

**REVELSTOKE COMMUNITY
ENERGY CORPORATION**
Financial Statements
For the year ended April 30, 2014

Contents

Independent Auditor's Report	2 - 3
Financial Statements	
Balance Sheet	4
Statement of Operations and Deficit	5
Statement of Cash Flows	6
Notes to Financial Statements	7 - 13



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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 of the balance sheet as at April 30, 2014 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, 2014 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.

BDO Canada LLP

Chartered Accountants

Revelstoke, British Columbia

July 17, 2014

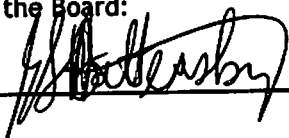
Revelstoke Community Energy Corporation
Balance Sheet

April 30	2014	2013
Assets		
Current		
Cash	\$ 217,425	\$ 223,965
Accounts receivable	100,271	136,263
Prepaid expenses	17,852	16,780
	335,548	377,008
Property, plant and equipment (Note 2)	3,578,910	3,751,321
	\$ 3,914,458	\$ 4,128,329

Liabilities and Share Capital and Deficit

Current		
Accounts payable and accrued liabilities (Note 4)	\$ 40,463	\$ 45,259
Due to related parties (Note 5)	1,795,242	1,671,458
Current portion of long-term debt (Note 6)	191,851	190,291
Current portion of deferred revenue (Note 7)	41,770	41,770
	2,069,326	1,948,778
Long-term debt (Note 6)	768,863	959,038
Deferred revenue (Note 7)	700,189	741,959
Preferred shares (Note 8)	1,200,000	1,200,000
	4,738,378	4,849,775
Share capital and deficit		
Share capital (Note 8)	11	11
Deficit	(823,931)	(721,457)
	(823,920)	(721,446)
	\$ 3,914,458	\$ 4,128,329

On behalf of the Board:


 _____ Director

Revelstoke Community Energy Corporation
Statement of Operations and Deficit

For the year ended April 30	2014	2013
Energy revenue	\$ 654,759	\$ 650,076
Expenses		
Administration (Note 5)	9,000	9,000
Advertising and promotion	365	2,351
Amortization	172,411	170,539
Consulting	8,069	28,987
Dividends on preferred shares (Note 8)	84,000	84,000
Engineering	1,128	6,726
Insurance	27,039	24,974
Interest and bank charges	511	336
Interest on long-term debt	71,715	77,520
Licenses, dues and fees	1,559	1,303
Management services	44,640	44,640
Office	4,029	669
Professional fees	16,679	17,045
Repairs and maintenance	123,605	38,749
Salaries and wages	54,297	47,487
Supplies	8,740	2,571
Telephone	5,315	4,768
Travel	153	797
Utilities	172,417	69,745
Water treatment	19,715	21,271
	825,387	653,478
Loss from operations	(170,628)	(3,402)
Other income		
Insurance recovery	65,027	-
Interest income	920	3,349
Other revenue	2,207	2,000
	68,154	5,349
Net income (loss) for the year	(102,474)	1,947
Deficit, beginning of year	(721,457)	(723,404)
Deficit, end of year	\$ (823,931)	\$ (721,457)

Revelstoke Community Energy Corporation
Statement of Cash Flows

For the year ended April 30	2014	2013
Cash flows from operating activities		
Cash receipts from customers	\$ 716,216	\$ 969,969
Cash paid to suppliers	(502,620)	(305,120)
Interest paid	(72,226)	(77,856)
Interest received	920	3,349
	<u>142,290</u>	<u>590,342</u>
Cash flows from investing activity		
Purchase of property, plant and equipment	-	(139,449)
Cash flows from financing activities		
Repayment of long-term debt	(188,614)	(186,967)
Loan from related parties	39,784	(79,254)
	<u>(148,830)</u>	<u>(266,221)</u>
Net increase (decrease) in cash, for the year	(6,540)	184,672
Cash, beginning of year	223,965	39,293
Cash, end of year	\$ 217,425	\$ 223,965

Revelstoke Community Energy Corporation

Notes to Financial Statements

April 30, 2014

1. Significant Accounting Policies

Basis of Accounting	<p>The financial statements have been prepared using Canadian accounting standards for private enterprises.</p> <p>As a government business enterprise, Canadian public sector accounting standards require Revelstoke Community Energy Corporation ("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 Holding 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.</p>
Nature of Business	<p>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.</p>
Revenue Recognition	<p>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.</p> <p>Deferred revenue arises as a result of up-front fees relating to a long-term contract. 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.</p>
Development Costs	<p>All costs relating to research and development prior to the commencement of the current project have been expensed by the company.</p>
Income Taxes	<p>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 is exempt.</p>

Revelstoke Community Energy Corporation

Notes to Financial Statements

April 30, 2014

1. Significant Accounting Policies (continued)

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 as follows:

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

Impairment of Long-lived Assets

In the event that facts or circumstances indicate that the company's long-lived assets, which consist 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.

Use of Estimates

The preparation of financial statements in accordance with Canadian accounting standards for private enterprises requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates and may have an impact on future periods.

Share Capital Disclosure

The company only discloses the terms and conditions related to classes of shares that have been issued.

