

**REVELSTOKE COMMUNITY
ENERGY CORPORATION**
Financial Statements
For the year ended April 30, 2011

Contents

Independent Auditor's Report	2
Financial Statements	
Balance Sheet	3
Statement of Operations and Deficit	4
Statement of Cash Flows	5
Summary of Significant Accounting Policies	6 - 8
Notes to Financial Statements	9 - 15



Tel: 250 837 5225
Fax: 250 837 7170
www.bdo.ca

BDO Canada LLP
202 103 First Street E
PO Box 2100
Revelstoke BC V0E 2S0 Canada

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 a balance sheet as at April 30, 2011, and a statement of operations and deficit and cash flows for the year then ended and a summary of the significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements, in accordance with Canadian generally acceptable accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 misstatements 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 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, 2011, and the results of its operations and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

BDO Canada LLP

Chartered Accountants

Revelstoke, British Columbia

August 26, 2011

BDO Canada LLP, a Canadian limited liability partnership, is a member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms.

Revelstoke Community Energy Corporation
Balance Sheet

As at April 30	2011	2010
Assets		
Current		
Accounts receivable	\$ 544,916	\$ 537,619
Prepaid expenses	15,622	159,507
	560,538	697,126
Property, plant and equipment (Note 2)	3,856,724	3,527,060
	\$ 4,417,262	\$ 4,224,186

Liabilities and Shareholder's Deficiency

Bank indebtedness (Note 1)	\$ 18,128	\$ 9,985
Accounts payable and accrued liabilities	84,971	136,233
Dividends payable	177,333	23,014
Due to related parties (Note 4)	1,748,000	1,923,000
Current portion of long-term debt (Note 3)	187,310	189,512
	2,215,742	2,281,744
Long-term debt (Note 3)	1,334,292	1,517,783
Deferred revenue (Note 5)	330,000	-
Preferred shares (Note 6)	1,200,000	1,000,000
	5,080,034	4,799,527
Commitments (Note 10)		
Shareholder's deficiency		
Share capital (Note 7)	11	11
Deficit	(662,783)	(575,352)
	(662,772)	(575,341)
	\$ 4,417,262	\$ 4,224,186

On behalf of the Board:

_____ Director

_____ Director

Revelstoke Community Energy Corporation
Statement of Operations and Deficit

For the year ended April 30	2011	2010
Revenue		
Energy revenue	\$ 641,530	\$ 453,155
Expenses		
Administration (Note 4)	9,000	9,000
Advertising and promotion	8,793	1,634
Amortization	153,745	149,058
Engineering	40,691	14,353
Insurance	19,886	17,012
Interest and bank charges	15,280	292
Interest on long-term debt	46,243	52,806
Licenses, dues and fees	1,277	2,123
Management services	43,310	26,700
Office	1,629	3,339
Salaries and wages	48,420	49,960
Professional fees	37,538	8,682
Repairs and maintenance	39,583	61,297
Water treatment	18,754	17,536
Supplies	4,706	13,357
Telephone	4,175	5,029
Travel	796	370
Utilities	83,378	146,884
	577,204	579,432
Income (loss) from operations	64,326	(126,277)
Other income		
Interest income	694	717
Insurance proceeds (recovery)	(3,085)	90,000
Other revenue	4,953	157,419
	2,562	248,136
Net income for the year	66,888	121,859
Deficit, beginning of year	(575,352)	(697,211)
Dividends accrued	(154,319)	-
Deficit, end of year	\$ (662,783)	\$ (575,352)

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

Revelstoke Community Energy Corporation
Statement of Cash Flows

For the year ended April 30	2011	2010
Cash flows from operating activities		
Cash receipts from customers	\$ 966,110	\$ 189,895
Cash paid to suppliers	(115,003)	(455,287)
Interest paid	(61,522)	(53,098)
Interest received	694	717
	<u>790,279</u>	<u>(317,773)</u>
Cash flows from investing activities		
Purchase of property, plant and equipment	(1,331,910)	(837,345)
Grants received for purchase of property, plant and equipment	848,500	826,783
	<u>(483,410)</u>	<u>(10,562)</u>
Cash flows from financing activities		
Repayment of long-term debt	(185,693)	(188,502)
Loan from related parties	(175,000)	473,000
Issuance of preferred shares	200,000	-
Dividends accrued	(154,319)	-
	<u>(315,012)</u>	<u>284,498</u>
Net decrease in cash, for the year	(8,143)	(43,837)
Cash (bank indebtedness), beginning of year	<u>(9,985)</u>	<u>33,852</u>
Bank indebtedness, end of year	\$ (18,128)	\$ (9,985)

