ComFor
Management Services Ltd.

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

Annual Report

November 1, 2012 to October 31, 2013

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VILLAGE OF
BURNS LAKE
It's Only Natural!

May 5, 2014

Comfor Management Services Ltd.
PO Box 788
Burns Lake, BC V0J 1E0

RE: Comfor Management Services Ltd. 2013-2014 Annual Report

To all residents of the Lakes District;

As the Mayor of Burns Lake, I look forward to receiving the Annual Report from Comfor Management Services Ltd. With the restructuring process taking shape, and with the ongoing collaboration of the First Nations and Community representatives, this year saw significant strides toward a community forest that benefits our entire area.

Comfor Management Services Ltd. supports the entire Lakes District community, not just those citizens who reside within the Village of Burns Lake boundaries. CMSL provides employment and contracts for many of our friends, family, and neighbours. Burns Lake is proud to be home to our Community Forest.

We would like thank the Board of Directors of Comfor Management Services Ltd. for their continued commitment to our community. We strive to provide a fair and equitable opportunity for community representation on the Board of Directors and thank all those who have put their name forward as a prospective Director. Continued patience, wisdom, and understanding is required to help guide CMSL through these turbulent times.

The Village of Burns Lake is looking forward to the prospects 2015 will offer and wishes CMSL great success in their future endeavours.

Sincerely,

Luke Strimbold
Mayor
cc: Village of Burns Lake Council

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A Message from the President

On behalf of the board of directors, I am pleased to present this report regarding activities and operations of ComFor Management Services Ltd. (CMSL) and its subsidiaries from November 1, 2012 to October 31, 2013.

CMSL shares are held by the Corporation of the Village of Burns Lake on behalf of all residents of the Lakes District. The company—which specializes in providing professional management and administrative services—has two major subsidiaries: Burns Lake Community Forest Ltd. (BLCF) and Sheraton Holdings Ltd. (SHL). Known collectively as the ComFor Group, these firms are involved with the management of the K1A forest license, financial management of the assets and investments, and administration. Sheraton Holdings Ltd. was sold in October of 2012 and will conclude in the next fiscal year.

2013 has been an eventful year at CMSL. The Board continued a dramatic restructuring effort and undertook activities to ensure that ComFor could remain a viable entity, positively contributing to the community.

Logging and forestry operations have continued as usual as we have developed a corporate structure that focusses more on flexibility. The ultimate objective is to engineer a new ComFor that consistently contributes positively to the community and remains economically viable and competitive.

BLCF has been involved in negotiations with local processing facilities to ensure a sound local log market can positively contribute sawlog fibre to facilities supporting local jobs. CMSL is conducting extensive financial and operational analyses to determine the most sound business model moving forward. While ComFor did suspend community financial aid in the short term, it has positively contributed toward many projects including annual bursary awards to LDSS students and the Lakes Outdoor Recreation Society.

It has been a sedulous year full of change for the ComFor Group and we are excited to see how this new growth will unfold in the upcoming fiscal year. Because of continuous efforts made during the restructuring of this organization, we strongly believe the implemented results will show positive impact to our community for the long term.

Wesley Sam
President, Board of Directors

ComFor Management Services Ltd.
Corporate Data

Office Location:	153 Francois Lake Drive P.O. Box 788 Burns Lake, B.C. V0J 1E0 Telephone: (250) 692-7724 Fax: (250) 692-7767 E-mail: info@blcomfor.com
Staff:	Kerry Martin, Operations Manager Ron Harrison, RFT Area Supervisor Mike Werrell, GIS Analyst Karrie Roth, Executive Assistant/Accounting Joe Fehr, Equipment Operator Reg Blackwell, Equipment Operator
Auditors:	Edmison Mehr, Chartered Accountants, Smithers
Bank:	Royal Bank of Canada, Burns Lake Branch Bulkley Valley Credit Union, Burns Lake Branch
Board of Directors:	Wesley Sam, President Jim McCormack, Vice President Rosanne Murray, Secretary Jeff Brown, Director Robert Dennis, Director Frank Varga, Director David De Wit, Alternate Director Albert Gerow, Alternate Director Karen Ogen, Alternate Director

CORORATE STRUCTURE OF COMFOR MANAGEMENT SERVICES LTD.

