ORCHARDS RESIDENTS ASSOCIATION

FINANCIAL STATEMENTS

December 31, 2018

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Independent Auditor's Report

To the Board of Directors of Orchards Residents Association

Opinion

We have audited the financial statements of Orchards Residents Association (the "Association"), which comprise the statement of financial position as at December 31, 2018, and the statements of operations, changes in net deficiency and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Association as at December 31, 2018, and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Association in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter – Restated Comparative Information

We draw attention to Note 10 to the financial statements, which explains that certain comparative information presented for the year ended December 31, 2017 has been restated. Our opinion is not modified in respect of this matter.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for not-for-profit organizations, 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.

In preparing the financial statements, management is responsible for assessing the Association's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Association or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Association's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Association's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Association's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Association to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

BDO Canada LLP

Chartered Professional Accountants

Calgary, Alberta
April 15, 2019

ORCHARDS RESIDENTS ASSOCIATION
Statement of Financial Position
As at December 31

	2018	2017 *Restated - Note 10*
CURRENT ASSETS		
Cash	$ 126,555	$ 61,999
Accounts receivable (Note 4)	10,492	20,321
Prepaid expenses and deposits	11,620	7,185
Goods and services tax	-	72,775
	148,667	162,280
CAPITAL ASSETS (Note 3)	7,642,494	7,799,995
	$ 7,791,161	**$ 7,962,275**
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	$ 47,059	$ 238,945
Goods and services tax	8,686	-
Demand loan payable (Note 2)	2,910,608	2,477,381
Deferred revenue	214,562	137,941
	3,180,915	2,854,267
DEFERRED CAPITAL CONTRIBUTION (Note 5)	2,002,003	2,081,521
	5,182,918	4,935,788
NET ASSETS (Note 7)		
Net assets invested in capital assets	5,640,491	5,718,474
Unrestricted net assets	(3,032,248)	(2,691,987)
	2,608,243	3,026,487
	$ 7,791,161	**$ 7,962,275**

Commitments (Note 8)

Approved on behalf of the Association:

______________________________ Director

______________________________ Director

ORCHARDS RESIDENTS ASSOCIATION
Statement of Operations
For the year ended December 31

	2018	2017
REVENUE		
Membership fees	$ 479,034	$ 371,509
Rental income	121,341	21,684
Amortization of deferred capital contributions	79,518	13,494
Program and sponsor income	75,493	17,947
Interest and other (Note 4)	48,545	10,134
	803,931	434,768
EXPENSES		
Salaries and benefits	530,887	197,534
Amortization	192,918	45,719
Loan interest	109,330	18,969
Amenity operations	95,044	63,330
Utilities	85,419	13,653
Administration	73,093	78,890
Professional fees (Note 4)	65,036	60,500
Programs and events	63,050	22,638
Insurance	7,398	7,997
Loss on disposal of capital assets	-	144
	1,222,175	509,374
DEFICIENCY OF REVENUE OVER EXPENSES	**$ (418,244)**	**$ (74,606)**

ORCHARDS RESIDENTS ASSOCIATION
Statement of Changes in Net Assets
For the year ended December 31

	Invested in capital assets	Unrestricted	2018	2017
Balance, beginning of year	$ 5,718,474	$ (2,691,987)	$ 3,026,487	$ 3,101,093
Acquisition of capital assets	35,417	(35,417)	-	-
Deficiency of revenue over expenses	-	(418,244)	(418,244)	(74,606)
Amortization of capital assets	(192,918)	192,918	-	-
Amortization of deferred capital contributions	79,518	(79,518)	-	-
Balance, end of year	**$ 5,640,491**	**$ (3,032,248)**	**$ 2,608,243**	**$ 3,026,487**

ORCHARDS RESIDENTS ASSOCIATION
Statement of Cash Flows
For the year ended December 31

	2018	2017 *Restated - Note 10*
NET CASH INFLOW (OUTFLOW) RELATED TO:		
OPERATING ACTIVITIES		
Deficiency of revenue over expenditures	$ (418,244)	$ (74,606)
Items not affecting cash and cash equivalents		
Amortization of capital assets	192,918	45,719
Amortization of deferred capital contribution	(79,518)	(13,494)
Loss on disposal of capital assets	-	144
	(304,844)	(42,237)
Changes in non-cash working capital items		
Accounts receivable	9,829	(16,716)
Goods and services tax	81,461	(74,185)
Accounts payable and accrued liabilities	(191,886)	208,772
Deferred revenue	76,621	68,821
Prepaid expenses and deposits	(4,435)	(3,187)
	(333,254)	**141,268**
INVESTING ACTIVITIES		
Acquisition of capital assets	(35,417)	(2,871,827)
Proceeds on disposal of capital assets	-	200
	(35,417)	**(2,871,627)**
FINANCING ACTIVITIES		
Advances from demand loan	453,106	2,508,412
Payments on demand loan	(19,879)	(31,031)
	433,227	**2,477,381**
NET CASH INFLOW (OUTFLOW)	**64,556**	**(252,978)**
CASH, BEGINNING OF YEAR	61,999	314,977
CASH, END OF YEAR	**$ 126,555**	**$ 61,999**

