

**ISLAND EXCAVATORS (1985) LTD.****Notes to Financial Statements****Year Ended December 31, 2011****8. GRAVEL PITS**

	<b>Cost</b>	<b>Accumulated Depletion</b>	<b>2011</b>	<b>2010</b>
Gravel pits	<b>\$ 40,000</b>	<b>\$ 16,741</b>	<b>\$ 23,259</b>	<b>\$ 23,580</b>

**9. 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-rate share of the monies remaining in the fund when all rejected investors are known. Accordingly, the funds are recorded as a long term asset.

**10. BANK INDEBTEDNESS**

	<b>2011</b>	<b>2010</b>
Bank of Montreal - prime plus 1.5%; maximum limit of \$450,000; secured by pledge of accounts receivables with a carrying value of \$1,670,939 and general security agreement over all assets with a carrying value of \$5,736,715, an assignment of fire and life insurance and guarantees of directors and the parent company	<b>\$ 656,860</b>	<b>\$ 779,034</b>
Wells Fargo - 15.99%; maximum limit of \$104,000; unsecured	<b>84,291</b>	<b>89,921</b>
AMEX - 10.75% limit of \$10,000, unsecured	<b>6,156</b>	<b>266</b>
	<b>\$ 747,307</b>	<b>\$ 869,221</b>

**11. TENDER DEPOSIT LOAN**

	<b>2011</b>	<b>2010</b>
Bank of Montreal - 3%; maximum limit of \$250,000; secured by general security agreement and guarantees of directors and the parent company	<b>\$ 88,866</b>	<b>\$ 96,843</b>

**ISLAND EXCAVATORS (1985) LTD.****Notes to Financial Statements****Year Ended December 31, 2011****12. LONG TERM DEBT**

	<u>2011</u>	<u>2010</u>
Bank of Montreal - prime plus 2%; repayable in monthly principal installments of \$6,393 plus interest. The loan matures on May 28, 2017.	\$ 415,536	\$ 492,250
Bank of Montreal - prime plus 1.25%; repayable in monthly principal installments of \$3,983 plus interest. The loan matures on June 1, 2016.	215,100	262,900
Bank of Montreal - prime plus 2.625%; repayable in monthly principal installments of \$1,583 plus interest. The loan matures on June 1, 2012.	9,500	28,500
Bank of Montreal - prime plus 2.625%; repayable in monthly principal installments of \$633 plus interest. The loan matures on June 1, 2012.	3,800	11,400
Innovation PEI - prime plus 3%; repayable in monthly blended installments of \$6,766. The loan matures on May 6, 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 \$258,346 and an interest in all other present and after acquired personal property of the borrower, first collateral mortgage on land and buildings in Crapaud, P.E.I. with a carrying value of \$134,020 and personal guarantee by shareholder.	349,490	-
Kubota Canada Ltd. - 6.85%; repayable in monthly blended installments of \$935. The loan matures on December 5, 2015 and is secured by 2004 Case tractor with a carrying value of \$45,788 and 2005 Pronovost snow blower with a carrying value of \$3,771.	39,149	-
Bank of Montreal - prime plus 1.5%; repaid during the year.	-	66,667
PEI Lending Agency - 7.5%; repaid during the year.	-	9,370
	<b>1,032,575</b>	871,087
Current portion	<b>208,524</b>	227,151
	<b>\$ 824,051</b>	<b>\$ 643,936</b>

*(continues)*

**ISLAND EXCAVATORS (1985) LTD.****Notes to Financial Statements****Year Ended December 31, 2011****12. LONG TERM DEBT (continued)**

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

2012	\$	208,524
2013		199,672
2014		204,393
2015		209,410
2016		178,613

BMO loans are secured by general security agreement over all assets with a carrying value of \$5,736,715.

**13. REDEEMABLE PREFERRED SHARES**

	<u>2011</u>	<u>2010</u>
800,000 Class B preferred shares, redeemable September, 2013	\$ 375,000	\$ 375,000
Less: Unamortized deferred finance fees	<u>37,753</u>	<u>60,405</u>
	<u>\$ 337,247</u>	<u>\$ 314,595</u>

The amount of redeemable preferred shares estimated to be redeemed over the next two fiscal years are as follows:

2013	\$	375,000
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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 7, 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.

