#### **XYZ COMPANY LIMITED**

### Financial Statements Year Ended JUNE 30, 2002

(UNAUDITED - See "Notice to Reader")

#### XYZ COMPANY LIMITED BALANCE SHEET AS AT JUNE 30, 2002

#### **UNAUDITED - See "Notice to Reader"**

<u>ASSETS</u>		2002		<u>2001</u>
CURRENT Cash Accounts receivable Deposits and prepaid expenses Inventory	\$	11,552 42,970 2,942 159,144 216,608	\$	50,595 2,688 156,657 209,940
PROPERTY, PLANT AND EQUIPMENT (Note 2)		59,890		76,318
INVESTMENTS	\$_	276,498	\$_	45,001 331,259
<u>LIABILITIES</u>				
CURRENT  Bank overdraft  Bank loan  Accounts payable and accrued liabilities  Long-term debt - current portion  Income tax payable	\$	82,053 25,200 14,387 121,640	\$ 	9,474 60,000 91,343   160,817
DUE TO SHAREHOLDER (Note 3)		51,591		231,791
LONG-TERM DEBT (Note 4)	_	86,100 259,331	_ _	392,608
SHAREHOLDER'S EQUITY				
STATED CAPITAL (Note 5)		1		1
RETAINED EARNINGS (DEFICIT)	_	17,166	_	(61,350) (61,349)
APPROVED	*=	276,498	\$_	331,259

# XYZ COMPANY LIMITED STATEMENT OF INCOME AND RETAINED EARNINGS FOR THE YEAR ENDED JUNE 30, 2002

#### **UNAUDITED - See "Notice to Reader"**

	<u>2002</u>	<u>2001</u>
REVENUE	\$ 1,104,786	\$ 1,133,736
COST OF SALES	450.055	440.070
Opening inventory Delivery	156,657 1,607	146,278 1,249
Purchases	740,994	794,101
T distillates	899,258	941,628
Closing inventory	159,144	156,657
	740,114	784,971
GROSS PROFIT	364,672	348,765
OPERATING EXPENSES (schedule)	286,817	339,905
INCOME FROM OPERATIONS	77,855	8,860
OTHER INCOME (EXPENSES)		
Loss on disposal of property, plant and equipment		(387)
Gain on sale of investment Miscellaneous	16,149	
IVIISCEIIAITEOUS	(1,101)	337
	15,048	(50)
NET INCOME BEFORE TAX	92,903	8,810
INCOME TAX EXPENSE	14,387	
NET INCOME	78,516	8,810
(DEFICIT) - Beginning of Year	(61,350)	(54,160)
DIVIDENDS		(16,000)
RETAINED EARNINGS (DEFICIT) - End of Year	\$ 17,166	\$ (61,350)

