Sechelt Community Projects Inc.
(Expressed in Canadian dollars)

Consolidated Financial Statements

December 31, 2019 and 2018

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(Expressed in Canadian dollars)
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December 31, 2019

Crowe MacKay LLP

PO Box 1610
200 – 5710 Teredo Street
Sechelt, BC V0N 3A0

Main +1(604) 697-9271
Fax   +1(604) 697-9250

www.crowemackay.ca

Independent Auditors' Report

To the Board of Directors of Sechelt Community Projects Inc.

Opinion

We have audited the consolidated financial statements of Sechelt Community Projects Inc. ("the Group"), which comprise the consolidated statements of financial position as at December 31, 2019 and 2018, and the consolidated statements of comprehensive income (loss), changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2019 and 2018, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audits of the consolidated 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 in our audits is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter

We draw attention to Note 3 to the financial statements, concerning the worldwide spread of a novel coronavirus known as COVID-19 subsequent to year-end and its effect on the global economy. Our opinion is not modified in respect of this matter.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards, 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.

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

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

Independent Auditors' Report (continued)

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 these consolidated 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 consolidated 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 Group's internal control.

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

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We 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.

Crowe MacKay LLP

Sechelt, Canada
April 6, 2020

Chartered Professional Accountants

Sechelt Community Projects Inc.
(Expressed in Canadian dollars)

Consolidated Statements of Comprehensive Income (Loss)

For the years ended December 31,	2019	2018
Revenue	**$ 29,703**	$ 3,647,458
Cost of sales		
Logging	**12,396**	1,921,068
Silviculture	**24,765**	946
	37,161	1,922,014
Gross margin (-25.1%, 2018 47.3%)	**(7,458)**	1,725,444
Expenses		
Accounting and legal	**16,542**	101,253
Advertising and communications	**4,903**	5,742
Amortization	**495**	620
Board and committee (note 12)	**13,443**	13,770
Community donations	**121,846**	43,192
Community engagement	**2,965**	58,318
Forestry projects	**3,377**	46,802
Insurance	**1,982**	2,030
Interest and bank charges	**308**	347
Management and administration	**181,065**	208,203
Office	**29,282**	29,197
Rent	**11,997**	13,343
Special events	**13,439**	2,834
Tenure maintenance	**5,783**	-
Travel	**5,945**	6,580
	413,372	532,231
Income (loss) before other item	**(420,830)**	1,193,213
Other income	**29,146**	31,450
Net and comprehensive income (loss)	**$ (391,684)**	$ 1,224,663
Earnings (loss) per share	**$ (22.69)**	$ 70.95
Weighted average number of common shares	**17,260**	17,260

Sechelt Community Projects Inc.
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Consolidated Statements of Changes in Equity

For the years ended December 31,

	Shares	Share capital	Contributed surplus	Retained earnings	Total
Balance, December 31, 2017	17,260	$ 172,600	$ 49,770	$ 1,843,671	**$ 2,066,041**
Net income and comprehensive income	-	-	-	1,224,663	**1,224,663**
Dividends	-	-	-	(775,890)	**(775,890)**
Balance, December 31, 2018	17,260	172,600	49,770	2,292,444	**2,514,814**
Net loss and comprehensive loss	-	-	-	(391,684)	**(391,684)**
Dividends	-	-	-	(625,890)	**(625,890)**
Balance, December 31, 2019	**17,260**	**$ 172,600**	**$ 49,770**	**$ 1,274,870**	**$ 1,497,240**

Dividend per share for 2019 is $36.26 (2018 - $44.95)

Sechelt Community Projects Inc.
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Consolidated Statements of Financial Position