ORCHARDS RESIDENTS ASSOCIATION
Notes to the Financial Statements
December 31, 2018

1. SIGNIFICANT ACCOUNTING POLICIES

a) Purpose

The Orchards Residents Association (the "Association") was incorporated as a not-for-profit corporation on November 5, 2010 under Section 9 of the Companies Act of the Province of Alberta, R.S.A. 1980. As such, the Association is exempt from income tax under Section 149 of the Income Tax Act. The Association owns and operates amenities for the use of its members, the residents of Orchards. The operations of the Association are governed by the Orchards Management Agreement (the "Agreement") dated March 31, 2011, as amended by an Amending Agreement dated April 15, 2011 between the Association and Brookfield Residential (Alberta) LP ("Brookfield Residential").

b) Basis of Accounting

The financial statements of the Association have been prepared by management in accordance with Canadian accounting standards for not-for-profit organizations ("ASNPO").

c) Cash

Cash consists of cash held at financial institutions and cash on hand.

d) Revenue Recognition

The Association uses the deferral method of accounting for contributions. Contributions of capital assets or for the purchase of capital assets which are subject to amortization are deferred and amortized on the same basis as those capital assets. Contributions of capital assets or for the purchase of capital assets which are not subject to amortization are recorded as a direct increase to net assets.

Membership fees are recognized as revenue in the year to which they relate. Restricted contributions are recognized as revenue in the year in which related expenses are incurred. Unrestricted contributions, such as grants and donations not designated for a specific purpose, are recognized as revenue when received if the amount can be reasonably estimated and collection is reasonably assured.

Program and sponsor revenues, rental revenues, and interest are recorded on an accrual basis and recognized when amounts are known and collection is reasonably assured.

e) Use of Estimates

In accordance with ASNPO, estimates and assumptions are made by management in the preparation of these financial statements. These estimates may impact the amounts included in the financial statements. The most significant of these estimates are related to amortization and the estimated useful life of the capital assets and accrued liabilities. Actual results could differ from these estimates.

ORCHARDS RESIDENTS ASSOCIATION
Notes to the Financial Statements
December 31, 2018

1. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

f) Capital Assets

Capital assets purchased by the Association are recorded at cost. Capital assets contributed to the Association are recorded at fair value on the date of contribution.

Amortization is based on estimated useful life calculated on a straight line basis as follows:

Buildings	40 years
Park amenities	25 years
Vehicles	10 years
Equipment	5 years

g) Impairment of Long-Lived Assets

Tangible capital assets are tested annually for impairment where impairment indicators are present. This would occur if an item no longer contributes to the Association's ability to provide services. Any excess of the item's carrying value, with no long-term service potential, over its residual value is recognized as an expense of the period.

h) Financial Instruments

A financial asset or liability is recognized when the Association becomes party to the contractual provisions of the financial instrument. All financial instruments, except derivative financial instruments, are initially measured at fair value and subsequently at cost or amortized cost. Derivative financial instruments are subsequently measured at fair value with changes being reported in excess of revenues over expenses.

Financial assets are tested for impairment when changes in circumstances indicate that the asset could be impaired. Transaction costs on the acquisition and sale of financial instruments are expensed for those items re-measured at fair value at each balance sheet date and charged to the financial instrument for those measured at amortized cost.

2. DEMAND LOAN

In June 2017, ATB provided a demand loan facility with a maximum amount of $3,286,715. This loan bears interest at the ATB prime rate plus 0.45% per annum, is due on demand and is payable in monthly blended payments of $12,300. The loan is secured by a general security agreement covering the Association's present and after acquired property and floating charge on land, a first mortgage agreement registered against the property in the amount of $3,286,715, postponement and assignment of claims from Brookfield Residential, and comfort letter from Brookfield Residential covering all debt servicing shortfalls up to the Effective Date (defined in Note 4).