THE CORPORATION OF THE VILLAGE OF BURNS LAKE MAYOR AND COUNCIL

APPOINTS

APPOINTS

REPORTS TO

BOARD OF DIRECTORS

GOVERNS

COMFOR MANAGEMENT SERVICES LTD.

(Owned 100% by the Village Of Burns Lake)

OWNS 100%

SHERATON HOLDINGS LTD.

The assets of Sheraton Holdings Ltd. have been sold and it currently has no employees

BURNS LAKE COMMUNITY FOREST LTD.

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.

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.**

Burns Lake Community Forest Ltd..

Your Community-Owned Forest Company

Burns Lake Community Forest Ltd. was incorporated in December 1998 in response to the Ministry of Forest's community forest Request for Proposals. Establishment of the company followed a comprehensive round of public consultations in which local residents clearly indicated that ownership of the requested forest license should belong to everyone living in the Lakes District, and not a single political entity or special-interest group.

Local efforts to obtain a conditional community forest license were rewarded in the summer of 2000, when the Ministry of Forests announced that Burns Lake was one of the four organizations awarded a community forest pilot agreement. For local residences, it represented the realization of a dream that actually began 25 years earlier on October 10, 1973—the date when Burns Lake Village Council first asked Lands and Forests Minister Bob Williams for a Tree Farm License.

The initial pilot license was signed July 7, 2000 with an initial Annual Allowable Cut (AAC) of 23,677 cubic meters (m^3). The community forest has undergone several expansions since that time, and now consists of 86,223 hectares of Crown land. Burns Lake Community Forest Ltd. was awarded the 25-year Long-Term Community Forest Agreement K1A in April 2005—the first of its kind in the province. In 2005, the AAC of the community forest was increased to 300,000 cubic meters (m^3) per year to facilitate beetle salvage. Subsequent uplifts (as high as 500,000 m^3 per year) were permitted to facilitate salvage of beetle-killed pine. BLCF's AAC was set at 260,000 m^3 on February 25, 2011 for 2011 to 2013 and beginning January 1, 2014 was reduced to 100,000 m3 for 2014 and 2015. 100% of the volume harvested from K1A is sold through a wood fibre sales policy that favours local buyers.

The Corporation of the Village of Burns Lake is the sole shareholder of ComFor Management Service Ltd. Burns Lake Community Forest Ltd. is governed by a board of directors whose six members are selected from the board of ComFor Management Services Ltd. The current board consists of Wesley Sam (President), Jim McCormack (Vice-President), Rosanne Murray (Secretary), Jeff Brown, Robert Dennis, and Frank Varga.

In the years since 1998, Burns Lake Community Forest Ltd. (through its locally-selected board of directors and dedicated employees) has worked diligently to ensure the community forest meets the public's expectations. K1A occupies a challenging landscape characterized by productive forestland, recreationally valuable landscapes, and valuable habitats combined with areas of cultural significance to First Nations.

A number of issues have presented themselves since the approval of the original management plan for K1A. The first units harvested on the K1A license were for salvage of spruce bark beetle attack. Since then, harvesting has been concentrated on salvaging as much of the mountain pine beetle attacked pine as possible on the community forest. The quality of wood is decreasing dramatically as beetle-killed stands age. It is anticipated that the per cent of merchantable volume remain relatively constant, while costs of both waste and residue surveys and piling are increasing.

Harvesting costs have also increased in the last decade on K1A. Reasons include increased fuel costs, lower overall recovery, smaller patch size, increased amount of access road construction increased amount of block road construction, and upgrades required for existing roads.

The community forest contains lands with significant recreation value. Local residents utilize the community forest for skiing, snowmobiling, mountain biking, all-terrain vehicles (ATVs), hunting, fishing, boating, and hiking. Burns Lake Community Forest Ltd. has worked extensively with the Lakes Outdoor Recreation Society (LORS) in its mandate to maintain local recreation sites and trails. BLCF has donated both monetarily and in-kind to numerous projects since 2001.

