

PACIFIC SHORES OWNER ENTERPRISES LTD.

FINANCIAL STATEMENTS

(UNAUDITED)

December 31, 2017

Partners

Grant McDonald, CPA, CA*
Lee-Anne Harrison, CPA, CA*
Anna Jones, CPA, CA*
Joanne Novak, CPA CA*

*Incorporated



REVIEW ENGAGEMENT REPORT

To the Members

We have reviewed the accompanying financial statements of **Pacific Shores Owner Enterprises Ltd.** that comprise the balance sheet as at December 31, 2017 and the statements of operations, changes in net assets, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for private enterprises, 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.

Practitioner's Responsibility

Our responsibility is to express a conclusion on the accompanying financial statements based on our review. We conducted our review in accordance with Canadian generally accepted standards for review engagements, which require us to comply with relevant ethical requirements.

A review of financial statements in accordance with Canadian generally accepted standards for review engagements is a limited assurance engagement. The practitioner performs procedures, primarily consisting of making inquiries of management and others within the entity, as appropriate, and applying analytical procedures, and evaluates the evidence obtained.

REVIEW ENGAGEMENT REPORT

(Continued)

The procedures performed in a review are substantially less in extent than, and vary in nature from, those performed in an audit conducted in accordance with Canadian generally accepted auditing standards. Accordingly, we do not express an audit opinion on these financial statements.

Qualified Conclusion

The investment in a private company is accounted for using the cost method. This is a departure from generally accepted accounting principles, as the organization has significant influence over the investee and therefore is required to account for the investment using the equity method. The effect of using the cost method on the financial statements cannot be determined at this time as Pacific Shores Resort Centre Ltd. is in receivership.

Except for the effect of the adjustment as described in the preceding paragraph, which would have been necessary to account for the investment in a private company using the equity method, based on our review, nothing has come to our attention that causes us to believe that these financial statements are not, in all material respects, in accordance with Canadian accounting standards for not-for-profit organizations.

Emphasis of Matter

As discussed in Note 11, the resort is currently listed for sale. The listing was approved at a special meeting on July 15, 2017.



CHURCH PICKARD

Chartered Professional Accountants

Nanaimo, B.C.

May 22, 2018

PACIFIC SHORES OWNER ENTERPRISES LTD.

BALANCE SHEET as at December 31, 2017

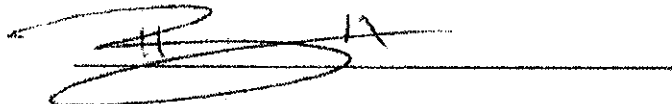
(unaudited)

	2017	2016
Assets		
Current		
Cash	\$ 1,324,397	\$ 1,292,354
Other receivables	64,137	26,517
Inventory of supplies - Note 8	40,608	48,757
Prepaid expenses	69,202	85,463
Due from related parties - Note 7	<u>11,651</u>	<u>11,503</u>
	1,509,995	1,464,594
Investment in private company - Note 2	-	1
Equipment - Note 3	<u>26,548</u>	<u>33,658</u>
	<u>\$ 1,536,543</u>	<u>\$ 1,498,253</u>

Liabilities and Net Assets

Current		
Accounts payable and accrued liabilities	\$ 171,733	\$ 115,680
Prepaid maintenance fees	1,032,510	1,221,770
Current portion of capital lease - Note 5	<u>7,159</u>	<u>13,200</u>
	1,211,402	1,350,650
Capital lease obligation - Note 5	-	<u>7,181</u>
	<u>1,211,402</u>	<u>1,357,831</u>
Net assets		
Refurbishment reserve	186,775	125,832
Quality upgrade reserve	-	71
Unrestricted surplus	<u>138,366</u>	<u>14,519</u>
	<u>325,141</u>	<u>140,422</u>
	<u>\$ 1,536,543</u>	<u>\$ 1,498,253</u>

Approved:



PACIFIC SHORES OWNER ENTERPRISES LTD.