#### XYZ COMPANY LIMITED STATEMENT OF CASH FLOW FOR THE YEAR ENDED JUNE 30, 2002

#### **UNAUDITED - See "Notice to Reader"**

CASH FLOWS FROM OPERATING ACTIVITIES           Net income for the year         \$ 78,516         \$ 8,810           Adjustment for:         17,854         16,856           Loss on disposal of property, plant and equipment         -         387           Gain on disposal of investment         (16,149)         -           Cash derived from operations         80,221         26,053           Decrease (increase) in working capital items         7,625         23,380           Accounts receivable         7,625         23,380           Deposits and prepaid expenses         (2,487)         (904)           Inventory         (2,487)         (904)           Accounts payable and accrued liabilities         (9,290)         34,543           Long-term debt - current portion         25,200         -           Income tax payable and accrued liabilities         (9,290)         34,543           Long-term debt - current portion         25,200         -           Income tax payable and accrued liabilities         (9,290)         34,543           Long-term debt - current portion         25,200         -           Income tax payable and accrued liabilities         (1,426)         (1,426)           Cash FLOWS FROM INVESTING ACTIVITIES         (1,426)         (1,426) <th></th> <th></th> <th><u>2002</u></th> <th></th> <th colspan="3"><u>2001</u></th>			<u>2002</u>		<u>2001</u>		
Net income for the year         \$ 78,516         \$ 8,810           Adjustment for:         17,854         16,856           Loss on disposal of property, plant and equipment	CASH FLOWS FROM OPERATING ACTIVITIES						
Amortization         17,854         16,856           Loss on disposal of property, plant and equipment         —         387           Gain on disposal of investment         (16,149)         —           Cash derived from operations         80,221         26,053           Decrease (increase) in working capital items         7,625         23,380           Accounts receivable         7,625         23,380           Deposits and prepaid expenses         (254)         688           Inventory         (2,487)         (904)           Accounts payable and accrued liabilities         (9,290)         34,543           Long-term debt - current portion         25,200         —           Income tax payable         11,387         2,206           Cash flows from operating activities         115,402         85,966           CASH FLOWS FROM INVESTING ACTIVITIES           Acquisition of property, plant and equipment         —         3,113           Proceeds from disposal of investment         61,150         —           Dividends         —         (16,000)           Cash flows from investing activities         59,724         (23,229)           CASH FLOWS FROM FINANCING ACTIVITIES           Advances from (repayments to) shareholder		\$	78,516	\$	8,810		
Loss on disposal of property, plant and equipment   (16,149)							
Gain on disposal of investment         (16,149)         —           Cash derived from operations         80,221         26,053           Decrease (increase) in working capital items         7,625         23,380           Accounts receivable         7,625         688           Deposits and prepaid expenses         (254)         688           Inventory         (2,487)         (904)           Accounts payable and accrued liabilities         (9,290)         34,543           Long-term debt - current portion         25,200         11,347           Income tax payable         14,387         2,206           Cash flows from operating activities         115,402         85,966           CASH FLOWS FROM INVESTING ACTIVITIES         4         (10,342)         85,966           CASH FLOWS FROM Investment         61,150         —         3,113           Proceeds from disposal of investment         61,150         —         (16,000)           Cash flows from investing activities         59,724         (23,229)           CASH FLOWS FROM FINANCING ACTIVITIES         Advances from (repayments to) shareholder         (180,200)         (150,000)           Acquisition of (repayment of) long-term debt         86,100         —           CASH (DEFICIENCY) RESOURCES - Beginning of Year			17,854				
Cash derived from operations         80,221         26,053           Decrease (increase) in working capital items         7,625         23,380           Accounts receivable         7,625         23,380           Deposits and prepaid expenses         (2,487)         (904)           Inventory         (2,487)         (904)           Accounts payable and accrued liabilities         (9,290)         34,543           Long-term debt - current portion         25,200         -           Income tax payable         11,387         2,206           Cash flows from operating activities         115,402         85,966           CASH FLOWS FROM INVESTING ACTIVITIES         4         3,113           Acquisition of property, plant and equipment         -         3,113           Proceeds from disposal of property, plant and equipment         -         (16,000)           Cash flows from investing activities         59,724         (23,229)           CASH FLOWS FROM FINANCING ACTIVITIES         4         4           Advances from (repayments to) shareholder         (10,000)         (150,000)           Acquisition of (repayment of) long-term debt         86,100         -           CASH (DEFICIENCY) RESOURCES - Beginning of Year         (69,474)         17,789           CASH RESOUR			(16.149)				