Visual Quality Objectives were established for K1A through Section 17 of the Government Actions Regulation (GAR) for scenic areas within the Lakes TSA portion of the Nadina Forest District. These objectives are addressed in the Forest Stewardship Plan (FSP).

Wildlife species in the planning area require a variety of habitats to sustain their populations. The various habitats are broadly distributed in K1A. BLCF uses forest management and harvest planning strategies that will sustain the long-term productivity of the working forest while minimizing impact on non-timber resources including fish, wildlife, recreation, biological diversity, wilderness, water and cultural heritage resources.

The community forest is managed for all resources as the land base supports a variety of wildlife. Guide outfitters and trappers rely on the land for their income. Bird species are diverse and many use the riparian areas, streams, and lakes for habitat. K1A is home to a diversity of habitat types and wildlife species.

First Nations groups have a long history of using the area now occupied by K1A. Historical trails such as the Maxan Trail and the Old Babine Trail cross K1A. The Nadina Forest District maintains Cultural Heritage Resource Mapping which identifies known archaeological sites associated with First Nations in the K1A area. BLCF will continue to cooperate with First Nations and other groups in identifying potential archaeological sites and carrying out archaeological impact assessments as required.

Burns Lake Community Forest Ltd. manages the license area according to environmentally sound integrated resource-use principles and land-use plans within the context of government regulations and guidelines. Tree species include lodge pole pine, Engelmann white spruce crosses, and subalpine fir, as well as trembling aspen, cottonwood, and birch. BLCF harvests the various forest types in proportion to their relative abundance within the operable land base using harvest methods that best suit the on-site conditions. The forest is managed in a manner that will produce a continuous flow of logs while promoting healthy conditions within the forest.

BLCF continues to use visual landscape planning principles and designs in-harvest planning to coordinate visual landscape planning with non-timber resource users. Minimizing the effect of forestry activities provides habitat and protection supporting viable populations as well enhances public recreation. The needs of other licensed users are considered during planning and operations within K1A.

Burns Lake Community Forest Ltd. maintains a silviculture program that complies with forest legislation to ensure prompt and appropriate restocking of productive forestland. Treatments are selected on free-growing stands to increase forest growth, reduce losses to pests and disease, and improve timber quality in the future.

Forest Stewardship Plans (FSPs) are required under the Forest and Range Practices Act for terms of five years that show the Forest Development Units (FDU) and outline the intended results or strategies for government objectives. Other plans and permits include site plans, stand management prescriptions, road permits, cutting permits, deactivation prescriptions, and special use permits.

Harvesting takes place in accordance with legislative requirements with the priority of salvaging beetle-killed lodgepole pine before it reaches its shelf life, minimizing harvest of non-pine to preserve harvest opportunities for the mid-term.

Maintaining the road system is expensive but necessary to permit safe operation of logging trucks, provide safe access to the public and prevent environmental damage. All roads are designed, constructed and maintained in accordance with all applicable Ministry of Forests and Range requirements. BLCF considers roads to be an investment in the land base to be protected and will deactivate roads for purposes such as access management or stability issues.

The purpose of the silviculture program is to promptly regenerate forest sites with crops that will produce the desired products within the desired time frames. Basic silviculture is performed on all areas harvested in compliance with the Forest Planning and Practices Regulation. Site preparation is carried out to create plantable spots, facilitate planting or reduce fire hazard as required. Reforestation costs of the silviculture program are paid for by BLCF.

Logged areas are regenerated in compliance with the Forest Stewardship Plan in satisfying free-growing standards. Regenerated stands are tended to maintain growth rates and brush control programs are conducted when stand vigor is compromised. Once an area is sufficiently restocked, plantation health and growth will be monitored through silviculture surveys until free growing stand is achieved.

Presently, Burns Lake Community Forest Ltd. is streamlining business to ensure the business is economically viable when the AAC is reduced in 2014. To maximize local employment and economic benefits, all of BLCF's forest management, construction, and logging activities are preferentially contracted to residents of the Lakes Timber Supply Area.

While the road to success hasn't always been easy, management and staff of Burns Lake Community Forest Ltd. are proud of the company's achievements over the past decade: employment created for local suppliers, customers, consultants and contractors; millions of dollars donated to community groups and organizations; and establishment of the outdoor recreation infrastructure throughout the Lakes District.

