# Sunshine Coast Community Forest

operated by Sechelt Community Projects Inc.

*Building Value for our Community*

# 2012 ANNUAL REPORT

## MESSAGE FROM THE CHAIR

*Glen Bonderud, Chair & President*

After the loss in 2011 due to the deferral of cutting there was a real need to repair the balance sheet, the loss of approximately $182,000 was not something to be repeated. In late 2011 the engineering for Angus Creek was completed and logging initiated in the first quarter of 2012. The area was behind the Hidden Grove trails and in discussions with the Sechelt Groves Society it was decided to create a larger buffer between the logging and the trails. We are now applying for formal recognition of this area under Section 56 of the Forest Act, either by itself or as an addition to the Sechelt Heritage Forest.

The area of the deferral in 2011 is known as EW002, above Roberts Creek near Wilson Creek. In previous years we had done a watershed study of the area, for our tenured area only, and the criticism was that it did not include private lands. SCPI commissioned another study for water and fish habitat that included the private lands above and below the tenured area. The results were presented in August 2012 and are now available on our website. It was a thorough report and we have adopted its recommendations.

Unfortunately, the study was not accepted by all and in the fall of 2012, when we announced we would be commencing operations in this area, protests broke out demanding we cease operations and vacate the area. A proposed park was the main reason for the opposition despite no word from the Ministry of the Environment they are considering new parks. One statement going around was we had only 3% of the Sunshine Coast Forest District in parks; however from Howe Sound to Egmont the actual percentage of provincial, regional and municipal parks, wildlife reserves and old growth management areas added up to 20.5% of the land. A report is available on our website which details this finding.

Despite the costs associated with the protests, we have closed 2012 with a stronger balance sheet and are looking to the future with cautious optimism. We operate in a world market and the key markets to watch are the US housing industry and the exports of lumber and logs to China and Japan. Other markets are coming on stream as well, South Korea, Taiwan and India. We see US housing starts recovering slowly but are still only 60% of what may be termed a normal market. Closer to home we continue to support the local industries and would like to see more industry and jobs here on the Sunshine Coast. Only with more industry here can we have a vibrant, healthy and balanced economy.

On a final note, I refer you to page x of the Food and Agriculture Organization of the United Nations' report entitled **State of the World's Forests - 2012** (http://www.fao.org/docrep/016/i3010e/i3010e.pdf).

*There is growing awareness that an economy based on the continuously increasing depletion of natural resources is not sustainable. New ways of thinking about progress are needed, and agriculture and forestry will play central roles in this transition. The economy will become greener as more and more of the products consumed in mass quantities are based on photosynthesis. When plants are harvested for food, they are replaced by a new crop to grow more food for the next cycle. The same principle applies to forests. Production systems, including energy, must be based on sustainable processes, especially photosynthesis, if the world is to have a sustainable future. Most people understand that forests could play a role in a green economy, but not many people realize that this role is not optional – for a sustainable world, it is mandatory. Without forests, the global ecosystem would collapse. The good news is that the global economy can be sustained indefinitely through the widespread use of renewable energy, including wood-based energy. Forests provide resources for people, including a renewable source of energy. If the global economy is to be sustainable, the land-use principles, policies and practices that are collectively known as sustainable forest management must be used all over the world. Net carbon dioxide in the atmosphere will decline as long as new trees are planted to replace those that are used.*

## OPERATIONS REPORT

*Dave Lasser, RPF, Operations Manager*

***There continues to be a very significant problem with timber theft by people falling standing trees for firewood. Of most concern is the extremely unsafe falling techniques being used. It is only a matter of time before someone is seriously injured, or worse, as a result of their dangerous and unsafe practices.***

2012 was a challenging but successful year in many ways for the Community Forest.

We changed our business to be a fall and winter harvesting operation instead of spring and summer harvesting operation. This has a number of benefits. Log prices traditionally are better in the winter than the summer which improves our financial performance. It also allows us to plant our harvested blocks in the spring immediately after harvesting. Operating in the fall and winter does create some operational challenges, but it also allows our contractors to have a full year of work for their employees which is good for the entire community.

