

**REVELSTOKE COMMUNITY
ENERGY CORPORATION**
Financial Statements
For the year ended April 30, 2013

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Independent Auditor's Report

To the Shareholders' of Revelstoke Community Energy Corporation

We have audited the accompanying financial statements of Revelstoke Community Energy Corporation, which comprise the balance sheet as at April 30, 2013 and the statements of operations and deficit and cash flows for the year then ended and the accompanying notes to the financial statements and other explanatory information. The financial statements have been prepared by management based on Canadian accounting standards for private enterprises.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for private enterprises; this includes determining that Canadian accounting standards for private enterprises are an acceptable basis for the preparation of the financial statements in the circumstances, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally acceptable auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Revelstoke Community Energy Corporation as at April 30, 2013 and the results of its operations and cash flows for the year then ended in accordance with Canadian accounting standards for private enterprises.

Basis of Accounting and Restriction on Use

Without modifying our opinion, we draw attention to Note 1 to the financial statements, which describes the basis of accounting. The financial statements are prepared to assist Revelstoke Community Energy Corporation with its internal reporting to its shareholders, City of Revelstoke and RCFC Holding Company Ltd. As a result, the financial statements may not be suitable for another purpose. Our report is intended solely for Revelstoke Community Energy Corporation, City of Revelstoke and RCFC Holding Company Ltd. and should not be used by parties other than Revelstoke Community Energy Corporation, City of Revelstoke and RCFC Holding Company Ltd.

Chartered Accountants

Revelstoke, British Columbia
August 8, 2013

Revelstoke Community Energy Corporation
Balance Sheet

As at	April 30 2013	April 30 2012
Assets		
Current		
Cash (Note 2)	\$ 223,965	\$ 39,293
Accounts receivable (Note 3)	136,263	227,905
Prepaid expenses	16,780	16,622
	377,008	283,820
Property, plant and equipment (Note 4)	3,751,321	3,782,410
	\$ 4,128,329	\$ 4,066,230
Liabilities and Shareholders Deficiency		
Accounts payable and accrued liabilities (Note 5)	\$ 45,259	\$ 29,140
Due to related parties (Note 6)	1,671,458	1,666,712
Current portion of long-term debt (Note 7)	190,291	188,778
	1,907,008	1,884,630
Long-term debt (Note 7)	959,038	1,147,517
Deferred revenue (Note 8)	783,729	557,476
Preferred shares (Note 9)	1,200,000	1,200,000
	4,849,775	4,789,623
Commitments (Note 13)		
Shareholders deficiency		
Share capital (Note 10)	11	11
Deficit	(721,457)	(723,404)
	(721,446)	(723,393)
	\$ 4,128,329	\$ 4,066,230

On behalf of the Board:

_____ Director

Revelstoke Community Energy Corporation
Statement of Operations and Deficit

For the year ended April 30	2013	2012
Revenue		
Energy revenue	\$ 650,076	\$ 641,194
Expenses		
Administration (Note)	9,000	9,000
Advertising and promotion	2,351	421
Amortization	170,539	160,087
Consulting	28,987	-
Dividends accrued	84,000	84,000
Engineering	6,726	13,807
Insurance	24,974	24,278
Interest and bank charges	336	309
Interest on long-term debt	77,520	88,641
Licenses, dues and fees	1,303	1,277
Management services	44,640	47,368
Office	669	2,512
Salaries and wages	47,487	47,413
Professional fees	17,045	9,196
Repairs and maintenance	38,749	44,087
Water treatment	21,271	20,801
Supplies	2,571	8,236
Telephone	4,768	4,369
Travel	797	78
Utilities	69,745	137,863
	653,478	703,743
Loss from operations	(3,402)	(62,549)
Other income		
Interest income	3,349	1,928
Other revenue	2,000	-
	5,349	1,928
Net income (loss) for the year	1,947	(60,621)
Deficit, beginning of year	(723,404)	(662,783)
Deficit, end of year	\$ (721,457)	\$ (723,404)