Burns Lake Community Forest Ltd.
Mission Statement

In 1998, members of the Burns Lake Community Forest Steering Committee established the following Mission Statement for your community-owned forest corporation, Burns Lake Community Forest Ltd. (BLCF):

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. The corporation's activities will provide the following benefits to the community on a sustainable basis:

*Local management of resources, local processing, and local employment;
*Forestry training and education;
*Outdoor recreation activities;
*A lasting relationship with the land that comprises the Community Forest;
*Culturally significant economic and educational opportunities for First Nations; 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.

COMFOR MANAGEMENT SERVICES LTD.

CONSOLIDATED FINANCIAL STATEMENTS

OCTOBER 31, 2013

COMFOR MANAGEMENT SERVICES LTD.

CONSOLIDATED FINANCIAL STATEMENTS

OCTOBER 31, 2013

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

Management's Responsibility for Financial Reporting

The accompanying consolidated financial statements of Comfor Management Services Ltd. for the year ended October 31, 2013 were prepared by management in accordance with International Financial Reporting Standards ("IFRS"). Management acknowledges responsibility for the preparation and presentation of the consolidated financial statements, including responsibility for significant accounting judgments and estimates and the choice of accounting principles and methods that are appropriate to the Company's circumstances. The significant accounting policies of the Company are summarized in Note 3 to the consolidated financial statements.

Management has established systems of internal control over the financial reporting process, which were designed to provide reasonable assurance that relevant and reliable financial information is produced. The Board of Directors is responsible for reviewing and approving the consolidated financial statements and for ensuring that management fulfills its financial reporting responsibilities. The members of the Board of Directors are not officers of the company. The Board of Directors meets with management as well as with the independent auditors to review the internal controls over the financial reporting process, the consolidated financial statement, and the auditor's report. The Board of Directors also review the Annual Report to ensure that the financial information reported therein is consistent with the information presented in the financial statements. The Board of Directors approves the consolidated financial statements for issuance to the shareholder and to other users on March 13, 2014.

Management recognized its responsibility for conducting the Company's affairs in compliance with established financial standards, and applicable laws and regulations, and for maintaining proper standards of conduct for its activities.

Jim McCormack
Vice-President of the Board of Directors

Kerry Martin
Operations Manager

March 13, 2014

Comfor Management Services Ltd.
P.O Box 788
Burns Lake, BC V0J 1E0

EDMISON MEHR
CHARTERED ACCOUNTANTS

Box 969 1090 Main Street
Smithers, B.C. V0J 2N0
Telephone (250)847-4325
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Partners:
BRIAN R. EDMISON, B.A., CA
MICHAEL B. MEHR, B.Comm, CA
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INDEPENDENT AUDITOR'S REPORT

To the Directors of
COMFOR MANAGEMENT SERVICES LTD.
BURNS LAKE, BC

We have audited the accompanying consolidated financial statements of COMFOR MANAGEMENT SERVICES LTD. and its subsidiaries, which comprise the Consolidated Statement of Financial Position as at October 31, 2013 and October 31, 2012, and the Consolidated Statement of Comprehensive Income and Changes in Equity and the Consolidated Statement of Cash Flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management is responsible for the preparation and fair presentation of these 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.

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of COMFOR MANAGEMENT SERVICES LTD. as at October 31, 2013, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Edmison Mehr

Smithers, B.C.
March 13, 2014

Edmison Mehr Chartered Accountants
1090 Main Street
Smithers, BC V0J 2N0

COMFOR MANAGEMENT SERVICES LTD.
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
OCTOBER 31, 2013