We began 2012 with the start of road construction and harvesting in Blocks AN09 and AN10 in the Sandy Hook area. The blocks were completed in late May and planted immediately. In the spring we also completed the engineering of three cut-blocks for future harvesting in the Halfmoon Bay area of our tenure. Walk-in-the-woods tours were done on two of the three blocks. We were able to use our LiDAR data to assist us in the planning of these blocks.

The Wilson Creek Watershed and Fishery Assessments also got underway in the spring. This project was in response to a commitment by the Board of Directors of the Community Forest to undertake a more comprehensive watershed assessment than was previously undertaken. Glynnis Horel (P.Eng.) and Dr. Dave Bates (PhD, RPBio) undertook the assessments. Their work was very thorough and a number of presentations were made in the community to explain their findings. Horel and Bates were provided access to the entire watershed, including the large private land holdings. Our LiDAR data played a very important role in assisting Horel in her geological and terrain assessment work.

Upon completion of the Wilson Creek assessments, the Board of Directors approved the harvesting of Block EW002. This decision was met with protests by some in the community. Many of the arguments presented by the protesters weren't factual. Road construction and harvesting began in Block EW011 in October and falling started in EW002 in late November. EW011 was completed in January 2013 and planted in April 2013. EW002 harvesting will be completed in April 2013 with planting in early May.

The financial results shown elsewhere in the Annual Report include all of the Sandy Hook volume and about 20% of the volume from EW011. The remaining 80% of the volume from EW011 and 100% from EW002 will be shown in our 2013 financial report and will be very positive.

## SUMMARIZED CONSOLIDATED FINANCIAL STATEMENTS

A full copy of our audited financial statements is available on our website.

**Summarized Consolidated Statements of Comprehensive Income (Loss)**

| for the year ended December 31, | 2012 | 2011 |
|---|---|---|
| Revenues | $1,590,272 | $546,742 |
| Cost of Sales | 1,016,592 | 418,766 |
| Gross Margin | 573,680 | 127,976 |
| Other Income | 11,092 | 33,651 |
| | $584,772 | $161,627 |
| Expenses | 358,321 | 329,105 |
| Income Tax | 130 | 2,435 |
| **Comprehensive Income (Loss)** | **$226,321** | **($169,913)** |

**Summarized Consolidated Statement of Changes in Equity**

| | Share Capital | Contributed Surplus | Retained Earnings | Total |
|---|---|---|---|---|
| As at January 1, 2011 | $172,600 | $49,770 | $557,701 | $780,071 |
| Comprehensive Loss | | | (169,913) | (169,913) |
| As at December 31, 2011 | $172,600 | $49,770 | $387,788 | $610,105 |
| Comprehensive Income | | | 226,321 | 226,321 |
| Dividend | | | ($25,890) | ($25,890) |
| **As at December 31, 2012** | **$172,600** | **$49,770** | **$588,219** | **$810,589** |

**Summarized Consolidated Statements of Financial Position**

| | December 31 2012 | December 31 2011 |
|---|---|---|
| **Assets** | | |
| Cash | $476,862 | $225,987 |
| Other current assets | 493,259 | 121,493 |
| Investments | 0 | 262,656 |
| Property and Equipment | 228,676 | 243,292 |
| Deferred License Acquisition Costs | 0 | 0 |
| | $1,198,797 | $853,428 |
| **Liabilities** | $388,208 | $243,270 |
| **Shareholder's Equity** | | |
| Share Capital | 172,600 | 172,600 |
| Contributed Surplus | 49,770 | 49,770 |
| Retained Earnings | 588,219 | 387,788 |
| | $810,589 | $610,158 |
| | $1,198,797 | $853,428 |

**Summarized Consolidated Statements of Cash Flows**

| for the year ended December 31, | 2012 | 2011 |
|---|---|---|
| Cash provided by (used for): | | |
| Operating Activities | ($11,781) | ($202,338) |
| Financing Activities | 0 | (25,890) |
| Investing Activities | 262,656 | (982) |
| **Net Increase (Decrease) in Cash** | **$250,875** | **($229,210)** |
| Cash at beginning of year | 225,987 | 455,197 |
| **Cash at end of year** | **$476,862** | **$225,987** |

## REPORT OF THE INDEPENDENT AUDITOR ON THE SUMMARIZED CONSOLIDATED FINANCIAL STATEMENTS

The accompanying summarized consolidated financial statements, which comprise the summarized consolidated statement of financial position as at December 31, 2012, and the summarized consolidated statements of comprehensive income (loss), changes in equity and cash flows for the year then ended are derived from the audited consolidated financial statements of Sechelt Community Projects Inc. as at December 31, 2012. We expressed an unmodified opinion in our report dated April 15, 2013. Those consolidated financial statements, and the summarized consolidated financial statements, do not reflect the effects of events that occurred subsequent to the date of our report on those consolidated financial statements.