Revelstoke Community Energy Corporation

Summary of Significant Accounting Policies

April 30, 2011

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.															
Property, Plant and Equipment	<p>Property, plant and equipment are stated at cost less accumulated amortization. If events or circumstances indicate that the carrying value of the property, plant and equipment may be impaired, a recoverability analysis is performed based upon estimated undiscounted cash flows to be generated by the property, plant and equipment. If the analysis indicates that the carrying value is not recoverable from future cash flows, the property, plant and equipment is written down to estimated fair value and an impairment loss is recognized. Cost is net of related government grants. Amortization based on the estimated useful life of the asset is calculated on a straight-line basis as follows:</p> <table><tr><td>Plant</td><td>-</td><td>25 years</td></tr><tr><td>Energy transfer stations</td><td>-</td><td>25 years</td></tr><tr><td>Pipeline</td><td>-</td><td>40 years</td></tr><tr><td>Plant tools & equipment</td><td>-</td><td>4 years straight-line basis</td></tr><tr><td>Equipment</td><td>-</td><td>4/5 years</td></tr></table>	Plant	-	25 years	Energy transfer stations	-	25 years	Pipeline	-	40 years	Plant tools & equipment	-	4 years straight-line basis	Equipment	-	4/5 years
Plant	-	25 years														
Energy transfer stations	-	25 years														
Pipeline	-	40 years														
Plant tools & equipment	-	4 years straight-line basis														
Equipment	-	4/5 years														
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.															

Revelstoke Community Energy Corporation Summary of Significant Accounting Policies

April 30, 2011

Financial Instruments

The Company utilizes various financial instruments. Unless otherwise noted, it is management's opinion that the company is not exposed to significant interest, currency or credit risks arising from these financial instruments and the carrying amounts approximate fair values due to their short-term nature and/or market rates of interest.

The company classifies its financial instruments into one of the following categories based on the purpose for which the asset was acquired. The company's accounting policy for each category is as follows:

Held-for-trading

This category is comprised of cash and cash equivalents. They are carried on the balance sheet at fair value with changes in fair value recognized in the statement of operations. Transaction costs related to instruments classified as held-for-trading are expensed as incurred.

Loans and receivables

This category is comprised of accounts receivable. These assets are non-derivative financial assets resulting from the delivery of cash or other assets by a lender to a borrower in return for a promise to repay on a specified date or dates, or on demand. They are initially recognized at fair value and subsequently carried at amortized cost, using the effective interest rate method, less any provision for impairment. Transaction costs related to loans and receivables are expensed as incurred.

Revelstoke Community Energy Corporation Summary of Significant Accounting Policies

April 30, 2011

Other financial liabilities

Other financial liabilities includes all financial liabilities other than those classified as held-for-trading and is comprised of accounts payable and accrued liabilities, long term debt, related party balances and preferred shares. These liabilities are initially recognized at fair value and subsequently carried at amortized cost using the effective interest rate method. Transaction costs related to other financial liabilities are expensed as incurred.

Future Accounting Pronouncements

Recent accounting pronouncements that have been issued but are not yet effective, and have a potential implication for the company are as follows:

International Financial Reporting Standards

In February 2008, the Canadian Standards Board announced that Canadian generally acceptable accounting principles for publicly accountable enterprises will be replaced by International Financial Reporting Standards (IFRS) for fiscal years beginning on or after January 1, 2011. The company is specifically scoped into the definition of a publicly accountable enterprise. As such, it will be required to prepare its April 30, 2012, financial statements including comparative information in compliance with IFRS. The company is currently assessing the potential impact of the transition to IFRS on its financial statements disclosures, and broader financial reporting systems and controls

Revelstoke Community Energy Corporation Notes to Financial Statements

April 30, 2011

1. Bank indebtedness

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

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. At April 30, 2011 \$46,484 of this credit line was unused, this is also the fair value.

2. Property, Plant and Equipment

	2011		2010	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Land	\$ 46,500	\$ -	\$ 46,500	\$ -
Plant	2,525,663	581,455	2,525,663	480,877
Energy Transfer Stations	555,165	102,166	434,560	81,166
Pipeline	1,345,232	174,188	1,224,627	142,247
Plant tools & Equipment	14,357	14,357	14,357	14,357
Equipment	4,881	3,297	3,071	3,071
School Project	240,389	-	-	-
	\$ 4,732,187	\$ 875,463	\$ 4,248,778	\$ 721,718
Net book value		\$ 3,856,724		\$ 3,527,060

During 2011, the company received approximately \$848,500 in financial assistance, of that amount \$375,000 was from Province of British Columbia Towns for Tomorrow Grant while the remaining \$473,500 is from the Federal Green Municipal Fund. Approximately \$848,500 has been applied against capital assets.

The amount listed as the school project is a work in progress as of year-end and will not be amortized until it is complete.

