

ANNUAL REPORT

2007-2008



ComFor
Management Services Ltd.

P.O. BOX 788, BURNS LAKE, BC V0J 1E0
TEL: (250) 692-7724 FAX: (250) 692-7767

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ON THE COVER Small lake on Guyishton Trail



The Corporation of
The Village of Burns Lake

Gateway to Tweedsmuir Park
Box 570, Burns Lake, B.C. V0J 1E0
Phone: (250) 692-7587
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OFFICE OF THE
MAYOR

June 23, 2008

To All Residents of the Lakes District:

COMFOR MANAGEMENT SERVICES LTD. 2007-2008 ANNUAL REPORT

Attached you will find the annual report of Comfor Management Services Ltd. for 2007-2008. Comfor Management Services Ltd. provides professional management and administrative services to Burns Lake Community Forest Ltd., Lakes Communications Inc., two Milling Operations - Sheraton Holdings Ltd. and Endako River Timber Ltd. - and Whistle Lake Woodlot.

The audited Consolidated Financial Statements for Comfor Management Services Ltd. as at May 31, 2007 have been included.

The Comfor Group of companies has met with success during 2007-2008 in the areas of local management of resources, local employment, providing economic opportunities for First Nations, involvement in forestry training and education, support of outdoor recreation opportunities, and creating revenue to sustain and support the community.

Comfor Management Services Ltd. has partnered with the Village of Burns Lake during the spring and summer of 2008 to carry out a Community Consultation Review. The year 2008 marks the tenth anniversary of the establishment of Burns Lake Community Forest Ltd. - an appropriate time to review the goals and objectives of the company in relation to how the community - the stakeholders - feels the direction of the company should take.

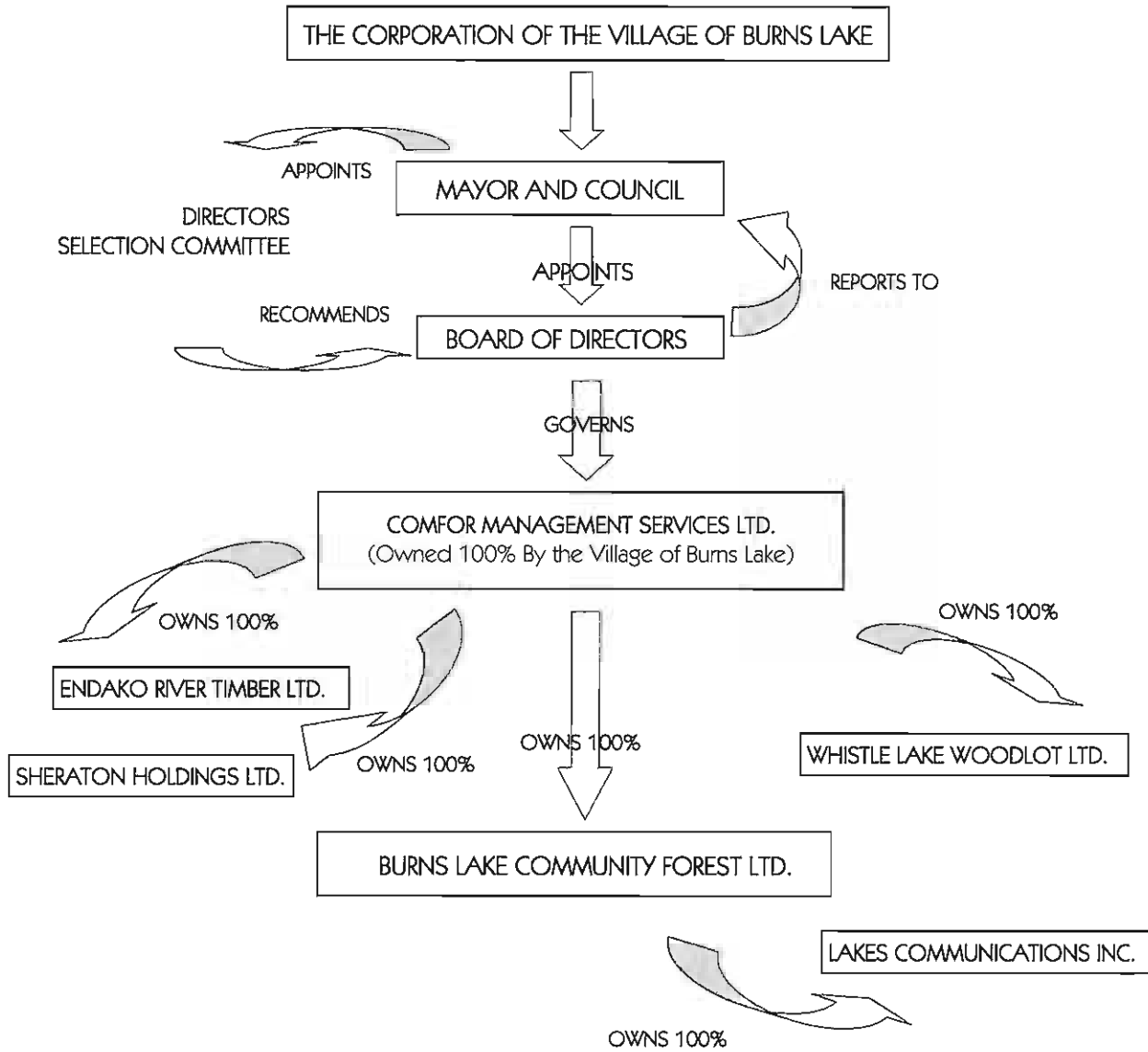
Comfor Management Services Ltd. and its related companies continue to be a tremendous asset to our area and something of which we can all be proud. Comfor Management Services Ltd. continues to explore ways of diversifying its holdings in light of the impact of the mountain pine beetle epidemic. It is my sincere hope that the company will continue to build on its outstanding record of success in the years to come.