	2013	2012
ASSETS		
CURRENT		
Cash	$ 2,516,913	$ 2,934,401
Accounts receivable, net of allowance of $20,000 (2012 $71,029)	93,324	135,970
HST receivable	2,538	55,977
Work in progress	-	103,487
Prepaid expenses and deposits	128,973	83,618
Agreement receivable - Tahtsa Timber Ltd.	-	432,515
	2,741,748	3,745,968
PROPERTY, PLANT AND EQUIPMENT, Note 4	602,095	620,217
OTHER ASSETS		
Investments, long term, Note 5	5,287,101	4,760,887
Province of British Columbia silviculture deposit	500,000	-
Loan receivable - Community Futures of Nadina	17,500	17,500
	$ 9,148,444	$ 9,144,572
LIABILITIES		
CURRENT		
Accounts payable and accrued expenses	$ 163,061	$ 187,184
ACCRUED REFORESTATION COSTS, Note 6	3,361,606	4,523,430
DUE TO SHAREHOLDER	1	1
SHAREHOLDER'S EQUITY		
SHARE CAPITAL, Note 7	1	1
RETAINED EARNINGS	5,623,775	4,433,956
	5,623,776	4,433,957
	$ 9,148,444	$ 9,144,572

APPROVED BY THE BOARD:

_____ DIRECTOR

_____ DIRECTOR

COMFOR MANAGEMENT SERVICES LTD.
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME AND CHANGES IN EQUITY
FOR THE YEAR ENDED OCTOBER 31, 2013

	2013	2012
CONTINUING OPERATIONS:		
REVENUE	$ 7,610,026	$ 4,335,090
COST OF SALES		
Harvesting and supervision	5,552,026	3,265,103
Silviculture obligation	567,000	107,730
Stumpage	74,112	39,890
Road maintenance	232,023	192,763
Planning, mapping and permits	164,077	191,026
Depreciation	38,512	90,594
	6,627,750	3,887,106
GROSS PROFIT BEFORE CHANGE IN SILVICULTURE OBLIGATION ESTIMATE	982,276	447,984
CHANGE IN SILVICULTURE OBLIGATION ESTIMATE, Note 6	1,488,936	-
GROSS PROFIT	2,471,212	447,984
ADMINISTRATIVE EXPENSES, Schedule	349,920	455,169
PROFIT FROM OPERATIONS	2,121,292	(7,185)
OTHER INCOME (EXPENSES):		
Investment income (loss)	184,348	87,841
Community donations and gifts	(1,502,967)	(82,644)
	(1,318,619)	5,197
PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS	802,673	(1,988)
DISCONTINUED OPERATIONS		
Profit (loss) for the period from discontinued operations, Note 9	11,389	320,469
PROFIT FOR THE PERIOD	814,062	318,481
UNREALIZED GAIN - AVAILABLE FOR SALE SECURITIES	375,757	216,466
COMPREHENSIVE INCOME FOR THE YEAR	1,189,819	534,947
RETAINED EARNINGS, beginning of year	4,433,956	3,899,009
RETAINED EARNINGS, end of year	$ 5,623,775	$ 4,433,956

COMFOR MANAGEMENT SERVICES LTD.
SCHEDULE OF ADMINISTRATIVE EXPENSES
FOR THE YEAR ENDED OCTOBER 31, 2013

	2013	2012
Accounting	$ 50,717	$ 45,874
Advertising and promotion	4,626	4,855
Automotive	3,048	4,934
Bad debts (recovery)	(14,620)	71,029
Bank charges and interest	2,135	3,521
Depreciation	18,200	4,764
Directors fees	47,971	30,285
Insurance	10,922	10,976
Legal	11,188	3,033
Licenses	6,566	6,491
Office	23,355	23,065
Property taxes	10,137	10,435
Repairs and maintenance	5,382	2,013
Telephone	9,465	10,938
Travel and meals	1,700	1,653
Utilities	5,848	4,419
Wages and benefits	153,280	216,884
	$ 349,920	$ 455,169

