

**ISLAND EXCAVATORS (1985) LTD.****Notes to Financial Statements****Year Ended December 31, 2013****8. DUE FROM RELATED PARTIES**

	<u>2013</u>	<u>2012</u>
Bluefield Natural Products Inc.	\$ 1,135,180	\$ 1,062,649
T&B Holdings Ltd.	<u>250,735</u>	<u>213,807</u>
	<u>\$ 1,385,915</u>	<u>\$ 1,276,456</u>

T&B Holdings Ltd. is the parent company and controlling shareholder of Island Excavators (1985) Ltd. Island Excavators (1985) Ltd. and Bluefield Natural Products Inc. are related because of common share ownership between the companies. The amounts are non-interest bearing, have no set terms of repayment and are unsecured.

**9. GRAVEL PITS**

	Cost	Accumulated depletion	<b>2013 Net book value</b>	2012 Net book value
Gravel pits	<u>\$ 40,000</u>	<u>\$ 17,183</u>	<u>\$ 22,817</u>	<u>\$ 22,938</u>

**10. FUNDS HELD IN TRUST**

The funds held in trust relate to the Class B preferred shares issued under the Provincial Nominee Program. The company was required to contribute \$5,000 per investor to a fund held in trust related to potential rejected investors under the program. The company will receive a pro-rata share of the monies remaining in the fund when all rejected investors are known. Accordingly, these funds are recorded as a long term asset.

At this time, it is unlikely that the company will recover all of the \$20,000 contributed under this Program. However, the extent of the loss is not reasonably determinable at this time and therefore, no provision has been accrued in the financial statements.

**11. BANK INDEBTEDNESS**

	<u>2013</u>	<u>2012</u>
Bank of Montreal - prime plus 1.5%; maximum limit of \$750,000, secured by book debts with a carrying value of \$549,669	\$ 796,146	\$ 410,032
Wells Fargo - 10.75%; maximum limit of \$104,000; unsecured	<u>82,933</u>	<u>83,020</u>
AMEX - 15.99%; maximum limit of \$10,000; unsecured	<u>3,203</u>	<u>4,484</u>
	<u>\$ 882,282</u>	<u>\$ 497,536</u>

# ISLAND EXCAVATORS (1985) LTD.

## Notes to Financial Statements

Year Ended December 31, 2013

### 12. LONG TERM DEBT

	2013	2012
Bank of Montreal - prime plus 2%; repayable in monthly principal installments of \$6,393 plus interest. The loan matures on May 31, 2017.	\$ 262,107	\$ 338,821
Finance PEI - prime plus 3%; repayable in monthly blended installments of \$6,766. The loan matures on December 1, 2016 and is secured by promissory note from the borrower in the amount of \$350,000, registered general security agreement over specific equipment with a carrying value of \$161,429 and an interest in all other present and after acquired personal property of the borrower, and a second collateral mortgage on land and buildings in Crapaud, P.E.I. with a carrying value of \$123,660.	227,502	287,590
Bank of Montreal - prime plus 2.375%; repayable in monthly principal installments of \$4,350 plus interest. The loan matures on November 30, 2017.	204,450	252,300
Kubota Canada Ltd. - 6.85%; repayable in monthly blended installments of \$1,006. The loan matures on December 5, 2015 and is secured by 2004 CASE tractor with a carrying value of \$11,215 and 2005 Pronovost snow blowers with a carrying value of \$1,513.	22,517	32,672
Finance PEI - prime plus 3%; repayable in monthly principal installments of \$4,231 plus interest. The loan matures on April 1, 2018 and is secured by a promissory note from the borrower in the amount of \$228,500, guarantee in the amount of \$228,500 signed by Wade Campbell, and a second collateral mortgage on land and buildings in Crapaud, P.E.I. with a carrying value of \$123,660.	220,038	-
Bank of Montreal - prime plus 2.375%; repayable in monthly principal installments of \$16,667 plus interest. The loan matures on May 1, 2015.	283,333	-
Bank of Montreal - prime plus 1.25%; repaid during the year.	-	167,300
	1,219,947	1,078,683
Current portion	(460,494)	(252,789)
	\$ 759,453	\$ 825,894

(continues)

**ISLAND EXCAVATORS (1985) LTD.****Notes to Financial Statements****Year Ended December 31, 2013****12. LONG TERM DEBT (continued)**

Principal repayments of long term debt are expected to be repaid over the next five years as follows:

2014	\$	460,494
2015		348,857
2016		263,061
2017		130,586
2018		16,949

The Bank of Montreal indebtedness and long term loans are secured by the following:

- GSA over all vehicles and equipment with a carrying value of \$763,352
- Guarantee from Trevor Campbell in the amount of \$1,789,000
- Guarantee from Wade Campbell in the amount of \$1,789,000
- Guarantee from T&B Holdings Ltd. in the amount of \$336,200 and subrogation and note
- Letter of undertaking signed by Trevor Campbell and Island Excavators (1985) Ltd.
- 1st collateral mortgage over cottage and land in Hampton, PEI including general security agreement signed by Trevor and Barb Campbell over cottage
- Assignment of life insurance for Trevor Campbell
- 2nd collateral mortgage over office building and land located in Crapaud, PEI with a carrying value of \$123,660
- Notice of registration of top soil, gravel, sand, salt and crushed asphalt used in projects and sold to the general public
- Letter of acknowledgement and breach, signed by Trevor Campbell and Wade Campbell

**13. OBLIGATIONS UNDER CAPITAL LEASE**

	<u>2013</u>	<u>2012</u>
CAT Leasing - 7.55%; repayable in monthly blended installments of \$1,941 plus applicable taxes. The lease matures on May 5, 2017 and is secured by a 2011 CAT D3 dozer with a carrying value of \$83,645.	\$ 69,940	\$ 87,843
CAT Leasing - 2%; repayable in monthly blended installments of \$1,644 plus applicable taxes. The lease matures on April 26, 2016 and is secured by a 2011 CAT 420E backhoe with a carrying value of \$72,251.	44,938	64,083
John Deere - 1.9%; repayable in monthly blended installments of \$4,456 plus applicable taxes. The lease matures on October 1, 2014 and is secured by a Hitachi Excavator with a carrying value of \$128,650.	44,184	96,279

(continues)

**ISLAND EXCAVATORS (1985) LTD.****Notes to Financial Statements****Year Ended December 31, 2013****13. OBLIGATIONS UNDER CAPITAL LEASE (continued)**

	2013	2012
Wells Fargo - 6.4%; repayable in monthly blended installments of \$3,053 plus applicable taxes. The lease matures on November 15, 2014 and is secured by a 2007 Komatsu D65EX-15 dozer with a carrying value of \$79,167.	<b>32,769</b>	66,140
GE Capital 0%; repayable in monthly blended installments of \$1,253 plus applicable taxes. The lease matures on December 1, 2015 and is secured by a 2012 JCB skidsteer with a carrying value of \$48,481.	<b>30,077</b>	45,116
RCAP Leasing - 11.309%; repayable in monthly blended installments of \$749 plus applicable taxes. The lease matures on October 1, 2016 and is secured by an On Grade GPS with a carrying value of \$22,800.	<b>21,710</b>	28,095
CAT Leasing - 2.55%; repayable in monthly blended installments of \$1,568 plus applicable taxes. The lease matures on January 8, 2015 and is secured by a 2009 CAT 420E backhoe with a carrying value of \$70,954.	<b>20,082</b>	38,626
National Leasing - 10.127%; repayable in monthly blended installments of \$365 plus applicable taxes. The lease matures on December 1, 2016 and is secured by a waste oil furnace with a carrying value of \$12,318.	<b>12,160</b>	15,255
Bodkin Leasing Corporation - 13.47%; repayable in monthly blended installments of \$698 plus applicable taxes. The lease matures on December 1, 2016 and is secured by a 1989 International 5000 Paystar with a carrying value of \$16,625.	<b>20,284</b>	-
CAT Leasing - 5.9%; repayable in monthly blended installments of \$535 plus applicable taxes. The lease matures on May 27, 2016 and is secured by a 2007 CAT mini excavator with a carrying value of \$15,249.	<b>14,418</b>	-
Wells Fargo - 6.96%; matured during the year.	-	25,536
	<b>310,562</b>	466,973
Current portion	<b>(183,421)</b>	(208,476)
	<b>\$ 127,141</b>	<b>\$ 258,497</b>

*(continues)*

**ISLAND EXCAVATORS (1985) LTD.****Notes to Financial Statements****Year Ended December 31, 2013****13. OBLIGATIONS UNDER CAPITAL LEASE *(continued)***

Future minimum capital lease payments are approximately:

2014	\$ 183,421
2015	87,782
2016	53,531
2017	9,706
	<hr/>
Total minimum lease payments	334,440
Less: amount representing interest at various rates	(23,878)
	<hr/>
Present value of minimum lease payments	310,562
Less: current portion	183,421
	<hr/>
	<u>\$ 127,141</u>

Lease payments of \$199,599 were expensed for tax purposes.

