

**HFN FORESTRY LIMITED PARTNERSHIP**

Financial Statements

Year ended March 31, 2012

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*(Unaudited - see Notice to Reader)*

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*Presley & Partners*

## NOTICE TO READER

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On the basis of information provided by management, we have compiled the statement of financial position of HFN Forestry Limited Partnership as at March 31, 2012 and the statements of financial performance, changes in partners' equity and cash flows for the year then ended. We have not performed an audit or a review engagement in respect of these financial statements and, accordingly, we express no assurance thereon. Readers are cautioned that these statements may not be appropriate for their purposes.

PRESLEY & PARTNERS  
Chartered Accountants

Courtenay, B.C.

October 10, 2012

**HFN FORESTRY LIMITED PARTNERSHIP**

## STATEMENT OF FINANCIAL POSITION

MARCH 31, 2012

(Unaudited - see Notice to Reader)

	<b>ASSETS</b>	<b>2012</b>	<b>2011</b>
<b>CURRENT ASSETS</b>			
Accounts receivable		\$ 52,557	\$ 367,525
Sales tax receivable		36,716	-
Inventory		13,071	372,573
Deposits		73,865	73,865
Prepaid logging costs		149,307	288,820
		325,516	1,102,783
<b>DUE FROM HUU-AY-AHT FIRST NATIONS</b>		-	107,837
<b>PROPERTY AND EQUIPMENT (Note 4)</b>		517,560	638,804
		\$ 843,076	\$ 1,849,424
	<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>			
Bank indebtedness		\$ 9,675	\$ 553,333
Revolving demand loan (Note 5)		100,000	500,000
Accounts payable and accrued liabilities		191,557	495,460
Sales tax payable		-	5,268
Wages payable		21,088	31,036
Reforestation obligation		217,419	54,570
		539,739	1,639,667
	<b>PARTNERS' EQUITY</b>		
<b>PARTNERS' EQUITY</b>		303,337	209,757
		\$ 843,076	\$ 1,849,424

Approved by the Partners

\_\_\_\_\_  
Partner\_\_\_\_\_  
Partner

**HFN FORESTRY LIMITED PARTNERSHIP**  
**STATEMENT OF CHANGES IN PARTNERS' EQUITY**  
**YEAR ENDED MARCH 31, 2012**  
(Unaudited - see Notice to Reader)

	<i>HFN</i>	<i>568157</i>	<i>2012</i>	<i>2011</i>
	<i>Development</i>	<i>B.C. Ltd.</i>	<i>Total</i>	<i>Total</i>
	<i>Corporation</i>			
PARTNERS' EQUITY AT BEGINNING OF YEAR	\$ 206,992	\$ 2,765	\$ 209,757	\$ 1,704,011
Loss for the year	(26,098)	(26)	(26,124)	(1,266,129)
	180,894	2,739	183,633	437,882
Capital contributed	300,000	-	300,000	-
Drawings	(180,296)	-	(180,296)	(228,125)
<b>PARTNERS' EQUITY AT END OF YEAR</b>	<b>\$ 300,598</b>	<b>\$ 2,739</b>	<b>\$ 303,337</b>	<b>\$ 209,757</b>

**HFN FORESTRY LIMITED PARTNERSHIP****STATEMENT OF FINANCIAL PERFORMANCE**

YEAR ENDED MARCH 31, 2012

(Unaudited - see Notice to Reader)

	2012	2011
REVENUE		
Log sales	\$ 6,709,488	\$ 5,601,107
Shake and shingle sales	707,368	848,899
Spencer sort revenue	89,917	201,512
Other revenue	12,941	31,166
Investment income	316	229
	7,520,030	6,682,913
<b>COST OF SALES - Schedule</b>	<b>6,601,382</b>	<b>6,895,660</b>
<b>GROSS PROFIT (LOSS)</b>	<b>918,648</b>	<b>(212,747)</b>
EXPENSES		
Accounting and audit	25,353	42,163
Amortization	121,244	133,945
Consulting fees	103,570	149,403
Fuel	67,207	67,479
Insurance	20,974	8,287
Licences and dues	51,769	17,983
Legal	3,935	102
Office	41,019	45,060
Rent	-	20,866
Repairs and maintenance	4,078	3,000
Supplies	7,549	11,345
Telephone	7,980	13,401
Utilities	850	2,077
Vehicle operating	43,474	42,401
Wages and employee benefits	445,770	495,870
	944,772	1,053,382
<b>LOSS FOR THE YEAR</b>	<b>\$ 26,124</b>	<b>\$ 1,266,129</b>