Accounts receivable         7,625         23,380           Deposits and prepaid expenses         (254)         688           Inventory         (2,487)         (904)           Accounts payable and accrued liabilities         (9,290)         34,543           Long-term debt - current portion         25,200         -           Income tax payable         14,387         2,206           Cash flows from operating activities         115,402         85,966           CASH FLOWS FROM INVESTING ACTIVITIES           Acquisition of property, plant and equipment         (1,426)         (10,342)           Proceeds from disposal of property, plant and equipment         -         3,113           Proceeds from disposal of property, plant and equipment         -         (16,000)           Cash flows from investing activities         59,724         (23,229)           CASH FLOWS FROM FINANCING ACTIVITIES           Advances from (repayments to) shareholder         (180,200)         (150,000)           Acquisition of (repayment of) long-term debt         86,100         -           Acquisition of (repayment of) long-term debt         86,100         -           CASH (DEFICIENCY) RESOURCES - Beginning of Year         (69,474)         17,789           CASH RESOURCES (DEFICIENCY) - En	·	_		_	26,053		
Accounts receivable         7,625         23,380           Deposits and prepaid expenses         (254)         688           Inventory         (2,487)         (904)           Accounts payable and accrued liabilities         (9,290)         34,543           Long-term debt - current portion         25,200         -           Income tax payable         14,387         2,206           Cash flows from operating activities         115,402         85,966           CASH FLOWS FROM INVESTING ACTIVITIES           Acquisition of property, plant and equipment         (1,426)         (10,342)           Proceeds from disposal of property, plant and equipment         -         3,113           Proceeds from disposal of property, plant and equipment         -         (16,000)           Cash flows from investing activities         59,724         (23,229)           CASH FLOWS FROM FINANCING ACTIVITIES           Advances from (repayments to) shareholder         (180,200)         (150,000)           Acquisition of (repayment of) long-term debt         86,100         -           Acquisition of (repayment of) long-term debt         86,100         -           CASH (DEFICIENCY) RESOURCES - Beginning of Year         (69,474)         17,789           CASH RESOURCES (DEFICIENCY) - En	Decrease (increase) in working capital items						
Deposits and prepaid expenses Inventory (2,487) (904)         688 Inventory (2,487) (904)           Accounts payable and accrued liabilities (9,290) 34,543         1,09,290) 34,543           Long-term debt - current portion (25,200) 1.         25,200           Income tax payable (14,387) 2,206         14,387 (2,206)           Cash flows from operating activities (15,402) 85,966         115,402 (10,342)           CASH FLOWS FROM INVESTING ACTIVITIES         4           Acquisition of property, plant and equipment (14,426) Proceeds from disposal of property, plant and equipment (15,402) Proceeds from disposal of investment (16,150)         3,113           Proceeds from disposal of investment (15,402) Proceeds from disposal of investment (16,000) Proceeds from (16,000) Procee	, , , , , , , , , , , , , , , , , , , ,		7,625		23,380		
Accounts payable and accrued liabilities	Deposits and prepaid expenses						
Long-term debt - current portion   11,387   2,206   14,387   2,206   2,206   2,206   2,307   2,206   3,366   3,266					, ,		
Income tax payable	· ·		, , ,		34,543		
Cash flows from operating activities         115,402         85,966           CASH FLOWS FROM INVESTING ACTIVITIES         Custom of property, plant and equipment a	· · · · · · · · · · · · · · · · · · ·				2 206		
CASH FLOWS FROM INVESTING ACTIVITIES           Acquisition of property, plant and equipment         (1,426)         (10,342)           Proceeds from disposal of property, plant and equipment          3,113           Proceeds from disposal of investment         61,150            Dividends          (16,000)           Cash flows from investing activities         59,724         (23,229)           CASH FLOWS FROM FINANCING ACTIVITIES         (180,200)         (150,000)           Advances from (repayments to) shareholder         (86,100            Acquisition of (repayment of) long-term debt         86,100            (94,100)         (150,000)           NET INCREASE (DECREASE) IN CASH RESOURCES         81,026         (87,263)           CASH (DEFICIENCY) RESOURCES - Beginning of Year         (69,474)         17,789           CASH RESOURCES (DEFICIENCY) - End of Year         11,552         (69,474)           Cash resources (deficiency) is comprised of:          (9,474)           Bank overdraft          (9,474)           Bank loan          (60,000)		_		-			
