

AUDIT OUTLINE

Consolidated Financial Statements

Month, Day, Year

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Sample Audit Inc.

We have audited the accompanying consolidated financial statements of Sample Audit Inc. and its subsidiaries, which comprise the consolidated balance sheet as at [Month, Day, Year], and the statements of consolidated income, retained earnings, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Part II of the *CICA Handbook – Accounting*, and for such internal control as management determines is necessary to enable the preparation of consolidated 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 consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements present fairly, in all material respects, the financial position of Sample Audit Inc. and its subsidiaries as at [Month, Day, Year], and their financial performance and cash flows for the year then ended in accordance with Canadian accounting standards for private enterprise.

[Signed]

[City, date]

Sample Audit Inc.
CONSOLIDATED BALANCE SHEET
As At Month, Day, Year

STATEMENT 1

	Year	(Restated) Prior
ASSETS		
Current assets		
Cash	\$ xxxx	\$ xxxx
Investments (Notes 1, 6, and 25)	xxxx	xxxx
Accounts receivable (Note 2)	xxxx	xxxx
Due from related party (Note 3)	xxxx	xxxx
Inventory (Notes 1 and 4)	xxxx	xxxx
Income taxes recoverable	xxxx	xxxx
Derivative instruments (Notes 1 and 25)	xxxx	xxxx
Prepaid expenses	xxxx	xxxx
Future income taxes (Note 1 or 26)	xxxx	xxxx
	xxxx	xxxx
Long-lived assets held for sale (Note 5)	xxxx	xxxx
Investments (Notes 1, 6, and 25)	xxxx	xxxx
Property, plant and equipment (Notes 1 and 7)	xxxx	xxxx
Derivative instruments (Notes 1 and 25)	xxxx	xxxx
Future income taxes (Note 1 or 26)	xxxx	xxxx
Intangible assets (Notes 1 and 8)	xxxx	xxxx
Goodwill (Note 9)	xxxx	xxxx
	\$ xxxx	\$ xxxx

The accompanying notes are an integral part of these financial statements.

Sample Audit Inc.
CONSOLIDATED BALANCE SHEET
As At Month, Day, Year

STATEMENT 1

	Year	(Restated) Prior
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Bank indebtedness (Note 10)	\$ xxxx	\$ xxxx
Note payable (Note 11)	xxxx	xxxx
Accounts payable and accrued liabilities	xxxx	xxxx
Due to related party (Note 3)	xxxx	xxxx
Income tax payable	xxxx	xxxx
Dividends payable	xxxx	xxxx
Derivative instruments (Notes 1 and 25)	xxxx	xxxx
Deferred revenue	xxxx	xxxx
Current portion of long-term debt (Note 12)	xxxx	xxxx
Current portion of sinking fund requirement (Note 12)	xxxx	xxxx
Current obligations under capital lease (Note 13)	xxxx	xxxx
	xxxx	xxxx
Long-term liabilities		
Long-term debt (Note 12)	xxxx	xxxx
Obligations under capital lease (Note 13)	xxxx	xxxx
Derivative instruments (Notes 1 and 25)	xxxx	xxxx
Asset retirement obligation (Note 14)	xxxx	xxxx
Accrued pension obligation (Note 15)	xxxx	xxxx
Future income taxes (Note 1 or 26)	xxxx	xxxx
	xxxx	xxxx
Contingent liability (Note 24)		
Shareholders' equity		
Share capital (Note 16)	xxxx	xxxx
Contributed Surplus — Debenture conversion feature (Note 18)	xxxx	xxxx
Contributed Surplus — Stock Options	xxxx	xxxx
Contributed Surplus — Expired Stock Options	xxxx	xxxx
	xxxx	xxxx
Retained earnings	xxxx	xxxx
Reserves	xxxx	xxxx
Non-controlling interest (Note 17)	xxxx	xxxx
Total equity	xxxx	xxxx
	\$ xxxx	\$ xxxx

On behalf of the Board

_____ Director

The accompanying notes are an integral part of these financial statements.