COMFOR MANAGEMENT SERVICES LTD.
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED OCTOBER 31, 2013

	2013	2012
OPERATING ACTIVITIES		
Comprehensive income for the year	$ 1,189,819	$ 534,947
Add: Items not involving cash		
Depreciation	56,712	95,358
Decrease (increase) in value of investments	(375,757)	(216,466)
Gain on disposal of capital assets	-	(270,376)
	870,774	143,463
Net change in non-cash working capital		
Net (increase) decrease in:		
Accounts receivable	42,646	81,524
HST receivable	53,439	(48,531)
Inventory	-	30,893
Work in progress	103,487	(103,487)
Prepaid expenses and deposits	(45,355)	18,982
Net increase (decrease) in:		
Accounts payable and accrued expenses	(24,123)	25,090
	130,094	4,471
Cash flows from (used in) operating activities	1,000,868	147,934
FINANCING ACTIVITIES		
Repayment of long term debt	-	(5,062)
Loan receivable advance - Community Futures of Nadina	-	(17,500)
Agreement receivable advance to Tahtsa Timber Ltd.	432,515	(432,515)
	432,515	(455,077)
INVESTING ACTIVITIES		
Purchase of capital assets	(38,590)	(6,169)
Proceeds on disposal of capital assets	-	625,000
Purchase of investments	(150,457)	(59,697)
Province of British Columbia silviculture deposit	(500,000)	-
Accrued reforestation costs	(1,161,824)	(171,849)
	(1,850,871)	387,285
INCREASE (DECREASE) IN CASH	(417,488)	80,142
CASH, beginning of year	2,934,401	2,854,259
CASH, end of year	$ 2,516,913	2,934,401

COMFOR MANAGEMENT SERVICES LTD.
NOTES TO THE CONSOLIDTED FINANCIAL STATEMENTS
OCTOBER 31, 2013

1. NATURE OF THE REPORTING ENTITY AND OPERATIONS

The company is 100% owned and controlled by the Corporation of the Village of Burns Lake.

The nature of the corporate group's operations is to operate Community Forest License K1A (20,000 hectares licensed for 25 years from 2004) under a Community Forest Agreement with the Province of British Columbia. All operations of the corporate group are conducted in the Burns Lake, BC area.

2. BASIS OF PREPARATION

a) Statement of compliance

The consolidated financial statements of the Corporation have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The company has adopted all IFRS issued and in effect at October 31, 2013.

b) Basis of measurement

The presentation and functional currency of the corporation is the Canadian dollar. The consolidated financial statements have been prepared on a historical cost basis, except available-for-sale financial assets.

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 Corporation's accounting policies. The areas involving a higher degree of judgment of complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

c) Basis of consolidation

The consolidated financial statements include the accounts of the company and its subsidiaries as follows:

Comfor Management Services Ltd. (parent company)
Burns Lake Community Forest Ltd. (100% owned subsidiary)
Sheraton Holdings Ltd. (100% owned subsidiary)

3. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies used in the preparation of these consolidated financial statements are set out below.

Cash

Cash includes cash and cash equivalents. Cash equivalents are bank deposits and investments in treasury bills and are valued at cost plus accrued interest. The carrying amounts approximate fair value because they have maturities at the date of purchase of less than ninety days.

COMFOR MANAGEMENT SERVICES LTD.
NOTES TO THE CONSOLIDTED FINANCIAL STATEMENTS
OCTOBER 31, 2013

Inventory

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

Work in progress

Work in progress 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 work in progress includes materials, direct labour, overhead and other costs incurred in bringing the work in progress to their present location and condition.

Work in progress is written down to net realizable value when the cost of the work in progress is not estimated to be recoverable. When the circumstances that previously caused the work in progress 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 writedown is reversed (the reversal is limited to the amount of the original write-down).

Property, plant and equipment

Property, plant and equipment are recorded at cost and are depreciated over their estimated useful lives on a straight-line basis at the following annual rates:

Buildings	20% and 10%
Log yard	4% and 8%
Logging roads	20%
Bridges	20%
Processing and manufacturing equipment	15% and 30%
Movable equipment	10%, 15%, 20% and 30%
Automotive	20%
Tools and small equipment	20%
Computer and office equipment	33.3% and 20%
Data network infrastructure	20%

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

COMFOR MANAGEMENT SERVICES LTD.
NOTES TO THE CONSOLIDTED FINANCIAL STATEMENTS
OCTOBER 31, 2013

Income taxes

The parent company is exempt from taxation for its business activities. The two subsidiary companies are subject to taxation.

Current tax
The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the Statement of Comprehensive Income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax
Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Revenue recognition

Sales revenue is recognized when the significant risks and rewards of ownership of its product are transfered to the customer, which is generally when goods are shipped or delivered to the customer, and when ultimate collection is reasonably assured.

