

**Sechelt Community Projects Inc.**

**Financial Statements**

**December 31, 2008**

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# Sechelt Community Projects Inc.

## Financial Statements

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December 31, 2008

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## **Auditors' Report**

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

We have audited the balance sheet of Sechelt Community Projects Inc. as at December 31, 2008 and the statements of operations and retained earnings, and cash flows for the year then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian Generally Accepted Accounting Principles.

**Sechelt, BC  
February 20, 2009**

**Chartered Accountants**

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## Sechelt Community Projects Inc.

### Statement of Operations and Retained Earnings

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| For the year ended December 31,                       | 2008              | 2007<br>(As restated -<br>note 9) |
|---|-------------------|-----------------------------------|
| <b>Logging revenue (note 10)</b>                      | \$ 1,547,001      | \$ 2,464,793                      |
| <b>Cost of sales</b>                                  |                   |                                   |
| Amortization (note 9)                                 | 127,212           | 169,661                           |
| Logging   | 1,014,423         | 1,469,241                         |
| Silviculture  | 80,351            | 116,671                           |
| Supervision and quality control                       | 53,907            | 35,415                            |
|   | <b>1,275,893</b>  | 1,790,988                         |
| <b>Gross margin (17.52%; 2007 - 27.34%)</b>           | <b>271,108</b>    | 673,805                           |
| <b>Interest and other income</b>                      | <b>53,774</b>     | 1,325                             |
|   | <b>324,882</b>    | 675,130                           |
| <b>Expenses</b>                                       |                   |                                   |
| Advertising and communications                        | 20,791            | 10,758                            |
| Amortization  | 734               | 429                               |
| Board and committee (note 10)                         | 19,128            | 8,301                             |
| Community relations                                   | 17,884            | 7,361                             |
| Forestry projects                                     | 15,362            | 20,750                            |
| Insurance   | 525               | 525                               |
| Interest on promissory notes (note 5)                 | 7,081             | 28,471                            |
| Legal and accounting                                  | 10,430            | 7,387                             |
| Management and administration                         | 110,725           | 99,959                            |
| Office and miscellaneous                              | 11,030            | 7,626                             |
| Rent  | 5,400             | 5,400                             |
| Special events  | 30,730            | -                                 |
| Telephone and communications                          | 2,958             | 2,281                             |
| Travel  | 9,460             | 11,072                            |
| Workers compensation board                            | 3,384             | 440                               |
|   | <b>265,622</b>    | 210,760                           |
| <b>Net income for the year (note 9)</b>               | <b>59,260</b>     | 464,370                           |
| <b>Retained earnings (deficit), beginning of year</b> | <b>300,167</b>    | (138,313)                         |
| <b>Dividend</b>                                       | <b>(25,890)</b>   | (25,890)                          |
| <b>Retained earnings, end of year</b>                 | <b>\$ 333,537</b> | <b>\$ 300,167</b>                 |

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## Sechelt Community Projects Inc.

### Balance Sheet

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| December 31, | 2008 | 2007<br>(As restated -<br>note 9) |
|--------------|------|-----------------------------------|
|--------------|------|-----------------------------------|

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#### Assets

##### Current

|                                  |            |            |
|----------------------------------|------------|------------|
| Cash                             | \$ 102,443 | \$ 144,239 |
| Temporary investments            | 400,000    | 800,000    |
| Accounts receivable (note 10)    | 84,267     | 9,010      |
| Goods and service tax receivable | 12,437     | -          |
| Inventory (note 1)               | 202,742    | 111,891    |

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|  |                |           |
|--|----------------|-----------|
|  | <b>801,889</b> | 1,065,140 |
|--|----------------|-----------|

**Property and equipment** (notes 2 and 9)

|  |               |        |
|--|---------------|--------|
|  | <b>28,893</b> | 86,702 |
|--|---------------|--------|

**Prepaid operational costs** (note 3)

|  |               |        |
|--|---------------|--------|
|  | <b>82,189</b> | 83,034 |
|--|---------------|--------|

**Deferred licence acquisition costs** (note 4)

|  |                |         |
|--|----------------|---------|
|  | <b>140,641</b> | 192,514 |
|--|----------------|---------|

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|  |                     |              |
|--|---------------------|--------------|
|  | <b>\$ 1,053,612</b> | \$ 1,427,390 |
|--|---------------------|--------------|

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#### Liabilities

##### Current

|   |            |            |
|---|------------|------------|
| Accounts payable and accrued liabilities (note 9) | \$ 304,034 | \$ 109,724 |
| Accrued silvicultural costs (note 1)              | 127,325    | 100,627    |
| Goods and service tax payable                     | -          | 61,511     |
| Advance from broker                               | 40,456     | 186,136    |
| Dividend payable                                  | 25,890     | -          |
| Due to shareholder (note 5)                       | -          | 446,855    |

