

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>2002</u>	<u>2001</u>
<u>ASSETS</u>		
CURRENT		
Cash	\$ 11,552	\$ --
Accounts receivable	42,970	50,595
Deposits and prepaid expenses	2,942	2,688
Inventory	159,144	156,657
	<u>216,608</u>	<u>209,940</u>
PROPERTY, PLANT AND EQUIPMENT (Note 2)	59,890	76,318
INVESTMENTS	--	45,001
	<u>\$ 276,498</u>	<u>\$ 331,259</u>
<u>LIABILITIES</u>		
CURRENT		
Bank overdraft	\$ --	\$ 9,474
Bank loan	--	60,000
Accounts payable and accrued liabilities	82,053	91,343
Long-term debt - current portion	25,200	--
Income tax payable	14,387	--
	<u>121,640</u>	<u>160,817</u>
DUE TO SHAREHOLDER (Note 3)	51,591	231,791
LONG-TERM DEBT (Note 4)	86,100	--
	<u>259,331</u>	<u>392,608</u>
<u>SHAREHOLDER'S EQUITY</u>		
STATED CAPITAL (Note 5)	1	1
RETAINED EARNINGS (DEFICIT)	17,166	(61,350)
	<u>17,167</u>	<u>(61,349)</u>
	<u>\$ 276,498</u>	<u>\$ 331,259</u>
APPROVED		

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

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

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

UNAUDITED - See "Notice to Reader"

	<u>2002</u>	<u>2001</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income for the year	\$ 78,516	\$ 8,810
Adjustment for:		
Amortization	17,854	16,856
Loss on disposal of property, plant and equipment	--	387
Gain on disposal of investment	<u>(16,149)</u>	<u>--</u>
Cash derived from operations	80,221	26,053
Decrease (increase) in working capital items		
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	<u>14,387</u>	<u>2,206</u>
Cash flows from operating activities	<u>115,402</u>	<u>85,966</u>
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	<u>--</u>	<u>(16,000)</u>
Cash flows from investing activities	<u>59,724</u>	<u>(23,229)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Advances from (repayments to) shareholder	(180,200)	(150,000)
Acquisition of (repayment of) long-term debt	<u>86,100</u>	<u>--</u>
	<u>(94,100)</u>	<u>(150,000)</u>
NET INCREASE (DECREASE) IN CASH RESOURCES	81,026	(87,263)
CASH (DEFICIENCY) RESOURCES - Beginning of Year	<u>(69,474)</u>	<u>17,789</u>
CASH RESOURCES (DEFICIENCY) - End of Year	\$ <u>11,552</u>	\$ <u>(69,474)</u>
Cash resources (deficiency) is comprised of:		
Cash	\$ 11,552	\$ --
Bank overdraft	--	(9,474)
Bank loan	<u>--</u>	<u>(60,000)</u>
	\$ <u>11,552</u>	\$ <u>(69,474)</u>

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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	\$ 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
	<u>\$ 286,817</u>	<u>\$ 339,905</u>

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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

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

XYZ COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
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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.

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

5. STATED CAPITAL

Authorized:

Unlimited number of Common shares

Unlimited number of non-cumulative, redeemable, voting,

Class "A" Special shares

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