Sample Audit Inc.
CONSOLIDATED INCOME STATEMENT
For The Year Ended Month, Day, Year

STATEMENT 2

	Year	(Restated) Prior
Sales	\$ xxxx	\$ xxxx
Cost of sales	xxxx	xxxx
	xxxx	xxxx
Expenses		
Selling, general and administrative (Note 19)	xxxx	xxxx
Amortization of property, plant and equipment	xxxx	xxxx
Amortization of intangible assets	xxxx	xxxx
Asset retirement obligations (Note 14)	xxxx	xxxx
Research and development	xxxx	xxxx
Interest on long-term debt	xxxx	xxxx
Interest on capital leases	xxxx	xxxx
Other interest (Note 22)	xxxx	xxxx
Taxes other than income	xxxx	xxxx
Loss on foreign currency translation (Note 1)	xxxx	xxxx
	xxxx	xxxx
Income from operations	xxxx	xxxx
Other income (expenses)		
Investment income (Notes 1 and 25)	xxxx	xxxx
Equity income (Notes 1 and 25)	xxxx	xxxx
Goodwill impairment loss (Note 9)	(xxxx)	(xxxx)
Loss on impairment of long-lived asset (Note 5)	(xxxx)	(xxxx)
Income before taxes and discontinued operations	xxxx	xxxx
Income taxes (Note 1 or 26, and 21)		
Current	xxxx	xxxx
Future	xxxx	xxxx
Income before discontinued operations	xxxx	xxxx
Attributable to:		
Equity holders of Sample Audit Inc.	xxxx	xxxx
Non-controlling interests	<u>xxxx</u>	<u>xxxx</u>
Income before discontinued operations	xxxx	xxxx
Discontinued operations (Note 20)	xxxx	xxxx
Net income	\$ xxxx	\$ xxxx
Attributable to:		
Equity holders of Sample Audit Inc.	\$ xxxx	\$ xxxx
Non-controlling interests	<u>xxxx</u>	<u>xxxx</u>
Net income	\$ xxxx	\$ xxxx

Sample Audit Inc.
CONSOLIDATED STATEMENT OF RETAINED EARNINGS
For The Year Ended Month, Day, Year

STATEMENT 3

	Year	(Restated) Prior
Retained earnings, beginning of year	xxx	xxx
Correction of error (Note 21)		xxx
Change in accounting policy (Note 22)		<u>xxx</u>
As restated		xxx
Net Income	xxx	xxx
Dividends Declared	<u>xxx</u>	<u>xxx</u>
Retained earnings, end of year	<u>xxx</u>	<u>xxx</u>

The accompanying notes are an integral part of these financial statements.

Sample Audit Inc.
CONSOLIDATED CASH FLOW STATEMENT
For The Year Ended Month, Day, Year

STATEMENT 4

	Year	(Restated) Prior
Operating activities		
Cash receipts from customers	\$ xxxx	\$ xxxx
Cash receipts from sale of investments measured at fair value	xxxx	xxxx
Cash payments for merchandise	(xxxx)	(xxxx)
Cash payments for other operating expense	(xxxx)	(xxxx)
Interest paid	(xxxx)	(xxxx)
Income taxes paid	(xxxx)	(xxxx)
	xxxx	xxxx
Investing activities		
Purchase of government bonds	(xxxx)	(xxxx)
Acquisition of property, plant, and equipment	(xxxx)	(xxxx)
Proceeds from disposition of property, plant, and equipment	xxxx	xxxx
Payments for franchises	(xxxx)	(xxxx)
Proceeds from notes receivable	xxxx	xxxx
	(xxxx)	(xxxx)
Financing activities		
Proceeds from issuing long-term debt	xxxx	xxxx
Payments on capital lease	(xxxx)	(xxxx)
Proceeds for issuing common shares	xxxx	xxxx
Cash dividends paid	(xxxx)	(xxxx)
	xxxx	xxxx
Increase (decrease) in cash and cash equivalents	xxxx	xxxx
Cash and cash equivalents, beginning of year	xxxx	xxxx
Cash and cash equivalents, end of year	\$ xxxx	\$ xxxx
Cash and cash equivalents consist of		
Cash	\$ xxxx	\$ xxxx
Cash equivalents	xxxx	xxxx
Bank indebtedness	(xxxx)	(xxxx)
	\$ xxxx	\$ xxxx

The accompanying notes are an integral part of these financial statements.

Sample Audit Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Month, Day, Year

The Company was incorporated under the laws of Canada on [Month, Day, Year]. Its main business activities are the development of software and the processing of non-marketable lumber into woodchips.

1. SUMMARY OF ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with Part II – *Accounting Standards for Private Enterprises* of the *CICA Handbook – Accounting* issued by the Accounting Standards Board (AcSB).

Principles of consolidation

The consolidated financial statements include the financial statements of the company and all its subsidiaries. On consolidation, all intercompany transactions and balances have been eliminated. Investments in entities subject to significant influence are accounted for using the equity method.

