

***Condominio Villas at Club Intrawest  
Zihuatanejo, A. C.***  
Audited Financial Statements  
December 31, 2014

# ***Condominio Villas at Club Intrawest Zihuatanejo, A. C.***

Index

December 31, 2014

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<u>Contents</u>	<u>Page</u>
Report of Independent Auditors .....	1 and 2
Financial statements:	
Statements of financial position.....	3
Statements of activities.....	4
Statements of cash flows.....	5
Notes to the financial statements.....	6 to 11



## **Independent Auditor's Report**

The Board of Members of  
Condominio Villas At Club Intrawest Zihuatanejo, A. C.

We have audited the accompanying financial statements of Condominio Villas At Club Intrawest Zihuatanejo, A. C. (the Association), which comprise the statement of financial position at December 31, 2014, and the statements of activities and of 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**

The management of the Association is responsible for the preparation and fair presentation of these financial statements in accordance with Mexican Financial Reporting Standards, 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.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. 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 auditor's 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. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



## **Opinion**

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Condominio Villas At Club Intrawest Zihuatanejo, A. C., at December 31, 2014, and its financial performance and its cash flows for the year then ended, in accordance with Mexican Financial Reporting Standards.

PricewaterhouseCoopers, S. C.

A handwritten signature in black ink, appearing to be "C. Moncada Negrete", written over a faint, illegible printed name.

C.P.C. Carlos Moncada Negrete  
Audit Partner

Mexico City, May 27, 2015

**Condominio Villas at Club Intrawest Zihuatanejo, A. C.**  
 Statements of Financial Position  
 December 31, 2014 and 2013

Amounts expressed in Mexican pesos

	2014		2013			
	Not restricted	Temporary restricted (Note 5)	Total	Not restricted	Temporary restricted (Note 5)	Total
<b>ASSETS</b>						
CURRENT ASSETS:						
Cash and cash equivalents	\$ 1,978,380	\$ 1,794,410	\$ 3,772,790	\$ 231,152	\$ 858,458	\$ 1,089,610
Accounts receivable	633,982	-	633,982	303,483	-	303,483
Related parties (Note 4)	-	-	-	34,485	-	34,485
Prepaid expenses	67,682	-	67,682	14,638	-	14,638
<b>Total assets</b>	<b>\$ 2,680,044</b>	<b>\$ 1,794,410</b>	<b>\$ 4,474,454</b>	<b>\$ 583,758</b>	<b>\$ 858,458</b>	<b>\$ 1,442,216</b>
<b>LIABILITIES AND NET ASSETS</b>						
CURRENT LIABILITIES:						
Accrued liabilities	\$ 306,541	\$ -	\$ 306,541	\$ 314,475	\$ -	\$ 314,475
Related parties (Note 4)	1,449,436	-	1,449,436	-	-	-
Deferred dues	721,576	-	721,576	-	-	-
<b>Total current liabilities</b>	<b>2,477,553</b>	<b>-</b>	<b>2,477,553</b>	<b>314,475</b>	<b>-</b>	<b>314,475</b>
Contingences (Note 6)	-	-	-	-	-	-
Net assets (Note 5)	202,491	1,794,410	1,996,901	269,283	858,458	1,127,741
<b>Total liabilities and net assets</b>	<b>\$ 2,680,044</b>	<b>\$ 1,794,410</b>	<b>\$ 4,474,454</b>	<b>\$ 583,758</b>	<b>\$ 858,458</b>	<b>\$ 1,442,216</b>

The attached notes are an integral part of these financial statements, which were authorized for issuance on May 27, 2015, by Enrique Vazquez, Director of Finance-Mexico.

**Condominio Villas at Club Intrawest Zihuatanejo, A. C.**  
**Statements of Activities**  
**December 31, 2014 and 2013**