Revelstoke Community Energy Corporation
Statement of Cash Flows

For the year ended April 30	2013	2012
Cash flows from operating activities		
Cash receipts from customers	\$ 969,969	\$ 1,185,677
Cash paid to suppliers	(305,120)	(427,537)
Interest paid	(77,856)	(88,950)
Interest received	3,349	1,928
	590,342	671,118
Cash flows from investing activities		
Purchase of property, plant and equipment	(139,449)	(85,772)
Cash flows from financing activities		
Repayment of long-term debt	(186,967)	(185,307)
Loan from related parties	(79,254)	(342,621)
	(266,221)	(527,928)
Net increase in cash, for the year	184,672	57,418
Cash (bank indebtedness), beginning of year	39,293	(18,125)
Cash, end of year	\$ 223,965	\$ 39,293

Revelstoke Community Energy Corporation

Notes to Financial Statements

April 30, 2013

1. Significant Accounting Policies

Nature of Business The company is incorporated under the laws of BC and is engaged in the production of thermal energy. The company is owned by the City of Revelstoke.

Basis of Accounting The financial statements have been prepared using Canadian accounting standards for private enterprises.

As a government business enterprise, Canadian public sector accounting standards require the Company to adhere to the standards applicable to publicly accountable enterprises in the CICA Handbook - Accounting. Accordingly the Company is required under Canadian generally accepted accounting principles to prepare its financial statements using International Financial Reporting Standards. Management has determined that the internal reporting needs of the Company and its shareholders, City of Revelstoke and RCFC Holdings Company Ltd., are met through the use of Canadian accounting standards for private enterprises ("ASPE") and, therefore, these financial statements have been prepared in accordance with that framework. Since ASPE is not designed to necessarily meet the needs of all users of the financial statements of a government business enterprise, the readers of these financial statements may require additional information.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost less accumulated amortization. Cost includes all amounts related to the acquisition and improvements of the property, plant and equipment including replacement of plant and equipment. All costs associated with upgrading the existing plant and equipment, other than ordinary repairs and maintenance, are capitalized and amortized over their expected useful lives. Amortization based on the estimated useful life of the asset is calculated on a straight-line basis as follows:

Plant	-	25
Energy transfer stations	-	25
Pipeline	-	40
Plant tools & equipment	-	4 years straight-line basis
Equipment	-	4/5

Impairment of Long-Lived Assets

In the event that facts or circumstances indicate that the company's long-lived assets, which consists of property, plant and equipment, may be impaired, an evaluation of recoverability would be performed. Such an evaluation entails comparing the estimated future undiscounted cash flows associated with the asset to the asset's carrying amount to determine if a write down to market value or discounted cash flow value is required. The company completed an assessment of the undiscounted future cash flows associated with the long-lived assets and determined that no write down is required.

Revelstoke Community Energy Corporation Notes to Financial Statements

April 30, 2013

- Use of Estimates** The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from management's best estimates as additional information becomes available in the future.
- Development Costs** All costs relating to research and development prior to the commencement of the current project have been expensed by the company.
- Revenue Recognition** Revenue is recognized when persuasive evidence of an arrangement exists, the price is fixed and determinable, collectibility is reasonably assured and products are delivered to customers or performance of services has occurred. Revenue from the sale of energy is recognized at the time of delivery.

Deferred revenue arises as a result of up-front fees relating to long-term contracts. As such fees must be recognized over the term of the contract, the full balance received is deferred and recognized in income on a straight-line basis over the life of the contract.

2. Cash

The company's bank accounts are held at one credit union.

The company has line of credit of \$65,000 at the credit union which bears interest at prime rate and is secured by a second mortgage. This line of credit was undrawn at April 30, 2013.