The summarized consolidated financial statements do not contain all the disclosures required by International Financial Reporting Standards. Reading the summarized consolidated financial statements, therefore, is not a substitute for reading the audited consolidated financial statements of Sechelt Community Projects Inc.

**Management's Responsibility for the Summarized Consolidated Financial Statements**

Management is responsible for the preparation of a summary of the audited consolidated financial statements.

**Auditor's Responsibility**

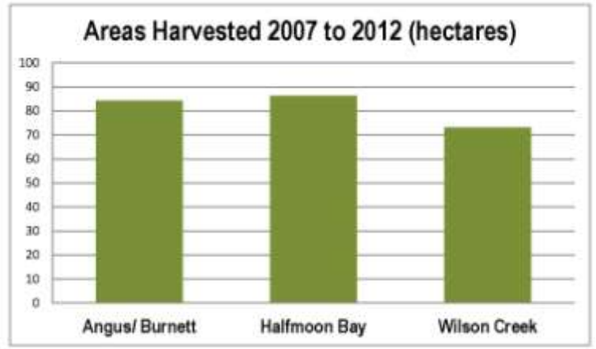
Our responsibility is to express an opinion on the summarized financial statements based on our procedures, which were conducted in accordance with Canadian Auditing Standard (CAS) 810 Engagements to Report on Summary Financial Statements.

**Opinion**

In our opinion, the summarized consolidated financial statements derived from the audited consolidated financial statements of Sechelt Community Projects Inc. for the year ended December 31, 2012 are a fair summary of those consolidated financial statements.

April 15, 2013
Vancouver, BC

Chartered Accountants
MacKay LLP




## HIGHLIGHTS

| | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 |
|---|---|---|---|---|---|---|
| Harvest volume (m3) | 18,701 | 5,376 | 25,560 | 20,938 | 19,351 | 29,102 |
| Sales (m3) | | | | | | |
| - To local mills | 386 | 149 | 984 | 1,489 | 479 | 34 |
| - To HSPP | 2,722 | 752 | 2,652 | 3,740 | 3,396 | 5,117 |
| - Within Canada | 13,468 | 3,573 | 21,136 | 15,881 | 14,190 | 22,081 |
| - For Export | 2,125 | 902 | 1,467 | 2,183 | 0 | 0 |
| Seedlings planted | 34100 | 35890 | 31545 | 8360 | 74520 | 0 |
| Roads built (km) | 2.720 | 0 | 2.144 | 1.600 | 0.910 | 0 |
| Revenues | $1.59M | $0.55M | $1.87M | $1.87M | $1.55M | $2.46M |
| Dollars invested in our Community | $1.1M | $0.46M | $1.7M | $1.7M | $1.3M | $1.8M |
| Profits earned | $226,321 | ($169,913) | $151,538 | $84,692 | $79,117 | $484,227 |
| Dividends paid | $25,890 | $0 | $25,890 | $25,890 | $25,890 | $25,890 |

## VOLUME OF SPECIES HARVESTED

| | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 | Total |
|---|---|---|---|---|---|---|---|
| Douglas Fir | 51.2% | 72.1% | 52.5% | 57.2% | 59.9% | 63.9% | 57.3% |
| Hemlock | 27.0% | 19.4% | 24.8% | 21.6% | 18.4% | 24.2% | 22.9% |
| Western Red Cedar | 16.3% | 8.2% | 21.2% | 20.7% | 17.9% | 10.8% | 16.5% |
| Alder | 4.4% | 0.3% | 0.7% | 0.4% | 2.5% | 0.8% | 1.5% |
| White Pine | 0.6% | 0.0% | 0.3% | 0.0% | 9.0% | 0.1% | 1.6% |
| Other | 0.5% | 0.0% | 0.5% | 0.0% | 0.4% | 0.2% | 0.3% |
| Total Volume (m3) | 18,700 | 5,396 | 25,560 | 20,938 | 19,351 | 29,102 | |

*Other includes Balsam, Maple, Lodgepole Pine, Spruce*

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## JUVENILE SPACING

*Jamie Killackey, RFT*

Juvenile spacing is an intensive silvicultural forestry treatment that enhances the growth of preferred trees by removing undesirable ones. The resultant conditions allow the selected trees to increase stem diameter at a faster rate and increase the live crowns of the retained trees.