Revelstoke Community Energy Corporation
Notes to Financial Statements

April 30, 2011

3. Long-term debt

	2011	2010
<p>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.</p>	\$ 780,289	\$ 833,209
<p>Loan payable, repayable in monthly instalments of \$11,064 plus interest at 3.04%, due November 2016. There are no finalized terms and conditions, as the amendment is in draft format.</p>	741,313	874,086
	1,521,602	1,707,295
<p>Less: current portion</p>	187,310	189,512
	\$ 1,334,292	\$ 1,517,783

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

<u>Year</u>	<u>Amount</u>
2012	\$ 187,310
2013	187,030
2014	188,680
2015	190,381
2016	192,133
Thereafter	576,068
	\$ 1,521,602

Revelstoke Community Energy Corporation Notes to Financial Statements

April 30, 2011

4. Related Party Transactions

During 2011, the company paid administration fees totaling \$9,000 (2010 - \$9000) to a wholly-owned subsidiary of the City of Revelstoke, RCFC Holding Company Ltd.

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:

	<u>2011</u>	<u>2010</u>
City of Revelstoke	\$ -	\$ 200,000
Cumulative share liability to City of Revelstoke	177,333	23,333
Wholly-owned subsidiary of the City of Revelstoke	1,250,000	1,250,000
City of Revelstoke - bridge financing	498,000	473,000
	<u>\$ 1,925,333</u>	<u>\$ 1,946,333</u>

The amounts due to the City of Revelstoke bear interest at prime, are unsecured, and have no fixed terms of repayment. At April 30, 2011 the prime interest rate was 3.00% (2010-2.25%). Included in interest and bank charges is \$12,703 (2010 - \$8,662) in interest charges in relation to this loan. Included in accounts receivable is \$10,118 (2010 - \$17,618) due from the City of Revelstoke. The balance due to the wholly-owned subsidiary of the City of Revelstoke is interest-free and has no fixed terms of repayment.

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.

Subsequent to yearend it was decided that the amount due to the wholly-owned subsidiary of the City of Revelstoke will now bear interest to the principal at RCU prime, compounded annually, commencing May 1, 2011.

Revelstoke Community Energy Corporation

Notes to Financial Statements

April 30, 2011

5. Deferred Revenue

Deferred revenue relates to an energy contract that is expected to last 20 years. The energy supply is expected to begin during the next fiscal year. As no energy has been provided at this time no revenue will be recognized and will be deferred until the point that the energy supply commences.

6. 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, 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.

7. 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.

	2011	2010
Issued:		
1,000 Class A common	\$ 10	\$ 10
100 Class B common	1	1
	\$ 11	\$ 11

Revelstoke Community Energy Corporation

Notes to Financial Statements

April 30, 2011

8. 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.

9. Economic Dependence

The company's operations consists of supplying thermal energy and steam. The agreement with one of the corporate customers account for 50% of sales.

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

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.

Revelstoke Community Energy Corporation Notes to Financial Statements

April 30, 2011

11. Financial Instruments

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

Credit risk

The Company's exposure to credit risk is represented by cash. The credit risk relating to cash is managed by holding funds in a credit union, subject to risk based on deposit insurance.

Interest risk

Fixed rate debt is subject to interest rate price risk, as the value will fluctuate as a result of changes in market rates. Floating rate debt is subject to interest rate cash flow risk, as the required cash flows to service the debt will fluctuate as a result of changes in market rates.

Liquidity risk

Liquidity risk is the risk that the company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under normal and stressed conditions. The Company manages liquidity by monitoring cash requirements to meet expected operational expenses.

Revelstoke Community Energy Corporation Notes to Financial Statements

April 30, 2011

12. Sensitivity Analysis

The following analysis is to demonstrate the potential interest rate risk that the company is exposed to if market conditions change from year end estimates.

	Interest Rate Risk		
	Carrying Amount	+1% Income	-1% Income
Accounts receivable	\$ 544,911	\$ 5,449	\$ (5,449)
Long-term debt	(1,521,602)	(15,216)	15,216
Due to related parties	(1,748,000)	(17,480)	17,480
Total increase/decrease	\$ (2,724,691)	\$ (27,247)	\$ 27,247

Prime rate in Canada at April 30, 2011 was 3.00% per Bank of Canada.

(1) Accounts receivable are subject to a floating interest rates. Sensitivity to a +1% movement in rates ($\$544,911 \times 7.25\%$) - ($\$544,911 \times 6.25\%$) = \$5,449. Similarly for a -1% movement in interest rates, impact = (\$5,449).

(2) Interest on long-term debt is subject to a floating interest rate. Sensitivity to a +1% movement in rates ($\$1,521,602 \times 4.00\%$) - ($\$1,521,602 \times 3.00\%$) = \$15,216. Similarly for a -1% movement in interest rates, impact = (\$15,216).

(3) Amounts due to related parties are subject to a floating interest rates. Sensitivity to a +1% movement in rates ($\$1,748,000 \times 4.00\%$) - ($\$1,748,000 \times 3.00\%$) = \$17,480. Similarly for a -1% movement in interest rates, impact = (\$17,480).

13. Capital Disclosures

The company defines its capital as its deficit, preferred shares, bridge financing and the long term debt. The company's objectives when managing capital are to continue to operate on behalf of the City of Revelstoke.

The management of the company establishes an annual operating budget and adjusts the operations in light of changes in economic conditions and the availability of cashflow from operations.