3. Accounts Receivable

	<u>2013</u>	<u>2012</u>
Trade	\$ 136,263	\$ 221,787
Government grants receivable	-	6,118
	<u>\$ 136,263</u>	<u>\$ 227,905</u>

Revelstoke Community Energy Corporation
Notes to Financial Statements

April 30, 2013

4. Property, Plant and Equipment

	2013		2012	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Land	\$ 46,500	\$ -	\$ 46,500	\$ -
Plant	2,525,663	782,610	2,525,663	682,032
Energy Transfer Stations	892,898	160,548	683,042	126,930
Pipeline	1,473,110	244,371	1,473,110	208,480
Plant tools & Equipment	14,357	14,357	14,357	14,357
Equipment	4,881	4,202	4,881	3,750
School Project	-	-	70,406	-
	\$ 4,957,409	\$ 1,206,088	\$ 4,817,959	\$ 1,035,549
Net book value		\$ 3,751,321		\$ 3,782,410

5. Accounts payable and accrued liabilities

Included in accounts payable and accrued liabilities are government remittances payable of \$ 12,575 (2012 - \$ 5,536).

Revelstoke Community Energy Corporation Notes to Financial Statements

April 30, 2013

6. Related Party Transactions

During 2013, the company paid administration fees totaling \$9,000 (2012 - \$9,000) to a wholly-owned subsidiary of the City of Revelstoke, RCFC Holding Company Ltd.

During 2013, the company earned energy income totaling \$132,186 (2012 - \$134,627) from the City of Revelstoke, the majority shareholder of the company.

These transactions are in the normal course of operations and are measured at the exchange value (the amount of consideration established and agreed to by the related parties), which approximates the arm's length equivalent value.

At the end of the year, the amount due to the related parties is as follows:

	2013	2012
Dividends payable to City of Revelstoke	\$345,333	\$ 261,333
Wholly-owned subsidiary of the City of Revelstoke	1,326,125	1,287,500
City of Revelstoke - bridge financing	-	117,879
	\$ 1,671,458	\$ 1,666,712

The amount due to the City of Revelstoke bears interest at prime, is unsecured, and has no fixed terms of repayment. At April 30, 2013 the prime interest rate was 3.00% (2012- 3.00%). Included in interest on long-term debt is \$1,310 (2012 - \$7,781) in interest charges in relation to this loan. Included in accounts receivable is \$10,630 (2012 - \$9,084) due from the City of Revelstoke.

The balance due to the wholly-owned subsidiary of the City of Revelstoke bears interest on the principal amount at RCU prime, compounded annually, and has no fixed terms of repayment. Included in interest and bank charges is \$38,625 (2012 - \$37,500) in interest charges in relation to this loan.

The fair value of the related party loans is not readily determinable as there are no active markets for debts made between municipalities and government business enterprises.

Revelstoke Community Energy Corporation
Notes to Financial Statements

April 30, 2013

7. Long-term debt

	2013	2012
Mortgage payable, repayable in monthly instalments of \$6,274 including interest at prime, due August, 2030. Secured by a fixed and floating charge over all company assets, and guarantees of certain affiliated companies.	\$ 673,561	\$ 727,754
Loan payable, repayable in monthly instalments of \$11,064 plus interest at 3.04%, due November 2016.	475,768	608,541
	1,149,329	1,336,295
Less: current portion	190,291	188,778
	\$ 959,038	\$ 1,147,517

The estimated principal repayments for the next five years and thereafter are as follows:

<u>Year</u>	<u>Amount</u>
2014	\$ 190,291
2015	190,367
2016	192,119
2017	138,601
2018	63,011
Thereafter	374,940
	\$ 1,149,329

Revelstoke Community Energy Corporation

Notes to Financial Statements

April 30, 2013

8. Deferred Revenue

Deferred revenue relates to an energy contract that is expected to last 20 years. The total connection charge for this contract will be recognized on a straight-line basis over the term of the contract based on the amount received at each balance sheet date. The Company commenced providing energy under this contract during 2012; therefore, the Company has started to recognize this revenue.