Planting ensures that harvested areas are reforested within one growing season with ecologically preferred crop trees. Planting ensures that all of the available productive ground in a harvested cutblock is growing a new forest in the shortest time possible. About 1000 trees are planted per hectare; 2-3 times as many as are harvested. The survival rate of the planted trees is excellent, with up to 98% survival on cutblocks within the Community Forest. Natural seeding from surrounding mature trees will contribute to the regenerating stand, and often results in high density immature stands. It is not uncommon to end up with 2,000-8,000 trees per hectare after natural seeding. Much of the natural seeding is from less desirable species that compete for light, water and nutrients with the preferred crop trees. The natural reforestation occurs over a few years after harvesting is completed and doesn't result in even distribution of seedlings.

Juvenile spacing is a thinning treatment using powersaws to reduce the overall density of the cutblock. Spacing does not increase the wood volume on a site, instead, spacing concentrates the site's productivity into a smaller number of stems producing larger, healthier and ultimately more valuable trees. The workers choose the best trees and thin out the ones with defects, poor form or species unsuitable for the site, and bring the number of trees per hectare down to the target density prescribed by the silviculture forester. The result is a healthy stand with room for crown expansion and no reduction in site productivity.

Our Community Forest has been receiving annual funding from the Provincial Government to complete spacing projects each fall and winter since 2007. This annual funding results in an average 38 hectares of juvenile spacing and $52,000 going in to the community. These funds provide local employment and indirect spin-offs to local business, primarily at a time of year when tourism and other Silviculture employment is low. This type of activity increases the value of the timber resources in the Community Forest for the next generations to manage.

Juvenile spacing isn't only about improving timber values for future generations. Thinning treatments result in more open stand conditions. These stands provide better movement for large animals, as well as increase, and prolong the availability of understory forage until the canopy closes. The increased growth of the selected trees results in increased hydrological recovery of harvested areas. Another benefit of spacing is a reduction in fuel loading in immature stands. The rapid decay of cut juvenile trees in our climate results in low fuel loads and the elimination of ladder fuels in immature stands. This can be seen in spaced stands as quickly as 10 years after treatments. Juvenile spacing works well with trail networks in our Community Forest. Trail construction is easier in a spaced stand. As the stands mature, the visual lines change as the canopy closes and the live crowns lift. The forest takes on older characteristics, with few live lower limbs, less understory vegetation and low light levels at the forest floor. Juvenile spacing provides for a healthier forest.



## SUPPORT FOR RECREATIONAL TRAILS

*Elise Rudland, Director*

Within our communities today one of the amenities to a healthy lifestyle is the existence of hiking trails. Particularly in the accessible forests near urban centres there is a controversy between existing planned trails and trails that are built without regard to other users of the forest and which have no legal status.

Under the Ministry of Forests, Lands and Natural Resource Operations the provincial position promotes 'sanctioned' trails under Sections 56 and 57 of the Forest and Range Practices Act. The SCCF supports their policy of:

> "trails provide a wide range of opportunities for people to connect with one another and with nature in a sustainable manner. They are a key component of the BC strategy to encourage healthy, active lifestyles, whether as recreation amenities or as components of a comprehensive transportation and commuting corridors."

Source: www.sitesandtrailsbc.ca/documents/trail-strategy-background-report.pdf

The SCCF supports the Sunshine Coast Trail Strategy in the effort to GPS map the sanctioned trails to Ministry standards for inclusion in government maps and be a recreational resource for the public. To this objective, in early 2013 the SCCF provided $22,000 for developing the strategy and mapping of the Sunshine Coast trails.