Interest revenue is recognized using the accrual method.

COMFOR MANAGEMENT SERVICES LTD.
NOTES TO THE CONSOLIDTED FINANCIAL STATEMENTS
OCTOBER 31, 2013

d) Available-for-sale financial assets

Nonderivative financial assets not included in the above categories are classified as available-for-sale and comprise principally the Corporation's strategic investments in entities not qualifying as subsidiaries or associates. Available-for-sale investments are carried at fair value with changes in fair value recognized in other comprehensive income or loss. Where there is a significant or prolonged decline in the fair value of an available-for-sale financial asset (which constitutes objective evidence of impairment), the full amount of the impairment, including any amount previously recognized in other comprehensive income or loss, is recognized in profit or loss. If there is no quoted market price in an active market and fair value cannot be readily determined, available-for-sale investments are carried at cost. The Corporation has classified long term investments as available-for-sale financial assets.

Impairment on Financial Assets

At each reporting date the Corporation assesses whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or group of financial assets is deemed to be impaired, if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset or the group of financial assets.

Financial Liabilities

a) Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Corporation that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.
Gains or losses on liabilities held for trading are recognized in the income statement.

b) Other financial liabilities

Financial liabilities are classified as other financial liabilities, based on the purpose for which the liability was incurred, and comprise of accounts payables and accrued liabilities and dividend payable. These liabilities are initially recognized at fair value net of any transaction costs directly attributable to the issuance of the instrument and subsequently carried at amortized cost using the effective interest rate method. This ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the statement of financial position. Interest expense in this context includes initial transaction costs and premiums payable on redemption, as well as any interest or coupon payable while the liability is outstanding. Accounts payables and accrued liabilities represent liabilities for goods and services provided to the Corporation 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.

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Critical accounting estimates and judgments

The Corporation 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 comprehensive income 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 that have the most significant risk of causing material adjustment to the carrying amounts of assets and liabilities recognized in the financial statements within the next financial year are outlined below:

Accrued silvicultural costs

The Corporation accrues the estimated discounted cost of reforestation required under its timber forest licence at the time the timber is harvested. The estimated accrual is the amount required to reforest to the free growing stage as approved by the Province of BC. As there are many unknown factors that could effect the actual cost to reforest and the time required to achieve a free growing status can often be ten or more years, the future actual cost may differ from that accrued and recorded as an expense in each year. Any changes to previous estimates are applied prospectively. See Note 6 for disclosure relating to the change in silviculture obligation estimate recorded in the year.

Accounting policies not yet adopted

There are new pronouncements subsequently issued which were not effective for fiscal years ending October 31, 2013 which were not early adopted. None of these pronouncements would be expected to have a material impact on the Corporation reporting.

4. PROPERTY, PLANT AND EQUIPMENT

	Cost	Accumulated Depreciation	Net 2013	Net 2012
Buildings	$ 427,581	$ 259,321	$ 168,260	$ 178,674
Roads and bridges	938,689	938,688	1	1
Logging and automotive equipment	331,705	330,968	737	11,604
Tools and equipment	1,167,242	1,163,830	3,412	5,513
Computer and office equipment	292,051	276,559	15,492	10,232
	3,157,268	2,969,366	187,902	206,024
Land	414,193	-	414,193	414,193
	$ 3,571,461	$ 2,969,366	$ 602,095	$ 620,217

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5. INVESTMENTS, LONG TERM

The long term investments are internally restricted for the purpose of funding future reforestation costs and consist of mutual funds held with RBC Phillips Hager North.

6. ACCRUED REFORESTATION COSTS

The Corporation is responsible for the cost of reforestation required under its timber forest license related to areas logged. The estimated cost is accrued at the appraised value as prescribed by the Province of BC rate allowed for each specific area. The estimated accrual is the amount required to reforest to the free growing stage as approved by the Province of BC. As there are many unknown factors that could effect the actual cost to reforest and the time required to achieve a free growing status can often be ten or more years, the future actual cost may differ from that accrued and recorded as an expense in each year.