	<u>2013</u>	<u>2012</u>
Opening balance	\$ 557,476	\$ 330,000
Additions	<u>263,630</u>	<u>241,770</u>
	821,106	571,770
Recognized during the year	<u>(37,377)</u>	<u>(14,294)</u>
	<u>\$ 783,729</u>	<u>\$ 557,476</u>

9. Preferred Shares

In 2008, the company issued 1,000,000 Class II preferred shares to an existing shareholder in exchange for a reduction in long term debt. The shares have a dividend rate of 7% per annum payable at the discretion of the Board of Directors, are redeemable at \$1 per share, and are retractable at the option of the holder after January 1, 2018.

In 2011, the company issued an additional 200,000 Class II preferred shares to an existing shareholder in exchange for a reduction in long term debt. The shares have a dividend rate of 7% per annum payable at the discretion of the Board of Directors, and are retractable at the option of the holder after January 1, 2018.

At April 30, 2013, the total dividends in arrears on the preferred shares amounted to \$345,333 (2012 - \$261,333).

Revelstoke Community Energy Corporation Notes to Financial Statements

April 30, 2013

10. Share Capital

The authorized class A common share capital of the company is an unlimited number of voting shares, without par value.

The authorized class B common share capital of the company is an unlimited number of non-voting shares, without par value.

The authorized Class I preferred share capital of the company is an unlimited number of non-voting, non-cumulative shares, redeemable at the issuance price.

The authorized Class II preferred share capital of the company is an unlimited number of non-voting, cumulative shares, redeemable, retractable, with a par value of \$1.00 each.

	<u>2013</u>	<u>2012</u>
Issued:		
1,000 Class A common	\$ 10	\$ 10
100 Class B common	1	1
	<u>\$ 11</u>	<u>\$ 11</u>

11. Income Taxes

The corporation is exempted from income tax under Section 149(l)(d.5) of the Canadian Income Tax Act. Consequently, no provision has been made in these financial statements for income taxes. The income for the company is derived from operations within the municipality and thus are exempt.

12. Economic Dependence

The company's operations consists of supplying thermal energy and steam. The agreement with one of the corporate customers accounted for 46% (2012 - 46%) of sales.

The company is economically dependant on financial support from the City of Revelstoke's wholly owned subsidiary RCFC Holding Company Ltd.

13. Commitments

The company has entered into twenty year agreements to supply heat to local municipal, school board, and corporate customers. The expiration dates of agreements to supply heat range from July 2026 to December 2031.

Revelstoke Community Energy Corporation Notes to Financial Statements

April 30, 2013

14. Financial Instrument Risk

The Company holds various forms of financial instruments. The nature of these instruments and the Company's operations expose the Company to credit, interest rate and liquidity risks. The Company manages its exposure to these risks by operating in a manner that minimizes its exposure to the extent practical.

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Company is exposed to credit risk resulting from the possibility that a customer or counterparty to a financial instrument defaults on their financial obligations; if there is a concentration of transactions carried out with the same counterparty; or of financial obligations which have similar economic characteristics such that they could be similarly affected by changes in economic conditions. The Company's financial instruments that are exposed to concentrations of credit risk relate primarily to cash and the accounts receivable from companies that operate in the same industry.

Interest risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is exposed to this risk through its long-term debt. The Company holds long-term debt with a variable interest rate which involves risks of default on interest and principal and price changes due to, without limitation, such factors as interest rates and general economic conditions.

Liquidity risk

Liquidity risk is the risk that the Company encounters difficulty in meeting its obligations associated with financial liabilities. Liquidity risk includes the risk that, as a result of operational liquidity requirements, the Company will not have sufficient funds to settle a transaction on the due date; will be forced to sell financial assets at a value, which is less than what they are worth; or may be unable to settle or recover a financial asset. Liquidity risk arises from accounts payable and accrued liabilities, long-term debt and commitments.