

Sechelt Community Projects Inc.

Consolidated Financial Statements

December 31, 2010

Sechelt Community Projects Inc.**Consolidated Financial Statements**

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Auditors' Report

**To the Directors of
Sechelt Community Projects Inc.**

We have audited the accompanying consolidated financial statements of Sechelt Community Projects Inc., which comprise the consolidated balance sheet as at December 31, 2010, and the consolidated statements of operations and retained earnings, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian Generally Accepted Accounting Principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian Generally Accepted Auditing Standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated 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 consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our unqualified audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Sechelt Community Projects Inc. as at December 31, 2010, and its financial performance and its cash flows for the year then ended in accordance with Canadian Generally Accepted Accounting Principles.

The comparative financial statements as at and for the year ended December 31, 2009 were audited by another firm of Chartered Accountants which expressed an opinion without reservation on those financial statements in their report dated February 17, 2010.

**Vancouver, BC
March 10, 2011**

Mackay LLP
Chartered Accountants

Sechelt Community Projects Inc.

Consolidated Statement of Operations and Retained Earnings

For the year ended December 31,	2010	2009
Revenue (Note 13b)	\$ 1,872,624	\$ 1,872,537
Cost of sales		
Amortization	94,597	106,498
Logging	1,150,529	1,261,012
Silviculture	43,277	98,911
Supervision and quality control	32,534	22,669
	1,320,937	1,489,090
Gross margin (29.46%; 2009 - 20.48%)	551,687	383,447
Interest and other income	6,267	11,600
	557,954	395,047
Expenses		
Advertising and communications	22,555	24,766
Amortization	3,197	2,186
Board and committee (note 13a)	36,141	31,427
Bank charges and interest	2,106	2,778
Community engagement	40,298	29,141
Forestry projects	92,510	36,691
Insurance	1,043	525
Legal and accounting	34,415	18,686
Management and administration	122,880	117,010
Office and miscellaneous	13,612	13,803
Rent	11,400	6,400
Special Events	198	1,110
Telephone and communications	3,447	3,454
Timber tax	7,400	7,400
Travel	15,214	14,978
	406,416	310,355
Net income for the year	151,538	84,692
Retained earnings, beginning of year	432,053	373,251
Dividend	(25,890)	(25,890)
Retained earnings, end of year	\$ 557,701	\$ 432,053

Sechelt Community Projects Inc.**Consolidated Balance Sheets**

December 31, **2010** **2009**

Assets**Current**

Cash	\$	455,197	\$	223,485
Temporary investments (note 3)		256,267		250,000
Accounts receivable (note 13b)		36,335		117,290
Due from broker		13,168		9,763
Goods and service tax receivable		9,545		-
Inventory		5,896		50,960
Work-in-process		33,315		-
Prepaid operational costs (note 4)		52,719		49,053

862,442 **700,551**

Property and equipment (note 5)		257,414		176,497
Incorporation costs		1,029		-
Deferred licence acquisition costs (note 6)		-		85,603

\$ 1,120,885 **\$ 962,651**

Liabilities**Current**

Accounts payable and accrued liabilities	\$	92,467	\$	59,773
Accrued silvicultural costs (note 7)		197,499		201,041
Accrued road deactivation costs		24,958		21,524
Dividend payable		25,890		25,890

340,814 **308,228**

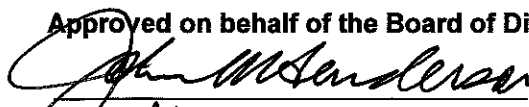
Shareholder's Equity

Share capital (note 8)		172,600		172,600
Contributed surplus (note 9)		49,770		49,770
Retained earnings		557,701		432,053

780,071 **654,423**

\$ 1,120,885 **\$ 962,651**

Approved on behalf of the Board of Directors:



Director

Director

Sechelt Community Projects Inc.**Consolidated Statement of Cash Flows**

For the year ended December 31,	2010	2009
Cash provided by (used for)		
Operating activities		
Net income for the year	\$ 151,538	\$ 84,692
Item not affecting cash		
Amortization	97,794	108,684
Changes in non-cash working capital items		
Accounts receivable	80,955	(33,023)
Inventory	45,064	151,782
Work-in-process	(33,315)	-
Prepaid operational costs	(3,666)	33,136
Accounts payable and accrued liabilities	32,696	(227,713)
Accrued silvicultural costs	(3,542)	73,715
Goods and service tax receivable	(9,545)	12,437
Accrued road deactivation costs	3,434	4,976
Advance from broker	-	(50,219)
	361,413	158,467
Financing activity		
Payment of dividend	(25,890)	(25,890)
	(25,890)	(25,890)
Investing activities		
Expenditures on property and equipment	(96,515)	(153,259)
(Increase) decrease in temporary investments	(6,267)	150,000
Incorporation costs	(1,029)	-
Deferred licence acquisition costs	-	(8,276)
	(103,811)	(11,535)
Net increase in cash	231,712	121,042
Cash position, beginning of year	223,485	102,443
Cash position, end of year	\$ 455,197	\$ 223,485
Supplemental cash flow information		
Interest paid	\$ -	\$ -
Dividends paid	\$ 25,890	\$ 25,890

Sechelt Community Projects Inc.

Notes to the Consolidated Financial Statements

December 31, 2010

1. Nature of Operations

The Company was incorporated on March 8, 2005, under the laws of the Province of British Columbia and its major activity is utilizing certain timber rights pursuant to a Probationary Community Forest Agreement (K3F) dated May 31, 2006.

2. Significant Accounting Policies

The following is a summary of the significant accounting policies used by management in the preparation of these consolidated financial statements.

a) Basis of presentation

The Company is in the process of acquiring a permanent licence in order to continue its logging operations. Management is of the opinion that the rollover of the licence is reasonably assured and accordingly these consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles applicable to a "going concern", which assumes that the Company will continue its operations for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. These consolidated financial statements do not include any adjustments to the amounts and classifications of assets and liabilities that might be necessary should the Company be unable to continue its operations.

b) Principles of consolidation

The consolidated financial statements contained herein include the accounts of the Company as well as its wholly-owned subsidiary Sunshine Coast Community Forest Ltd. which was incorporated on February 4, 2010, and has been inactive to date. All inter-company transactions and balances have been eliminated.

c) Inventory

Inventory is valued at the lower of cost and net realizable value. Cost is determined under the weighted average cost method. Net realizable value is the estimated selling price in the ordinary course of business less estimated costs of completion and estimated selling costs. Cost of inventories includes materials, direct labour, manufacturing overhead and other costs incurred in bringing the inventories to their present location and condition.

Inventories are written down to net realizable value when the cost of inventories is not estimated to be recoverable. When the circumstances that previously caused inventories to be written down below cost no longer exist or when there is clear evidence of an increase in net realizable value because of changed economic circumstances, the amount of the write-down is reversed (the reversal is limited to the amount of the original write-down).

Sechelt Community Projects Inc.

Notes to the Consolidated Financial Statements

December 31, 2010

2. Significant Accounting Policies - continued

d) Work-in-process

Work-in-process consists of unbilled costs related to spacing contracts with the province of British Columbia.

e) Property and equipment

Property and equipment is recorded at the lower of original cost plus any costs of betterment less accumulated amortization and its net recoverable value. Amortization of furniture and equipment is calculated using the declining balance method at the rate indicated in note 5. Permanent roads are amortized on a straight line basis over 25 years.

f) Impairment of long-lived assets

Long-lived assets held and used by the Company are reviewed for possible impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If changes in circumstance indicates that the carrying amount of an asset that the Company expects to hold and use may not be recoverable, future cash-flows expected to result from the use of the asset and its disposition must be estimated.

g) Income taxes

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

h) Accrued silvicultural costs

The Company accrues the undiscounted estimated cost of reforestation required under its timber forest licence at the time the timber is harvested. The estimated costs are determined by management based on past experience and independent expert analysis.

i) Revenue recognition

Revenue includes the sale of raw logs, provision of logging related services and grants from the Forest Investment Account. Revenues are recognized when the significant risks and rewards of ownership of its products are transferred to the customer, which is generally at the time of shipment to the customer or delivery of logs to the customer or when the services are rendered and collection is reasonably assured. Interest income is recognized on an accrual basis.

Sechelt Community Projects Inc.

