ORCHARDS RESIDENTS ASSOCIATION

FINANCIAL STATEMENTS

December 31, 2021

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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, 2021, and the statements of operations, changes in net assets 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, 2021, 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.

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
May 9, 2022

ORCHARDS RESIDENTS ASSOCIATION
Statement of Financial Position
As at December 31

	2021	2020
CURRENT ASSETS		
Cash	$ 264,388	$ 191,986
Accounts receivable (Notes 4, 10)	25,160	41,292
Prepaid expenses and deposits	17,183	16,251
	306,731	249,529
CAPITAL ASSETS (Note 2)	7,101,314	7,285,939
	$ 7,408,045	**$ 7,535,468**
CURRENT LIABILITIES		
Accounts payable and accrued liabilities (Note 4)	$ 64,193	$ 26,050
Goods and services tax	15,843	12,802
Demand loan payable (Note 3)	3,160,030	3,223,282
Deferred revenue	381,939	273,975
	3,622,005	3,536,109
DEFERRED CAPITAL CONTRIBUTION (Note 5)	1,763,448	1,842,967
LOAN PAYABLE (Note 6)	60,000	40,000
	5,445,453	5,419,076
NET ASSETS (DEFICIENCY) (Note 8)		
Net assets invested in capital assets	5,337,866	5,442,972
Unrestricted net deficiency	(3,375,274)	(3,326,580)
	1,962,592	2,116,392
	$ 7,408,045	**$ 7,535,468**

Commitments (Note 9)

Approved on behalf of the Association:

______________________________, Director

______________________________, Director

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

	2021	2020
REVENUE		
Membership fees	$ 736,233	$ 656,706
Government assistance (Note 10)	58,996	154,153
Rental and programming	134,741	127,702
Amortization of deferred capital contributions (Note 5)	79,519	79,518
Interest and other (Note 4)	59,859	59,015
Grant	36,500	16,500
Sponsor	13,028	10,238
	1,118,876	1,103,832
EXPENSES		
Salaries and benefits	545,519	546,272
Amortization	197,679	202,696
Loan interest	97,245	106,013
Utilities	137,635	98,593
Administration	88,071	75,962
Amenity operations	97,962	60,397
Professional fees (Note 4)	49,156	49,878
Programs and events	40,751	40,278
Insurance	18,658	16,882
	1,272,676	1,196,971
LOSS ON WAIVER (Note 11)		13,663
DEFICIENCY OF REVENUE OVER EXPENSES	**$ (153,800)**	**$ (106,802)**

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

	Invested in Capital Assets	Unrestricted	2021	2020
BALANCE, BEGINNING OF YEAR	**$ 5,442,972**	**$ (3,326,580)**	**$ 2,116,392**	**$ 2,223,194**
Acquisition of capital assets	13,054	(13,054)	-	-
Deficiency of revenue over expenses	-	(153,800)	(153,800)	(106,802)
Amortization of capital assets	(197,679)	197,679	-	-
Amortization of deferred capital contributions	79,519	(79,519)	-	-
BALANCE, END OF YEAR	**$ 5,337,866**	**$ (3,375,274)**	**$ 1,962,592**	**$ 2,116,392**

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

	2021	2020
NET INFLOW OF CASH RELATED TO:		
OPERATING ACTIVITIES		
Deficiency of revenue over expenditures	$ (153,800)	$ (106,802)
Items not affecting cash		
Amortization of capital assets	197,679	202,696
Amortization of deferred capital contribution	(79,519)	(79,518)
	(35,640)	16,376
Changes in non-cash working capital items		
Accounts receivable	16,132	(30,368)
Prepaid expenses and deposits	(932)	(1,419)
Accounts payable and accrued liabilities	38,143	(21,955)
Goods and services tax	3,041	2,468
Deferred revenue	107,964	31,514
	128,708	**(3,384)**
INVESTING ACTIVITIES		
Acquisition of capital assets	**(13,054)**	**(12,259)**
FINANCING ACTIVITIES		
Advances from demand loan payable	-	50,754
Repayments of demand loan payable	(63,252)	(48,790)
Advances from loan payable	20,000	40,000
	(43,252)	**41,964**
NET CASH INFLOW	**72,402**	**26,321**
CASH, BEGINNING OF YEAR	191,986	165,665
CASH, END OF YEAR	**$ 264,388**	**$ 191,986**

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 funds 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 funds 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 or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

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

Grants and government assistance are recognized as revenue when received or receivable, if the amount can be reasonably estimated 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.

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
Equipment	5 years
Vehicles	10 years

g) Impairment of Long-Lived Assets

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.

i) Leases

The Association accounts for a renewal, extension, or change in the provisions of an existing lease as either a new lease, or, when certain conditions are met, by applying the COVID-19 related rent concessions practical expedient. This choice to apply the practical expedient is made on a lease by lease basis. Under the practical expedient, the Association continues to account for the lease consistent with the terms of the original lease contract, but records a loss on waiver in excess of revenues over expenses for lease payments that have been waived.

