730,157

2021	Cost	Fair value
Guaranteed investment certificates	\$ 763,000	\$ 770,586
Equities:		
Canadian	1,437,151	1,664,874
United States	639,557	794,194
	\$ 2,839,708	\$ 3,229,654

3. Silviculture obligation:

	2022	2021
Silviculture obligation, beginning of year	\$ 820,995	\$ 903,841
Increase in accrual due to current year logging	-	35,040
Increase in accrual due to current year costs	144,017	-
Decrease in accrual due to revised estimates regarding brushing activities not anticipated	(344,450)	-
Actual silviculture costs paid in the year	(98,343)	(117,886)
Silviculture obligation, end of year	522,219	820,995
Less: current portion	(160,500)	(149,500)
Long-term portion	\$ 361,719	\$ 671,495

4. Community Forest Agreement:

The Company 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 Company. The Agreement is for a twenty-five year term and gives the Company the right to harvest certain levels of timber on an annual basis and in total over the term of the Agreement.

TUMBLER RIDGE COMMUNITY FOREST CORP.

Notes to Financial Statements (continued)

Year ended December 31, 2022

5. Financial risks and concentration of risk:

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

Financial risks:

(a) Currency risk:

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

(b) Credit risk:

Credit risk refers to the risk that a counterparty may default on its contractual obligations resulting in a financial loss. In management's opinion the maximum amount of credit risk is the carrying value of those assets. The Company deals with creditworthy counterparties to mitigate the risk of financial loss from defaults.

There has been no change to the risk exposure from 2021.

(c) Liquidity risk:

Liquidity risk is the risk that the Company will be unable to fulfill its obligations on a timely basis or at a reasonable cost. The Company manages its liquidity risk by monitoring its operating requirements.

There has been no change from risk exposure from 2021.

(d) Interest rate risk:

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

Concentration of risk:

(a) Industry:

The Company 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.

(b) Limited counterparties:

In the prior year, a substantial portion of the Company's operating revenue was derived from the sale of products to one large customer. This one customer accounted for 70% of revenue. The loss of this relationship would have a significant impact on the Company's revenue.