December 31,	**2019**	2018
Assets		
Current		
Cash	**$ 1,650,710**	$ 2,885,320
Accounts receivable	**-**	5,286
GST recoverable	**3,307**	4,427
Prepaid operational costs (note 5)	**243,514**	84,839
Due from broker	**200**	5,000
	1,897,731	2,984,872
Property and equipment	**1,982**	2,477
	$ 1,899,713	$ 2,987,349
Liabilities		
Current		
Accounts payable and accrued liabilities	**$ 30,869**	$ 94,816
Dividends payable	**25,890**	25,890
Accrued silvicultural costs (note 6)	**61,693**	54,908
Accrued road deactivation costs (note 7)	**-**	95,337
	118,452	270,951
Accrued silvicultural costs (note 6)	**188,684**	201,584
Accrued road deactivation costs (note 7)	**95,337**	-
	402,473	472,535
Shareholder's equity		
Share capital (note 8)	**172,600**	172,600
Contributed surplus (note 9)	**49,770**	49,770
Retained earnings	**1,274,870**	2,292,444
	1,497,240	2,514,814
	$ 1,899,713	$ 2,987,349

Approved and authorized by the Board of Directors on April 6, 2020, signed on behalf of the Board:

Approved on behalf of the Board:

G Craig ______ Director   ______ Director

Sechelt Community Projects Inc.
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Consolidated Statements of Cash Flows

For the years ended December 31,	2019	2018
Cash provided by (used for)		
Operating activities		
Net income (loss)	**$ (391,684)**	$ 1,224,663
Item not affecting cash		
Amortization	**495**	620
	(391,189)	1,225,283
Change in non-cash working capital items		
Accounts receivable	**5,286**	(5,286)
GST recoverable	**1,120**	2,691
Prepaid operational costs	**(158,675)**	41,611
Due from broker	**4,800**	2,183
Accounts payable and accrued liabilities	**(63,947)**	(3,946)
Accrued silvicultural costs	**(6,115)**	(58,754)
Accrued road deactivation costs	**-**	6,035
	(608,720)	1,209,817
Financing activity		
Dividends paid	**(625,890)**	(775,890)
Increase (decrease) in cash	**(1,234,610)**	433,927
Cash, beginning of year	**2,885,320**	2,451,393
Cash, end of year	**$ 1,650,710**	$ 2,885,320
Supplemental cash flow information		
The Group had the following cash transactions:		
Interest received	**$ 29,146**	$ 31,450

1. Nature of operations

Sechelt Community Projects Inc. (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 Community Forest Agreement (K3F) dated May 30, 2011.

The address of the Company's corporate office and principal place of business is Unit C, 5588 Inlet Avenue, Sechelt, British Columbia, V0N 3A0.

The sole shareholder of the Company is the District of Sechelt.

2. Basis of preparation

a) Statement of compliance

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

b) Basis of measurement

The consolidated financial statements have been prepared on a historical cost basis, except for financial instruments measured at fair value.

The preparation of financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. The areas involving a higher degree of judgment of complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3(k).

3. Subsequent event

Subsequent to year end, there was a global outbreak of a novel coronavirus identified as “COVID-19”. On March 11, 2020, the World Health Organization declared a global pandemic. In order to combat the spread of COVID-19 governments worldwide have enacted emergency measures including travel bans, legally enforced or self-imposed quarantine periods, social distancing and business and organization closures. These measures have caused material disruptions to businesses, governments and other organizations resulting in an economic slowdown and increased volatility in national and global equity and commodity markets.

Central banks and governments, including Canadian federal and provincial governments, have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions. The duration and impact of the COVID-19 outbreak is unknown at this time, as is the efficacy of any interventions. It is not possible to reliably estimate the length and severity of these developments and the impact on the financial results and condition of the Group and its operations in future periods.

4. Significant accounting policies

These consolidated financial statements are prepared in accordance with International Financial Reporting Standards. The significant accounting policies are detailed as follows:

(a) Principles of consolidation

These consolidated financial statements contained herein include the accounts of the Company as well as its wholly-owned subsidiary Sunshine Coast Community Forest Ltd. which has a year end of December 31, 2019 and was incorporated on February 4, 2010, and has been inactive to date. All inter-company transactions and balances have been eliminated.

(b) 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).