Cash and cash equivalents

Cash equivalents include demand deposits with banks and highly liquid investments with original maturities of three months or less.

Foreign currency translation of foreign operations

Foreign monetary assets and liabilities are translated into Canadian dollars at the rates of exchange in effect at the balance sheet date. Non-monetary items are translated at historical rates unless they are carried at “market” in which case the rates at the balance sheet date are used. Revenue and expense items are translated using the rate in effect on the date of the transaction, except for amortization, which is translated at the same rate as the asset to which it applies.

Hedging instruments

When hedge accounting is not used, derivative financial instruments are recorded at fair value on the consolidated balance sheet. Fair value is determined by referencing quoted market prices. The change in the value of derivatives and hedged items is recorded in the consolidated income statement in the period in which they arise.

When hedge accounting is used for hedges of anticipated transactions, the anticipated transaction is initially recognized at fair value; however, the forward contract is not recognized until maturity. The gain or loss on the maturing contract is recorded as an adjustment to the carrying amount of the hedged item.

When hedge accounting is used for hedges of interest bearing assets or liabilities, interest on the hedged item is recognized using the effective rate method; gains or losses on the interest rate swap are recognized as an adjustment to interest on the hedged item in the period in which they arise.

Inventory

Raw materials, supplies, work in process and finished goods are valued at the lower of average cost and net realizable value.

Sample Audit Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Month, Day, Year

1. SUMMARY OF ACCOUNTING POLICIES (cont'd)

Investments

Investments in equity securities quoted in an active market are reported at fair value.

Investment in equity securities for which a quoted price in an active market is no longer available are reported at cost less impairment, if any.

Investments in debt securities are reported at amortized cost less impairment, if any.

Transaction costs on financial assets are reported in two ways: i) if they are measured at fair value, they are expensed when incurred; ii) if they are measured at amortized cost, they are capitalized.

Income from financial assets measured at fair value and gains and losses, whether realized or unrealized, are reported in net income.

Income from financial assets measured at amortized cost and realized gains and losses are reported in net income. Impairment losses are reported in net income.

Investments in companies subject to significant influence are accounted for using the equity method. A proportionate share of their income or loss is reported in net income.

Financial Liabilities

Financial liabilities are measured at amortized cost.

Property, plant and equipment

Property, plant and equipment are recorded at cost. Amortization is provided annually at rates calculated to write off the assets over their estimated useful lives as follows:

Natural resource		basis of resources used per year
Building	5%	straight line
Machinery and equipment	20%	declining balance
Machinery under capital lease	20%	declining balance

Intangible assets

Intangible assets are recorded at cost. Amortization is provided annually at rates calculated to write off the assets over their estimated useful lives as follows:

Patents	17 years	straight line
Franchise 1	15 years	straight line
Franchise 2	20 years	straight line

Income taxes: The note that follows is based on the company electing to use the future income taxes method of reporting income taxes. See Note 26 for an example of the supplemental disclosure required if the company elects to use the taxes payable method.

The future income tax method of tax allocation is used in accounting for income taxes. Under this method, temporary differences arising from the difference between the tax basis of an asset and a liability and its

Sample Audit Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 Month, Day, Year

1. SUMMARY OF ACCOUNTING POLICIES (cont'd)

carrying amount on the balance sheet are used to calculate future income tax assets or liabilities. Future income tax assets or liabilities are calculated using tax rates anticipated to be in effect in the periods that the temporary differences are expected to reverse. The effect of a change in income tax rates on future income tax assets and liabilities is recognized in income in the period that the change occurs.

As at YEAR Company had non-capital loss carryforwards available to reduce future years' taxable income, which expire as follows:

YEAR plus two	XX
YEAR plus three	XX
YEAR plus four	XX
YEAR plus five and beyond	<u>XX</u>
Totals	<u>XX</u>

Impairment of long-lived assets

Long-lived assets are reviewed for impairment when events and circumstances indicate that cost may not be recoverable. Impairment exists when the carrying value of an asset is greater than the undiscounted future cash flows expected to be provided by the asset. The amount of impairment loss, if any, is the excess of the carrying value over its fair value.

Use of estimates

The preparation of consolidated financial statements in conformity with Canadian generally accepted accounting principles for private enterprises requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the amounts of revenues and expenses for the reporting period. Significant areas requiring the use of management estimates are: useful lives of plant and equipment, impairment of long-lived assets and goodwill, employee future benefits, and income taxes. Actual results could differ from those estimated.