**14. REDEEMABLE PREFERRED SHARES**

	<u>2013</u>	<u>2012</u>
800,000 Class B preferred shares	\$ 375,000	\$ 375,000
Less: unamortized portion of deferred finance charges	<hr/> -	<hr/> (15,101)
	375,000	359,899
Current portion	<hr/> (375,000)	<hr/> (359,899)
	<hr/> <u>\$ -</u>	<hr/> <u>\$ -</u>

The 800,000 Class B preferred shares were issued in September, 2008 under the Provincial Nominee Program for proceeds of \$800,000. As disclosed in Note 6, the company has paid \$375,000 for the option to redeem these shares five years from the date of issuance. Accordingly, the total anticipated redemption cost of \$375,000 has been classified as a liability rather than equity. The remaining value of \$425,000 has been classified as equity as disclosed in Note 17.

**15. CONTINGENT LIABILITY**

The company has provided a guarantee for loans of Bluefield Natural Products Inc., a related company, of \$100,000 with Farm Credit Corporation.

# ISLAND EXCAVATORS (1985) LTD.

## Notes to Financial Statements

Year Ended December 31, 2013

### 16. LEASE COMMITMENTS

The company has entered into a lease agreements with Ford Credit Canada and Kubota Finance for the lease of a 2013 Ford Edge and a 2011 New Holland tractor. The minimum lease payments due over the next four years are as follows:

2014	\$	15,100
2015		15,100
2016		9,802
2017		4,172

### 17. SHARE CAPITAL

Authorized:

Unlimited	Common shares with a par value of \$1 each
Unlimited	Class A preferred shares with a par value of \$1 each, issued in Series, terms and conditions to be established upon issuance
Unlimited	Class B preferred shares with a par value of \$1 each, non-voting, non-retractable, non-cumulative with an annual dividend rate of 3%. Redeemable on the fifth anniversary date of issuance by paying a discounted redemption rate of \$0.45 per share for Series 1 shares, and \$0.475 per share for Series 2 and 3 shares

		2013	2012
Issued:			
5,001	Common shares	\$ 5,001	\$ 5,001
800,000	Class B preferred shares	425,000	425,000
	Less unamortized portion of deferred finance charges	-	(17,115)
		<u>\$ 430,001</u>	<u>\$ 412,886</u>

### 18. RELATED PARTY TRANSACTIONS

During the year, Island Excavators (1985) Ltd. received equipment rental revenues in the amount of \$18,900 from Bluefield Natural Products Inc., a related party. Island Excavators (1985) Ltd. and Bluefield Natural Products Inc. are related because of common share ownership between the companies.

These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

**ISLAND EXCAVATORS (1985) LTD.****Notes to Financial Statements****Year Ended December 31, 2013****19. INCOME TAXES**

The income tax provision (recovery) recorded differs from the income tax obtained by applying the statutory income tax rate of 30.64% (2012 - 29.00%) to the income (loss) for the year and is reconciled as follows:

	<u>2013</u>	<u>2012</u>
Loss before income taxes	<u>\$ (1,427,257)</u>	<u>\$ 450,748</u>
Income tax expense (recovery) at the combined basic federal and provincial tax rate:	\$ (437,312)	\$ 130,717
Increase (decrease) resulting from:		
Small business deduction	-	(45,851)
Taxable capital gain in excess of financial statement gain	(3,130)	6,174
Capital cost allowance claimed in excess of amortization	45,240	31,431
Political donation credit	-	(500)
Tax recoverable from capital loss carry back	50,774	-
Non-capital loss carried forward	321,227	-
Non-capital loss carry forward	-	(114,868)
Non-deductible expenses	(8,665)	37,840
Adjustment to prior year	-	(13,077)
Effective tax expense (recovery)	<u>\$ (31,866)</u>	<u>\$ 31,866</u>

The effective income tax rate is 2.25% (2012 - 7.07%).

**20. INVENTORY ADJUSTMENT**

Included in the supplies, materials and subcontracting expense is an inventory write-down of \$833,612. This adjustment reflects changes in market prices, and a portion of the change relates to opening inventory figures.