(c) Property and equipment

Recognition and Measurement

On initial recognition, property and equipment are valued at cost, being the purchase price and directly attributable costs of acquisition of the asset. Property and equipment is subsequently recorded at cost plus any costs of betterment less accumulated amortization. When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

Subsequent costs

The cost of replacing part of an item of property and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably. The carrying amount of the replaced part is derecognized and the corresponding loss is recognized in the Company's income or loss for the year. The costs of the day-to-day servicing of property and equipment are recognized in income or loss as incurred.

Gains and losses

Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount, and are recognized in income or loss.

4. Significant accounting policies (continued)

(c) Property and equipment (continued)

Roads	25 years Straight-line
Furniture and fixtures	20% Declining balance

The estimated useful lives of assets are reviewed by management and adjusted if necessary.

(d) Impairment of non-financial assets

Non-financial assets are subject to impairment tests at least annually and whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. When the carrying value of an asset exceeds its recoverable amount, which is the higher of value in use and fair value less costs to sell, the asset is written down accordingly.

When it is not possible to estimate the recoverable amount of an asset, the impairment test is carried out on the asset's cash-generating unit, which is the lowest group of assets in which the asset belongs for which there are separately identifiable cash inflows that are largely independent of the cash inflows from other assets. The Company has one cash-generating unit for which impairment testing is performed.

An impairment loss is charged to the income or loss, except to the extent that they reverse gains previously recognized in other comprehensive income or loss.

(e) Provisions

Accrued future silvicultural costs

The Company is subject to requirements relating to the reforestation under its timber forest license and recognizes a provision when timber is harvested. The estimated provision is based on the expected future cash flows discounted at the risk-free rate. Upon harvesting the timber the related silvicultural costs are recorded as a liability with the related expenses being recorded in cost of sales - silviculture.

In periods subsequent to the initial measurement, changes in the liability resulting from revisions to estimated future costs are recognized in cost of sales - silvicultural as they occur. The unwinding of the discount associated with the provision to reflect the passage of time is recognized in profit or loss for the period. All subsequent expenditures relating to the reforestation of these cut blocks are recorded against the related liability.

4. Significant accounting policies (continued)

(e) Provisions (continued)

Road deactivation costs

The Company is subject to requirements to deactivate logging roads once they are no longer in use. The Company accrues the related deactivation costs at the time the road is completed and available for use. Upon completion of the logging roads the estimated deactivation costs are recorded as a liability with the related expense being recorded in cost of sales - logging. All subsequent expenditures are recorded against the related liability.

The Company has not used a discount rate to calculate the net present value of these liabilities as they are current.

The related liabilities are adjusted for subsequent changes in estimates.

(f) Income taxes

As a municipal corporation, the Company is exempt from tax under Section 149 of Division H of the Income Tax Act. Income taxes are recorded using the asset-liability method in the Company's wholly owned subsidiary SCCF Consulting Services Ltd. and are accordingly reflected in the Company's consolidated financial statements.

(g) Revenue recognition

The Company recognizes revenue from contracts with customers when a customer obtains control of the goods or services, and the Company satisfies its performance obligation to customers in exchange for consideration the Company expects to receive, net of discounts and taxes.

Revenue includes the sale of raw logs and provision of logging related services. Revenue from the sale of raw logs is measured net of brokerage fees and recognized upon transfer of significant risks and reward of ownership, provided collectability is reasonably assured. Revenues from the provision of logging related services are accounted for under the percentage of completion method. The degree of completion is determined on the basis of costs incurred to date compared with the total expected costs for the entire contract. Losses on the contracts are accounted for as soon as they can be determined. Interest income is recognized when earned and accrued if payment has not yet been received by the Company.

Consulting fees are recognized as revenue when services have been substantially provided and collectability is reasonably assured.

4. Significant accounting policies (continued)

(h) Share capital

Financial instruments issued by the Company are classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset. The Company's common shares are classified as equity instruments. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

Earnings (loss) per share

Basic earnings per share is computed by dividing the net income or loss applicable to common shares of the Company by the weighted average number of common shares outstanding for the relevant period.