Sincerely,

A handwritten signature in black ink, appearing to read 'Bernice Magee'. The signature is fluid and cursive, with a large initial 'B'.

Bernice Magee
Mayor

CORPORATE STRUCTURE OF COMFOR MANAGEMENT SERVICES LTD.



A condition of the Long-Term Community Forest Agreement 'K1A' is to manage for the purpose of;

- 1) making improvements to the land base, and;
- 2) generating benefits for all residents of the Lakes Timber Supply Area.

ComFor Management Services Ltd. manages all the assets separately in order to protect the taxpaying residents of Burns Lake from the legal and financial risks associated with business.

GENERAL MANAGER'S REPORT

This is my first year as General Manager of the Comfor Group of Companies. It feels good to be the General Manager of the most successful community forest organization in the province. Everyone in the Lakes District can share my pride, because this is truly their community forest organization.

We are currently providing direct employment to 33 team members, and have a annual payroll of \$1,500,000. Our contractors employ an additional 65 to 100 people (depending on the time of year), and contributed an additional \$11,500,000 to the local economy in 2007. We estimate that approximately 100 households in the Lakes District derive their incomes directly from the Comfor Group.

Our corporate group's annual expenditures total more than \$30 million, the majority of which (95 per cent) are spent in the Lakes District.

This year, in partnership with the Corporation of the Village of Burns Lake, our company undertook an extensive community consultation process to gather feedback on our operations. This community consultation process is almost complete, and we are all looking forward to the resulting conclusions and recommendations. The information gathered as part of this exercise will help chart the future for our community forest.

It is my wish that our future goals will include sustaining or increasing our current level of activity. With the end in site for the harvest of beetle-damaged sawlogs, sustaining current employment levels will require either diversification into totally different fields or the utilization of beetle wood in a different manner.

To put this statement in context, two years ago our companies' gross revenue was more than \$25 million. Our revenue forecast for next year, however, is less than \$15 million for Burns Lake Community Forest Ltd.

At present, our corporate group's primary area of expertise is forestry. With traditional forestry activity expected to decline in the years ahead, we need to look for diversification opportunities in this area. Our talent pool and our contacts give us advantages.

The BC Hydro bioenergy proposals, if approved, will help sustain this area's current contractor base. We are hopeful that the three plants proposed for this area will be given the green light to proceed.

Other initiatives we are pursuing include trying to develop non-traditional dowel products. If this project proceeds, it will allow us to harvest and process millions of cubic meters of beetle-killed undersize pine that current exist on our community forest land base.

Other diversification initiatives include expansion of LakesCom's ADSL service to community members who cannot access traditional internet services. This initiative is providing four full-time positions at present, and has the potential to expand our service base. Our mini tower project could add another 90 customers over the next six months, increasing LakesCom's customer base to more than 280.

We remain open to new businesses opportunities in all sectors of the economy. Please feel free to approach our company with business proposals.

Given the many challenges facing our corporate group and community, I am looking forward to another interesting year. If we are successful in our bid to obtain an Energy Purchase Contract, we will be busy

providing sufficient fiber to fuel the required plant. If our bioenergy application is not successful, we will pursue alternative uses for rapidly degrading fiber supply.

Our proposed dowel operation will complement our forestry operations. We will continue to investigate other potential uses for small diameter wood.

Thank you for your assistance, advice, and support during the past year. I appreciate the input I receive from you, and look forward to serving another year as Comfor's General Manager.

W B Huxham CA

COMPANY REPORTS

COMFOR MANAGEMENT SERVICES LTD. **YEAR IN REVIEW:**

June 2007:

- Negotiations commenced to acquire the 25% interest in Endako River Timber Ltd. owned by Argyle Millworks Ltd.
- Finalized 2007/2008 log sale contracts with Hampton, Canfor and West Fraser.
- Very involved in the business of negotiating agreements to commence the BSW project.
- Undergoing a Phase I on the OK property with intentions to lease it to the College of New Caledonia.
- Received presentations from Tall Oil and West Coast Power to join with us to construct a pellet plant or a cogeneration facility in VBL.
- \$136,795.00 donated to various community organizations

July 2007:

- Funded our Silviculture Liability this month with investments of \$2,000,000 in RBC and \$2,000,000 in Phillip, Hager & North.
- Received approval for continued increase in allowable annual cut for mountain pine beetle and blowdown salvage.
- Board made the decision to hire a General Manager for all of the companies.
- Hugh Gordon retained with a mandate to look at our corporate structure and make recommendations. This request followed a letter from the Village expressing concern with the income taxes it is necessary for us to pay.
- Meetings with the Pioneer Log Homes and Compliance Energy Corporation Groups proposing partnerships on a cogeneration operation.
- Curtailed sawmill operations at Endako River Timber Ltd. until further notice.