STATEMENT OF OPERATIONS

For the year ended **December 31, 2017**

(unaudited)

	Budget	2017	2016
	Note 10		
Revenue			
Maintenance fees	\$ 2,929,647	\$ 2,805,010	\$ 2,511,623
Front desk income	118,620	140,917	134,852
Rentals and bonus time	165,500	288,484	219,283
Late fees	22,000	28,394	22,945
Interest income	<u>2,000</u>	<u>1,185</u>	<u>-</u>
	<u>3,237,767</u>	<u>3,263,990</u>	<u>2,888,703</u>
Expenses			
Front desk	246,620	190,284	209,989
Housekeeping	611,640	601,816	603,739
Maintenance	196,720	162,331	173,749
Utilities	152,830	176,318	166,331
Transportation	<u>7,121</u>	<u>3,848</u>	<u>5,684</u>
	<u>1,214,931</u>	<u>1,134,597</u>	<u>1,159,492</u>
General and administrative			
Bad debts	425,977	495,546	393,654
Strata fees - Note 6	575,428	516,494	409,124
Professional fees	85,615	127,745	108,258
Property taxes	87,000	85,131	78,173
Office and administration	116,163	111,621	104,844
Management fees	159,179	158,648	156,057
Rent - Note 6	297,675	270,151	183,602
Repairs and maintenance	-	48,234	-
Interest and bank charges	47,000	37,377	36,304
Commercial centre - Note 6	-	-	60,000
Meetings	14,500	26,096	17,820
Supplies	10,000	13,517	9,787
Quality upgrades	-	33,128	37,763
Insurance	8,200	8,692	7,892
Amortization	10,309	6,076	7,853
Advertising and promotion	2,000	2,781	606
Selling	-	1,890	-
Interest on capital lease obligation	<u>-</u>	<u>1,547</u>	<u>2,884</u>
	<u>1,839,046</u>	<u>1,944,674</u>	<u>1,614,621</u>

PACIFIC SHORES OWNER ENTERPRISES LTD.

STATEMENT OF OPERATIONS - Continued

For the year ended **December 31, 2017**

(unaudited)

	<u>Budget</u>	<u>2017</u>	<u>2016</u>
	Note 10		
Total expenses	<u>3,053,977</u>	<u>3,079,271</u>	<u>2,774,113</u>
Excess of revenue over expenses	<u>\$ 183,790</u>	184,719	114,590
Net assets, beginning of the year		<u>140,422</u>	<u>25,832</u>
Net assets, end of the year		<u>\$ 325,141</u>	<u>\$ 140,422</u>

PACIFIC SHORES OWNER ENTERPRISES LTD.

STATEMENT OF CHANGES IN NET ASSETS

For the year ended December 31, 2017

(unaudited)

	Refurbishment Reserve	Quality Upgrade Reserve	Unrestricted Net Assets	Total 2017	Total 2016
Net assets, beginning of the year	\$ 125,832	\$ 71	\$ 14,519	\$ 140,422	\$ 25,832
Annual provision	94,000	-	(94,000)	-	-
Quality upgrade expenditures	(33,057)	(71)	33,128	-	-
Excess of revenue over expenses	-	-	184,719	184,719	114,590
Net assets, end of the year	\$ 186,775	\$ -	\$ 138,366	\$ 325,141	\$ 140,422

PACIFIC SHORES OWNER ENTERPRISES LTD.

STATEMENT OF CASH FLOWS

For the year ended **December 31, 2017**

(unaudited)

	2017	2016
Cash provided (used):		
Operating activities		
Excess of revenue over expenses	\$ 184,719	\$ 114,590
Item not involving cash		
Amortization	<u>7,110</u>	<u>9,147</u>
	191,829	123,737
Changes in non-cash operating accounts		
Increase in other receivables	(37,620)	(11,103)
Decrease (increase) in inventory of supplies	8,149	(11,420)
Decrease (increase) in prepaid expenses	16,261	(49,084)
Increase in accounts payable and accrued liabilities	56,053	36,189
(Decrease) increase in prepaid maintenance fees	<u>(189,260)</u>	<u>103,029</u>
	<u>45,412</u>	<u>191,348</u>
Investing activities		
Decrease in long-term investments	<u>1</u>	<u>-</u>
Financing activities		
Repayment of long-term debt	(13,222)	(11,885)
Repayments to related parties	<u>(148)</u>	<u>(4,187)</u>
	<u>(13,370)</u>	<u>(16,072)</u>
Increase in cash	32,043	175,276
Cash, beginning of the year	<u>1,292,354</u>	<u>1,117,078</u>
Cash, end of the year	<u>\$ 1,324,397</u>	<u>\$ 1,292,354</u>