Acquisition of property, plant and equipment       (1,426)       (10,342)         Proceeds from disposal of property, plant and equipment        3,113         Proceeds from disposal of investment       61,150          Dividends        (16,000)         Cash flows from investing activities       59,724       (23,229)         CASH FLOWS FROM FINANCING ACTIVITIES       3,113       (180,200)       (150,000)         Advances from (repayments to) shareholder       (180,200)       (150,000)         Acquisition of (repayment of) long-term debt       86,100          (94,100)       (150,000)         NET INCREASE (DECREASE) IN CASH RESOURCES       81,026       (87,263)         CASH (DEFICIENCY) RESOURCES - Beginning of Year       (69,474)       17,789         CASH RESOURCES (DEFICIENCY) - End of Year       11,552       (69,474)         Cash resources (deficiency) is comprised of:        (9,474)         Bank overdraft        (9,474)         Bank loan        (60,000)	Cash nows from operating activities	<b>9</b> 7	115,402	_	85,900		
Acquisition of property, plant and equipment       (1,426)       (10,342)         Proceeds from disposal of property, plant and equipment        3,113         Proceeds from disposal of investment       61,150          Dividends        (16,000)         Cash flows from investing activities       59,724       (23,229)         CASH FLOWS FROM FINANCING ACTIVITIES       3,113       (180,200)       (150,000)         Advances from (repayments to) shareholder       (180,200)       (150,000)         Acquisition of (repayment of) long-term debt       86,100          (94,100)       (150,000)         NET INCREASE (DECREASE) IN CASH RESOURCES       81,026       (87,263)         CASH (DEFICIENCY) RESOURCES - Beginning of Year       (69,474)       17,789         CASH RESOURCES (DEFICIENCY) - End of Year       11,552       (69,474)         Cash resources (deficiency) is comprised of:        (9,474)         Bank overdraft        (9,474)         Bank loan        (60,000)							
Proceeds from disposal of property, plant and equipment          3,113           Proceeds from disposal of investment         61,150            Dividends          (16,000)           Cash flows from investing activities         59,724         (23,229)           CASH FLOWS FROM FINANCING ACTIVITIES         Advances from (repayments to) shareholder         (180,200)         (150,000)           Acquisition of (repayment of) long-term debt         86,100            (94,100)         (150,000)           NET INCREASE (DECREASE) IN CASH RESOURCES         81,026         (87,263)           CASH (DEFICIENCY) RESOURCES - Beginning of Year         (69,474)         17,789           CASH RESOURCES (DEFICIENCY) - End of Year         \$ 11,552         (69,474)           Cash resources (deficiency) is comprised of:         \$ 11,552            Cash and overdraft          (9,474)           Bank loan          (60,000)			(4.400)		(40.040)		
Proceeds from disposal of investment Dividends         (16,000)           Cash flows from investing activities         59,724         (23,229)           CASH FLOWS FROM FINANCING ACTIVITIES Advances from (repayments to) shareholder Acquisition of (repayment of) long-term debt         (180,200) (150,000)         (94,100)           NET INCREASE (DECREASE) IN CASH RESOURCES         81,026         (87,263)           CASH (DEFICIENCY) RESOURCES - Beginning of Year         (69,474)         17,789           CASH RESOURCES (DEFICIENCY) - End of Year         \$ 11,552         \$ (69,474)           Cash resources (deficiency) is comprised of:         \$ 11,552         \$           Cash overdraft          (9,474)           Bank overdraft          (60,000)			(1,426)		,		
Dividends          (16,000)           Cash flows from investing activities         59,724         (23,229)           CASH FLOWS FROM FINANCING ACTIVITIES Advances from (repayments to) shareholder Acquisition of (repayment of) long-term debt         (180,200)         (150,000)           NET INCREASE (DECREASE) IN CASH RESOURCES         81,026         (87,263)           CASH (DEFICIENCY) RESOURCES - Beginning of Year         (69,474)         17,789           CASH RESOURCES (DEFICIENCY) - End of Year         \$ 11,552         \$ (69,474)           Cash resources (deficiency) is comprised of: Cash Bank overdraft Bank loan         \$ 11,552         \$           Bank loan         (60,000)			61 150				