(i) Critical accounting estimates and judgments

The Company makes estimates and assumptions about the future that affect the reported amounts of assets and liabilities. Estimates and judgment are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions.

The effect of a change in accounting estimate is recognized prospectively by including it in profit or loss in the period of change, if the change affects that period only, or in the period of the change and future periods, if the change affects both.

Information about critical accounting estimates in applying accounting policies that have the most significant risk of causing material adjustment to the carrying amounts of assets and liabilities recognized in the consolidated financial statements within the next financial year are discussed below:

Expected timber volumes from certain cut blocks

Expected timber volumes from certain cut blocks are determined initially by third party engineers who assess the expected timber supply in each cut block. The associated engineering and road building costs for each block are recorded as inventory and expensed as these cut blocks are logged with reference to the expected volumes. These estimates are reviewed and updated annually by management with any changes being applied prospectively. The estimated volume from cut blocks may differ from the actual timber volume.

4. Significant accounting policies (continued)

(i) Critical accounting estimates and judgments (continued)

Accrued future silvicultural costs

The Company accrues the discounted 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 the Company's operational plans, past experience, and independent expert analysis. The assessment is based on the location and terrain of the specific cut blocks and may differ from the actual costs associated with reforestation of the cut blocks. The cash flow timing, discount rate, and inflation rate are also estimates determined by management.

Road deactivation costs

Road deactivation costs are based on managements estimates of such costs based on the standard cost per meter of road. These estimates are based on historical data and past experiences with the costs associated with the deactivation of the roads and consist mainly of subcontractor costs. These costs are accrued at the time of completion of the service roads. Subsequent to the recording of the deactivation costs all related expenditures are removed from the liability as incurred.

(j) Financial instruments

Classification

Financial assets are classified at initial recognition as one of the following: at amortized cost, fair value through profit or loss (“FVTPL”), or fair value through other comprehensive income ("FVTOCI"). The classification depends on the Company’s business model for managing the financial assets and the contractual cash flow characteristics. For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income ("OCI").

Fair value through profit or loss (“FVTPL”) – Financial assets carried at FVTPL are initially recorded at fair value and transaction costs are expensed in the income statement. Realized and unrealized gains and losses arising from changes in the fair value of the financial asset held at FVTPL are included in the income statement in the period in which they arise. Derivatives are also categorized as FVTPL unless they are designated as hedges.

Fair value through other comprehensive income (“FVTOCI”) - Investments in equity instruments at FVTOCI are initially recognized at fair value plus transaction costs. Subsequently, they are measured at fair value, with gains and losses arising from changes in fair value recognized in other comprehensive income. There is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment.

4. Significant accounting policies (continued)

(j) Financial instruments (continued)

Financial assets at amortized cost - A financial asset is measured at amortized cost if the objective of the business model is to hold the financial asset for the collection of contractual cash flows, and the asset's contractual cash flows are comprised solely of payments of principal and interest. They are classified as current assets or non-current assets based on their maturity date and are initially recognized at fair value and subsequently carried at amortized cost less any impairment.

The Company has classified cash, accounts receivable and due from broker as financial assets at amortized cost.

Financial liabilities are measured at amortized cost, unless they are required to be measured at FVTPL or the Company has opted to measure at FVTPL.

The Company has classified accounts payable and accrued liabilities and dividends payable as financial liabilities at amortized cost.

Accounts payables and accrued liabilities represent liabilities for goods and services provided to the Company prior to the end of the period which are unpaid. Accounts payable and accrued liabilities amounts are unsecured and are usually paid within 30 days of recognition.

Dividends payable represent distributions of the Company's retained earnings to the shareholder. These payments have been declared payable on December 31, 2019 and will be distributed to the shareholder subsequent to year end.

Measurement
Financial assets and liabilities at FVTPL are initially recognized at fair value and transaction costs are expensed in profit or loss. Realized and unrealized gains and losses arising from changes in the fair value of the financial assets or liabilities held at FVTPL are included in profit or loss in the period in which they arise. Where the Company has opted to designate a financial liability at FVTPL, any changes associated with the Company's credit risk will be recognized in OCI.

