

Victoria Line Ltd.

Statement of Management Responsibility

Management, in accordance with generally accepted accounting principles, has prepared the financial statements of *Victoria Line Ltd.* These statements present fairly the financial position of *Victoria Line Ltd.* as at December 31, 1999 and results of operations for the year then ended.

Management is responsible for the preparation, integrity and objectivity of the financial statements. Systems of internal control are developed and maintained by management to provide reasonable assurance that transactions are properly authorized, assets are safeguarded, and financial records are properly maintained to provide reliable basis for preparation of financial statements.

The Auditor General of British Columbia, has carried out an independent audit of the financial statements. The Report of the Auditor outlines the scope of his audit and his opinion on the financial statements of *Victoria Line Ltd.*



Chris Nelson
President and CEO

Victoria, British Columbia
March 8, 2000

Report of the Auditor General of British Columbia

To the Shareholder of Victoria Line Ltd.:

I have audited the balance sheet of *Victoria Line Ltd.* as at December 31, 1999 and the statements of loss and deficit and cash flow for the year then ended. These financial statements are the responsibility of the Company's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of *Victoria Line Ltd.* as at December 31, 1999 and the results of its operations and its cash flow for the year then ended in accordance with generally accepted accounting principles.



Victoria, British Columbia
March 8, 2000

Wayne Strelieff, CA
Auditor General

Victoria Line Ltd.
Balance Sheet
As at December 31, 1999

	<u>1999</u>	<u>1998</u>
ASSETS		
Current		
Cash	\$ 115,061	\$ 15,934
Accounts receivable	173,609	141,730
Prepaid expenses	<u>20,440</u>	<u>-</u>
	309,110	157,664
Capital assets (Note 3)	<u>1,500,000</u>	<u>1,860,000</u>
	<u>\$ 1,809,110</u>	<u>\$ 2,017,664</u>
LIABILITIES		
Current		
Accounts payable and accrued liabilities (Note 4)	\$ 38,741	\$ 100,571
Due to the Province of British Columbia (Note 5)	<u>2,800,000</u>	<u>2,500,000</u>
	2,838,741	2,600,571
Deferred contribution (Note 7)	<u>-</u>	<u>1,860,000</u>
	<u>2,838,741</u>	<u>4,460,571</u>
SHAREHOLDER'S DEFICIENCY		
Share capital (Note 6)	5	5
Contributed surplus (Note 7)	1,500,000	-
Deficit	<u>(2,529,636)</u>	<u>(2,442,912)</u>
	<u>(1,029,631)</u>	<u>(2,442,907)</u>
	<u>\$ 1,809,110</u>	<u>\$ 2,017,664</u>

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

APPROVED ON BEHALF OF THE BOARD



Director

Victoria Line Ltd.
Statement of Loss and Deficit
Year Ended December 31, 1999

	<u>1999</u>	<u>1998</u>
Revenue		
Amortization of deferred contribution	\$ 360,000	\$ 120,000
Interest income	3,245	1,941
Lease cancellation fees	168,935	-
Lease revenue	50,000	120,000
Recoveries	<u>33,394</u>	<u>685</u>
	615,574	242,626
Expenses		
Amortization of capital assets	360,000	120,000
Berthage	17,831	-
Contracted services	-	244
Forgiven debt	-	37,334
Interest	127,261	122,349
Marketing, insurance and professional fees	121,374	82,535
Other general and administration	8,977	10,347
Refit, materials and supplies	27,631	180,400
Salaries, wages and benefits	39,224	23,090
Write-down of claim	<u>-</u>	<u>55,000</u>
	<u>702,298</u>	<u>631,299</u>
Net loss for the year	(86,724)	(388,673)
Deficit, beginning of year	<u>(2,442,912)</u>	<u>(2,054,239)</u>
Deficit, end of year	<u><u>\$ (2,529,636)</u></u>	<u><u>\$ (2,442,912)</u></u>

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

Victoria Line Ltd.
Statement of Cash Flow
Year Ended December 31, 1999

	<u>1999</u>	<u>1998</u>
Cash flows from operating activities		
Cash received from leasing operations	\$ 50,000	\$ 120,000
Cash received from recoveries	170,453	212,774
Cash paid to suppliers and employees	(278,518)	(232,351)
Interest received	3,245	1,941
Interest paid	<u>(146,053)</u>	<u>(96,998)</u>
Cash flows (used in) from operating activities	<u>(200,873)</u>	<u>5,366</u>
Cash flows from financing activities		
Cash received from the Province of British Columbia	<u>300,000</u>	<u>-</u>
Cash flows from financing activities	<u>300,000</u>	<u>-</u>
Net increase in cash	99,127	5,366
Cash - beginning of year	<u>15,934</u>	<u>10,568</u>
Cash - end of year	\$ <u>115,061</u>	\$ <u>15,934</u>

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

Victoria Line Ltd.
Notes to Financial Statements
December 31, 1999

1. The Company

Victoria Line Ltd. ("Company") was incorporated under the Canadian Business Corporation Act on May 5, 1975 and is a Crown corporation of the Province of British Columbia.