August 2007:

- Retained Bill Huxham CA as General Manager with a contract term of August 1, 2007 to November 15, 2009.
- Ms. Carla Fox was hired as Corporate Controller.
- Broke the BSW project into three Phases - block sorting, finger joint construction and edge gluer. Agreed to fund Phase I.
- Received and agreed to a Letter of Intent with Pioneer Family Land Partnership to supply fiber to a yet to be constructed cogeneration facility in our area.

September 2007:

- Discussions commenced with Mr. Henry Wiebe to accept a managerial position for Endako River Timber Ltd.
- Maureen Luggi joined our board as the newest Director (WFN Representative)
- Draft proposal for BSW project reviewed and not agreed upon. Sent back to BLNDC for further revisions and discussions.
- Very successful campaign commenced to encourage our Provincial Government to get BC Hydro going on issuing a Bio Mass electricity producing proposal for our area.

October 2007:

- Board of Directors, Village of Burns Lake councilors, and Wet'suwet'en First Nation and Burns Lake Band elected officials met with Hugh Gordon CA.
- Notified that BSW was proceeding with the block sorting project without our involvement.

- Received instructions from the Board to commence negotiations on the acquisition of Sheraton Holdings Ltd.
- Forest Practice Board Audit of Burns Lake Community Forest

November 2007:

- Changed the name of the BSW committee to “Due Diligence Committee”
- Completed the purchase of Argyle Millworks Ltd. interest in Endako River Timber Ltd.

December 2007:

- Reviewed the Hugh Gordon report with board members and polled the board to see how they felt about this report.
- Donated \$30,000 to various community organizations.

January 2008:

- January 5, 2008 we held a joint meeting with the Village of Burns Lake Councilors.
- Hugh Gordon report released to the public.
- Updated Policy 2007-1 to accommodate correct wording and to outline a procedure for making future community contributions.
- Took ownership of Sheraton Holdings Ltd. January 31, 2008.
- Started the “Community Consultation Process” with the assistance of Village councilors and Directors.
- Attended the office of Honorable Rich Coleman with Bernice Magee, Alex Tett, and Betty Patrick to make representation for the award of a biomass harvest license.

February 2008:

- Freedom of Information request submitted to the Village of Burns Lake by Mr. Andy Burton and forwarded to our office.
- Community consultation process underway with Susan Schienbein and Michael Riis-Christianson leading the process.

March 2008:

- Application made to BC Transmission Corp. to undertake a feasibility study to see if we can be connected to the power grid that passes through the Village.
- Wrapped up 2007/2008 harvest season with about 440,000 m3 (8,800 loads) delivered.
- Negotiated new two-year log sale contract with Hampton Affiliates
- Completed the Spud Tower project which allows access to a significantly larger user base for Lakes Communications Inc.

April 2008:

- New Biomass License Application package prepared and submitted to John Rustad and Pat Bell for review.
- Andy Beesley conducted board member and staff training sessions
- The board approved \$74,312.00 donation to various community projects completing the allocations to requests for funding for the 2007-2008 year.

May 2008:

- Community Meeting of Burns Lake Energy Partnership at CNC to outline BC Hydro proposal.
- Community consultation process is wrapping up with two more consultations planned and then on to summary and recommendation stage.
- Finalized fuel plan for new Burns Lake Energy Partnership submission to BC Hydro.

BURNS LAKE COMMUNITY FOREST LTD.

Foreword

Burns Lake Community Forest Ltd. was formed in December 1998 as the governance model selected by the community to respond to the Request For Proposals issued by the Province of B.C. The community's reason for pursuing this license was to secure some form of management input into the working forest surrounding the village, and to gain some control over local forest resources for social and economic reasons.

The community forest license was signed July 7, 2000 with a initial Annual Allowable Cut (AAC) of 23,677 cubic meters (m³). The community forest has undergone several expansions since that time, and is currently 42,900 hectares, with a normal AAC of 62,631 cubic meters (m³). Burns Lake Community Forest Ltd. was awarded a 25 year term Long Term Community Forest Agreement in April of 2005—the first signed in the province. In 2005 the AAC of the community forest was increased to 300,000 cubic meters (m³) per year to facilitate beetle salvage.

Tree species include lodge pole pine, Engelmann white spruce crosses, and subalpine fir, as well as trembling aspen, cottonwood, and birch. Elevation in the community forest ranges from 700 to 1400 meters in the SBSdk, SBSmc2 and ESSFmc ecosystem classifications.

Wildlife includes moose, mule and white tail deer, black and grizzly bear, as well as many other fur-bearing animals. Guide-outfitters and trappers rely on the land base for their income. Bird species are diverse, and many use the riparian areas, streams, and lakes for habitat.

Outdoor recreational pursuits by local residents include skiing, snowmobiling, mountain biking, All-Terrain Vehicle (ATV) use, hunting, fishing, boating, and hiking.