The loan is expected to be renewed each year. The principal payment estimated to be required in each of the next five years and thereafter are as follows:

2019	$	26,409
2020	$	28,443
2021	$	29,646
2022	$	74,621
2023	$	140,269
Thereafter	$	2,611,220

3. CAPITAL ASSETS

	2018			2017
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
				Restated - Note 10
Building	$ 2,966,932	$ 84,085	$ 2,882,847	$ 2,957,021
Park amenities	1,770,626	124,141	1,646,485	1,689,334
Equipment	172,908	50,577	122,331	147,887
Vehicles	149,217	22,886	126,331	141,253
	5,059,683	281,689	4,777,994	4,935,495
Land	2,864,500	-	2,864,500	2,864,500
	$ 7,924,183	**$ 281,689**	**$ 7,642,494**	**$ 7,799,995**

4. RELATED PARTY TRANSACTIONS

The Orchards Management Agreement grants Brookfield Residential control of the management of the Association and management of the Orchards' amenities until the Effective Date (defined below). Until such time, the powers of the Officers and Directors to manage the business affairs of the Association are temporarily restrained.

The Effective Date is defined as the later of (i) the date upon which Brookfield Residential has sold its last lands within the Orchards development, or (ii) the date upon which all amounts owing to Brookfield Residential have been repaid. Brookfield Residential may, at an earlier date and at its discretion, transfer portions of the amenities or certain aspects of management to the Association.

During the year, the following transactions occurred with Brookfield Residential:

a) The Association received $44,811 (2017 - $5,706) for services provided to Brookfield Residential which requires the Association to maintain certain public areas within other Brookfield Residential communities. Of this amount $6,477 (2017 - $2,249) is included in accounts receivable at year end. An amount due from Brookfield Residential of $nil (2017 - $11,265) is also included in accounts receivable at year end related to recovery of loan fees.

b) The following expenses were incurred for services provided by Brookfield Residential to the Association:

	2018	2017
Professional fees	**$ 36,000**	**$ 36,000**

c) During the year, Brookfield Residential contributed capital assets with a fair market value of $nil (2017 - $1,798,135) to the Association (Note 5).

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

5. DEFERRED CAPITAL CONTRIBUTION

Deferred contributions relate to capital assets contributed to the Association by Brookfield Residential. The balance consists of $2,135,500 (2017 - $2,135,500), less accumulated amortization of $133,497 (2017 - $53,979).

The land contributed by Brookfield Residential in 2013 is not subject to amortization and was therefore recorded as a direct increase to net assets.

6. FINANCIAL INSTRUMENTS

The Association, through its financial assets and liabilities, has exposure to the following risks from its use of financial instruments: interest rate risk, credit risk and liquidity risk. There have been no significant changes in the risk since prior year. The risks and related management strategies are discussed below:

a) Interest rate risk

The Association is exposed to interest rate cash flow risk as a result of the demand loan from ATB, whereby the cash flows required to service the debt will fluctuate with changes in market rates.

b) Credit risk

The Association is exposed to credit risk through its cash and cash equivalents and accounts receivable.

Credit risk arises from the potential that a counterparty will fail to perform its obligations. The Association's credit risk is primarily attributable to its accounts receivable. The accounts receivable represents annual charges not collected from members. The risk is mitigated due to the fact that the Association takes legal action on overdue accounts and places a lien on the property of the member and will collect the annual charge upon sale of the home if the member chooses not to pay the annual charge. The Association also has a number of members which minimizes the concentration of credit risk.

c) Liquidity risk

Liquidity risk is the risk that the Association would encounter difficulty in meeting obligations with financial liabilities.

Liquidity risk includes the risk that the Association will not have sufficient funds to settle a transaction on the due date. Liquidity risk arises from the accounts payable and accrued liabilities and from the demand loan.

7. NET ASSETS

The Association may budget and set aside any of the accumulated excess of revenues over expenditures to create a reserve fund for the purpose of replacing future assets, maintaining the property and meeting contingencies. Currently, the Association has an unrestricted net deficiency of $3,032,248 (2017 - $2,691,987) and has internally restricted the net assets invested in capital assets of $5,640,491 (2017 - $5,718,474).

8. COMMITMENTS

The Association has commitments related to an operating lease for office equipment. Payments expected over the remaining term of the lease are as follows:

2019	$	2,496
2020	$	2,496
2021	$	2,496
2022	$	1,248

9. RECLASSIFICATION OF PRIOR YEAR BALANCES

Certain comparative figures have been reclassified to conform with the current year's presentation. This reclassification has no effect on the prior year deficiency of revenue over expenses.

10. PRIOR PERIOD ADJUSTMENT

A prior period adjustment has been recorded in order to reflect building additions that occurred during the year ended December 31, 2017 but were not recorded. The effect of the adjustment is as follows:

	2017 as reported	**Adjustment**	**2017 Restated**
Statement of Financial Position:			
Capital assets	7,615,370	184,625	7,799,995
Accounts payable and accrued liabilities	54,320	184,625	238,945
Statement of Cash Flows:			
Accounts payable and accrued liabilities	24,147	184,625	208,772
Acquisition of capital assets	(2,687,202)	(184,625)	(2,871,827)