Effective March 25, 1997, the Company entered into an agreement which resulted in operations of the Victoria/Seattle ferry line being carried on by Victoria Ferry Ltd. ("Ferries"), an unrelated company.

The main terms of the agreement are as follows:

- i) Ferries will charter the vessel from the Company under a 5-year lease agreement for \$120,000 per year.
- ii) Ferries will have an option to purchase the vessel for \$1,500,000. This option can be exercised at any time after the expiration of the third consecutive year but before the expiration of the fifth year of charter.
- iii) Ferries will assume all of the Company's significant lease commitments.

As of September 7, 1999, Ferries terminated their agreement with Victoria Line Ltd.

The Company is exempt from federal and provincial income taxes and the British Columbia corporation capital tax.

2. Summary of Significant Accounting Policies

The financial statements of the Company are prepared in accordance with generally accepted accounting principles. Significant accounting policies adopted in the preparation of these financial statements are as follows:

a) Capital assets

The vessel has been written-down to its residual value of \$1,500,000.

b) Foreign currency translation

Monetary assets and liabilities denominated in foreign currency are translated to Canadian dollars at the exchange rate prevailing at year-end. Adjustments to revenue and expenditure transactions arising as a result of foreign currency translations are credited or charged to operations at year-end based on the average exchange rate in effect for the year.

c) Related party transactions

The Company is related through common ownership to all the Province of British Columbia ministries, agencies and Crown corporations. Transactions with these entities, unless disclosed separately in these financial statements, are generally considered to be in the normal course of operations, and are recorded at the exchange amounts. Management services are provided to Victoria Line Ltd. by the Province, for which no amount has been recorded.

Victoria Line Ltd.
Notes to Financial Statements
December 31, 1999

2. Summary of Significant Accounting Policies (continued)

d) Measurement uncertainty and the use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the period. Actual results may vary from the current estimates. These estimates are reviewed periodically and, as adjustments become necessary, they are reported in earnings in the period in which they become known.

3. Capital Assets

	1999		1998	
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Vessel	<u>\$2,100,000</u>	<u>\$ 600,000</u>	<u>\$ 1,500,000</u>	<u>\$ 1,860,000</u>

4. Accounts Payable and Accrued Liabilities

	1999	1998
Accrued liabilities	\$ 10,429	\$ 29,221
Trade payables	<u>28,312</u>	<u>71,350</u>
	<u>\$ 38,741</u>	<u>\$ 100,571</u>

5. Due to the Province of British Columbia

	1999	1998
Principal and accrued interest payable in full January 18, 2000, interest at 4.69%.	<u>\$ 2,800,000</u>	<u>\$ 2,500,000</u>

6. Share Capital

	1999	1998
Authorized:		
50,000 Common shares without par value		
Issued and fully paid:		
5 Common shares	<u>\$ 5</u>	<u>\$ 5</u>

Victoria Line Ltd.
Notes to Financial Statements
December 31, 1999

7. **Contributed Surplus**

Due to the termination of the lease agreement, the vessel has been written-down to its residual value as it no longer contributes to the Company's services. A corresponding amount of unamortized deferred contributions has been recognized as revenue. The remainder, which is equal to the vessels residual value, has been reclassified as contributed surplus as this amount represents contributions originally received from the Province.

8. **Insurance Claim**

The Company has one insurance claim outstanding as a result of a 1995 barge incident. This claim is the subject of action against the barge owners and the insurers of the pier.

No recovery is recorded at this time as it could compromise litigation. Based on reports from legal Council, management is optimistic that recovery will be substantial.

9. **Financial instruments**

Victoria Line Ltd.'s financial instruments consist of cash, accounts receivable, accounts payable and accrued liabilities and due to the Province of British Columbia. Unless otherwise noted, it is management's opinion that Victoria Line Ltd. is not exposed to significant interest, currency or credit risks arising from these financial instruments.

10. **Comparative Figures**

The comparative figures have been reclassified where applicable in order to conform to the presentation used in the current year.

11. **Subsequent Events**

Subsequent to year-end the Company entered into an agreement with British Columbia Ferry Corporation Ltd., a related party, to sell the vessel for \$2,800,000 effective March 31, 2000.

Subsequent to year-end an agreement was negotiated with Victoria Ferry Ltd. to pay the Company \$115,000 US in five equal payments starting May 2000 for termination of the lease. This amount has been recorded in these financial statements at the current exchange rate.