

**ISLAND EXCAVATORS (1985) LTD.**

**Financial Statements**

**December 31, 2011**

**ISLAND EXCAVATORS (1985) LTD.**

**Index to Financial Statements**

**December 31, 2011**

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## REVIEW ENGAGEMENT REPORT

To the Shareholders of Island Excavators (1985) Ltd.

We have reviewed the balance sheet of Island Excavators (1985) Ltd. as at December 31, 2011 and the statements of income and retained earnings and cash flows for the year then ended. Our review was made in accordance with Canadian generally accepted standards for review engagements and, accordingly, consisted primarily of inquiry, analytical procedures and discussion related to information supplied to us by the company.

A review does not constitute an audit and, consequently, we do not express an audit opinion on these financial statements.

Based on our review, nothing has come to our attention that causes us to believe that these financial statements are not, in all material respects, in accordance with Canadian accounting standards for private enterprises.

We draw attention to Note 21 to the financial statements which describes that Island Excavators (1985) Ltd. adopted Canadian accounting standards for private enterprises on January 1, 2011 with a transition date of January 1, 2010. These standards were applied retrospectively by management to the comparative information in these financial statements, including the balance sheets as at December 31, 2010 and January 1, 2010 and the statements of income and retained earnings and cash flows for the year ended December 31, 2010 and related disclosures. We were not engaged to report on the restated comparative information, and as such, it is neither audited nor reviewed.

*MRSB Chartered Accountants*

MRSB CHARTERED ACCOUNTANTS

Charlottetown, PE

May 14, 2012

# ISLAND EXCAVATORS (1985) LTD.

## Balance Sheet December 31, 2011

	December 31 2011	December 31 2010	January 1 2010
<b>ASSETS</b>			
<b>Current</b>			
Accounts receivable (Note 4)	\$ 1,670,939	\$ 1,417,682	\$ 810,795
Inventory	638,983	522,715	570,928
Tender deposits	89,216	96,843	119,599
Prepaid expense	93,693	87,535	92,312
	<b>2,492,831</b>	<b>2,124,775</b>	<b>1,593,634</b>
<b>Property And Equipment</b> (Note 5)	<b>1,746,629</b>	<b>1,416,262</b>	<b>1,271,523</b>
<b>Due From Related Parties</b> (Note 6)	<b>1,105,992</b>	<b>656,488</b>	<b>264,917</b>
<b>Promissory Notes Receivable</b> (Note 7)	<b>375,000</b>	<b>375,000</b>	<b>375,000</b>
<b>Gravel Pits</b> (Note 8)	<b>23,259</b>	<b>23,580</b>	<b>24,235</b>
<b>Funds Held In Trust</b> (Note 9)	<b>20,000</b>	<b>20,000</b>	<b>20,000</b>
	<b>\$ 5,763,711</b>	<b>\$ 4,616,105</b>	<b>\$ 3,549,309</b>
<b>LIABILITIES</b>			
<b>Current</b>			
Bank indebtedness (Note 10)	\$ 747,307	\$ 869,221	\$ 695,007
Operating loan	-	-	75,000
Tender deposits loan (Note 11)	88,866	96,843	118,849
Accounts payable and accrued liabilities	1,553,088	1,113,438	671,948
Government remittances payable	164,520	74,584	25,267
Deposits received	180	-	-
Current portion of long term debt (Note 12)	208,524	227,151	125,085
Current portion of obligations under capital lease (Note 14)	208,901	126,088	143,099
	<b>2,971,386</b>	<b>2,507,325</b>	<b>1,854,255</b>
<b>Long Term Debt</b> (Note 12)	<b>824,051</b>	<b>643,936</b>	<b>477,506</b>
<b>Redeemable Preferred Shares</b> (Note 13)	<b>337,247</b>	<b>314,595</b>	<b>292,720</b>
<b>Obligations Under Capital Lease</b> (Note 14)	<b>288,190</b>	<b>149,636</b>	<b>176,367</b>
	<b>1,449,488</b>	<b>1,108,167</b>	<b>946,593</b>
	<b>4,420,874</b>	<b>3,615,492</b>	<b>2,800,848</b>
<b>Contingent Liability</b> (Note 15)			
<b>Lease Commitments</b> (Note 16)			
<b>SHAREHOLDERS' EQUITY</b>			
<b>Share Capital</b> (Note 17)	<b>387,214</b>	<b>361,542</b>	<b>336,750</b>
<b>Retained Earnings</b> (Statement 3)	<b>955,623</b>	<b>639,071</b>	<b>411,711</b>
	<b>1,342,837</b>	<b>1,000,613</b>	<b>748,461</b>
	<b>\$ 5,763,711</b>	<b>\$ 4,616,105</b>	<b>\$ 3,549,309</b>

(See accompanying notes to these financial statements)