2. CAPITAL ASSETS

	2021			2020
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Building	$ 2,990,262	$ 313,823	$ 2,676,439	$ 2,745,962
Park amenities	1,782,910	337,450	1,445,460	1,510,954
Equipment	194,032	160,683	33,349	68,035
Vehicles	149,217	67,651	81,566	96,488
	5,116,421	879,607	4,236,814	4,421,439
Land	2,864,500	-	2,864,500	2,864,500
	$ 7,980,921	**$ 879,607**	**$ 7,101,314**	**$ 7,285,939**

3. DEMAND LOAN

Alberta Treasury Branch ("ATB") provided the Association with a demand loan facility with a maximum amount of $3,800,000 (2020 - $3,800,000). This loan bears interest at the ATB prime rate plus 0.50% (2020 - prime rate plus 0.62%) per annum, is due on demand and is payable in monthly blended payments of $13,375 (2020 - $13,375) increasing to monthly blended payments of $21,433 beginning September 2022. The loan is secured by a general security agreement covering the Association's present and acquired property and proceeds, a first mortgage agreement registered against the property in the amount of $3,800,000 (2020 - $3,800,000), 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 payments estimated to be required in each of the next five years and thereafter are as follows:

2022	$ 100,556
2023	169,234
2024	174,056
2025	179,499
2026	184,867
Thereafter	2,351,818
	$ 3,160,030

ORCHARDS RESIDENTS ASSOCIATION
Notes to the Financial Statements
December 31, 2021

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) six (6) months after 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 recorded $16,034 (2020 - $40,466) in revenue for services provided to Brookfield Residential which requires the Association to maintain certain public areas within the Brookfield Communities, and an amount of $41,000 (2020 - $10,563) for services related to the Show Home Village within the Brookfield Communities. An amount due from Brookfield Residential of $8,774 (2020 - $4,851) is included in accounts receivable at year end.

b) The following expenses were incurred for services provided to the Association by Brookfield Residential Development; a company related to Brookfield Residential:

	2021	2020
Administration	**$ 36,000**	**$ 36,000**

The amount above is included in professional fee expense at year end. Of this amount, $9,450 (2020 - $nil) is included in accounts payable and accrued liabilities.

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 capital contributions relate to capital assets contributed to the Association by Brookfield Residential. The balance consists of $2,135,500 (2020 - $2,135,500), less accumulated amortization of $372,052 (2020 - $292,533). 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. CANADA EMERGENCY BUSINESS ACCOUNT LOAN

During the year, the Association was provided an additional $20,000 on top of the existing $40,000 interest free loan to assist with continued operational difficulties faced as a result of the ongoing COVID-19 pandemic. Similar to the first loan, the extension bears 0% interest and is not repayable until December 31, 2023. Principal repayments can voluntarily be made at any time without fees or penalties. Including the extension, repayment of $40,000 of the $60,000 on or before December 31, 2023 will result in loan forgiveness of $20,000. If any part of the balance is not paid by December 31, 2023, the remaining balance will be converted to a 3-year term loan at 5% annual interest, paid monthly, effective January 1, 2024. As at December 31, 2021 there was $60,000 due on the balance of the loan.

7. 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 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 and other receivables from Brookfield Residential and government subsidies. 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 will encounter difficulty in meeting obligations with financial liabilities, including the risk that the Association will not have sufficient funds to settle a transaction on the due date. The Association is exposed to this risk in respect of its accounts payable and accrued liabilities, goods and services tax payable, and the demand loan.

ORCHARDS RESIDENTS ASSOCIATION
Notes to the Financial Statements
December 31, 2021

8. 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 $3,375,274 (2020 - $3,326,580) and has internally restricted the net assets invested in capital assets of $5,337,866 (2020 - $5,442,972).

9. COMMITMENTS

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

2022	$	11,520

10. GOVERNMENT ASSISTANCE

During the year, the Association recorded $58,996 (2020 - $147,322) in government wages subsidies and $nil (2020 - $6,831) in government rent subsidies. All government subsidy contributions recorded have been recognized into income during the year. An amount receivable of $1,621 (2020 - $32,180) is included in accounts receivable at year end.

11. RENT WAIVER

At year end, the Association recognized a loss on waivers of $nil (2020 - $13,663) in excess of revenues over expenses related to the rent concessions waivers granted during year.

12. CREDIT LIMIT

At December 31, 2021, the Association has a total credit card limit of $5,000 (2020 - $5,000), of which $2,263 (2020 - $1,170) has been used at year end.

13. COVID-19

The outbreak of the novel strain of coronavirus, specifically identified as "COVID-19", resulted in worldwide emergency measures which have caused disruptions to businesses globally resulting in an economic slowdown. The duration and long-term impact of the COVID-19 outbreak is unknown at this time. It is not possible to reliably estimate the length or effects of these developments, including the impact on the financial results of the Association in future periods.

Yours truly,

Matt Peron, CPA, CA
Partner through a corporation
BDO Canada LLP
Chartered Professional Accountants