*Amounts expressed in Mexican pesos*

	2014		2013	
	Not restricted	Temporary restricted (Note 5)	Not restricted	Temporary restricted (Note 5)
	Total	Total	Total	Total
<b><u>Changes in net assets</u></b>				
Fees paid by members (Note 5)	\$ 7,806,186	\$ 1,307,168	\$ 7,521,174	\$ 1,592,175
Miscellaneous Revenue	2,596	-	-	-
Interest gained	-	20,331	-	41,373
	<u>7,808,782</u>	<u>1,327,499</u>	<u>7,521,174</u>	<u>1,633,548</u>
		9,136,281		9,154,722
<b>Operating expenses:</b>				
Utilities	1,546,885	-	1,465,228	-
Maintenance	1,432,730	-	1,403,667	-
Accounting	315,450	-	285,479	-
Front desk and concierge	206,445	-	207,307	-
Cleaning and security	665,189	-	446,685	-
Insurance	210,992	-	315,888	-
Property taxes	107,613	-	185,976	-
Management fees	941,544	83,232	897,920	156,971
Trust fees	191,560	-	144,304	-
Owner services	276,928	-	386,585	-
General and administration	1,216,350	-	940,361	-
Contingency and capital replacement funds	-	577,598	-	1,086,297
Others	593,823	-	669,094	-
	<u>7,705,509</u>	<u>660,830</u>	<u>7,348,494</u>	<u>1,243,268</u>
Total operating expenses		8,366,339		8,591,762
Operating gain	103,273	666,669	172,680	390,280
Foreign exchange gain (loss) - Net	99,218	-	96,603	-
		99,218		96,603
Increase in net assets	202,491	666,669	269,283	390,280
Net assets at the beginning of the year	269,283	858,458	(450,381)	918,559
Transfer of funds	(269,283)	269,283	450,381	(450,381)
	<u>\$ 202,491</u>	<u>\$ 1,794,410</u>	<u>\$ 269,283</u>	<u>\$ 858,458</u>
Net assets at the end of the year		<u>\$ 1,996,901</u>		<u>\$ 1,127,741</u>

The attached notes are an integral part of these financial statements, which were authorized for issuance on May 27, 2015, by Enrique Vazquez, Director of Finance-Mexico.

**Condominio Villas at Club Intrawest Zihuatanejo, A. C.**  
**Statements of Cash Flows**  
**December 31, 2014 and 2013**

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*Amounts expressed in Mexican pesos*

	Years ended December 31,	
	<u>2014</u>	<u>2013</u>
Cash flows from operating activities:		
Increase in net assets	\$ 869,160	\$ 659,563
Accounts receivable	(330,499)	(107,986)
Related parties, net	1,483,921	(1,745,129)
Prepaid expenses	(53,044)	100,498
Accrued liabilities	<u>713,642</u>	<u>162,363</u>
Net cash used in operating activities and net increase (decrease) in cash and cash equivalents	2,683,180	(930,691)
Cash and cash equivalents at beginning of year	<u>1,089,610</u>	<u>2,020,301</u>
Cash and cash equivalents at end of the year	<u>\$3,772,790</u>	<u>\$1,089,610</u>

The attached notes are an integral part of these financial statements, which were authorized for issuance on May 27, 2015, by Enrique Vazquez, Director of Finance-Mexico.

# ***Condominio Villas at Club Intrawest Zihuatanejo, A. C.***

## **Notes to the Financial Statements**

### **December 31, 2014 and 2013**

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*Amounts expressed in Mexican pesos*

#### **Note 1 - History Company activities:**

Condominio Villas at Club Intrawest Zihuatanejo, A. C. (the Association), was constituted and started operations on December 14, 2005. The Association is organized as a non-for profit, civil association for the purpose of managing luxury residences and resort fractional interest project, consisting of 14 Villas (some of them divided into 1/9 (one ninth) interests) as well as common areas located in a development known as “Condominio Villas at Club Intrawest Zihuatanejo” (hereinafter referred to as “the Villas”).

The character of member of the association is entirely related to the acquisition of beneficiary rights on the Villas. Under Mexican law, an especial property trust is required so foreign individuals or companies hold coastal property in Mexico. Provided full payment, a member acquires trust beneficiary rights over certain property as well as rights to use common areas.

In order to guarantee that the property is adequately maintained in accordance with established standards, the operation, maintenance, management and general administration of the Villas are carried out by an administrative agent appointed by the Association. The mentioned property manager will charge a management fee of 12% of all operating costs incurred.

All these costs are charged to an operating fund formed with collections from members of the Association.

The Association has no employees therefore it is not subject to labor obligations. Administrative services which include the staff required to operate the property, are provided by Club Intrawest Management, S. de R. L. de C. V., through Extraordinary Escapes Corporation - Mexican Branch, related party whose services are allocated among other entities of the group. (See Note 4).