Notes to the Consolidated Financial Statements

December 31, 2010

2. Significant Accounting Policies - continued

j) Financial instruments

All financial instruments are classified into one of five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments and derivatives are initially measured in the balance sheet at fair value with the exception of certain related party transactions. Subsequent measurement and changes in fair value will depend on their initial classification. Held-for-trading financial assets and liabilities are measured at fair value and changes in fair value are recognized into net income. Available-for-sale financial assets are measured at fair value with changes in fair value recorded in other comprehensive income. Loans and receivables, held-to-maturity investments and other financial liabilities are measured at amortized cost.

The Company does not use derivative instruments or hedges to manage risks. Transaction costs related to all financial instruments will be expensed in the period incurred.

Cash and temporary investments have been designated as held-for-trading, accounts receivable and due from broker have been designated as loans and receivables and accounts payable and accrued liabilities and dividend payable have been designated as other financial liabilities. The Company has elected to use settlement date accounting on any regular way contracts.

The three levels of the fair value hierarchy are:

- Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 - Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 - Inputs that are not based on observable market data.

See Note 11 for relevant disclosures.

k) Use of estimates

The preparation of financial statements in conformity with Canadian Generally Accepted Accounting Principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and the reported amounts of revenue and expenses during the year including amortization of assets and accrued liabilities. Significant estimates made in the preparation of these consolidated financial statements include the useful lives of property and equipment, the expected timber volumes from certain cut blocks and the amounts accrued for future silvicultural costs and road deactivation costs. Actual results could differ from these estimates.

Sechelt Community Projects Inc.

Notes to the Consolidated Financial Statements

December 31, 2010

2. Significant Accounting Policies - continued

l) Future accounting policy

International Financial Reporting Standards

As a defined "Government Business Entity", the Company will be required to adopt International Financial Reporting Standards ("IFRS") for periods beginning on or after January 1, 2011. The impact of the transition to IFRS on the Company's financial statements has yet to be determined.

3. Operating Credit Facility

The Company has access to a commercial operating loan facility of \$150,000 with the Sunshine Coast Credit Union that bears interest at prime + 1.5%, is payable on demand and is secured by an assignment of a term deposit held of an amount of not less than \$150,000. As at December 31, 2010, nothing was drawn on this facility.

4. Prepaid Operational Costs

Management has identified certain engineering and temporary road building costs incurred in the year that relate to the anticipated activities for certain areas and amounts of timber that have not completed and as such, these costs have been deferred and are expensed as the anticipated volumes for those areas are realized.

5. Property and Equipment

		2010			2009
		Cost	Accumulated amortization	Net book value	Net book value
Furniture and equipment	20 %	\$ 20,445	\$ 6,784	\$ 13,661	\$ 14,781
Roads		306,827	63,074	243,753	161,716
		\$ 327,272	\$ 69,858	\$ 257,414	\$ 176,497

Sechelt Community Projects Inc.

Notes to the Consolidated Financial Statements

December 31, 2010

6. Deferred Licence Acquisition Costs

The Company incurred costs totaling \$265,361 related to the application for the Probationary Community Forest Agreement that was executed on May 31, 2006. These costs were amortized over the allowable timber volume of 100,000 cubic metres as those volumes were utilized. The balance is net of accumulated amortization of \$265,361 (2009 - \$179,758).

7. Accrued Silvicultural Costs

The Company accrues silvicultural costs based on the volume of production measured in cubic metres. During the year, the Company revised that estimate from \$4.25 per cubic meter to \$3.50 per cubic meter. During the year the Company accrued costs of \$108,360 (2009 - \$88,986) and spent \$36,854 (2009 - \$28,505) on the related activities. The change in estimate resulted in a reduction of the accrued amount of \$75,048 which was recognized as a reduction of cost of sales in the current period.

8. Share Capital

Authorized

Unlimited common shares with no par value

		2010	2009
Issued			
17,260	Common shares	\$ 172,600	\$ 172,600

9. Contributed surplus

The shareholder of the Company received a SICEAI Grant of \$49,770 from the Community Futures Development Corporation in 2004 and expended those monies on behalf of the Company in conjunction with the application for the Probationary Community Forest Agreement.

10. Partnering agreement

The Company is party to a partnering agreement with its sole shareholder which provides for financing of up to \$400,000 at a rate of 7.5% per annum. As at December 31, 2010 nothing was drawn pursuant to this agreement. The term of this agreement expires on April 30, 2011.