2. ACCOUNTS RECEIVABLE

	Year	Prior
Trade	\$ XXXX	\$ XXXX
Other	XXXX	XXXX

3. RELATED PARTIES

Related parties consist of commonly controlled corporations as follows:

	Year	Prior
Due from XXX Ltd. Amount is non-interest-bearing and repayable on demand.	\$ XXXX	\$ XXXX
Due to YYY Ltd. Amount is unsecured, bears interest at 6%, and is repayable within six months.	\$ (XXXX)	\$ (XXXX)

Sample Audit Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Month, Day, Year

4. INVENTORY

	Year	(Restated) Prior
Finished goods	\$ xxxx	\$ xxxx
Work in process	xxxx	xxxx
Raw materials and supplies	xxxx	xxxx
	<u>\$ xxxx</u>	<u>\$ xxxx</u>

5. LONG-LIVED ASSETS HELD FOR SALE

Long-lived assets held for sale or disposal is shown at Future value less selling cost \$xxxxx. The company has a building that is used for software development, and it is no longer needed as development has been consolidated in the Eastern premises. A buyer has already been located for the building. This is part of the operating segment software programs.

	Year	Prior
	<u>\$ xxxx</u>	<u>\$ xxxx</u>

6. INVESTMENTS

CURRENT

Category	Valuation basis	Cost (Year)	Fair Value (Year)	Cost (Prior)	Fair Value (Prior)
Equity securities					
Shares in ZLT. Co	Fair value	xxx	xxx	xxx	xxx
Shares in ARF. Ltd.	Fair value	xxx	xxx	xxx	xxx
Shares in ZNT. Inc.	Fair value	<u>xxx</u>	<u>xxx</u>	<u>xxx</u>	<u>xxx</u>
Total		<u>xxx</u>	<u>xxx</u>	<u>xxx</u>	<u>xxx</u>
Debt securities					
Treasury bill 1	Amortized cost	<u>xxx</u>	<u>xxx</u>	<u>nil</u>	<u>nil</u>
Total		<u>xxx</u>	<u>xxx</u>	<u>nil</u>	<u>nil</u>

LONG-TERM

Category	Valuation basis	Cost (Year)	Fair Value (Year)	Cost (Prior)	Fair Value (Prior)
Equity securities					
Shares in ADB Ltd.	Cost	xxx	xxx	xxx	xxx
Shares in TRD. Inc.	Fair value	<u>xxx</u>	<u>xxx</u>	<u>xxx</u>	<u>xxx</u>
Total		<u>xxx</u>	<u>xxx</u>	<u>xxx</u>	<u>xxx</u>
Debt securities					
Bond 1	Amortized Cost	xxx	xxx	xxx	xxx
Bond 2	Amortized Cost	<u>xxx</u>	<u>xxx</u>	<u>xxx</u>	<u>xxx</u>
Total		<u>xxx</u>	<u>xxx</u>	xxx	<u>xxx</u>
Investments					
Investment 1	Equity method	<u>xxx</u>		<u>xxx</u>	
Total		<u>xxx</u>		<u>xxx</u>	

Sample Audit Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 Month, Day, Year

6. INVESTMENTS (cont'd)

Treasury bill 1 — Government of Canada treasury bill with a face value of \$xx, maturing on [Month, Day, Year].

Bond 1 — Government of Canada Bonds series 6, with a face value of \$xx. The coupon interest rate is x%. The bonds mature in Year 10.

Bond 2 — Province of BC Bonds, series 8A, with a face value of \$xx. The coupon interest is x%. The bonds mature in year 8.

Investment 1 — investment in ZDE Corp. is subject to significant influence (xx% of voting shares).

7. PROPERTY, PLANT AND EQUIPMENT

	Cost	Accumulated Amortization	Year	Prior
			Net Book Value	
Land	\$ xxxx	\$ xxxx	\$ xxxx	\$ xxxx
Natural resources (Note 14)	xxxx	xxxx	xxxx	xxxx
Buildings	xxxx	xxxx	xxxx	xxxx
Machinery and equipment	xxxx	xxxx	xxxx	xxxx
	xxxx	xxxx	xxxx	xxxx
Machinery under capital lease	xxxx	xxxx	xxxx	xxxx
	\$ xxxx	\$ xxxx	\$ xxxx	\$ xxxx