The community forest is governed by a ten member board of directors, which includes representation from the Corporation of the Village of Burns Lake (one director), Burns Lake Band (one director), the Office of the Wet'suwet'en Hereditary Chiefs (one director), and the Wet'suwet'en First Nation (one director). Six directors are chosen from the community at large. The community forest also has a three member advisory board. The company's board continues to encourage participation from the local community. The board of director meetings are open to the public, encouraging local input into forest management decisions.

In keeping with the company's goal of maximizing local employment and economic benefits, all of its forest management, construction, and logging activities are preferentially contracted to residents of the Lakes TSA.

Background

In 1998, members of the Burns Lake Community Forest Steering Committee established the following Mission Statement & Emerging Strategy for your community owned forest corporation, Burns Lake Community Forest Ltd. (BLCF) (which later became a subsidiary company of Comfor Management Services Ltd.):

“Burns Lake Community Forest Ltd. will manage and operate its Community Forest license in a manner that will enhance the forest resource while respecting the principles of integrated use, environmental stewardship, and public consultation. The corporation’s activities will provide the following benefits to the community on a sustainable basis:

Local management of resources;

Local processing;

Local employment;

Forestry training & education;

Outdoor recreation activities;

A lasting relationship with the land that comprises the Community Forest; and

Revenue (to sustain the corporation and to support the community.”

These goals continue to guide the company’s activities and form the backbone of its corporate strategy.

Some of the ways in which Burns Lake Community Forest Ltd., worked toward these goals are shown in the remainder of this report.

Year in Review

Key Indicators

Indicator	YTD	Plan
Delivered Volume (m3)	443 966	719 000
Mill - designated Contractors	159 813	305 000
BLCF Contractors	284 153	414 000
Local Contractor %	100%	100%

Other Statistics

About 450 workers supported in our Community (direct employees, contractors, mill workers and more indirect impacts such as government and service sectors)

- ◆ 10 logging contractors employed
- ◆ 3 silviculture contractors employed
- ◆ 4 forestry contractors employed



- ◆ Wood provided to 11 manufacturing facilities, with the clear majority going to local facilities
- ◆ 87% beetle-killed lodgepole pine in our harvested volume
- ◆ 1,500,000 seedlings planted
- ◆ Over 300 bags of lodgepole pine cones collected (sufficient for about 4,800,000 seedlings)
- ◆ 2 clean audits (Forest Practices Board, Forest Investment Account)



Progress in Burns Lake Community Forest Board **Priority Areas for 2007/2008**

“Priority #1 – Licence and First Nations Partnerships”

1. We carried on all required activities under our license while maintaining a high level of performance with respect to safety, environmental stewardship, and legal requirements.
 2. We finished the clean-up of spruce blowdown in the Maxan Lake area.
 3. We employed a contract First Nations crew (from the Wet’suwet’en First Nation) for several projects during the year, and 25% of our staff are members of First Nations.
 4. We helped the Wet’suwet’en First Nation manage their forest license, woodlot and reserve lands.
- We pursued other license opportunities including non-replaceable forest license volume and a community biomass license.



“Priority #2 – Non-timber Forest Products”

1. We started a community consultation project regarding non-timber forest products.
2. We hosted a BC Community Forest Association conference on non-timber forest products, including a public session on opportunities for non-timber forest products development.

We partnered with Royal Roads University on a proposal to identify non-timber forest products opportunities on the Burns Lake Community Forest and the potential impacts of the mountain pine beetle. This project has been approved by the Forest Sciences Program and will be well underway in July.



“Priority #3 – Recreation Trails (Mountain Biking / Snowmobile)”

1. We provided in-kind and financial support to the development of the mountain bike park and trail system in the Boer Mountain area. Our commitments helped secure substantial additional funding for further works toward a world-class riding area. We carried out some work for the Snowmobile Club on their trail plans, and have encouraged them to finalize their plans and come back to us with a proposal on how we may work together.



OTHER

- ◆ We developed a preliminary biomass inventory and fuel plan in support of the Burns Lake Energy Partnership application for a 15 megawatt bioenergy plant.
- ◆ We cooperated with T-Mar Chipping and Pinnacle Pellet to test two different methods of recovery and use of roadside debris (chipping for pulp-grade chips and grinding for pellets).
- ◆ We participated in Project Forest Management for the 8th consecutive year.



FUTURE PLANS AND PRIORITIES

These are documented in our Strategic and Operating Plan for 2008/2009.

Alistair Schroff
General Manager

LAKES COMMUNICATIONS INC.



This year has been a building year for Lakes Communications Inc. We began the year with replacing all the old radio equipment with new Motorola Canopy Equipment. We updated access points and built a new tower on Spud Mountain. This was done to meet our commitment to improving the Wireless High-Speed internet service to our clients. We worked very hard to improve the service to our existing clients, which numbered 127 in June of 2007. As of the end of May 31, 2008 we have a total of 197 Clients receiving high-speed internet. This is an increase of more than 60%.



We are staffed with four people - a manager, two technicians, and one technician/administrative assistant. The staff at Lakes Communications Inc. has worked very hard to stabilize the network and to provide prompt and courteous service to our clients. We continue to seek ways to improve and expand the service in the Lakes District. We have expanded our service base to include IT Services.