Sechelt Community Projects Inc.

Notes to the Consolidated Financial Statements

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11. Financial Instruments Fair Value and Risk Management

Fair value

The Company estimates the fair value of its financial instruments based on current interest rates, market value and pricing of financial instruments with comparable terms. Unless otherwise indicated, the carrying value of these financial instruments approximates their fair market value because of the near maturity of those instruments.

Financial instruments measured at fair value on the balance sheet are summarized in levels of fair value hierarchy as follows:

December 31, 2010	Level 1	Level 2	Level 3
Cash	\$ 455,197	\$ -	\$ -
Temporary investments	\$ 256,267	\$ -	\$ -

December 31, 2009	Level 1	Level 2	Level 3
Cash	\$ 223,485	\$ -	\$ -
Temporary investments	\$ 250,000	\$ -	\$ -

Financial Instruments Risk Exposure

Credit risk

Credit risk is the risk of loss associated with counterparty's inability to fulfill its payment obligations. Financial instruments that potentially subject the Company to a concentration of credit risk consist primarily of cash, temporary investments, accounts receivable and due from broker. The Company limits its exposure to credit loss by placing its cash with major financial institutions and invests only in short-term obligations that are guaranteed by the Canadian government or by Canadian chartered banks. The Company's maximum exposure to credit risk for cash, temporary investments, accounts receivable and due from broker is the amount disclosed in the balance sheet.

Management believes that the credit risk concentration with respect to financial instruments included in cash, temporary investments, and receivables is minimal.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to evaluate current and expected liquidity requirements under both normal and stressed conditions to ensure that it maintains sufficient reserves of cash or have an available credit facility to meet its liquidity requirements in the short and long term.

As at October 31, 2010, the Company had cash balance of \$455,197 (2009 - \$223,485) to settle current liabilities of \$340,814 (2009 - \$308,228). All of the Company's financial liabilities are classified as current and are anticipated to mature within this fiscal period. The Company intends to settle these with funds from its positive working capital position.

Sechelt Community Projects Inc.

Notes to the Consolidated Financial Statements

December 31, 2010

11. Financial Instruments Fair Value and Risk Management (continued)

Market risk

Market risk incorporates a range of risks. Movement in risk factors, such as market price risk and currency risk, affect the fair values of financial assets and liabilities. The Company is exposed to these risks as the ability of the Company to develop or market its products and the future profitability of the Company is related to the market price of logs.

i) Foreign currency risk

The Company does not have assets held in foreign currencies as at December 31, 2010 and therefore is not exposed to foreign currency risk.

ii) Price risk

The Company is exposed to price risk with respect to commodity prices. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The Company closely monitors commodity prices to determine the appropriate course of action to be taken by the Company.

iii) Interest rate risk

The Company is exposed to interest rate risk to the extent that the cash maintained at the financial institutions is subject to a floating rate of interest. The interest rate risk on cash and temporary investments is not considered significant.

12. Capital Disclosures

The Company considers the net and unencumbered financial assets held to be capital for purposes of this section.

The Company's objective in managing capital is to ensure sufficient capital is available during the year and on an on-going basis to fund current operations, to provide for future liabilities and contingencies and to provide a reasonable rate of return to the shareholder. The Company's capital management is done by management in conjunction with the board by budgeting, regular review of financial reporting and longer-term capital planning. As at December 31, 2010, the Company's capital was \$429,698 (2009 - \$292,310). The board of directors has determined that \$200,000 of the Company's capital be held in reserve for future economic development opportunities.

There were no changes in the Company's approach to capital management during the year ended December 31, 2010. The Company was not subject to externally imposed covenants.

Sechelt Community Projects Inc.

Notes to the Consolidated Financial Statements

December 31, 2010

13. Related Party Transactions

- a) During the year, the Company paid honourariums totaling \$6,000 (2009 - \$6,000) to a Company controlled by the current president.
- b) The Company provided logging and logging related services to its sole shareholder in the prior period in the amount of \$60,949 which was included in the accounts receivable balance for that year and collected in the current period.

The related party transactions incurred during the year were in the normal course of operations and were measured at the exchange value, which represented the amount of consideration established and agreed to by the parties involved.