8. INTANGIBLE ASSETS

	Cost	Accumulated Amortization	Year	Prior
			Net Book Value	
Patents	\$ xxxx	\$ xxxx	\$ xxxx	\$ xxxx
Franchise 1	xxxx	xxxx	xxxx	xxxx
Franchise 2	xxxx	xxxx	xxxx	xxxx
	\$ xxxx	\$ xxxx	\$ xxxx	\$ xxxx

9. GOODWILL

Goodwill representing the excess of the cost of net identifiable assets of subsidiaries over their fair value as of the date of acquisition. Impairment tests are conducted when there has been an event or change in circumstances that cause us to believe that the value of this asset is impaired. On Month, Day, Year, a test for impairment was conducted. The increasing availability of satellite technology in rural service areas, Sample Audit Inc.'s market, and restrictions on mineral extraction, have led to reduced demand and increasing production costs for after-market software. Quarterly profits in this segment declined throughout the year; this trend is expected to continue. The impairment test confirmed that an impairment loss of \$xx had occurred.

Sample Audit Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Month, Day, Year

9. GOODWILL (cont'd)

Changes in the carrying amount of goodwill for the year ended Month, Day, Year, are as follows:

	Total
Balance as of Month, Day, Year (beginning of year)	\$ xxxx
Impairment loss	<u>(xx)</u>
Balance as of Month, Day, Year (end of year)	<u>\$ xxxx</u>

10. BANK INDEBTEDNESS

The Company has a revolving line of credit of \$xxx, secured by a charge under the Personal Property Security Act granting a security interest in the Company's accounts receivable and inventories. Interest is payable each month at prime plus x%. As at Month, Day, Year, the net book value of the pledged security totalled \$xxx. (Month, Day, Prior \$xxx).

11. NOTE PAYABLE

The note is payable on demand and is secured by a charge under the Personal Property Security Act granting a security interest in a new machine that cost \$x. Interest is payable each month at prime plus x%. As at Month, Day, Year, the net book value of the pledged security totalled \$xxx. (Month, Day, Prior \$xxx).

12. LONG-TERM DEBT

	Year	Prior
Series 1 bonds, x%, due in Year 4	\$ xxxx	\$ xxxx
X% sinking fund bonds due in Year 10	xxxx	xxxx
	xxxx	xxxx
Debt component of \$xxxx Series 2 convertible debentures due in year 5. Interest is payable annually at x%. The lender may elect to convert each \$1,000 of bonds into 20 common shares. (Note 18)	xxxx	xxxx
	xxxx	xxxx
Current portion — interest	xxxx	xxxx
Current portion — principal	xxxx	xxxx
	\$ xxxx	\$ xxxx

The aggregate amount of payments required in each of the next five years on the above indebtedness is as follows:

Year	Series 1 bonds	Sinking fund bonds	Debt component of convertible debentures
1	\$ nil	\$ xxxx	\$ nil
2	nil	xxxx	nil
3	nil	xxxx	nil
4	xxxx	xxxx	nil
5	nil	xxxx	xxxx
	\$ xxxx	\$ xxxx	\$ xxxx

Sample Audit Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 Month, Day, Year

13. OBLIGATIONS UNDER CAPITAL LEASE

	Year	Prior
Machinery lease contracts, repayable in monthly instalments totaling \$xxx, including interest calculated at x%, and maturing on Month, Day Year and Month, Day, Year. Each lease is secured by the related equipment.	\$ xxxx	\$ xxxx
Less current portion — interest	xxxx	xxxx
Less current portion — principal	xxxx	xxxx
	\$ xxxx	\$ xxxx
Minimum payments under capital leases for machinery are:		
Year 1	\$ xxxx	
Year 2	xxxx	
Year 3	xxxx	
Year 4	xxxx	
Year 5	xxxx	
	\$ xxxx	

As at Month, Day, Year, the net book value of the pledged security totalled \$xxx. (Month, Day, Prior \$xxx).

14. ASSET RETIREMENT OBLIGATIONS

The Company is required by statute to remove all structures on its resource property at xxxx when production is complete.

The fair value of the assets that are legally restricted for this purpose is \$xxxx.

No payments were made with respect to this obligation during the year under review.

The carrying amount of the asset retirement obligation is based on an undiscounted amount of \$xxxx being due in xxxx years' time and the use of a credit-adjusted risk-free rate of x.x% to discount the cash flows.