Prepared without audit

**ISLAND EXCAVATORS (1985) LTD.**  
**Statement of Income and Retained Earnings**  
**Year Ended December 31, 2011**

	2011	2010
<b>Income</b>		
Contracting	\$ 3,176,397	\$ 3,409,071
Equipment rental and small jobs (Note 18)	901,032	1,165,189
Snow removal	327,395	231,348
Materials	28,222	12,922
Trucking	16,411	13,126
Gain on disposal of property and equipment	5,000	-
Interest	2,311	3,336
	<u>4,456,768</u>	<u>4,834,992</u>
<b>Expense</b>		
Amortization of deferred finance charges	48,324	46,666
Amortization of leased assets	64,176	51,454
Amortization of property and equipment	211,183	268,936
General and administrative expenses (Schedule 1)	424,237	366,937
Interest and bank charges	101,794	85,384
Interest on long term debt	45,885	48,161
Interest on obligations under capital lease	14,651	19,210
Loss on disposal of property and equipment	-	4,093
Operating expenses (Schedule 1)	3,229,966	3,716,791
	<u>4,140,216</u>	<u>4,607,632</u>
<b>Net Income</b>	316,552	227,360
<b>Retained Earnings - Beginning Of Year</b>	639,071	411,711
<b>Retained Earnings - End Of Year</b>	<u>\$ 955,623</u>	<u>\$ 639,071</u>

**ISLAND EXCAVATORS (1985) LTD.****Statement of Cash Flows****Year Ended December 31, 2011**

	2011	2010
<b>Cash Flows From Operating Activities</b>		
Net income	\$ 316,552	\$ 227,360
Items not affecting cash:		
Amortization of deferred finance charges	48,324	46,666
Amortization of leased assets	64,176	51,454
Amortization of property and equipment	211,183	268,936
Depletion of gravel pits	321	655
Gain on disposal of property and equipment	(5,000)	-
Loss on disposal of property and equipment	-	4,093
	<u>635,556</u>	<u>599,164</u>
Changes in non-cash working capital:		
Accounts receivable	(253,257)	(606,887)
Inventory	(116,268)	48,213
Tender deposits	7,627	22,756
Prepaid expense	(6,158)	4,777
Tender deposits loan	(7,977)	(22,006)
Accounts payable and accrued liabilities	439,648	441,488
Government remittances payable	89,936	49,317
Deposits received	180	-
	<u>153,731</u>	<u>(62,342)</u>
	<u>789,287</u>	<u>536,822</u>
<b>Cash Flows From Investing Activities</b>		
Purchase of property and equipment	(215,711)	(383,455)
Proceeds on disposal of property and equipment	5,000	47,550
Purchase of assets under capital lease	(390,013)	(133,314)
	<u>(600,724)</u>	<u>(469,219)</u>
<b>Cash Flows From Financing Activities</b>		
Advances to related parties	(449,504)	(391,571)
Proceeds from long term financing	389,149	737,000
Repayment of long term debt	(227,660)	(468,504)
Repayment of obligations under capital lease	(139,476)	(165,166)
Proceeds from capital leases	360,842	121,424
Repayment of operating loan	-	(75,000)
	<u>(66,649)</u>	<u>(241,817)</u>
<b>Increase (Decrease) In Cash</b>	<b>121,914</b>	<b>(174,214)</b>
<b>Deficiency - Beginning Of Year</b>	<b>(869,221)</b>	<b>(695,007)</b>
<b>Deficiency - End Of Year</b>	<b>\$ (747,307)</b>	<b>\$ (869,221)</b>
<b>Cash Flows Supplementary Information</b>		
Interest received	\$ 2,311	\$ 3,336
Interest paid	60,536	67,371

(See accompanying notes to these financial statements)

Prepared without audit

# ISLAND EXCAVATORS (1985) LTD.

## Notes to Financial Statements

Year Ended December 31, 2011

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### 1. DESCRIPTION OF BUSINESS

Island Excavators (1985) Ltd. was incorporated under the Prince Edward Island Companies Act on July 23, 1985 for the purpose of excavation services and equipment rentals in Prince Edward Island.

### 2. BASIS OF PRESENTATION

The financial statements were prepared in accordance with Canadian accounting standards for private enterprises.

### 3. SIGNIFICANT ACCOUNTING POLICIES

#### Changes In Accounting Policies - Accounting Standard For Private Enterprise

With regard to the company's transition from former Canadian generally accepted accounting principles (GAAP) to Canadian accounting standards for private enterprises (ASPE), the company has made the following elections available under Canadian Institute of Chartered Accountants (CICA) Handbook Section 1500 of Canadian accounting standards for private enterprises:

#### Related Party Transactions

Handbook Section 3840, "Related party transactions", specifies that certain related party transactions shall be measured at the carrying amount and some at the exchange amount. However, under Handbook Section 1500 of Canadian accounting standards for private enterprises, the company is not required to restate assets or liabilities related to transactions with related parties when the related party transaction occurred prior to the date of transition to accounting standards for private enterprises. The company has used this election.

#### Accounts Receivable

Accounts receivable arise from trade sales and holdbacks receivable. An allowance for bad debts has been calculated through discussions with management, assessment of the other circumstances influencing the collectibility of amounts, and using historical loss experience. Amounts deemed uncollectible are written off and deducted from the carrying value of the receivable. Amounts subsequently recovered from accounts previously written off are credited to the allowance account in the period of recovery.