Respectfully Submitted
Nancy Doll
Acting Manager



MILLING OPERATIONS

Sheraton Holdings Ltd. has completed its first short year under new ownership. We started the year with a good order file and a shortage of logs. By purchasing logs from Burns Lake Community Forest Ltd., we managed to get enough log volume in the yard to keep us operating through break-up (a first in many years).

Markets have fallen off a bit, but we have purchase orders for 85 per cent of our production for the next quarter. The profiled log home market that we were sawing for has come to a stand still. The oil field rig mating market has been slow for over a year, but has recently shown signs of a mild recovery.

Since the takeover in February, we have continued to research new markets. We are currently looking for a market for products from our smaller diameter logs. We are looking into the possibility of continuing with a dowel program that would include Landscape Ties, Fence Rails, and Posts. If the decision to continue in this market is made, construction of the dowel mill would start in late summer 2008.



Sheraton has entered into a supply agreement with NewPro for all its sawmill waste. With this agreement in place, Sheraton Holdings Ltd has a saleable product for everything that it produces.



Sheraton Holdings Ltd has eight full-time employees at present. If the dowel mill is constructed, this would bring our total number of employees to 13 (if we continue to run on one shift).

Endako River Timber Ltd. ceased operation in July 2007. Five of the company's long-time workers were retained as watchmen after the mill closed, and were employed in this capacity from July 2007 to approximately April 2008. Three of these employees have since been hired by Sheraton.

Endako River Timber's mill site along Babine Road is in the process of a major clean-up. Nearly all the wood waste residue (primarily sawdust) was removed from the site this spring. The majority of the lumber and all the logs have been sold. Forty per cent of the mill has been dismantled, and eight truck loads of equipment have been removed from the site.

The dismantling and clean-up will be an ongoing process for a while, but should be completed by spring of 2009.

Efforts are also underway to clean up the old Key-oh site east of Burns Lake (where ERTL operated for a short time). Pinnacle Pellet has agreed to chip all wood waste residues suited for use in its plant, and any remaining debris will be dealt with thereafter.

WHISTLE LAKE WOODLOT

A Woodlot License Plan was prepared for Woodlot 1527, for which approval is pending.

A small block (about 1 ha) was planted. This block had been harvested by the previous licensee and either the plantation had failed or the block was not fully planted in the first place.

We surveyed two blocks harvested by the previous licensee to confirm that they had been properly re-generated. Both blocks met regeneration requirements.

We finally burned debris piles from 2005, after clearing up the data submissions and waste and residue surveys for these salvage blocks.

Salvage blocks laid out in winter 2007 were timber cruised for submission as a new cutting permit for harvest later this year or in future years.



Woodlot 1527 is rich in cultural heritage resources and recreation features.





Burns Lake Community Forest Ltd.

153 FRANCOIS LAKE DRIVE P.O. BOX 788, BURNS LAKE, BC V0J 1E0
TEL: (250) 692-7724 FAX: (250) 692-7767 E-MAIL: info@blcomfor.com

MISSION STATEMENT

Burns Lake Community Forest Ltd. (BLCF) will manage and operate its Community Forest license in a manner that will enhance the forest resource while respecting the principles of integrated use, environmental stewardship, and public consultation. The corporation's activities will provide the following benefits to the community on a sustainable basis:

- Local management of resources;
- Local processing;
- Local employment;
- Forestry training & education;
- Outdoor recreation activities;
- A lasting relationship with the land that comprises the Community Forest; and
- Revenue (to sustain the corporation and to support the community.”

EMERGING STRATEGY

To fulfill Burns Lake Community Forest Ltd.'s vision of sustainability, the key management strategy is to provide a steady flow of revenues.

The company will contribute towards community sustainability by providing fibre to companies wishing to expand employment opportunities within the Lakes District. Additional wood suppliers are provided opportunities to purchase wood from the company's operations when it is available.

The company will endeavour to use safe, ecologically-based, and efficient forest practices to safeguard the environment while allowing the best use of timber resources.

The company will be aggressive in involving the public in its business through regular reports to the community and use of public information and consultation sessions like the annual general meeting. First Nations whose traditional territory encompasses the community forest are guaranteed a seat on the corporation's board, and will be involved in all aspects of resource development within the community forest. They will be actively encouraged to participate in the formulation of management plans and strategies that will further their goals in the target area while creating benefits for the community as a whole.

Contract work and purchases of goods and services will go up for public tender when possible, with preference given to local businesses.

The Burns Lake Community Forest Corporation will be a leader in planning, reviewing and protecting all the resource values of the Community Forest, and will give strong support for developing and training a local workforce for efficient and effective forest management. The company will also support research and development.

The Burns Lake Community Forest Corporation's general management will produce timely reports on company operations for release to local media and to the general public.

The company will improve upon the normal standards of public information and consultation which are required of forest tenure holders in the province.