CASH FLOWS FROM FINANCING ACTIVITIES           Advances from (repayments to) shareholder Acquisition of (repayment of) long-term debt         (180,200) 86,100 (94,100)         (150,000)           NET INCREASE (DECREASE) IN CASH RESOURCES         81,026         (87,263)           CASH (DEFICIENCY) RESOURCES - Beginning of Year         (69,474) 17,789           CASH RESOURCES (DEFICIENCY) - End of Year         \$ 11,552 \$ (69,474)           Cash resources (deficiency) is comprised of:         \$ 11,552 \$ (9,474)           Cash Bank overdraft Bank loan         (90,474)           Bank loan         (60,000)					(16,000)		
Advances from (repayments to) shareholder Acquisition of (repayment of) long-term debt       (180,200) 86,100 (94,100)       (150,000)         NET INCREASE (DECREASE) IN CASH RESOURCES       81,026       (87,263)         CASH (DEFICIENCY) RESOURCES - Beginning of Year       (69,474) 17,789         CASH RESOURCES (DEFICIENCY) - End of Year       \$ 11,552 \$ (69,474)         Cash resources (deficiency) is comprised of:       \$ 11,552 \$ (9,474)         Bank overdraft Bank loan       (60,000)	Cash flows from investing activities		59,724		(23,229)		
Advances from (repayments to) shareholder Acquisition of (repayment of) long-term debt       (180,200) 86,100 (94,100)       (150,000)         NET INCREASE (DECREASE) IN CASH RESOURCES       81,026       (87,263)         CASH (DEFICIENCY) RESOURCES - Beginning of Year       (69,474) 17,789         CASH RESOURCES (DEFICIENCY) - End of Year       \$ 11,552 \$ (69,474)         Cash resources (deficiency) is comprised of:       \$ 11,552 \$ (9,474)         Bank overdraft Bank loan       (60,000)		_					
Advances from (repayments to) shareholder Acquisition of (repayment of) long-term debt       (180,200) 86,100 (94,100)       (150,000)         NET INCREASE (DECREASE) IN CASH RESOURCES       81,026       (87,263)         CASH (DEFICIENCY) RESOURCES - Beginning of Year       (69,474) 17,789         CASH RESOURCES (DEFICIENCY) - End of Year       \$ 11,552 \$ (69,474)         Cash resources (deficiency) is comprised of:       \$ 11,552 \$ (9,474)         Bank overdraft Bank loan       (60,000)	CASH FLOWS FROM FINANCING ACTIVITIES						
NET INCREASE (DECREASE) IN CASH RESOURCES         81,026         (87,263)           CASH (DEFICIENCY) RESOURCES - Beginning of Year         (69,474)         17,789           CASH RESOURCES (DEFICIENCY) - End of Year         \$ 11,552         \$ (69,474)           Cash resources (deficiency) is comprised of:         \$ 11,552         \$           Cash Bank overdraft Bank loan          (9,474)           Bank loan          (60,000)	Advances from (repayments to) shareholder		(180,200)		(150,000)		
NET INCREASE (DECREASE) IN CASH RESOURCES       81,026       (87,263)         CASH (DEFICIENCY) RESOURCES - Beginning of Year       (69,474)       17,789         CASH RESOURCES (DEFICIENCY) - End of Year       \$ 11,552       (69,474)         Cash resources (deficiency) is comprised of:       \$ 11,552       \$         Cash Bank overdraft Bank loan        (9,474)         Bank loan        (60,000)	Acquisition of (repayment of) long-term debt	_	86,100	_			
CASH (DEFICIENCY) RESOURCES - Beginning of Year       (69,474)       17,789         CASH RESOURCES (DEFICIENCY) - End of Year       \$ 11,552       \$ (69,474)         Cash resources (deficiency) is comprised of:       \$ 11,552       \$         Bank overdraft        (9,474)         Bank loan        (60,000)		_	(94,100)	_	(150,000)		
CASH (DEFICIENCY) RESOURCES - Beginning of Year       (69,474)       17,789         CASH RESOURCES (DEFICIENCY) - End of Year       \$ 11,552       \$ (69,474)         Cash resources (deficiency) is comprised of:       \$ 11,552       \$         Bank overdraft Bank loan        (9,474)         Bank loan        (60,000)							
CASH (DEFICIENCY) RESOURCES - Beginning of Year       (69,474)       17,789         CASH RESOURCES (DEFICIENCY) - End of Year       \$ 11,552       \$ (69,474)         Cash resources (deficiency) is comprised of:       \$ 11,552       \$         Bank overdraft        (9,474)         Bank loan        (60,000)							
Cash resources (deficiency) is comprised of:       \$ 11,552       \$ (69,474)         Cash resources (deficiency) is comprised of:       \$ 11,552       \$         Cash Sank overdraft Sank loan        (9,474)         Bank loan        (60,000)	NET INCREASE (DECREASE) IN CASH RESOURCES		81,026		(87,263)		
Cash resources (deficiency) is comprised of:         Cash       \$ 11,552       \$         Bank overdraft        (9,474)         Bank loan        (60,000)	CASH (DEFICIENCY) RESOURCES - Beginning of Year	_	(69,474)	_	17,789		
Cash       \$ 11,552       \$         Bank overdraft        (9,474)         Bank loan        (60,000)	CASH RESOURCES (DEFICIENCY) - End of Year	\$_	11,552	\$ _	(69,474)		
Cash       \$ 11,552       \$         Bank overdraft        (9,474)         Bank loan        (60,000)	Cash resources (deficiency) is comprised of:						
Bank loan (60,000)		\$	11,552	\$			
					• •		
\$ <u>11,552</u> \$ <u>(69,474)</u>	Bank loan	_		_	(60,000)		
		\$_	11,552	\$_	(69,474)		