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|  |                |         |
|--|----------------|---------|
|  | <b>497,705</b> | 904,853 |
|--|----------------|---------|

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#### Shareholder's Equity

|                               |                |         |
|-------------------------------|----------------|---------|
| <b>Share capital</b> (note 6) | <b>172,600</b> | 172,600 |
|-------------------------------|----------------|---------|

|                                     |               |        |
|-------------------------------------|---------------|--------|
| <b>Contributed surplus</b> (note 7) | <b>49,770</b> | 49,770 |
|-------------------------------------|---------------|--------|

|                          |                |         |
|--------------------------|----------------|---------|
| <b>Retained earnings</b> | <b>333,537</b> | 300,167 |
|--------------------------|----------------|---------|

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|  |                |         |
|--|----------------|---------|
|  | <b>555,907</b> | 522,537 |
|--|----------------|---------|

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|  |                     |              |
|--|---------------------|--------------|
|  | <b>\$ 1,053,612</b> | \$ 1,427,390 |
|--|---------------------|--------------|

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Approved by the Directors:

\_\_\_\_\_ Director

\_\_\_\_\_ Director

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## Sechelt Community Projects Inc.

### Statement of Cash Flows

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| For the year ended December 31, | 2008 | 2007<br>(As restated -<br>note 9) |
|---------------------------------|------|-----------------------------------|
|---------------------------------|------|-----------------------------------|

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#### Cash provided by (used for)

##### Operating activities

|   |           |            |
|---|-----------|------------|
| Net income for the year                   | \$ 59,260 | \$ 464,370 |
| Item not affecting cash                   |           |            |
| Amortization                              | 127,946   | 170,090    |
| Changes in non-cash working capital items |           |            |
| Accounts receivable                       | (75,257)  | (9,010)    |
| Inventory                                 | (90,851)  | (111,891)  |
| Prepaid operational costs                 | 845       | 78,018     |
| Accounts payable and accrued liabilities  | 194,309   | 21,463     |
| Accrued silvicultural costs               | 26,698    | 100,627    |
| Goods and service tax payable             | (73,948)  | 70,078     |
| Advance from broker                       | (145,680) | 186,136    |
| Dividend payable                          | 25,890    | -          |

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|  |               |         |
|--|---------------|---------|
|  | <b>49,212</b> | 969,881 |
|--|---------------|---------|

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##### Financing activities

|                                   |           |         |
|-----------------------------------|-----------|---------|
| Shareholder (repayments) advances | (446,855) | 153,086 |
| Payment of 2007 dividend          | (25,890)  | -       |

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|  |                  |         |
|--|------------------|---------|
|  | <b>(472,745)</b> | 153,086 |
|--|------------------|---------|

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##### Investing activities

|  |          |           |
|--|----------|-----------|
| Expenditures on property and equipment       | (18,263) | (181,801) |
| Decrease (increase) in temporary investments | 400,000  | (800,000) |

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|  |                |           |
|--|----------------|-----------|
|  | <b>381,737</b> | (981,801) |
|--|----------------|-----------|

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|                                    |                 |         |
|------------------------------------|-----------------|---------|
| <b>Increase (decrease) in cash</b> | <b>(41,796)</b> | 141,166 |
|------------------------------------|-----------------|---------|

|   |                |       |
|---|----------------|-------|
| <b>Cash position, beginning of period</b> | <b>144,239</b> | 3,073 |
|---|----------------|-------|

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|                                     |                   |            |
|-------------------------------------|-------------------|------------|
| <b>Cash position, end of period</b> | <b>\$ 102,443</b> | \$ 144,239 |
|-------------------------------------|-------------------|------------|

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##### Supplemental cash flow information

|                   |          |           |
|-------------------|----------|-----------|
| Interest paid     | \$ 7,081 | \$ 28,471 |
| Income taxes paid | -        | -         |

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# Sechelt Community Projects Inc.

## Notes to the Financial Statements

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**December 31, 2008**

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### 1. Significant accounting policies

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

#### a) Inventory

Effective January 1, 2008, the company implemented the new CICA Handbook Section 3031 "inventories". This section requires that inventories be valued at the lower of cost and net realizable value. It allows for the reversal of any previous write-down of inventories as a result of an increase in value. Finally, the section prescribes new requirements on the disclosure of the accounting policies adopted, carrying amounts, amounts recognized as an expense, the amount of any write-down and the amount of any reversal of a write-down. The adoption of this section had no impact on the previously reported amounts.