**21. PRIOR PERIOD ADJUSTMENT**

During the year, a prior period adjustment was recorded and resulted in an increase in amounts due from a related party of \$47,347, an increase in government remittances payable of \$2,255, and a decrease in supplies, materials and subcontracting expense of \$45,093 to the comparative figures from amounts previously reported on the 2012 financial statements.

**ISLAND EXCAVATORS (1985) LTD.****Notes to Financial Statements****Year Ended December 31, 2013****22. CHANGES IN NON-CASH WORKING CAPITAL**

	2013	2012
Accounts receivable	\$ 727,586	\$ 358,139
Income taxes	(63,732)	31,866
Tender deposits	102,625	(14,109)
Inventory	617,534	(812,162)
Prepaid expense	(6,189)	53,115
Tender deposits loan	(103,200)	14,332
Accounts payable and accrued liabilities	(244,465)	150,815
Government remittances payable	(37,249)	15,857
Holdbacks payable	12,173	-
Deposits received	-	(180)
	<b>\$ 1,005,083</b>	<b>\$ (202,327)</b>

**23. FINANCIAL INSTRUMENTS**

The company's financial instruments consist of cash, accounts receivable, tender deposits, promissory notes receivable, amounts due from related parties, funds held in trust, bank indebtedness, accounts payable and accrued liabilities, holdbacks payable, long term debt, obligations under capital lease and redeemable preferred shares classified as liabilities.

The company is exposed to various risks through its financial instruments and has a comprehensive risk management framework to monitor, evaluate and manage these risks. The following analysis provides information about the company's risk exposure and concentration as of December 31, 2013.

**Credit risk**

Credit risk arises from the potential that a counter party will fail to perform its obligations. The company is exposed to credit risk from customers. An allowance for doubtful accounts is established based upon factors surrounding the credit risk of specific accounts, historical trends and other information. The company has a significant number of customers which minimizes concentration of credit risk.

**Liquidity risk**

Liquidity risk is the risk that an company will encounter difficulty in meeting obligations associated with financial liabilities. The company ensures that it has sufficient capital to meet short term financial obligations after taking into account its operations and cash on hand. The company actively maintains a committed credit facility to ensure that it has sufficient available funds to meet current and foreseeable future financial requirements at a reasonable cost.

**Interest rate risk**

Interest rate risk is the risk that the value of a financial instrument might be adversely affected by a change in the interest rates. In seeking to minimize the risks from interest rate fluctuations, the company manages exposure through its normal operating and financing activities. The company is exposed to interest rate risk primarily through its floating interest rate bank indebtedness and long term credit facilities.



**ISLAND EXCAVATORS (1985) LTD.**

**Notes to Financial Statements**

**Year Ended December 31, 2013**

---

**24. NON-CAPITAL TAX LOSSES CARRIED FORWARD**

The company has incurred losses of \$1,058,672 for tax purposes which are available to reduce future taxable income. Such benefits will be recorded as an adjustment to the tax provision in the year realized. The losses will expire as follows:

2033	\$ 1,058,672
------	--------------

**25. COMPARATIVE FIGURES**

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

**ISLAND EXCAVATORS (1985) LTD.****Schedule of Expenses****(Schedule 1)****Year Ended December 31, 2013**

	<b>2013</b>	<b>2012</b>
<b>General and administrative</b>		
Advertising and promotion	\$ 14,766	\$ 22,720
Bad debts (recovery)	(14,269)	16,805
Lights, heat and telephone	20,937	36,131
Office	14,170	22,532
Professional fees	9,304	16,842
Property tax	3,435	3,137
Salaries and employee benefits	304,409	287,189
	<u>\$ 352,752</u>	<u>\$ 405,356</u>
<b>Operating</b>		
Depletion of gravel pits	\$ 121	\$ 321
Gas and oil	405,066	480,195
Insurance	88,752	73,272
Licenses and registrations	28,209	20,138
Rentals	11,664	23,880
Repairs and maintenance	128,663	250,143
Supplies, materials and subcontracting (Note 20)	1,758,637	1,567,860
Travel	12,993	17,134
Wages and employee benefits	754,572	780,982
Workers' compensation insurance	26,794	51,359
	<u>\$ 3,215,471</u>	<u>\$ 3,265,284</u>

(See accompanying notes to these financial statements)

Prepared without audit