The question one may ask is "What does a Section 56 legal establishment have that a Section 57 authorization does not?" Section 56 includes the following:

- inclusion of the trail or recreational facility in the recreation inventory;
- creation of a map notation, this notes the trail or facility on the status maps and assists in identifying a trail or facility in a referral process for resource development;
- the ability to apply Forest Recreational Regulations;
- the ability to post and enforce rules (ie non motorized);
- the ability to set legal objectives if needed;
- inclusion of the trail or recreation facility on Ministry maps and websites. In this case the trails or facility would have to meet Ministry standards;
- allows the Ministry to use operational funds towards maintaining the site or trail. Site upgrades/requirements are assessed on an annual basis and completed on a priority basis;
- requires a Partnership Agreement to be signed with a group that is willing to maintain the site to a ministry standard.

For these reasons we have applied for Section 56 status on our Hidden Grove area in conjunction with the Sechelt Groves Society.

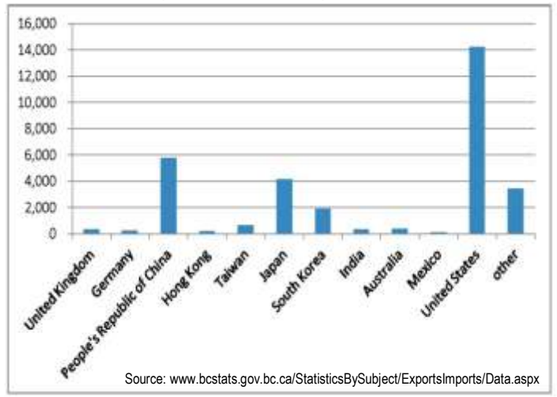
## THE EXPORT WORLD OF OUR FIBRE

*Glen Bonderud, Chair & President*

We live in a highly competitive world with technology and communications instantaneously sending messages around the commercial world. In British Columbia the export of our fibre started with the early explorers who found Douglas Fir made excellent masts for their sailing vessels. From there it has progressed to modern computer controlled mills for lumber, pulp, newspaper and engineered woods.

Today our lumber is sold to every continent in the world and to most major countries on those continents. Over the decades our coastal lumber exports have seen many changes. First the USA, UK and China were large buyers of our lumber in post WW I, then the USA and Japan in the post WW II era, and now, today, we see the rise of China as a major trading partner in combination with the USA and Japan. The following graph is in the scale of millions of dollars for 2012 and by far the major market for all our products is the US at over 14 billion dollars, followed by China and then Japan.

Wood, Pulp, Etc. - All Product Exports 2012 - $Millions




Source: www.bcstats.gov.bc.ca/StatisticsBySubject/ExportsImports/Data.aspx

The largest category of export product is lumber, then pulp and thirdly logs which are a very small part of the equation. The majority of log exports go to China and Japan respectively, however, with China the percent of logs to the total is approximately 10%, for 2012 lumber at $1.064 billion, pulp at $1.631 billion, and logs at $0.283 billion. As the lumber market strengthens log export volumes will decline as the domestic mills see a better lumber sales situation. Our major lumber market is the USA with approximately two billion dollars in 2012. Log exports were about 2½% of that total. In total of all forest products exported, logs are approximately 5% of the export values.

The key to the BC industry is still the US housing market. From a high of over 2,000,000 housing starts in 2005 the market, for the past few years, has been languishing at close to one-third of that figure. Depending on which summary you read the "normal" market should be approximately 1,500,000 housing starts yet from the low of 600,000 units in 2009 activity has only increased to an annual rate of approximately 900,000 units. The forecast is for better markets ahead as two key factors are at work; An increasing population in the US of about 3,000,000 persons a year and the need for replacement housing for the existing 118,000,000 housing units. These two factors indicate the need for over 1,500,000 units a year, every year.

Our industry is not simply a seller of basic logs and lumber. Building technology has progressed in design and products such as engineered wood products; Oriented Strand Board, Glulam, Parallam, Timberstrand and I-Beams. And now "cross laminated timber" (known as plywood on steroids) has made building with wood cost and energy efficient. For many projects around the world it is now the material of choice and many of our provincial cities have endorsed this. For more information please visit the following websites:

www.jtst.gov.bc.ca/woodfirst and www.apawood.org

## LOG EXPORT FACTS

*Dave Lasser, Operations Manager*

The topic of log exports always seems to generate many misinformed opinions in the community. Log exports play an important role in determining the financial health of the coastal forest industry.