15. ACCRUED PENSION OBLIGATION

Employee future benefits

The Company maintains a defined benefit plan that provides pension benefits for almost all of its employees. Benefits are based on length of service and average rate of pay during the last five years of service. Employees are not required to contribute to the plan. The plan provides increasing pension benefits to protect against inflation. The Company is responsible for adequately funding the pension plan. There have not been any significant changes in the contractual elements of the pension plan in the year under review. Contributions are made based on various actuarial cost methods that are permitted by pension regulatory bodies. Contributions reflect actuarial assumptions about future investment returns, salary projections, and future service benefits.

The fair value of the plan assets as at December 31, 20XY was \$x,xxx,xxx.

The accrued benefit obligation at December 31, 20XY was \$x,xxx,xxx.

The plan surplus at year end, December 31 was \$xxx,xxx.

December 31, 20XX was the effective date of the most recent actuarial valuation for funding purposes.

Actuarial gains and losses are recognized immediately in income.

Sample Audit Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Month, Day, Year

16. SHARE CAPITAL

	Year	Prior
(a) Issued:		
50,000 6% cumulative, redeemable preferred shares	\$ xxxx	\$ xxxx
40,000 common shares without par value (prior 30,000)	\$ xxxx	\$ xxxx

(b) The redemption price of the 6% cumulative, redeemable preferred shares is \$xx per share.

(c) During the year, the company issued 10,000 common shares for total cash consideration of \$xxx.

(d) Stock Option Plan:¹

The Company has reserved xxxx Common Shares for issuance under its Stock Option Plan. The granting of options and the related vesting periods are at the discretion of the Board of Directors and have a maximum term of 10 years.

The fair value of each option is estimated on the date of the grant using the Black-Scholes option pricing model with the following weighted average assumptions used for grants in YEAR: xxxx dividend yield; expected volatility of xx%; risk-free rate of x.x%; and expected life of xxxx years. The weighted average fair value of stock options granted during the year was \$x.xx per option.

A summary of the status of the Company's Stock Option Plan as of Year and Prior and changes during the year ending on those dates is presented below:

Stock Options	Year		Prior	
	Shares	Weighted-average exercise price	Shares	Weighted-average exercise price
Outstanding at beginning of year	xxxx	\$xxxx	xxxx	\$xxxx
Granted	xxxx	\$xxxx	xxxx	\$xxxx
Exercised	(xxxx)	\$xxxx	(xxxx)	\$xxxx
Forfeited	(xxxx)	\$xxxx	(xxxx)	\$xxxx
Cancelled/expired	(xxxx)	\$xxxx	(xxxx)	\$xxxx
Outstanding at end of year	<u>xxxx</u>	<u>\$xxxx</u>	xxxx	<u>\$xxxx</u>
Options exercisable at end of year	<u>xxxx</u>	<u>\$xxxx</u>	<u>xxxx</u>	<u>\$xxxx</u>

Sample Audit Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 Month, Day, Year

16. SHARE CAPITAL (cont'd)

The following table summarizes information about stock options outstanding as at Year:

Options Outstanding				Options Exercisable	
Range of exercise prices	# Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	# of Shares Exercisable	Weighted Average Exercise Price
\$xx - \$xx	xxxx	x.x years	\$xxxx	xxxx	\$xxxx
\$xx - \$xx	xxxx	x.x years	\$xxxx	xxxx	\$xxxx
\$xx - \$xx	xxxx	x.x years	\$xxxx	xxxx	\$xxxx
\$xx - \$xx	xxxx	x.x years	\$xxxx	xxxx	\$xxxx
\$xx - \$xx	<u>xxxx</u>	<u>x.x years</u>	<u>\$xxxx</u>	<u>xxxx</u>	<u>\$xxxx</u>
	<u>xxxx</u>	<u>x.x years</u>	<u>\$xxxx</u>	<u>xxxx</u>	<u>\$xxxx</u>

17. NON-CONTROLLING INTEREST

	Year	Prior
Preferred shareholders	\$ xxxx	\$ xxxx
Common shareholders	xxxx	xxxx
	<u>\$ xxxx</u>	<u>\$ xxxx</u>

18. CONVERTIBLE DEBENTURES

The sales proceeds of the convertible debentures was allocated first to the debt component based on the market values of similar bonds without a conversion feature. The residual amount was allocated to the equity component.

Each \$1,000 debentures may be converted into 20 common shares between Month, Day, Year and Month, Day, Year upon surrendering the debenture to the Company (Note 12).

19. STOCK BASED COMPENSATION COSTS

The cost of stock based compensation plans expensed in Year totaled \$xxx (Previous \$xxx).