**ISLAND EXCAVATORS (1985) LTD.****Notes to Financial Statements****Year Ended December 31, 2011****14. OBLIGATIONS UNDER CAPITAL LEASE**

	<u>2011</u>	<u>2010</u>
Wells Fargo - 6.96%; repayable in monthly blended installments of \$3,477. The lease matures on August 1, 2012 and is secured by two 2007 Peterbuilt trucks and a 2008 tandem trailer with a carrying value of \$148,078.	\$ 65,965	\$ 102,476
CAT Leasing - 2.55%; repayable in monthly blended installments of \$1,732. The lease matures on January 8, 2015 and is secured by a 2009 CAT 420E backhoe with a carrying value of \$98,136.	61,820	80,950
Wells Fargo - 9.326%; repayable in monthly blended installments of \$1,296. The lease matures on April 2, 2012 and is secured by a Eager Beaver float with a carrying value of \$34,861.	5,097	19,596
Wells Fargo - 9.326%; repayable in monthly blended installments of \$2,719. The lease matures on June 1, 2012 and is secured by a Cheng Gong loader with a carrying value of \$77,634.	18,525	48,335
Wells Fargo - 6.845%; repayable in monthly blended installments of \$1,274. The lease matures on August 1, 2012 and is secured by a 2004 Bomag roller with a carrying value of \$32,973.	10,043	24,367
John Deere - 1.9%; repayable in monthly blended installments of \$4,456. The lease matures on October 1, 2014 and is secured by a Hitachi Excavator with a carrying value of \$161,850.	147,395	-
CAT Leasing - 2%; repayable in monthly blended installments of \$1,817. The lease matures on April 26, 2016 and is secured by a 2011 CAT 420E backhoe with a carrying value of \$98,223.	90,799	-
Wells Fargo - 6.4%; repayable in monthly blended installments of \$3,053. The lease matures on November 15, 2014 and is secured by a 2007 Komatsu D65EX-15 dozer with a carrying value of \$99,167.	97,447	-
	<b>497,091</b>	<b>275,724</b>
Current portion	<b>208,901</b>	<b>126,088</b>
	<b>\$ 288,190</b>	<b>\$ 149,636</b>

*(continues)*

**ISLAND EXCAVATORS (1985) LTD.****Notes to Financial Statements****Year Ended December 31, 2011****14. OBLIGATIONS UNDER CAPITAL LEASE (continued)**

	<u>2011</u>	<u>2010</u>
Future minimum capital lease payments are approximately:		
2012	\$ 208,901	
2013	160,509	
2014	120,982	
2015	23,533	
2016	<u>7,267</u>	
Total minimum lease payments	521,192	
Less: amount representing interest at various rates	<u>(24,101)</u>	
	<u>\$ 497,091</u>	

**15. CONTINGENT LIABILITY**

The company has provided a guarantee for loans of Bluefield Natural Products Inc., a related company, of \$300,000.

**16. LEASE COMMITMENTS**

The company has entered into lease agreements for the lease of certain earth moving equipment. The minimum lease payments due over the next year is \$25,908.

**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

	<u>2011</u>	<u>2010</u>
Issued:		
5,001 common shares	\$ 5,001	\$ 5,001
800,000 Class B preferred shares	425,000	425,000
Less: Unamortized deferred finance fees	<u>(42,787)</u>	<u>(68,459)</u>
	<u>\$ 387,214</u>	<u>\$ 361,542</u>

# ISLAND EXCAVATORS (1985) LTD.

## Notes to Financial Statements

Year Ended December 31, 2011

### 18. RELATED PARTY TRANSACTIONS

During the year, the company performed small jobs and rented equipment to Bluefield Natural Products Ltd. in the amount of \$46,982. Island Excavators (1985) Ltd. is related to Bluefield Natural Products Inc. because of common share ownership between the companies. These transactions are in the normal course of operations and are measured at the exchange value agreed to by the related parties.