#### b) 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 2. Logging roads and bridge building costs are amortized over the anticipated timber volumes to which the roads provide access (note 9).

#### c) Income taxes

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

#### d) 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.

#### e) Revenue Recognition

Logging and other revenue are recognized when the significant risks and rewards of ownership of 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.

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## Sechelt Community Projects Inc.

### Notes to the Financial Statements

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**December 31, 2008**

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**f) Financial instruments**

All significant financial assets, financial liabilities and equity instruments of the company are either recognized or disclosed in the financial statements together with available information for a reasonable assessment of future cash flows, interest rate risk and credit risk. Where practical, the fair values of financial assets and liabilities have been determined and disclosed; otherwise only available information pertinent to fair value has been disclosed.

Unless otherwise noted, it is management's opinion that the company is not exposed to significant interest, currency or credit risks arising from the financial instruments. The fair value of the financial instruments approximates their carrying value, unless otherwise noted.

**g) 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. Actual results could differ from these estimates.

**h) Accounting Changes**

Effective January 1, 2008, the company implemented the new CICA Handbook Section 1506 "accounting changes". Under these new recommendations, voluntary changes in accounting policies are permitted only when they result in the financial statements providing reliable and more relevant financial information. This section requires changes in accounting policies to be applied retrospectively unless doing so is impracticable, requires prior period errors to be corrected retrospectively and requires enhanced disclosures about the effects of changes in accounting policies, estimates and errors on the financial statements.

These recommendations also require the disclosure of new primary sources of generally accepted accounting principles that have been issued that the company has not adopted because they are not yet in effect.

The impact the adoption of this section will have on the company's financial statements will depend on the nature of future accounting changes.



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## Sechelt Community Projects Inc.

### Notes to the Financial Statements

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**December 31, 2008**

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#### 2. Property and equipment

|                              |    | 2008    |                          |                | 2007           |
|------------------------------|----|---------|--------------------------|----------------|----------------|
|                              |    | Cost    | Accumulated amortization | Net book value | Net book value |
| Furniture and equipment 20 % | \$ | 6,293   | \$ 1,401                 | \$ 4,892       | \$ 1,715       |
| Logging roads and bridges    |    | 196,155 | 172,154                  | 24,001         | 84,987         |
|                              | \$ | 202,448 | \$ 173,555               | \$ 28,893      | \$ 86,702      |

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#### 3. Prepaid operational costs

Management has identified certain costs incurred in the year that relate to certain areas and amounts of timber that have not been harvested. As such, these costs have been deferred and will be expensed as the anticipated volumes for those areas are realized.

#### 4. 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 are being amortized over the allowable timber volume of 100,000 cubic metres as those volumes are utilized. The balance is net of accumulated amortization of \$124,720 (2007 - \$72,847).

#### 5. Due to shareholder

In the prior years, the sole shareholder advanced monies to the company pursuant to a partnering agreement (see note 8) in the form of five promissory notes that bore interest at 7.5% per annum and were secured by a general security agreement. These advances were fully repaid during the year. During the year \$7,081 (2007 - \$28,471) of interest was paid to the shareholder.

#### 6. Share capital

##### Authorized

Unlimited common shares with no par value

|        |               | 2008       | 2007       |
|--------|---------------|------------|------------|
| Issued |               |            |            |
| 17,260 | Common shares | \$ 172,600 | \$ 172,600 |

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## Sechelt Community Projects Inc.

### Notes to the Financial Statements

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**December 31, 2008**

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#### **7. 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.

#### **8. 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, 2008 nothing was drawn pursuant to this agreement.

#### **9. Change in Accounting Policy and Estimate**

During the year, the company adopted a new policy with respect to the amortization of logging roads and bridges which matched more closely to the revenues derived from the specific expenditures (note 1(b)). Management is of the opinion that this change provides reliable and more relevant information. This change in accounting policy has been applied retrospectively. In addition, the company has retroactively recorded an accrual of \$14,718 for the decommissioning of logging roads and bridges that had not previously been recognized. As a result, the previously reported net income has decreased by \$50,946, the balance of the property and equipment has decreased by \$36,228 and the balance of accounts payable and accrued liabilities has increased by \$14,718.

#### **10. Related Party Transactions**

- a) During the year, the company paid an honourarium of \$12,000 to the president of the company for services rendered in the current and previous year.
- b) During the year, the company provided logging services to its sole shareholder in the amount of \$72,997 which was unpaid as at December 31, 2008.

Related party transactions are recorded at the amounts agreed to by the parties involved.