**HFN FORESTRY LIMITED PARTNERSHIP**

## STATEMENT OF CASH FLOWS

YEAR ENDED MARCH 31, 2012

(Unaudited - see Notice to Reader)

	2012	2011
CASH FLOWS FROM		
OPERATING ACTIVITIES		
Cash receipts from customers	\$ 7,835,268	\$ 6,944,161
Cash payments to suppliers	(6,125,625)	(6,061,430)
Cash paid to employees	(981,988)	(998,850)
Interest paid	(11,538)	(20,982)
	<hr/>	<hr/>
	716,117	(137,101)
FINANCING ACTIVITIES		
Line of credit advances (payments)	(400,000)	55,000
Advances from HUU-AY-AHT First Nations	107,837	6,447
Contributed by HUU-AY-AHT Development Corporation	300,000	-
Partner drawings	(180,296)	(228,126)
	<hr/>	<hr/>
	(172,459)	(166,679)
INCREASE (DECREASE) IN BANK INDEBTENESS	543,658	(303,780)
BANK INDEBTEDNESS AT BEGINNING OF YEAR	(553,333)	(249,553)
	<hr/>	<hr/>
BANK INDEBTEDNESS AT END OF YEAR	\$ (9,675)	\$ (553,333)

# **HFN FORESTRY LIMITED PARTNERSHIP**

## **NOTES TO FINANCIAL STATEMENTS**

**YEAR ENDED MARCH 31, 2012**

**(Unaudited - see Notice to Reader)**

### **1. NATURE OF BUSINESS**

The partnership's operation consists of management, harvesting and sale of timber products.

### **2. OWNERSHIP AND INCOME ALLOCATION OF THE LIMITED PARTNERSHIP**

The partners of Huu-ay-aht First Nations Forestry Limited Partnership are the Huu-Ay-Aht Development Corporation and 568157 B.C. Ltd.

### **3. SIGNIFICANT ACCOUNTING POLICIES**

#### *a) Inclusions*

The financial statements include only the assets, liabilities, revenues and expenses of the partnership. Provision has not been made in these financial statements for remuneration of the partners nor interest on the partners' capital invested.

#### *b) Use of Estimates*

The preparation of the financial statements in conformity with Canadian generally accepted accounting standards for private enterprises requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the current period. These estimates are reviewed periodically and adjustments are made to income as appropriate in the year they become known.

#### *c) Valuation of Inventory and Prepaid Logging Costs*

Felled timber is considered inventory with costs consisting of engineering, road building and falling.

Prepaid logging costs consist of engineering and road building incurred on properties that have not yet been logged.

Inventory is valued at the lower of cost and net realizable value.

#### *d) Property and Equipment*

Property and equipment are recorded at cost less accumulated amortization. Amortization is calculated on the straight line basis at the annual rates indicated in Note 4, except in the year of acquisition when one-half the normal rate is used.

*..... continued*

# HFN FORESTRY LIMITED PARTNERSHIP

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED MARCH 31, 2012

(Unaudited - see Notice to Reader)

### 3. *SIGNIFICANT ACCOUNTING POLICIES, continued*

#### e) *Long-lived Assets*

Long-lived assets consist of all non-current assets. Long-lived assets for use are measured and amortized as described in the applicable accounting policies.

The partnership performs testing on long-lived assets held for use, other than goodwill and intangible assets, whenever events or changes in circumstances indicate that the carrying value of an asset, or group of assets, may not be recoverable. Impairment losses are recognized when undiscounted future cash flows from its use and disposal are less than the assets' carrying amount. Impairment is measured as the amount by which the assets' carrying value exceeds its fair value. Any impairment is included in earnings for the period.

#### f) *Financial Instruments*

All significant assets, financial liabilities and equity instruments of the partnership are either recognized or disclosed in the financial statements together with other information relevant for making a reasonable assessment of future cash flows and interest rate, credit or currency risk.