#### Inventory

Inventory of industrial minerals is recorded at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less any applicable selling expenses.

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# ISLAND EXCAVATORS (1985) LTD.

## Notes to Financial Statements

Year Ended December 31, 2011

### 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

#### Property And Equipment

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

Buildings	5%	declining balance method
Motor and contractors moveable equipment	30%	declining balance method
Earth moving equipment	10 years	straight-line method
Office and shop equipment	20%	declining balance method
Paving	10%	declining balance method

#### Assets Under Capital Leases

Assets under capital leases are stated at cost less accumulated amortization. Assets under capital leases are amortized over their estimated useful lives on a straight-line basis over 10 years.

#### Depletion

Depletion of gravel pits is recorded in proportion to usage.

#### Income Taxes

The company accounts for income taxes using the taxes payable method under which the company reports as an expense of the year only the cost of the current income taxes for that year, determined by taxation authorities.

#### Financial Instruments

Financial instruments are recorded at fair value when acquired or issued. In subsequent periods, financial assets with actively traded markets are reported at fair value, with any unrealized gains and losses reported in income. All other financial instruments are reported at amortized cost, and tested for impairment at each reporting date. Transaction costs on the acquisition, sale, or issue of financial instruments are expensed when incurred.

#### Revenue Recognition

The company recognizes revenues and profits from construction contracts on the percentage of completion basis. The percentage of completion is determined based on units of output completed to date for each contract. Any projected loss is recognized immediately for accounting purposes.

Other revenues are recognized when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Interest revenue is recognized on a time proportionate basis.

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# ISLAND EXCAVATORS (1985) LTD.

## Notes to Financial Statements

Year Ended December 31, 2011

### 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

#### Measurement Uncertainty

When preparing financial statements according to Canadian accounting standards for private enterprises, management makes estimates and assumptions relating to:

- reported amounts of revenues and expenses
- reported amounts of assets and liabilities
- disclosure of contingent assets and liabilities.

Estimates are based on a number of factors including historical experience, current events and actions that the company may undertake in the future, and other assumptions that management believes are reasonable under the circumstances. By their nature, these estimates are subject to measurement uncertainty and actual results could differ. In particular, estimates are used in accounting for certain items such as revenues, allowance for doubtful accounts, useful lives of capital assets, asset impairments, legal and tax contingencies, employee compensation plans, employee benefit plans, income taxes, and goodwill impairment.

### 4. ACCOUNTS RECEIVABLE

	<u>2011</u>	<u>2010</u>
Trade and unbilled contracts	\$ 1,374,000	\$ 1,170,718
Holdbacks on contracts	<u>377,435</u>	<u>288,807</u>
	1,751,435	1,459,525
Allowance for doubtful accounts	<u>(80,496)</u>	<u>(41,843)</u>
	<u>\$ 1,670,939</u>	<u>\$ 1,417,682</u>

# ISLAND EXCAVATORS (1985) LTD.

## Notes to Financial Statements

Year Ended December 31, 2011

### 5. PROPERTY AND EQUIPMENT

	Cost	Accumulated Amortization	2011 Net Book Value	2010 Net Book Value
Land	\$ 48,742	\$ -	\$ 48,742	\$ 48,742
Buildings	167,892	87,752	80,140	78,593
Motor and contractors moveable equipment	1,557,617	1,150,072	407,545	383,003
Earth moving equipment	2,626,572	2,201,406	425,166	445,889
Office and shop equipment	192,598	163,075	29,523	29,851
Paving	16,000	11,410	4,590	5,100
	<b>\$ 4,609,421</b>	<b>\$ 3,613,715</b>	<b>\$ 995,706</b>	<b>\$ 991,178</b>

The following assets are held under capital lease (Note 14):

Earth moving equipment	<b>\$ 919,448</b>	<b>\$ 168,525</b>	<b>\$ 750,923</b>	<b>\$ 425,084</b>
<b>Total property and equipment</b>	<b>\$ 5,528,869</b>	<b>\$ 3,782,240</b>	<b>\$ 1,746,629</b>	<b>\$ 1,416,262</b>

### 6. DUE FROM RELATED PARTIES

	2011	2010
Bluefield Natural Products Inc.	\$ 867,952	\$ 456,831
T&B Holdings Ltd.	238,040	197,057
Camibuel Inc.	-	2,600
	<b>\$ 1,105,992</b>	<b>\$ 656,488</b>

T&B Holdings Ltd. is the parent company and controlling shareholder of Island Excavators (1985) Ltd. Island Excavators (1985) Ltd., Bluefield Natural Products Inc. and Camibuel 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. The related companies have indicated that they do not intend to request material repayment within the next year. Consequently, this amount has been classified as a non-current liability in the financial statements.

### 7. PROMISSORY NOTES RECEIVABLE

	2011	2010
Promissory notes receivable - non-interest bearing, due September 2013 for mandatory redemption of Class B preferred shares	<b>\$ 375,000</b>	<b>\$ 375,000</b>

Promissory notes receivable are expected to be repaid over the next two years as follows:

2013	\$ 375,000
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