# The Sunchaser Vacation Villas at Riverside, Hillside and Riverview

## Financial Statements

## December 31, 2011 and 2010

Collins Barrow
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# Independent Auditors' Report

To the Leaseholders and Owners
The Sunchaser Vacation Villas at Riverside, Hillside and Riverview

We have audited the accompanying statements of receipts and expenditures and deficit of The Sunchaser Vacation Villas at Riverside, Hillside and Riverview, for the years ended December 31, 2011 and December 31, 2010, and a summary of significant accounting policies and other explanatory information (together the "financial statements"). The financial statements have been prepared by management using the receipts and expenditures basis of accounting described in note 2.

## Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the receipts and expenditures basis of accounting described in note 2, this includes determining that the receipts and expenditures basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

## Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

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We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our qualified audit opinion.

**Basis for Qualified Opinion**

For the first six months of the year ended December 31, 2010, the Resort was managed by a different property manager than the current manager. We were unable to obtain sufficient appropriate audit evidence in respect of the completeness of related party transactions with the previous property manager due to a lack of information in respect of entities related to it. Consequently, we are unable to determine whether any adjustments to these disclosures are necessary.

Due to a change in property manager and accounting systems changes, we were unable to obtain sufficient appropriate evidence about the recorded values of deferred revenue and accounts receivable as at December 31, 2010 and 2009. As a result, there may have been a misclassification of bad debt expense between the 2010 and 2011 fiscal years, and the deficit as at December 31, 2009. We were unable to determine whether any adjustments to the amounts reported in these years were necessary.

**Qualified Opinion**

In our opinion, except for the possible effects of the matters described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the receipts and expenditures and deficit of The Sunchaser Vacation Villas at Riverside, Hillside and Riverview for the years ended December 31, 2011 and December 31, 2010 in accordance with the receipts and expenditures basis of accounting described in note 2.

**Basis of Accounting**

Without modifying our opinion, we draw attention to note 2 to the financial statements, which describes the basis of accounting. The financial statements are prepared to provide information to the Leaseholders of The Sunchaser Vacation Villas at Riverside, Hillside and Riverview. As a result, the statements may not be suitable for other purposes.

Collins Barrow Calgary LLP

CHARTERED ACCOUNTANTS

Calgary, Canada
February 12, 2013

# The Sunchaser Vacation Villas at Riverside, Hillside and Riverview

## Statement of Receipts and Expenditures

## For the Years Ended December 31, 2011 and 2010

| | 2011 | 2010 |
|---|---|---|
| Receipts | | |
| Maintenance fees [note 4(i)] | $ 9,249,222 | $ 9,328,050 |
| Reservation fees | 473,321 | 453,427 |
| Ancillary services | 627,774 | 787,612 |
| Interest | 87,789 | 138,061 |
| Rent [note 4(i)] | - | 491,664 |
| | 10,438,106 | 11,198,814 |
| Bad debt expense | 586,159 | 644,374 |
| Receipts, net of bad debts | 9,851,947 | 10,554,440 |
| Expenditures | | |
| Operating labour | | |
| On-site operating wages | 3,045,537 | 3,027,708 |
| On-site benefits | 417,816 | 458,370 |
| Total on-site wages and benefits | 3,463,353 | 3,486,078 |
| Off-site wages and benefits | 721,400 | 478,378 |
| Total wages and benefits | 4,184,753 | 3,964,456 |
| Other staff costs | 43,619 | 58,643 |
| Total labour | 4,228,372 | 4,023,099 |
| Non-labour operating | | |
| Ancillary services | 377,323 | 434,432 |
| Direct operating | 417,421 | 530,282 |
| Contracted services | 248,223 | 122,586 |
| Repairs and maintenance | 139,116 | 163,006 |
| General and administrative | 448,819 | 401,412 |
| Utilities | 994,397 | 912,573 |
| Insurance | 324,394 | 294,336 |
| Property tax | 232,823 | 246,660 |
| Total non-labour operating | 3,182,516 | 3,105,287 |
| | 7,410,888 | 7,128,386 |
| Refurbishment | 1,196,053 | 1,595,521 |
| Total expenditures before management fee | 8,606,941 | 8,723,907 |
| Management fee | 1,435,217 | 986,754 |
| Total expenditures | 10,042,158 | 9,710,661 |
| Excess (deficiency) of receipts over expenditures before Building 7000 | (190,211) | 843,779 |
| Building 7000 expenditures, net (note 3) | 1,373,779 | 297,539 |
| Excess (deficiency) of receipts over expenditures | $ (1,563,990) | $ 546,240 |