### 19. INCOME TAXES

The income tax provision recorded differs from the income tax obtained by applying the statutory income tax rate of 28.00% (2010 - 28.27%) to the income for the year and is reconciled as follows:

	2011	2010
Income before taxes	\$ 316,552	\$ 227,360
Income tax expense at the combined basic federal and provincial tax rate:	\$ 88,635	\$ 64,275
Increase (decrease) resulting from:		
Taxable capital gain in excess of financial statement gain	(1,400)	1,157
Capital cost allowance claimed in excess of amortization	15,334	27,564
Non-capital loss carryforward	44,603	27,953
Non-deductible expenses	(147,172)	(120,949)
Effective tax expense	\$ -	\$ -

The effective income tax rate is -% (2010 - -%).

### 20. NON-CAPITAL TAX LOSSES CARRIED FORWARD

The company has incurred losses of \$396,095 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:

2024	\$ 60,861
2026	32,129
2029	45,919
2030	97,890
2031	159,296

### 21. FIRST TIME ADOPTION OF ACCOUNTING STANDARDS FOR PRIVATE ENTERPRISES

(continues)

**ISLAND EXCAVATORS (1985) LTD.**

**Notes to Financial Statements**

**Year Ended December 31, 2011**

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**21. FIRST TIME ADOPTION OF ACCOUNTING STANDARDS FOR PRIVATE ENTERPRISES**  
***(continued)***

During the year the company adopted accounting standards for private enterprises. These financial statements are the first prepared in accordance with these standards. The changes have been applied retrospectively, and have not resulted in any changes to opening retained earnings, comparative net income, or statement of cash flows. As a result of the retrospective application of ASPE, the deferred finance charges have been reclassified as an adjustment to the carrying value of the redeemable preferred shares and share capital as they no longer meet criteria as an asset on the balance sheet.

# ISLAND EXCAVATORS (1985) LTD.

## Notes to Financial Statements

Year Ended December 31, 2011

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### 22. FINANCIAL INSTRUMENTS

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

Transacting in financial instruments exposes the company to certain financial risks and uncertainties. These risks include:

#### 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 through trade receivables. In order to reduce its credit risk, the company reviews a new customer's credit history before extending credit and conducts regular reviews of its existing customers' credit performance. 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. The company generally considers the credit quality of its financial assets that are neither past due or impaired to be solid.

#### Liquidity Risk

Liquidity risk is the risk that the 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.

#### Fair Value

The company's carrying value of accounts receivable, tender deposits, bank indebtedness, tender deposits loan and accounts payable approximates its fair value due to the immediate or short term maturity of these instruments.

The fair value of amounts due from related parties is less than carrying value because the amounts are non-interest bearing. However, because the amounts due from related parties have no fixed repayment terms, the fair value and the exposure to related risk cannot be determined with any degree of certainty, and the amounts are therefore reported at their carrying value.

The carrying value of the long term debt, obligations under capital lease and redeemable preferred shares approximates the fair value as the interest rates are consistent with the current rates offered to the company for debt with similar terms.

#### Interest Rate

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, 2011**

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**23. 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, 2011**

	2011	2010
<b>General and administrative</b>		
Advertising and promotion	\$ 43,173	\$ 21,752
Bad debts	42,656	44,599
Lights, heat and telephone	29,412	38,353
Office	24,741	29,892
Professional fees	14,812	11,202
Property tax	3,777	4,943
Salaries and employee benefits	265,666	216,196
	<u>\$ 424,237</u>	<u>\$ 366,937</u>
<b>Operating</b>		
Depletion of gravel pits	\$ 321	\$ 655
Gas and oil	487,918	501,628
Insurance	48,138	73,990
Licenses and registrations	29,931	30,533
Rentals	61,203	60,984
Repairs and maintenance	219,971	315,167
Supplies, materials and subcontracting	1,699,135	1,908,282
Travel	11,253	4,673
Wages and employee benefits	627,842	796,936
Workers' compensation insurance	44,254	23,943
	<u>\$ 3,229,966</u>	<u>\$ 3,716,791</u>

(See accompanying notes to these financial statements)

Prepared without audit