PACIFIC SHORES OWNER ENTERPRISES LTD.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended **December 31, 2017**

(unaudited)

Nature of operations

Pacific Shores Owner Enterprises Ltd is a company incorporated under the *British Columbia Business Corporations Act* and operates as a not-for-profit organization. The company's principal activity is administering operational and maintenance requirements of Pacific Shores Resort Centre to the standard of a Gold Crown resort.

1. Significant accounting policies

The financial statements of the organization have been prepared in accordance with Canadian accounting standards for not-for-profit organizations.

- Cash and cash equivalents

Cash is defined as cash on hand, cash on deposit, net of cheques issued and outstanding at the reporting date.

- Refurbishment reserve

The units are to be maintained to a Gold Crown standard with a planned refurbishment every six years and major work done during the 12th and 24th years. Additional funds are set aside in order to provide sufficient funds for future expenditures.

- Prepaid membership fees

Prepaid membership fees represent membership fees that have been paid in advance and are recognized when earned.

- Use of estimates

The preparation of the financial statements requires management to make estimates and assumptions that affect reported amounts of assets, liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Significant areas requiring the use of management estimates relate to the determination of the collectibility of accounts receivable, the useful life of equipment, the valuation of inventories, and the provision for contingencies. Actual results could differ from those estimates.

- Inventory of supplies

Inventory consists of linen and houseware supplies and is recorded at the lower of cost and net realizable value using the specific identification method.

PACIFIC SHORES OWNER ENTERPRISES LTD.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended **December 31, 2017**

(unaudited)

1. Significant accounting policies - cont.

- Revenue recognition

Maintenance fee revenue is recognized on a monthly basis when earned. Rental and bonus time, interest, and miscellaneous income are recognized when earned. Late fee revenue is recognized when payment is received. Foreign exchange gain (loss) is recognized when foreign currencies are translated into Canadian currency.

- Equipment

Equipment is recorded at cost and amortized.

Amortization is recorded on a declining-balance basis over the estimated useful life of the assets as follows:

Equipment under capital lease	20%
Vehicles	30%
Computer equipment	50%

In the year of acquisition, amortization is recorded at one-half of these rates.

- Investments

The organization's investments consist of 1 Class A share of a private company, and is recorded at cost - see qualification paragraph in the Review Report.

The cost method is a basis of accounting for investments whereby the investment is initially recorded at cost and earnings from such investments are recognized only to the extent received or receivable. When there is an indication of impairment and such an impairment is determined to have occurred, the carrying amount is reduced to the greater of the discounted future cash flows expected of the proceeds that could be realized from sale. Such impairments can be reversed if value subsequently improves.

2. Investment in private company

The organization's investment consists of 1 Class A share of a private company, Pacific Shores Resort Centre Ltd (PSRC). On February 2, 2016, PSRC was insolvent and a receiver was appointed pursuant to a general security agreement in favour of Fisgard Capital Corporation. During 2017 the 1 Class A share in Pacific Shores Resort Centre Ltd. was sold for \$1 to Transtide.

