

ISLAND EXCAVATORS (1985) LTD.

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December 31, 2013

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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, 2013 and the statements of income and deficit 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.

MRSB Chartered Accountants

MRSB CHARTERED ACCOUNTANTS

Charlottetown, PE

July 4, 2014

ISLAND EXCAVATORS (1985) LTD.

Balance Sheet December 31, 2013

	2013	2012
ASSETS		
Current		
Cash	\$ 479	\$ 349
Accounts receivable (Note 5)	533,356	1,260,942
Income taxes recoverable	31,866	-
Tender deposits	700	103,325
Inventory	833,611	1,451,145
Prepaid expense	46,767	40,578
Current portion of promissory notes receivable (Note 6)	375,000	375,000
	1,821,779	3,231,339
Property and equipment (Note 7)	1,483,579	1,701,539
Due from related parties (Note 8)	1,385,915	1,276,456
Gravel pits (Note 9)	22,817	22,938
Funds held in trust (Note 10)	20,000	20,000
	\$ 4,734,090	\$ 6,252,272
LIABILITIES		
Current		
Bank indebtedness (Note 11)	\$ 882,282	\$ 497,536
Operating loan	-	120,000
Tender deposits loan	-	103,200
Accounts payable and accrued liabilities	1,465,617	1,710,081
Government remittances payable	137,650	174,899
Holdbacks payable	12,173	-
Income taxes payable	-	31,866
Current portion of long term debt (Note 12)	460,494	252,789
Current portion of obligations under capital lease (Note 13)	183,421	208,476
Current portion of redeemable preferred shares (Note 14)	375,000	359,899
	3,516,637	3,458,746
Long term debt (Note 12)	759,453	825,894
Obligations under capital lease (Note 13)	127,141	258,497
	4,403,231	4,543,137
Contingent liability (Note 15)		
Lease commitments (Note 16)		
SHAREHOLDERS' EQUITY		
Share capital (Note 17)	430,001	412,886
Retained earnings (deficit) (Statement 3)	(99,142)	1,296,249
	330,859	1,709,135
	\$ 4,734,090	\$ 6,252,272

(See accompanying notes to these financial statements)

Prepared without audit

ISLAND EXCAVATORS (1985) LTD.**Statement of Income and Deficit****Year Ended December 31, 2013**

	2013	2012
Income		
Contracting	\$ 1,895,688	\$ 3,188,369
Snow removal	387,479	424,239
Equipment rental and small jobs (Note 18)	322,902	951,684
Materials	92,654	134,154
Gain on disposal of property and equipment	20,881	-
Trucking	20,193	22,529
Interest (write-off of interest)	4,701	(6,392)
Miscellaneous	669	724
	<u>2,745,167</u>	<u>4,715,307</u>
Expenses		
Amortization of deferred finance charges	32,216	48,324
Amortization of leased assets	80,299	76,820
Amortization of property and equipment	227,258	222,960
General and administrative expenses (Schedule 1)	352,752	405,356
Interest and bank charges	175,573	153,296
Interest on long term debt	69,058	51,195
Interest on obligations under capital lease	19,797	20,036
Loss on disposal of property and equipment	-	21,288
Operating expenses (Schedule 1)	3,215,471	3,265,284
	<u>4,172,424</u>	<u>4,264,559</u>
Income (loss) before income taxes	(1,427,257)	450,748
Income taxes (recovered) (Note 19)	<u>(31,866)</u>	<u>31,866</u>
Net income (loss)	(1,395,391)	418,882
Retained earnings - beginning of year (Note 21)	<u>1,296,249</u>	<u>877,367</u>
Retained earnings (deficit) - end of year	<u>\$ (99,142)</u>	<u>\$ 1,296,249</u>

(See accompanying notes to these financial statements)

Prepared without audit

ISLAND EXCAVATORS (1985) LTD.

Statement of Cash Flows

Year Ended December 31, 2013

	2013	2012
Cash flows from operating activities		
Net income (loss)	\$ (1,395,391)	\$ 418,882
Items not affecting cash:		
Amortization of deferred finance charges	32,216	48,324
Amortization of leased assets	80,299	76,820
Amortization of property and equipment	227,258	222,960
Depletion of gravel pits	121	321
(Gain) loss on disposal of property and equipment	(20,881)	21,288
	(1,076,378)	788,595
Changes in non-cash working capital (Note 22)	1,005,083	(202,327)
	(71,295)	586,268
Cash flows from investing activities		
Purchase of property and equipment	(82,949)	(111,642)
Purchase of leased assets	(14,266)	(200,754)
Proceeds on disposal of property and equipment	28,500	-
	(68,715)	(312,396)
Cash flows from financing activities		
Proceeds from long term debt	628,500	261,000
Repayment of long term debt	(487,236)	(217,892)
Repayment of obligations under capital lease	(199,599)	(220,015)
Proceeds from (repayment of) operating loan	(120,000)	120,000
Advances to related parties	(109,459)	(156,743)
Proceeds from obligations under capital lease	43,188	189,898
	(244,606)	(23,752)
Increase (decrease) in cash	(384,616)	250,120
Deficiency - beginning of year	(497,187)	(747,307)
Deficiency - end of year	\$ (881,803)	\$ (497,187)
Deficiency consists of:		
Cash	\$ 479	\$ 349
Bank indebtedness	(882,282)	(497,536)
	\$ (881,803)	\$ (497,187)
Cash flows supplementary information		
Interest received	\$ 4,701	\$ -
Interest paid	88,337	70,239

(See accompanying notes to these financial statements)

Prepared without audit

ISLAND EXCAVATORS (1985) LTD.

Notes to Financial Statements

Year Ended December 31, 2013

1. GOING CONCERN

These financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assumes that the company will continue operations for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations.