# The Sunchaser Vacation Villas at Riverside, Hillside and Riverview

## Statement of Deficit

## For the Years Ended December 31, 2011 and 2010

| | | Replacement Reserve | | | |
|---|---|---|---|---|---|
| | Operating | Building 7000 | General | Total | 2011 Total |
| Deficit, beginning of year | $(1,354,954) | $ (297,539) | $ - | $ (297,539) | $(1,652,493) |
| Excess (deficiency) of receipts over expenditures | (1,195,131) | (1,373,779) | 1,004,920 | (368,859) | (1,563,990) |
| | (2,550,085) | (1,671,318) | 1,004,920 | (666,398) | (3,216,483) |
| Excess transferred to operating | 1,004,920 | - | (1,004,920) | (1,004,920) | - |
| Deficit, end of year | $(1,545,165) | $(1,671,318) | $ - | $(1,671,318) | $(3,216,483) |

| | | Replacement Reserve | | | |
|---|---|---|---|---|---|
| | Operating | Building 7000 | General | Total | 2010 Total |
| Deficit, beginning of year | $(2,198,733) | $ - | $ - | $ - | $(2,198,733) |
| Excess (deficiency) of receipts over expenditures | 189,300 | (297,539) | 654,479 | 356,940 | 546,240 |
| | (2,009,433) | (297,539) | 654,479 | 356,940 | (1,652,493) |
| Excess transferred to operating | 654,479 | - | (654,479) | (654,479) | - |
| Deficit, end of year | $(1,354,954) | $ (297,539) | $ - | $ (297,539) | $(1,652,493) |

1. Nature of operations

   Sunchaser Vacation Villas at Riverside, Hillside and Riverview (the "Resort") is a timeshare resort located in Fairmont Hot Springs, B.C. The Resort consists of condominium units in various multi-unit buildings in which owners and leaseholders hold rights to use the property for an allotted period of time. These financial statements only present receipts and expenditures related to the operation of the Resort.

2. Significant accounting policies

   (a) Basis of accounting

   The statement of receipts and expenditures and statement of deficit were prepared in accordance with the terms of the Vacation Interval Agreements between Northmont Resort Properties Ltd. ("Northmont") and the timeshare owners, as contained in the disclosure agreement dated June 26, 2012 (the "Agreements").

   (b) Receipt and expenditure recognition

   *Maintenance fees*

   Under the terms of the Agreements, the Property Manager is responsible for preparing a budget each year to determine the contribution required from each timeshare owner to meet the operating costs and capital reserve fund requirements for the Resort. An annual assessment is issued to each timeshare owner based on this budget. Receipts of maintenance fees are recognized in the year in which the assessment relates.

   *Reservation fees*

   Lock-off villas can be used in an exchange program as two separate units. A separate administrative fee is charged to timeshare owners when such a request is made. The lock-off fee receipt is recognized in the year in which the lock-off villa was scheduled to be occupied by the timeshare owner prior to the exchange.

   *Ancillary services*

   Receipts are also earned from sales of golf passes, ski passes, extra housekeeping fees, rentals, miscellaneous administrative services provided to timeshare owners, and retail sales of sundry items. Receipts on these activities are recognized as goods or services are provided.

   *Interest*

   Interest on excess cash held on deposit is recognized as it is earned on an accrual basis.

Interest is also charged on overdue maintenance fees owing by timeshare owners. This interest is recorded when it is earned and there is reasonable assurance of collection. Recognition of interest ceases upon an account becoming delinquent. Interest recognized but not collected on accounts that become delinquent is charged to bad debts in the period that the account becomes delinquent.

*Rent*

Rent is charged on units made available for use by the developer. Receipt of rent is recognized in the year in which the units were available for use.

*Expenditures*

Expenditures include costs related to the operation of the Resort as set out in the Agreements. The Property Manager is entitled to a management fee which is calculated as a 15% charge on the budgeted costs incurred in the operation and refurbishment of the Resort.

Costs related to the acquisition of capital assets, purchases of items acquired for resale, and refurbishment expenditures are recognized as expenditures in the period in which the costs are incurred.

Refurbishment expenditures include costs related to replacement of furnishings, equipment and fixtures, refurbishment of the interiors and exteriors of buildings and grounds at the Resort.

Building 7000 expenditures consists of costs incurred to repair the foundation of that specific building. The developer has agreed to partially fund the repair costs from its proceeds on sale of timeshare units and related conversions. Any proceeds received from the developer have been netted against the cost of repairs.

(c) Translation of foreign currencies

Foreign currency denominated assets and liabilities are translated at the exchange rate prevailing at the year-end date for monetary items and at the transaction date for non-monetary items. Receipts and expenditures are translated at exchange rates at the transaction dates. Gains or losses on translation are included in the statement of receipts and expenditures.

(d) Measurement uncertainty

Bad debt expense is based on management's best estimate of amounts due from timeshare owners which have been determined to be uncollectible.

By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future periods could be significant.

(e) Financial instruments

The Resort initially measures its financial assets and liabilities at fair value, except certain non-arm's length transactions that are measured at the exchange amount.

The Resort subsequently measures all its financial assets and financial liabilities at amortized cost.

Financial assets measured at amortized cost include cash and accounts receivable.

Financial liabilities measured at amortized cost include accounts payable and accrued liabilities, and amounts due to the property manager.