PACIFIC SHORES OWNER ENTERPRISES LTD.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended **December 31, 2017**

(unaudited)

3. Equipment

	Cost	Accumulated Amortization	Net 2017	Net 2016
Equipment under capital lease	\$ 64,199	\$ 39,894	\$ 24,305	\$ 30,381
Vehicles	8,785	6,671	2,114	3,019
Computer equipment	<u>1,377</u>	<u>1,248</u>	<u>129</u>	<u>258</u>
	<u>\$ 74,361</u>	<u>\$ 47,813</u>	<u>\$ 26,548</u>	<u>\$ 33,658</u>

4. Dues receivable

	2017	2016
Due from members	\$ 2,736,747	\$ 2,246,517
Allowance for uncollectible membership dues	<u>(2,736,747)</u>	<u>(2,246,517)</u>
	<u>\$ -</u>	<u>\$ -</u>

Membership dues for the current fiscal year are billed annually at the end of the prior year. An allowance is setup for any dues for the current fiscal year that are still outstanding at the end of the fiscal year as they have been outstanding for an entire year.

5. Capital lease obligation

The organization signed a five-year lease agreement in June 2013 for the rental of a complete office phone system.

	2017	2016
Roynat Inc. - financing agreement - payable at \$1,231 per month including interest at 10.71%; due June 1, 2018	\$ 7,159	\$ 20,381
Less: Current portion	<u>7,159</u>	<u>13,200</u>
	<u>\$ -</u>	<u>\$ 7,181</u>

The lease obligations are secured by equipment under capital lease with a carrying value of \$24,305 (2016 - \$30,380). Interest and bank charges includes interest of \$1,547 (2016 - \$2,884) related to the capital lease obligation.

PACIFIC SHORES OWNER ENTERPRISES LTD.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended **December 31, 2017**

(unaudited)

6. Related party transactions

Strata fees of \$516,494 (2016 - \$409,124) were paid to The Owner's Strata Plan VIS 2036. The organization is related to this entity via economic interest. The Owners Strata Plan VIS 2036 performs significant functions on behalf of Pacific Shores Owner Enterprises Ltd., which are integral for the organization achieving its objectives.

Pacific Shores Owner Enterprises Ltd. was a 50% shareholder in Pacific Shores Resort Centre Ltd. Access fees of \$- (2016 - \$60,000) were paid to Pacific Shores Resort Centre Ltd. for use of the commercial centre and \$270,151 (2016 - \$183,602) for the pool and gym. A total of \$0 (2016 \$15,071) was paid to Pacific Shores Resort Centre Ltd to cover other expenses.

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 entities.

7. Due from/to related parties

The balances due from/to the related parties are unsecured, non-interest bearing, with no specific terms of repayment.

	2017	2016
Due from The Owners Strata Plan VIS 2036	\$ -	\$ 15
Due from Pacific Shores Resort Centre Ltd.	11,651	116,075
Allowance for amounts due from Pacific Shores Resort Centre Ltd.	-	(104,587)
	<u>\$ 11,651</u>	<u>\$ 11,503</u>

8. Inventory of supplies

	2017	2016
Linen inventory	\$ 38,207	\$ 46,576
Housewares inventory	<u>2,401</u>	<u>2,181</u>
	<u>\$ 40,608</u>	<u>\$ 48,757</u>

PACIFIC SHORES OWNER ENTERPRISES LTD.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended **December 31, 2017**

(unaudited)

9. Share capital

There are 3,172 common, voting shares, with no par value issued and these shares are held by the owners of the units.

10. Budget

The 2017 budget figures presented in these financial statements are based on the accounting budget as approved at the AGM on October 14, 2017. The budget was not reviewed.

11. Available for sale

At a special meeting on July 15, 2017 a motion was passed to sell Pacific Shores Resort. The resort is currently listed for sale.

12. Financial risks and concentration of risk

- Credit risk

Credit risk arises from the potential that a counterparty will fail to perform its obligations. The organization is exposed to credit risk from its dues receivable. Credit risk associated with dues receivable is minimized by the company's large member base, which covers a broad range of membership from within Canada, the U.S., and other areas of the world. The organization maintains provisions for potential dues account collection losses and is of the opinion that the current allowance is reasonable for the risks which exist in the dues receivables - see Note 4.

- Currency risk

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 majority of the organization's assets, liabilities, revenue, and expenses are denominated in Canadian dollars. However, the organization holds two bank accounts for U.S. funds. Additionally, some transactions entered into are in U.S. dollars and are exposed to foreign exchange fluctuations.