

February 13, 2007

Board of Directors
Hornby Island Residents' & Ratepayers' Association
Box 16
Hornby Island, BC
V0R1Z0

Re: **Audit Findings Report to the Board of Directors**
Year ending December 31, 2006

Dear Mrs. LeBlancq:

We are pleased to submit to you this report for discussion of our audit of the financial statements of Hornby Island Residents' & Ratepayers' Association (the "Organization") for the year ended December 31, 2006. In this report we cover those significant matters which, in our opinion, you should be aware of as members of the Board of Directors.

1. The Audit

Our responsibility, as auditor of Hornby Island Residents' & Ratepayers' Association, is to report to the members on the fair presentation of the 2006 financial statements, in accordance with Canadian generally accepted accounting principles. To properly discharge this responsibility, we designed our audit process to assess the risk of material misstatement within the statements by examining and assessing the effectiveness of Hornby Island Residents' & Ratepayers' Association's controls and accounting systems and the evidence supporting the amounts and disclosures in the statements, including the appropriateness of accounting principles and significant estimates made by management.

Wherever possible, we relied on the effectiveness of controls within the reporting systems in order to reduce the extent of our audit testing. Our audit procedures, consisting of separate examination of all individually significant transactions and year-end balances, were concentrated in areas where risks were identified and therefore differences were most likely to arise.

Management has provided us with written representations, acknowledging, among other things, their responsibility for the implementation and maintenance of appropriate reporting systems and controls including those designed to detect and prevent fraud, and to ensure the appropriateness of the amounts recorded in the accounting records, and the amounts and disclosures in the financial statements.

2. Audit Results

We have satisfactorily completed our audit and have signed our Auditors' Report. A substantive approach was used in auditing Hornby Island Residents' & Ratepayers' Association's financial statements; thus, the Organization's controls were not relied upon. **Final materiality calculated and used to assess the significance of misstatements or omissions identified during the audit and determine the level of audit testing performed was \$5000.** The audit report will provide an opinion to the members. Key matters noted during our audit are summarized in the table below.

SUBJECTS	2006	
Illegal or fraudulent acts	None noted	
Fraud by employees/management with key roles in control activities	None noted	
Differences that may: - Cause future statements to be materially misstated - Indicate significant weaknesses in controls	None None	
Irregularities having a material financial statement effect	None	
Limitations placed on the scope of our audit	None	
Significant transactions not in the ordinary course of business	None	
Unusual significant transactions given the entity and its environment	None	
Non-monetary transactions	None	
Transactions that increase risk	None	
Concerns with management breach of corporate conduct	None	
Conflicts of interest	None	
Disagreements with management	None	
Matters influencing audit appointment	None	
Difficulties encountered during the audit	None	
Disagreements with management's accounting estimates	None	
Disagreements with management's adoption of accounting policies or emphasis on the need for a particular accounting treatment	None	
Significant weaknesses in the entity's risk assessment process within the design and/or implementation of controls	None	
Material weaknesses in controls resulting from inappropriate response by management regarding implementing controls over significant risks	None	
Matters giving rise to questions regarding the honesty and integrity of management	None	

All significant management estimates were reviewed and no material differences were noted. The methodologies and processes used by management appeared consistent with our knowledge of the prior periods. We have issued a letter to management containing our comments with respect to accounting matters and enhancement of controls.

There were no unadjusted differences of any significance noted.

3. Auditor Independence

We confirm to the Board of Directors that we are independent of Hornby Island Residents' & Ratepayers' Association. Our letter to the Board of Directors discussing our independence is included as a separate report.

We would like to take this opportunity to formally acknowledge the excellent cooperation and assistance we received from the management and staff of Hornby Island Residents' & Ratepayers' Association.

The matters raised in this and other reports that will flow from the audit are only those which have come to our attention arising from, or relevant to, our audit that we believe need to be brought to your attention. They are not a comprehensive record of all the matters arising and, in particular, we cannot be held responsible for reporting all risks in your business or all control weaknesses. This report has been prepared solely for your use and should not be quoted in whole or in part without our prior written consent. No responsibility to any third party is accepted as the report has not been prepared for, and is not intended for, any other purpose.

We appreciate having the opportunity to meet with you and respond to any questions you may have about our audit, and to discuss any other matters that may be of interest to you.

Yours truly,

MEYERS NORRIS PENNY LLP

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