Comfor Management Services Corporate Data (as of May 31, 2008)

Office Location: 153 Francois Lake Drive
P.O. Box 788
Burns Lake, BC V0J 1E0
Tel: (250) 692-7724 Fax: (250) 692-7767
e-mail: info@blcomfor.com

Staff: **Comfor Management Services Ltd.**
Bill Huxham, General Manager
Carla Fox, Financial Controller
Vera Nichols, Accounting Assistant
Carlie Bassett, Accounting Assistant
Michael Riis-Christianson, Administrative Assistant
Faith Turner, Office Assistant

Burns Lake Community Forest Ltd.
Alistair Schroff, General Manager
Dawn Stronstad, Planning Forester
Ross Hyam, Operations Forester
Ron Harrison, Lead Scaler
Sherille Brewer, Scaling Assistant
Mike Werrell, Forestry Assistant
Gilbert George, Forestry Assistant (part time)
Jeff Ragsdale, GIS Analyst
Kerry Martin, Harvesting Supervisor
Rick Martin, Road Construction Supervisor
Dave Dyck, Equipment Operator
Fred Saul, Equipment Operator
Joe Fehr, Millwright/Mechanic/Truck Driver
Dan Payne, Road Crew
Reg Ogen, Forestry Crew Supervisor
Josh Auger, Forestry Crewperson
John Williams, Forestry Crewperson
Carey Isaac, Forestry Crewperson

Lakes Communications Inc.
Amanda Wamstecker, Manager
Nancy Doll, Interim Manager
Steve Derksen, Technician
Peter Luo, Technician

Milling Operations (Sheraton Holdings Ltd./Endako River Timber Ltd.)
Henry Wiebe, Manager
Karl Garrett, Maintenance Superintendent

Auditor: Curtis Billey, McAlpine & Company

Bank: Royal Bank of Canada, Burns Lake Branch

Board of Directors: Bill Chapman (President)
Herb Neville (Vice-president)
Gordon McFee (Secretary)

(Directors)
Jeff Brown Murray La Brash
Maureen Luggi Bernice Magee
Thomas Pfister Wes Sam
Garth Schienbein

Advisory Committee: Tan Calhoun, RPF Cliff Manning
Rosanne Murray Steve Reid

COMFOR MANAGEMENT SERVICES LTD.
Consolidated Financial Statements
As at May 31, 2007

McAlpine
& Co. ^{CPA}
CHARTERED ACCOUNTANTS



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Toll Free: 1-800-311-3356
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Jim Riding, C.A.
Curis Bille, B.Comm, C.A.
Rory Reinbolt, C.A.
Michael Johnson, C.A.
(A partnership of incorporated professionals)

Web page: <http://www.mcalpine.ca/net>
E-mail: info@mcalpine.ca/net

AUDITORS' REPORT

To the Directors of Comfor Management Services Ltd.

We have audited the consolidated balance sheet of Comfor Management Services Ltd. as at May 31, 2007 and the consolidated statements of income, retained earnings and cash flow for the period then ended. These consolidated financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation.

Because we were appointed auditor of the company during the current year, we were not able to observe the counting of physical inventories at the beginning of the year nor satisfy ourselves concerning those inventory quantities by alternative means. Since opening inventories enter into the determination of the results of operations and cash flows, we were unable to determine whether adjustments to cost of sales, income taxes, net income for the year, opening retained earnings and cash provided from operations might be necessary.

In our opinion, except for the effect of adjustments, if any, which I might have determined to be necessary had I been able to examine opening inventory quantities, as described in the preceding paragraph, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at May 31, 2007 and the results of operations and cash flows of the company for the period ended then ended in accordance with Canadian generally accepted accounting principles.

Terrace, British Columbia
October 19, 2007

CHARTERED ACCOUNTANTS

COMFOR MANAGEMENT SERVICES LTD.
 Consolidated Balance Sheet
 As at May 31, 2007

	May 31 2007	December 31 2006
Assets		
Current		
Cash	\$ 2,486,859	\$ 3,268,590
Term deposits		490,203
Accounts receivable	238,027	914,240
Inventory (Note 3)	457,612	1,220,674
Prepaid expenses and deposits	138,780	149,319
	3,331,278	6,043,026
Long term investments - reserves (Note 4)	4,003,793	232,283
Property, plant and equipment (Note 5)	4,232,709	4,394,794
Future income taxes (Note 2)	1,340,000	986,000
	\$ 12,907,780	\$ 11,656,103
Liabilities		
Current		
Accounts payable and accrued expenses	\$ 789,891	\$ 1,010,535
Income taxes payable	232,785	1,721,887
Current portion of long term debt (Note 6)	70,600	89,212
	1,093,276	2,821,634
Accrued reforestation costs (Note 2)	3,895,768	2,850,768
Long term debt (Note 6)	138,367	177,657
Advances from shareholder (Note 7)	193,581	151,501
	5,320,992	6,001,560
Income taxes (Note 8)		
Shareholder's equity		
Share capital (Note 9)	1	1
Retained earnings	7,586,787	5,654,542
	7,586,788	5,654,543
	\$ 12,907,780	\$ 11,656,103

ON BEHALF OF THE BOARD

..... Director

..... Director

See notes to financial statements

COMFOR MANAGEMENT SERVICES LTD.