Financial assets measured at cost or amortized cost are tested for impairment, at the end of each year, to determine whether there are indicators that the asset may be impaired. The amount of the write-down, if any, is recognized in the statement of receipts and expenditures. The previously recognized impairment loss may be reversed to the extent of the improvement, directly or by adjusting the allowance account. The reversal may be recorded provided it is no greater than the amount that had been previously reported as a reduction in the asset and it does not exceed original cost. The amount of the reversal is recognized in the statement of receipts and expenditures.

3. Building 7000 expenditures, net

Under a Limited Subsidy Agreement dated July 6, 2010 between Northmont and Resort Villa Management Ltd. ("RVM"), Northmont agreed to support the funding of the repair of Building 7000 at the Resort. Northmont agreed to contribute $400 for each timeshare lease converted to fee simple and each timeshare interval sold at the Resort ("timeshare sales") to a maximum amount of the lesser of the estimated repair costs of $4,540,000 or the actual repair cost. Northmont has not assumed liability for the repair obligation. The funds are to be used by RVM to perform foundation repairs to Building 7000.

As of December 31, 2011, $2,359,022 (2010 - $1,641,322) had been paid by Northmont, of which $239,700 (2010 - $NIL) represented a prepayment. As the future receipt of funds from Northmont is contingent upon future timeshare sales, there can be no certainty as to when or if the remaining contribution will be paid by Northmont.

Building 7000 expenditures, net, represents the amount by which the cost of the foundation repair exceeds the funds received from Northmont during the period, excluding the prepayment.

Subsequent to December 31, 2011, Northmont suspended its sales and conversion activities at the Resort.

4. Related party transactions

The property manager and entities which are related to it by virtue of common control or significant influence are considered related persons in respect of these financial statements. During the year, the Resort entered into certain transactions with these related parties. The aggregate of these transactions are as follows:

| | | 2011 | 2010 |
|---|---|---|---|
| (a) | Extra cleaning fees charged to developer | $ 33,800 | $ 29,300 |
| (b) | Extra cleaning fees charged to previous developer | $ - | $ 68,500 |
| (c) | Accounting, reservation, and administrative costs charged by a company related to the property manager | $ 720,560 | $ 318,707 |
| (d) | Accounting, reservation, and administrative costs charged by a company related to the previous property manager | $ - | $ 159,671 |
| (e) | Management fees paid to property manager | $ 1,435,217 | $ 486,754 |
| (f) | Management fees paid to previous property manager | $ - | $ 500,000 |
| (g) | Funding for building 7000 costs received from developer | $ 717,700 | $ 1,641,322 |
| (h) | Water park lease paid to an entity related by virtue of common directors with property manager | $ 62,905 | $ 60,800 |
| (i) | Maintenance fees and unit rentals charged to developer | $ - | $ 760,544 |

These transactions are in the normal course of operations and are measured at the exchange amount which is the amount of consideration established and agreed to by the related parties.

5. Lease commitments

The Resort is committed under leases for the following future minimum payments as follows:

| | Water park lease | Equipment lease | Total |
|---|---|---|---|
| 2012 | $ 63,750 | $ 10,750 | $ 74,500 |
| 2013 | 63,750 | - | 63,750 |
| 2014 | 63,750 | - | 63,750 |
| | $ 191,250 | $ 10,750 | $ 202,000 |

The Water Park lease is with a company related to the property manager by virtue of common directors.

6. Financial instruments

(a) Credit risk

The financial instruments that potentially subject the Resort to a significant concentration of credit risk consist primarily of cash and accounts receivable from individual leaseholders. The Resort mitigates its exposure to credit loss by placing its cash with major financial institutions, and by restricting use of the Resort by leaseholders until their receivables are collected.

(b) Foreign currency risk

A significant portion of the Resort's cash is denominated in U.S. dollars. Consequently, the Resort is subject to the risk of fluctuating exchange rates.

7. Replacement reserve

Under the terms of the Vacation Interval Agreement, the Property Manager is authorized to set up a replacement reserve to enable furnishing and fixture replacements to be made when required. Timeshare owners can be invoiced for maintenance fees in advance to cover costs to pay for refurbishment costs in future years. As at December 31, 2011, the replacement reserve had a deficiency of $1,671,318 (2010 - $297,539) arising from expenditures on Building 7000.

8. Deficit

At December 31, the cumulative deficit is financed as follows:

| | 2011 | 2010 |
|---|---|---|
| Cash | $ 1,064,499 | $ 308,946 |
| Accounts receivable | 464,339 | 280,140 |
| Prepaid expenses | 161,277 | 175,290 |
| Due from developer | - | 336,674 |
| Accounts payable and accrued liabilities | (1,306,273) | (1,163,200) |
| Due to developer and entities related to developer | (1,082,625) | - |
| Deferred revenue | (2,517,700) | (1,590,343) |
| Deficit | $ (3,216,483) | $ (1,652,493) |