Revelstoke Community Energy Corporation
Notes to Financial Statements

April 30, 2014

2. Property, Plant and Equipment

	2014		2013	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Energy Transfer Stations	\$ 892,898	\$ 196,264	\$ 892,898	\$ 160,548
Equipment	4,881	4,428	4,881	4,202
Land	46,500	-	46,500	-
Pipeline	1,473,110	280,263	1,473,110	244,371
Plant	2,525,663	883,187	2,525,663	782,610
Plant tools and equipment	14,357	14,357	14,357	14,357
	\$ 4,957,409		\$ 4,957,409	
		\$ 1,378,499		\$ 1,206,088
Net book value		\$ 3,578,910		\$ 3,751,321

3. Bank Indebtedness

The company has a line of credit with a total credit limit of \$65,000 (2013 - \$65,000), bearing interest at Revelstoke Credit Union's prime rate which, as at April 30, 2014, was 3.0% (2013 - 3.0%), secured by a general security agreement, payable in monthly payments of interest only. At April 30, 2014, the amount of line of credit utilized was \$Nil (2013 - \$Nil).

4. Accounts Payable and Accrued Liabilities

Included in accounts payable and accrued liabilities are government remittances payable of \$5,632 (2013 - \$ 12,575).

5. Related Party Transactions

During 2014, the company paid administration fees totaling \$9,000 (2013 - \$9,000) to a wholly-owned subsidiary of the City of Revelstoke, RCFC Holding Company Ltd.

During 2014, the company earned energy income totaling \$144,821 (2013 - \$132,186) from the City of Revelstoke, the majority shareholder of the company.

These transactions are measured at the exchange value which is the amount of consideration established and agreed to by the related parties.

Revelstoke Community Energy Corporation
Notes to Financial Statements

April 30, 2014

5. Related Party Transactions (continued)

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

	2014	2013
Dividends payable to City of Revelstoke	\$ 429,333	\$ 345,333
RCFC Holding Company Ltd.	1,365,909	1,326,125
	\$ 1,795,242	\$ 1,671,458

Included in accounts receivable is \$9,909 (2013 - \$10,630) due from the City of Revelstoke.

The balance due to Revelstoke Community Forest Corporation, the wholly-owned subsidiary of the City of Revelstoke, bears interest on the principal amount at prime, compounded annually, due on demand, and has no fixed terms of repayment. Included in interest on long-term debt is \$39,784 (2013 - \$38,625) in interest charges in relation to this loan.

6. Long-term Debt

	2014	2013
Mortgage payable, repayable in monthly instalments of \$6,274 including interest at prime, due August 1, 2030, secured by a fixed and floating charge over all company assets and guarantees of certain affiliated companies	\$ 617,719	\$ 673,561
Loan payable, repayable in monthly instalments of \$11,064 plus interest at 3.04%, due November 30, 2016, secured by a general security agreement and first charge over all real property	342,995	475,768
	960,714	1,149,329
Current portion	191,851	190,291
	\$ 768,863	\$ 959,038

Revelstoke Community Energy Corporation
Notes to Financial Statements

April 30, 2014

6. Long-term Debt (continued)

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

<u>Year</u>	<u>Amount</u>
2015	\$ 191,851
2016	192,113
2017	138,595
2018	63,005
2019	64,921
Thereafter	<u>310,229</u>
	<u>\$ 960,714</u>

7. Deferred Revenue

Deferred revenue relates to an energy contract that is expected to last twenty 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>2014</u>	<u>2013</u>
Opening balance	\$ 783,729	\$ 557,476
Additions	-	<u>263,630</u>
	<u>783,729</u>	821,106
Recognized during the year	<u>(41,770)</u>	<u>(37,377)</u>
	<u>\$ 741,959</u>	<u>\$ 783,729</u>
Current portion	41,770	41,770
Long-term portion	<u>700,189</u>	<u>741,959</u>
	<u>\$ 741,959</u>	<u>\$ 783,729</u>

Revelstoke Community Energy Corporation Notes to Financial Statements

April 30, 2014

8. Share Capital

Authorized:

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 II preferred share capital of the company is an unlimited number of non-voting, cumulative shares, redeemable shares. They have a dividend rate of 7% per annum payable at the discretion of the Board of Directors, are retractable at the option of the holder after January 1, 2018, and have a par value of \$1.00 each.

	2014	2013
Issued Common Shares:		
1,000 Class A common	\$ 10	\$ 10
100 Class B common	1	1
	11	11
Issued Preferred Shares:		
1,200,000 Class II preferred	1,200,000	1,200,000
	\$ 1,200,011	\$ 1,200,011

At April 30, 2014, the total dividends in arrears on the preferred shares amounted to \$429,333 (2013 - \$345,333).

9. Economic Dependence

The company's operations consist of supplying thermal energy and steam. The agreement with one of the corporate customers accounted for 44% (2013 - 46%) of sales.

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

The company is economically dependent on the one supplier for the fuel that is burned to produce this energy. This agreement with this supplier consists of 100% of biofuel that is burned to produce energy.

Revelstoke Community Energy Corporation Notes to Financial Statements

April 30, 2014

10. 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.

11. Comparative Information

The comparative amounts presented in the financial statements have been restated to conform to the current year's presentation.

12. 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 if financial obligations have similar economic characteristics such that they could be similarly affected by changes in economic conditions. The company's financial instruments which are exposed to concentrations of credit risk relate primarily to cash and the accounts receivable from companies that operate in the same industry.

Interest Rate 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.