During the current year a detailed analysis of the total silviculture liability was completed. This has resulted in an adjustment of the estimated liability accrued. The accrual amount was reduced by $1,488,936 for this adjustment.

7. SHARE CAPITAL

Authorized

1,000	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

		2013	2012
Issued			
1	Class 'B' common	$ 1	$ 1

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8. INCOME TAXES

The provision for income taxes differs from the income tax obtained by applying the statutory income tax rate of 25.6% to the income for the year. These differences are summarized below:

Continuing operations - Profit (loss) before income taxes	$ 802,673
Discontinued operations - Profit (loss) before income taxes	11,389
Profit (loss) before income taxes	814,062
Increase(decrease) resulting from (at statutory rate of 25.6%):	
Income tax expense at the combined basic federal/provincial rate	208,400
Non-taxable income in parent	(12,956)
Silviculture tax amount above financial statement expense	(297,535)
Application of non-capital losses to reduce taxable income	(72,197)
Carry-forward of undeducted donations	180,937
Capital cost allowance in excess of amortization	(6,649)
Provision for income taxes	$ -

The company estimates that it may not have sufficient future taxable income to realize income tax benefits relating to future timing difference reversals, primarily for accrued silviculture liabilities and non-capital losses. Consequently, these potential benefits have been reduced to nil and will be recorded as a charge to operating income in the year realized.

9. DISCONTINUED OPERATIONS

Disposal of Sheraton Holdings Ltd. mill assets and operations

Effective August 31, 2012, the Company entered into a sale agreement to dispose of the Sheraton mill assets and operations.

	2013	2012
Revenue	$ 17,760	$ 717,313
Cost of sales	-	(603,852)
Gross Profit (Loss)	17,760	113,461
Administrative Expenses	(6,371)	(63,368)
Profit (loss) from operations	11,389	50,093
Other income - Gain on disposal of capital assets	-	270,376
Profit for the period from discontinued operations	$ 11,389	$ 320,469
Net cash inflow from discontinued operations:		
Net cash inflow(outflow) from operating activities	$ 60,540	$ (3,663)
Net cash inflow(outflow) from financing activities	(164,214)	(437,577)
Net cash inflow(outflow) from investing activities	-	616,553
Net cash inflow(outflow) from discontinued operations	$ (103,674)	$ 175,313

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10. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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 Corporation to a concentration of credit risk consist primarily of cash, investments and accounts receivable. The Corporation limits its exposure to credit loss by placing its cash and investments with major Canadian financial institutions. The Corporation reduces its credit risk from customers by reviewing a new customer's credit history before extending credit and conducts regular reviews of its existing customers' credit performance. The Corporation has a small number of customers which results in a concentration of credit risk. The Corporation's maximum exposure to credit risk for cash, investments and accounts receivable at the year end are the amounts disclosed in the statement of financial position.

Fair value Risk

The Corporation 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.

Foreign Currency risk

Currency risk is the risk to the Corporation's earnings that arise from fluctuations of foreign exchange rates and the degree of volatility of these rates. The Corporation is exposed to foreign currency exchange risk on cash, accounts receivable, investments and accounts payable held in U.S. dollars. The Corporation does not use derivative instruments to reduce its exposure to foreign currecny risk. Other than investments held in U.S. dollars from time to time, the Corporation's currency risk is not significant.

Liquidity risk

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they fall due. The Corporation'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 October 31, 2013, the Corporation had a cash balance of $2,516,913 (October 31, 2012 - $2,934,401) to settle current liabilities (excluding silviculture provision) of $163,061 (October 31, 2012 - $187,184). The Corporation 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 Corporation is exposed to these risks because the ability of the Corporation to develop or market its products and its ability to earn future profits is related to the market price of logs.

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Commodity Price risk

The Corporation 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 Corporation closely monitors commodity prices to determine the appropriate course of action to be taken by the Corporation. No financial hedges or commodity price contracts are in place at the year end.

Interest rate risk

The Corporation is exposed to interest rate risk to the extent that the cash, investments and bank indebtedness credit facilities maintained at financial institutions are subject to a floating rate of interest. The interest rate risk on cash, investments and bank indebtedness is not considered significant.