Over the last decade the B.C. coastal forest sector has relied very heavily on the red cedar business to survive. The high costs of logging in the coastal industry, combined with the low domestic market value for Douglas Fir, Hemlock and Balsam logs made it very difficult for the industry to operate. Logging Fir and HemBal stands without cedar was a money losing business. Cedar was the only specie that had prices which allowed the logging industry to break even or be slightly profitable. Most licensees in the B.C. Coastal industry did not harvest their full annual allowable cut (AAC). The current Coastal AAC is 16.25 million cubic metres (m3) on Crown land. Western Forest Products, the largest licensee (AAC = 7 million m3/yr) on the B.C. Coast only harvested about 60% of its AAC over a four year period and almost went bankrupt.

One of the ways the industry has tried to remain viable is by having a portion of the harvest available for export. On average, there is about a 20% premium on Hemlock export log prices over the Hemlock domestic log price, and about a 30% premium for Fir export log prices over Fir domestic log prices. Being able to put 10-20% of the volume of those species up for export helps to justify logging the entire stand.

There are a number of rules for exporting logs out of British Columbia:

1. Red and yellow cedar from Crown land cannot be exported.
2. "High" grade logs (B,C,D,F) from Crown land cannot be exported. Only sawlogs graded H or lower are exportable (except Balsam).
3. Fir, Hemlock, Balsam or Spruce logs must be sorted into recognized sorts and then each boom of sorted logs must be advertised separately through the Timber Export Advisory Committee (TEAC) for two successive two week advertising periods (approx. 4-6 weeks in duration).
4. Logs from private land and Indian Reserve lands in B.C. are subject to federal export rules that require advertising through the provincial surplus process as well.
5. Any lumber manufacturing facility which feels it needs or wants any of the advertised log sorts has the right to "block" the export application of each boom by sending a letter to TEAC. They must make a reasonable price offer to the seller based on current domestic market value.
6. If no blocking letters are received after the advertising period or if TEAC determines a fair price offer to purchase hasn't been received, the logs are declared surplus to domestic needs. The advertiser then applies for a provincial export permit. If granted the logs are then able to be exported. The final step is getting a federal export permit after provincial approval is granted. The entire process can take 8-10 weeks before final permission is granted.
7. Before export there are two additional fees that must be paid in addition to stumpage fees; a provincial "fee in lieu of manufacture" tax, and a provincial timber export tax based on the value of the logs and specie (approx. 10% for Hemlock/Balsam and 15% for Fir).

Another factor that is often forgotten in the whole issue of forest industry economics is that we are constantly trying to open up new markets for our lumber and/or our style of timber frame construction. Our Coastal tree species are not native to many of the international markets we ship lumber to. In the case of new markets, they might not even be familiar with our species and their construction/strength properties.

The only way we have been able to get some countries to buy our lumber is by selling them logs. Their domestic mills can then cut the logs into their domestic lumber grades and determine their suitability to meet their national building code. This was true of the B.C. industry breaking into the Japanese and Korean lumber markets and it is also proving true in China. In the case of Japan, their traditional post construction method has been in place for generations but we have been able to show them that, by using our dimension framing lumber and building homes similar to homes in B.C., their homes will have a greater chance of surviving an earthquake. Our species and lumber products have gained market acceptance because countries have been able to cut our logs and find ways to make products they like using our species.

Those countries are not self-sufficient in log or lumber production. They need to import wood. They can choose to import logs (and lumber) from every forested nation (ie Russia, Australia, New Zealand, Indonesia, etc.) that has wood to sell. How did we convince them to buy ours? The simple answer is by exporting logs which increased our exports of lumber into new markets.

It is not appropriate to say we are exporting jobs by exporting logs. The opposite is true. In most cases, only 5-15% of the volume harvested off Crown land would be advertised for export and not all of it successfully (blocking). In many cases, it is the premium obtained from exporting the 5-15% of the volume that in fact makes it economical to harvest 100% of the stand and thus make the remaining 85-95% available to local mills. Without export, many cut-blocks wouldn't be harvested and more harvesting and manufacturing jobs would be lost in the coastal industry as we go through the traditional 7-10 year industry economic cycles. While many environmentalists would welcome the reduction in harvesting, the thousands of people who work directly in the coastal industry, and the communities they live in and support would suffer significant hardship as a result.