The company has incurred operating losses and working capital is weak. Continuation of the business is dependent upon the company attaining sufficiently profitable operations, maintaining adequate financing to satisfy liabilities as they become due, and obtaining agreement from lenders to continue to extend existing financing.

These financial statements do not reflect adjustments that would be necessary if the going concern basis were not appropriate, because management believes that actions already taken and planned will mitigate the adverse conditions and events.

2. DESCRIPTION OF BUSINESS

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

3. BASIS OF PRESENTATION

The financial statements were prepared in accordance with Canadian Accounting Standards for Private Enterprises (ASPE).

4. SIGNIFICANT ACCOUNTING POLICIES

Cash

Cash is comprised of cash on hand.

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.

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ISLAND EXCAVATORS (1985) LTD.

Notes to Financial Statements

Year Ended December 31, 2013

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Inventory

Inventories of industrial materials are stated at the lower of cost and net realizable value. Cost includes the costs to purchase, costs to convert, an applicable share of overhead costs, and other costs directly attributable to the inventories. Cost is determined using the first in, first out method. Net realizable value represents the amount that may be realized from the sale of an inventory item under normal business conditions, less any applicable selling expenses. When inventories are sold, the carrying amount of those inventories are recognized as an expense in the period in which the related revenue is recognized. The amount of any write-down of inventories to net realizable value and all losses of inventories shall be recognized as an expense in the period the loss or write-down occurs. The amount of reversal of any write-downs, arising from an increase in net realizable value, shall be recognized as a reduction in the amount of inventories recognized as an expense in the period in which the reversal occurs.

Property and equipment

Property and equipment is stated at cost less accumulated amortization. Property and equipment is amortized over its 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 lease

Assets under capital leases are stated at cost less accumulated amortization. Assets under capital lease are amortized over their estimated useful lives using the following rates and methods:

Earth moving equipment	10 years	straight-line method
Shop equipment and small tools	20%	declining balance method
Motor and contractors moveable equipment	30%	declining balance method

Depletion

Depletion of gravel pits is recorded in proportion to usage.

Income taxes

The company uses the income taxes payable method of accounting for income taxes. Under this method, the company reports as an expense (income) of the period only the cost (benefit) of current income taxes determined in accordance with the rules established by taxation authorities.

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ISLAND EXCAVATORS (1985) LTD.

Notes to Financial Statements

Year Ended December 31, 2013

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments

The company initially measures its financial assets and financial liabilities at fair value, except for certain related party transactions that are measured at the carrying amount or exchange amount, as appropriate.

The company subsequently measures all of its financial assets and financial liabilities at cost or amortized cost, except for investments in equity instruments that are quoted in an active market, which are measured at fair value. Changes in fair value of these financial instruments are recognized in net income.

Financial assets measured at amortized cost on a straight-line basis include cash, accounts receivable, tender deposits, promissory notes receivable, amounts due from related parties and funds held in trust.

Financial liabilities measured at amortized cost on a straight-line basis include bank indebtedness, accounts payable and accrued liabilities, holdbacks payable, long term debt, obligations under capital lease and redeemable preferred shares classified as liabilities.

Transaction costs on the acquisition, sale, or issue of financial instruments that are subsequently measured at amortized cost are shown as an adjustment to the carrying value of the related financial instrument.

When financial instruments that include both a debt and an equity component are issued, the proceeds are allocated firstly to the component for which the fair value is more readily determinable, and the residual is allocated to the other component.

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, 2013

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Measurement uncertainty

When preparing financial statements according to Canadian ASPE, management makes estimates and assumptions relating to:

- reported amounts of income 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 allowance for doubtful accounts, useful lives of capital assets, asset impairments, legal and tax contingencies and income taxes.

5. ACCOUNTS RECEIVABLE

	2013	2012
Trade and unbilled contracts	\$ 398,091	\$ 920,737
Holdbacks on contracts	194,313	426,245
	592,404	1,346,982
Allowance for doubtful accounts	(59,049)	(86,040)
	<u>\$ 533,355</u>	<u>\$ 1,260,942</u>

ISLAND EXCAVATORS (1985) LTD.

Notes to Financial Statements

Year Ended December 31, 2013

6. PROMISSORY NOTES RECEIVABLE

	2013	2012
Promissory notes receivable - non-interest bearing, for mandatory redemption of Class B preferred shares	\$ 375,000	\$ 375,000
Current portion	(375,000)	(375,000)
	<u>\$ -</u>	<u>\$ -</u>

7. PROPERTY AND EQUIPMENT

	Cost	Accumulated amortization	2013 Net book value	2012 Net book value
Land	\$ 48,742	\$ -	\$ 48,742	\$ 48,742
Buildings	170,809	95,891	74,918	76,133
Motor and contractors moveable equipment	1,281,912	1,073,927	207,985	284,930
Earth moving equipment	2,619,506	2,065,745	553,761	526,342
Office and shop equipment	181,422	137,107	44,315	31,873
Paving	16,000	12,282	3,718	4,131
	<u>\$ 4,318,391</u>	<u>\$ 3,384,952</u>	<u>\$ 933,439</u>	<u>\$ 972,151</u>

The following assets are held under capital lease (Note 13):

Earth moving equipment	\$ 654,051	\$ 155,654	\$ 498,397	\$ 685,491
Shop equipment and small tools	45,141	10,023	35,118	43,897
Motor and contractors moveable equipment	25,000	8,375	16,625	-
	<u>\$ 724,192</u>	<u>\$ 174,052</u>	<u>\$ 550,140</u>	<u>\$ 729,388</u>
	<u>\$ 5,042,583</u>	<u>\$ 3,559,004</u>	<u>\$ 1,483,579</u>	<u>\$ 1,701,539</u>