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

#### XYZ COMPANY LIMITED SCHEDULE OF OPERATING EXPENSES FOR THE YEAR ENDED JUNE 30, 2002

#### **UNAUDITED - See "Notice to Reader"**

	<u>2002</u>			<u>2001</u>	
OPERATING EXPENSES					
Advertising	\$	18,801	\$	<b>;</b>	30,715
Amortization		17,854			16,856
Bad debts		199			179
Bank charges and interest		5,510			9,356
Insurance		4,779			4,035
Interest on long-term debt		11,876			
Legal and accounting		13,155			11,766
Management fees					12,525
Memberships and licences		3,212			3,413
Office and general		12,382			15,155
Rent and utilities		18,795			21,955
Repairs and maintenance		4,289			4,979
Subcontracting		19,825			18,692
Supplies		4,571			8,557
Travel		3,736			8,003
Wages and benefits		142,713			168,806
Vehicle		5,120			4,913
	\$	286,817	\$	; 	339,905

## XYZ COMPANY LIMITED NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2002

#### **UNAUDITED - See "Notice to Reader"**

#### 1. SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION

#### **Nature of Business**

The company is a Canadian-controlled private corporation subject to the Business Corporations Act, 1982 (Ontario), was incorporated in May 1995 and operates as a manufacturer of widgets in Anytown, Ontario.

#### **Significant Accounting Policies**

#### **INVENTORY**

The inventory is valued at the lower of cost or market, with cost being determined on a first-in, first-out basis.

#### PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at cost less accumulated amortization. Amortization is recorded at rates designed to amortize the cost of capital assets over their estimated useful lives.

Amortization rates used are as follows:

Furniture and equipment	20% declining balance
Vehicle	30% declining balance
Computer equipment	30% declining balance
Leasehold improvements	straight-line 5 years

2. PROPERTY, PLANT AND EQUIPMENT	Cost	 ccumulate mortization	-	Net Book Value <b>2002</b>	Net Book Value <u>2001</u>
Furniture and equipment \$ Vehicle Computer equipment Leasehold improvements	21,500 26,486 22,210 37,350	\$ 11,300 15,460 6,457 14,439	\$	10,200 11,026 15,753 22,911	\$ 12,750 15,752 20,466 27,350
\$ \$	47,986	\$ 26,760	\$	59,890	\$ 76,318

# XYZ COMPANY LIMITED NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2002

#### **UNAUDITED - See "Notice to Reader"**

#### 3. **DUE TO SHAREHOLDER**

The amount due to the shareholder bears interest at a rate determined annually and has no fixed terms of repayment.

Interest paid for 2002 was \$1,823 (2001 - \$6,831)

#### 4. LONG - TERM DEBT

Bank term loan bearing interest at prime plus 2%, repayable in monthly principal instalments of \$2,100.00 plus interest to November 2007, secured by a general security agreement on the assets of the company and a personal guarantee from the shareholder.

		2002		<u>2001</u>	
	\$	111,300	\$		
Less current portion	_	25,200	_		
Approximate principal repayments are as follows:	\$_	86,100	\$_		
2004	\$	25,200			
2005 2006		25,200 25,200			
2007	_	10,500			
	\$_	86,100			

#### 5. STATED CAPITAL

Authorized:

Unlimited number of Common shares Unlimited number of non-cumulative, redeemable, voting, Class "A" Special shares

	:	2002	<u>2001</u>
Issued:			
1 Common shares	\$	1	\$ 1