Sample Audit Inc.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**Month, Day, Year

20. DISCONTINUED OPERATIONS

The Company sold its operation in Westville on Month, Day, Year. The Westville plant processed non-marketable lumber into woodchips for sale to pulp producers.

Operating loss to the date of disposal (net of income tax recoveries of \$xxxx)	\$ (xxxx)
Gain from disposal of assets (net of applicable taxes of \$xxxx)	xxxx
<hr/>	
Net gain/ (loss)	\$ xxxx

21. CORRECTION OF ERROR

Income tax expense was incorrectly calculated in Prior. The financial statements of Prior have been restated to correct this error. The effect of the restatement is that the balance of retained earnings at the beginning of Year has been reduced by \$xxxx, which is the amount by which income taxes as at that date have been increased. There is no effect on this year's income.

22. CHANGE IN ACCOUNTING POLICY

Effective the beginning of Year, the Company changed its accounting policy for the treatment of borrowing costs related to a plant under construction for use by the Company. Previously, the Company capitalized such costs. They are now written off as expenses as incurred. Management judges that this policy provides reliable and more relevant information because it results in a more transparent treatment of finance costs and is consistent with local industry practice, making the Company's financial statements more comparable. This change in accounting policy has been accounted for retrospectively, and the comparative statements for Prior have been restated. The effect of the change on Prior is tabulated below. Opening retained earnings for Prior have been reduced by \$xxx, which is the amount of the adjustment relating to periods before Prior.

	(\$)
<hr/>	
<i>Effect on Prior</i>	
(Increase) in interest expense	(xxx)
Decrease in income tax expense	<u>xxx</u>
(Decrease) in net income	(xxx)
 <i>Effect on periods before Prior</i>	
(Decrease) in net income (\$xxx interest Expense less tax of \$xxx)	(xxx)
(Decrease) in assets in the course of construction And in retained earnings at 31 December Prior	(xxx)

Sample Audit Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Month, Day, Year

23. SUBSEQUENT EVENTS

On Month, Day, Year, the Company made an offer to purchase a new production machine valued at \$xxxx.

24. CONTINGENT LIABILITY

A contingent liability exists because of a pending lawsuit relating to product performance. The potential amount of the damages cannot be estimated at this time due to the complexities of the case.

25. FINANCIAL INSTRUMENTS

Supplemental disclosure for financial instruments	Year	Prior
Income from non-consolidated subsidiaries, non-proportionally consolidated joint ventures, and interests in joint ventures, measured using the equity method	\$xxxx	\$xxxx
Income from all other investments in non-consolidated subsidiaries and non-proportionately consolidated joint ventures	\$xxxx	\$xxxx
Income from investments measured using the cost method	\$xxxx	\$xxxx
Income from investments measured using the equity method	\$xxxx	\$xxxx
Income from investments measured at fair value	\$xxxx	\$xxxx
Total interest income	\$xxxx	\$xxxx
Net gain (loss) on financial instruments	\$xxxx	\$xxxx

Nature and extent of risks arising from financial instruments

The Company is exposed to a variety of financial risks that arise from owning financial instruments. These risks include credit risk; currency risk; interest rate risk; liquidity risk; market risk; and other price risks as described below. Unless otherwise noted, it is management's opinion that the Company is not exposed to material credit, currency, interest, liquidity, market, or other price risks arising from these financial instruments.

The Company's objectives towards managing risk arising from financial instruments is to minimize it to the greatest extent possible giving due consideration for cost benefit considerations. A general description of the processes used follows. The Company's objectives, policies, and processes, for managing and measuring the various risks arising from the financial instruments have not changed from the previous period.

Sample Audit Inc.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**Month, Day, Year

25. FINANCIAL INSTRUMENTS (cont'd)

Credit risk (default 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 mitigates credit risk on its receivables through diversification of its customer base and limiting its exposure to any one customer. The Company minimizes its credit exposure on derivative contracts by entering into transactions only with counterparties that are major investment-grade international financial institutions.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The company manages this risk through the use of derivative financial instruments.

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. For liabilities, interest rate risk is minimized through management's constant review of demand and maturing debt. The Company structures its finances so as to stagger the maturities of debt, thereby minimizing exposure to interest rate fluctuations. For assets, this risk is reduced by diversifying the durations of the fixed-income investments that are held at a given time.

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Company obviates liquidity risk by closely monitoring its working capital position, ensuring sufficient cash, cash equivalents, or readily marketable securities, are available to meet all liabilities when due.