Financial assets and liabilities at amortized cost are initially recognized at fair value, and subsequently carried at amortized cost less any impairment.

Impairment
The Company assesses on a forward-looking basis the expected credit loss ("ECL") associated with financial assets measured at amortized cost, contract assets and debt instruments carried at FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account against receivables. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

4. Significant accounting policies (continued)

(k) Adoption of new accounting standard

IFRS 16 Leases

Effective January 1, 2019, the Company adopted IFRS 16 using the modified retrospective approach and accordingly the information presented for the year ended December 31, 2018 has not been restated. The cumulative effect of the initial application, if any, is recognized in retained earnings at January 1, 2019.

Definition of a lease

At inception of a contract, the Company assesses whether a contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Company has elected to apply the practical expedient to account for leases for which the lease term ends within 12 months of the date of initial application and leases of low value assets as short-term leases. The lease payments associated with these leases are recognized as expenses on a straight-line basis over the lease term.

The adoption of IFRS 16 had no significant impact on the consolidated financial statements.

5. 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.

6. Accrued silvicultural costs

The Company accrues silvicultural costs based on the volume of production measured in cubic metres. During the year the Company accrued costs of $24,765 (2018 - $946) and spent $30,880 (2018 - $59,700) on the related activities. As logging operations did not proceed in 2019, the silviculture accrual rate remained consistent at $3.75/m3 (2018 - $3.75/m3). The difference in the total outstanding silviculture liability was reflected as a reduction to the additional accrual recognized during the year.

The silviculture expenditures are expected to occur over the next eight years and have been discounted at an average risk free rate of 1.55% (2018 - 1.86%). The total undiscounted amount of the estimated future expenditures required to settle the silviculture obligation approximates the carry value.

7. Accrued road deactivation costs

The Company accrues road deactivation costs at the completion of the construction of the logging road based on estimated costs to restore the roads and vegetation. During the year, the Company accrued costs of $nil (2018 - $9,661) and spent $nil (2018 - $3,626) on the related activities.

Management has indicated that no road deactivation will occur in 2020. As a result, the road deactivation accrual is shown as long-term.

8. Share capital

Authorized

Unlimited common shares with no par value

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. 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 recorded at fair value on the Consolidated Statements of Financial Position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1: valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: valuation techniques based on inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e derived from prices); and

Level 3: valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

10. Financial instruments fair value and risk management (continued)

Credit risk

Credit risk is the risk of loss associated with counterparty's inability to fulfil its payment obligations. Financial instruments that potentially subject the Company to a concentration of credit risk consist primarily of cash. 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 a British Columbia Credit Union. The Company's maximum exposure to credit risk for cash is the amount disclosed in the consolidated statement of financial position.

Management believes that the credit risk concentration with respect to financial instruments included in cash 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 December 31, 2019, the Company had a cash balance of $1,650,710 (2018 - $2,885,320) to settle current liabilities of $118,452 (2018 - $270,951). 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.

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, 2019 and 2018 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.

(Expressed in Canadian dollars)

10. Financial instruments fair value and risk management (continued)

iii) Interest rate risk

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

11. Capital disclosures

The Company considers the net and unencumbered financial assets held to be capital for the purposes of this section. Capital is calculated by adding cash, accounts receivable, due from broker and GST recoverable then deducting total current liabilities.

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, 2019, the Company's capital was $1,535,765 (2018 - $2,629,082).

There were no changes in the Company’s approach to capital management during the year ended December 31, 2019. The Company was not subject to externally imposed covenants.

12. Related party transactions

The consolidated financial statements include the financial statements of the Company and the subsidiaries and their respective ownership listed in the following table:

Sunshine Coast Community Forest Ltd	100%

During the year the Company declared dividends of $625,890 (2018 - $775,890) of which $25,890 (2018 - $25,890) was payable at the year end. This amount was unsecrued, non-interest bearing and had no fixed terms of repayment.

Key management compensation

During the year, the Company paid honorariums totaling $10,459 (2018 - $9,092) to the president.