Consolidated Statement of Income

Period Ended May 31, 2007

	May 31 2007 <i>(see note 2)</i>	December 31 2006 <i>(see note 2)</i>
Revenue		
Log sales	\$ 12,255,894	\$ 24,711,605
Sawmill sales	2,944,211	3,568,525
Other income	34,184	250,307
	15,234,289	28,530,437
Direct and indirect costs		
Harvesting and logging related costs	6,779,177	18,574,471
Manufacturing and sawmill related costs	3,019,304	1,569,854
Silviculture	1,255,163	1,704,420
Amortization	741,029	725,268
	11,794,673	22,574,013
	3,439,616	5,956,424
Administrative expenses		
Administrative expenses	156,026	72,323
Amortization	79,595	117,527
Directors fees	16,194	36,687
Donations and gifts	5,209	116,286
Insurance and licences	58,476	58,170
Interest and bank charges	60,765	53,536
Meals and entertainment	2,298	6,514
Professional fees	94,311	60,807
Project expenses		63,643
	472,874	585,493
Income from operations	2,966,742	5,370,931
Other income (expenses)		
Investment income	38,153	32,330
Lakes Communication net income (expense)	(90,530)	(64,023)
Gain (loss) on disposal of assets	(19,655)	16,627
	(72,032)	(15,066)
Income before income taxes	2,894,710	5,355,865
Income taxes		
Current	1,316,465	2,297,810
Future	(354,000)	(710,695)
	962,465	1,587,115
Net income for the period	\$ 1,932,245	\$ 3,768,750

See notes to financial statements

COMFOR MANAGEMENT SERVICES LTD.
Consolidated Statement of Retained Earnings
Period Ended May 31, 2007

	<i>May 31</i> 2007 <i>(see note 2)</i>	<i>December 31</i> 2006 <i>(see note 2)</i>
Retained earnings - beginning of period	\$ 5,654,542	\$ 1,885,792
Net income for the period	1,932,245	3,768,750
Retained earnings - end of period	<u>\$ 7,586,787</u>	<u>\$ 5,654,542</u>

See notes to financial statements

COMFOR MANAGEMENT SERVICES LTD.
 Consolidated Statement of Cash Flow
 Period Ended May 31, 2007

	May 31 2007 <i>(see note 2)</i>	December 31 2006 <i>(see note 2)</i>
Operating activities		
Net income	\$ 1,932,245	\$ 3,768,750
Items not affecting cash:		
Amortization of property, plant and equipment	839,185	842,795
Loss (gain) on disposal of assets	19,655	(16,637)
Future income taxes	(354,000)	(710,695)
	2,437,085	3,884,213
Change in non-cash working capital:		
Change in net current assets (liabilities)	(171,833)	645,521
Cash flow from operating activities	2,265,252	4,529,734
Investing activities		
Purchase of equipment	(785,847)	(3,523,632)
Proceeds on disposal of equipment	89,095	196,956
Long term investments - reserves	(3,771,510)	(232,282)
Accrued reforestation costs	1,025,000	1,250,000
Cash flow used by investing activities	(3,443,262)	(2,308,958)
Financing activities		
Proceeds from long term financing		365,161
Repayment of long term debt	(83,924)	(72,267)
Cash flow from (used by) financing activities	(83,924)	292,894
Increase (decrease) in cash	(1,261,934)	2,513,670
Cash - beginning of period	3,758,793	1,245,123
Cash - end of period	\$ 2,496,859	\$ 3,758,793
Cash flow supplementary information		
Interest paid	\$ 60,764	\$ 53,537
Income taxes paid	\$ 2,805,567	\$ 1,080,972
Cash consists of:		
Cash	\$ 2,496,859	\$ 3,268,590
Term deposits		490,203
	\$ 2,496,859	\$ 3,758,793

See notes to financial statements

COMFOR MANAGEMENT SERVICES LTD.
Notes to Consolidated Financial Statements
Period Ended May 31, 2007

1. Description of business

The company and its subsidiaries operate community forest license K1A under a Community Forest Agreement with the Province of British Columbia under the province's Community Forest Program.

2. Summary of significant accounting policies

Basis of consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries. The current year's fiscal period end is May 31 for all companies although the prior year balances and the period reported in the income statement is as below:

Comfor Management Ltd - 5 month period ended May 31, comparative is 12 month period ended December 31, 2006

Burns Lake Community Forest Ltd. - 5 month period ended May 31, comparative is 12 month period ended December 31, 2006

Endako River Timber Ltd - 12 month period ended May 31, comparative is 12 month period ended May 31, 2006

Whistle Lake Woodlot Ltd. - 7 month period ended May 31, comparative is 12 month period ended October 31, 2006

Inter company balances and transactions have been eliminated.

Inventory

Inventory is valued at the lower of cost and net realizable value with the cost being determined on a first-in, first-out basis.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated amortization. Property, plant and equipment are amortized over their estimated useful lives at the following rates and methods:

Buildings	5 years	straight-line method
Log yard	4% & 8%	straight-line method
Logging roads	5 years	straight-line method
Bridges	5 years	straight-line method
Processing and manufacturing equipment	15% & 30%	straight-line method
Power operated equipment	5 years	straight-line method
Movable equipment	15% & 30%	straight-line method
Automotive	5 years	straight-line method
Tools and small equipment	5 years	straight-line method
Computer equipment and software	5 years	straight-line method
Data network infrastructure	5 years	straight-line method
Office equipment, furniture and fixtures	3 years	straight-line method

(continues)

COMFOR MANAGEMENT SERVICES LTD.
 Notes to Consolidated Financial Statements
 Period Ended May 31, 2007

2 Summary of significant accounting policies (continued)

Investments

Investments are carried at cost, which approximates fair market value.