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk, and other price risk. The Company manages these individual risks as described elsewhere in this section.

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. The Company manages other price risk through asset allocation and maintaining a portfolio that is well diversified on both a geographic and industry sector basis.

Derivative financial instruments

Derivative financial instruments are financial contracts that derive their value from underlying changes in interest rates, foreign exchange rates, commodity prices, or other financial measures. Such instruments include interest rate, foreign exchange, and commodity contracts. The Company uses these instruments to manage the risks associated with its funding and investing strategies or for trading purposes. The notional and carrying amount of derivatives held by the Company are as follows:

	Year		Prior	
	Notional amount	Carrying amount	Notional amount	Carrying amount
Derivative assets	\$xxx	\$xxx	\$xxx	\$xxx
Derivative liabilities	\$xxx	\$xxx	\$xxx	\$xxx

Sample Audit Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 Month

25. FINANCIAL INSTRUMENTS (cont'd)

Hedge accounting

The Company has entered into a forward contract to purchase US\$xxx,xxx on Month, Day, Year at a rate of C\$x.xx per US\$x.xx. This forward contract was entered into to hedge the payment of a payable related to the purchase of inventory due on the same date. This transaction has been designated as a hedge of an anticipated transaction to which hedge accounting will be applied. The net effect will be that the cost of the inventory will be recorded at C\$xxx,xxx.

Quantitative disclosures of risks arising from financial instruments

Credit Risk

The maximum of our credit risk is as described below:

Category (By type)	Carrying value Year \$	Carrying value Prior \$	Credit risk Year \$	Credit Risk Prior \$
Financial assets measured at fair value	xxxx	xxxx	xxxx	xxxx
Financial assets measured at amortized cost	xxxx	xxxx	xxxx	xxxx
Total	xxxx	xxxx	xxxx	xxxx

The maximum credit risk assumes an extremely unlikely worst case scenario where all customers defaulted on their contractual obligations and the Company was unable to recover any monies through legal action or other collection methods.

The credit quality of our financial assets is considered to be excellent. As previously discussed, the Company mitigates credit risk on its receivables through diversification of its customer base and limiting its exposure to any one customer. The Company minimizes its credit exposure on derivative contracts by entering into transactions only with counterparties that are major investment-grade international financial institutions. The Company restricts investments in debt instruments to those whose credit are independently rated to be of Investment Grade.

Liquidity risk

Maturity analysis of financial liabilities	\$
Financial liabilities that mature within 30 days from balance sheet date	xxxx
Financial liabilities that mature between 31-90 days from balance sheet date	xxxx
Financial liabilities that mature between 91 days and one year from balance sheet date	xxxx
Financial liabilities that mature in more than one year, but not later than five years from balance sheet date	xxxx
Total	xxxx

Sample Audit Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 Month

25. FINANCIAL INSTRUMENTS (cont'd)

Market risk

Value at risk	Potential Impact	
	Year \$	Prior \$
	Net Income	Net Income
At fair value	xxxx to xxxx	xxxx to xxxx
Other financial instruments	xxxx to xxxx	xxxx to xxxx

Value at risk is a technique that uses the statistical analysis of historical market trends and volatilities to estimate the likelihood that losses to the Company's portfolio will exceed a certain amount. This measurement captures the interdependency of the three components of market risk: currency risk, interest rate risk, and other price risk.

The use of this method assumes that historical results can be used to forecast future outcomes within a range of possibilities. The primary limitation of this method is that catastrophic events that cannot be reasonably predicted, such as 9/11, may result in an actual drop in value greater than the forecast maximum.

26. INCOME TAXES

The note that follows is based on the company electing to use the taxes payable method of reporting income taxes. See Note 1 for an example of the supplemental disclosure required if the company elects to use the future income taxes method.

A reconciliation of the statutory income tax rate to the effective income tax rate is as follows:

	YEAR	PRIOR
Combined basic federal and provincial statutory income tax rate	xx	xx
Other items	xx	xx
YYY gain and equity losses subject to capital gains rates	—	(xx)
Change in substantially enacted tax rates	<u>xx</u>	—
Effective tax rate	<u>xx</u>	<u>xx</u>

As at YEAR Company had non-capital loss carryforwards available to reduce future years' taxable income which expire as follows:

YEAR plus two	xx
YEAR plus three	xx
YEAR plus four	xx
YEAR plus five and beyond	<u>xx</u>
Totals	<u>xx</u>