#### g) *Revenue Recognition*

The partnership recognizes revenue upon shipment when the significant risks and rewards of ownership are transferred to the customer. Title of the products is typically transferred to the customer at the time of shipment and payment is based on agreed prices and credit terms contained on sales invoices. Customers have no contractual right of return, except in the event of a quality issue.

Revenue from log sort services is recognized as the services are rendered based upon agreed rates.

### 4. *PROPERTY AND EQUIPMENT*

			<i>2012</i>		<i>2011</i>
	<i>Years</i>	<i>Cost</i>	<i>Accumulated Amortization</i>	<i>Net</i>	<i>Net</i>
Boats and rafts	7	\$ 76,400	\$ 63,085	\$ 13,315	\$ 24,229
Computer equipment	3	7,949	7,949	-	-
Equipment	3	66,037	66,037	-	1,830
Forestry and logging equipment	5	123,150	80,048	43,102	55,417
Sort and boom equipment	20	205,000	73,665	131,335	142,668
Vehicles	10	848,516	518,708	329,808	414,660
		\$ 1,327,052	\$ 809,492	\$ 517,560	\$ 638,804

### 5. *REVOLVING DEMAND LOAN*

The partnership has an approved line of credit in the amount of \$500,000. It bears interest at bank prime plus .5% and is secured by a guarantee and postponement of claim by the Huu-ay-aht First Nations, 568157 B.C. Ltd. and 568159 B.C. Ltd. in the amount of \$1,000,000 each.



# **HFN FORESTRY LIMITED PARTNERSHIP**

## **NOTES TO FINANCIAL STATEMENTS**

**YEAR ENDED MARCH 31, 2012**

**(Unaudited - see Notice to Reader)**

### **6. RELATED PARTY TRANSACTIONS**

The company used space at the offices of the Huu-ay-aht First Nations for part of the year for no monetary consideration (2011 - \$20,866).

### **7. FINANCIAL INSTRUMENTS**

The partnership, as part of its operations, carries a number of financial instruments. It is management's opinion that the partnership is not exposed to significant interest, credit or currency risks arising from these financial instruments except as otherwise disclosed.

#### *Interest Rate Risk*

The partnership is exposed to interest rate risk arising from fluctuations in interest rates on its deposits and short-term obligations.

#### *Credit Risk*

Credit risk is the risk that the partnership will incur losses based on credit that it has granted to other parties. The total amount of this exposure is the balance in accounts receivable, which consists of current invoices and as such the risk is reduced to a minimum.

### **8. ECONOMIC DEPENDENCE**

The partnership is economically dependent on the financial support of the Huu-ay-aht First Nations.

### **9. COMPARATIVE FIGURES**

Certain of the 2011 comparative figures have been reclassified to conform with the presentation adopted for 2012.

### **10. ENVIRONMENTAL MATTERS**

The partnership is subject to various laws, regulations and government policies relating to health and safety, to the generation, storage, transportation, disposal and environment emissions of various substances, and to the protection of the environment in general. A risk of environmental liability is inherent in the operations; real estate ownership, operation or control; and other commercial activities of the partnership with respect to both current and past operations. Although the effect on operating results and liquidity cannot be reasonably estimated, management believes, based on current information, that future costs for environmental matters have been adequately accrued and reflected in these financial statements.

Management accrues estimate of future reforestation costs which is included in its liabilities.

**HFN FORESTRY LIMITED PARTNERSHIP****Schedule****SCHEDULE OF COST OF SALES****YEAR ENDED MARCH 31, 2012****(Unaudited - see Notice to Reader)**

	<i>2012</i>	<i>2011</i>
Consulting and engineering	\$ 232,282	\$ 247,946
Contractor fees	2,658,020	2,300,247
Freight	586,782	476,831
Logging road costs	537,471	755,122
Miscellaneous (recovered)	3,730	(4,602)
Reforestation	294,526	97,795
Shake and shingle	802,379	800,784
Shop supplies and small tools	1,034	344
Spencer Sort costs	1,182,931	1,135,780
Stumpage costs	302,227	1,085,413
	<b>\$ 6,601,382</b>	<b>\$ 6,895,660</b>