Accrued reforestation

The company accrues the undiscounted estimated cost of reforestation required under its timber forest license at the time the timber is harvested. Reforestation costs are funded by long term investments - reserves.

Future income taxes

The liability method of tax allocation is used in accounting for income taxes. Under this method, future tax assets and liabilities are determined based on differences between the financial reporting and tax basis of assets and liabilities, and measured using the substantially enacted tax rates and laws that will be in effect when the differences are expected to reverse.

Sales revenue recognition

The company recognized revenue when the significant risks and rewards of ownership of its product are transferred to the customer, which is generally at the time of shipment to the customer or delivery of logs to the customer.

Measurement uncertainty

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, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Such estimates include providing for amortization of property, plant and equipment and goodwill. Actual results could differ from these estimates.

3. Inventory

	May 31 2007	December 31 2006
Lumber Inventory	\$ 214,922	\$ 424,273
Log Inventory	242,690	780,351
Parts Inventory		16,050
	<u>\$ 457,612</u>	<u>\$ 1,220,674</u>

4. Long term Investments - reserves

Phillips Hager North	\$ 2,003,793	\$ 232,283
Royal Bank Investment Account	2,000,000	
	<u>\$ 4,003,793</u>	<u>\$ 232,283</u>

COMFOR MANAGEMENT SERVICES LTD.
Notes to Consolidated Financial Statements
Period Ended May 31, 2007

5 Property, plant and equipment	Cost	Accumulated amortization	May 31	December 31
			2007	2006
			Net book value	Net book value
Land	\$ 691,481	\$ -	\$ 691,481	\$ 646,352
Buildings	173,621	50,437	123,184	174,513
Log yard	124,300	7,467	116,833	29,938
Logging roads	495,206	384,986	110,220	151,487
Bridges	428,342	417,530	10,812	12,069
Processing and manufacturing equipment	2,570,290	619,788	1,950,502	1,795,145
Power operated equipment	1,208,005	668,984	539,021	728,983
Movable equipment	438,749	194,717	244,032	365,230
Automotive	236,445	101,991	134,454	94,255
Tools and small equipment	121,331	74,390	46,941	46,681
Computer equipment and software	184,179	119,294	64,885	163,213
Data network infrastructure	125,620	45,417	80,203	
Office equipment, furniture and fixtures	141,414	21,273	120,141	186,928
	\$ 6,938,983	\$ 2,706,274	\$ 4,232,709	\$ 4,394,794

6. Long term debt	May 31	December 31
	2007	2006
GE Capital Solutions loan bearing interest at 6.49% per annum, repayable in monthly blended payments of \$4,041 secured by specific equipment.	\$ 108,167	\$ 154,457
GE Canada loan bearing interest at 7.25% per annum, repayable in monthly blended payments of \$2,584 secured by specific equipment.	100,800	112,412
	208,967	266,869
Amounts payable within one year	(70,600)	(89,212)
	\$ 138,367	\$ 177,657

Principal repayment terms are approximately:

2008	\$ 70,600
2009	74,416
2010	42,533
2011	21,418
	\$ 208,967

COMFOR MANAGEMENT SERVICES LTD.
Notes to Consolidated Financial Statements
Period Ended May 31, 2007

7. Advances from shareholder

The advances from the shareholder, The Corporation of the Village of Burns Lake, are unsecured, non-interest bearing and have no set repayment terms. The advances have been recorded as a non-current liability in the financial statement.

8. Contingent asset - Income taxes

The subsidiary companies are currently filing notices of objections and amended tax returns claiming non-taxable status under section 149(1) of the Income Tax Act. Should they be successful, income taxes for the current and prior three years may be refundable to the company.

9. Share capital

Authorized:

1000	Class A common non-participating voting shares
10,000	Class B common participating voting shares
10,000	Class C common participating non-voting shares
100,000	Class D common participating non-voting shares
100,000	Class E preferred non-cumulative non-voting shares
100,000	Class F preferred non-cumulative non-voting shares
100,000	Class G preferred non-cumulative non-voting shares
100,000	Class H preferred non-cumulative non-voting shares
100,000	Class I preferred non-cumulative non-voting shares
100,000	Class J preferred non-cumulative non-voting shares

		May 31 2007	December 31 2006
Issued:			
	1 Class B common share	\$ 1	\$ 1

10. Income taxes

The parent company has been structured as a tax exempt corporation under section 149 (1) of the Income Tax Act and is, consequently, not subject to income tax.

11. Subsequent events

Subsequent to yearend, the company acquired the remaining 25% ownership of Endako River Timber Ltd.

12. Financial Instruments

The Company's financial instruments consist of cash, accounts receivable, due from shareholder, investment, accounts payable and accrued liabilities. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair value of these financial instruments approximate their carrying values, unless otherwise noted.

13. Comparative figures

Some of the comparative figures have been reclassified to conform to the current year's presentation.