Most of Association’s revenues in 2014 and 2013 were obtained from affiliated companies. Furthermore, majority of expenses incurred during those years were paid to affiliated companies.

#### **Note 2 - Basis of preparation:**

##### Financial statements of entities with non-profit purposes

The Association prepared its financial statements based on the Mexican Financial Reporting Standard (MFRS) B-16 “Financial statements of entities with non-profit purposes”, which establishes standards, classification of assets, liabilities and net assets based on financial reporting framework.

##### MFRS

The accompanying financial statements at December 31, 2014 and 2013, fairly meet the provisions of the MFRS to show a fair presentation of the Company's financial position. The MFRS state that the International Financial Reporting Standard (IFRS), the International Accounting Standards (IAC), International Financial Reporting Interpretations (IFRIC) and the Interpretation Committee (SIC) are a supplementary part of the MFRS when the absence of the MFRS requires it.



# ***Condominio Villas at Club Intrawest Zihuatanejo, A. C.***

## **Notes to the Financial Statements**

### **December 31, 2014 and 2013**

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As of January 1, 2014, the Company retrospectively adopted the following MFRS and their Interpretations, issued by Consejo Mexicano de Normas de Información Financiera, A. C. (CINIF) and which became effective as of the aforementioned date. No relevant effects were considered arising of such MFRS and Interpretations over the financial information presented by Company.

#### **Improvements to MFRS**

MFRS C-5 “Advance payments”. Establishes the accounting treatment of advanced payments by the purchase of items for which payment is denominated in foreign currency. It also states that impairment losses in the value of advanced payments (and reversals thereof) must be submitted as part of the net profit or loss for the period in the line item that the Company deems appropriate according to its professional judgment, rather than the income statement of the period under other income and expenses.

The requirement to submit certain operations in the item of other income and expenses is removed from MFRS B-3 “Comprehensive income statement”, MFRS B-16 “Financial statements of non-profit entities”, MFRS C-6 “Property, Plant and Equipment”, Bulletin C-9 “Liabilities, provisions, contingent assets and liabilities and commitments”, MFRS D-3 “Employee benefits”, and, instead, the use of that item is left to the discretion of the Company.

#### **Interpretation to MFRS**

Interpretation to MFRS 20 “Accounting effects of the Tax Reform 2014”. The Interpretation to MFRS 20 was issued in response to how the accounting effects of the Tax Reform 2014 should be recognized in the financial statements of entities.

#### **Authorization of financial statements**

The accompanying financial statements and their notes were authorized, for their issuance on May 27, 2015, by Enrique Vazquez, Director of Finance-Mexico.

In accordance with the Association bylaws, the members are empowered to modify the financial statements after issuance. The accompanying financial statements will be submitted to the Member’s Meeting for approval.

#### **Note 3 - Summary of significant accounting policies:**

The most significant accounting policies are summarized as follows, which have been consistently applied in the reporting years, unless otherwise indicated.

The MFRS require the use of some critical accounting estimates in the preparation of the financial statements. Also, Management judgment is required in the process of defining the Association’s accounting policies.

#### **Inflation effects in financial information**

In accordance with the provisions of the MFRS B-10 “Inflation Effects”, as of January 1, 2008 the Mexican economy is not an inflationary environment, since there has been a cumulative inflation below 26% (threshold to define that an economy should be considered as inflationary); therefore, it has been required to discontinue the recognition of the inflation effects in the financial information. However, the figures of the accompanying financial statements at December 31, 2014 and 2013 are stated in historical Mexican pesos (Ps Mex).

# ***Condominio Villas at Club Intrawest Zihuatanejo, A. C.***

## **Notes to the Financial Statements**

### **December 31, 2014 and 2013**

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The effects of the lack of recognition of the inflation in the financial information are immaterial.

Inflation in 2014 is 4.08% (3.97% in 2013) and accumulated in the last three year is 12.65% (in 2013 was 12.25%).

#### **a. Cash and cash equivalents**

Cash and cash equivalents, includes cash balances, bank deposits and other highly liquid investments with minor risks by changes in value. At the date of the financial statements, foreign exchange gains and losses are included in the statements of activities.

#### **b. Advanced payments**

The advanced payments represent such expenditures made by the Association where the risks and benefits inherent to the goods to be acquired or services to be received have not been transferred. Advanced payments are recorded at their cost and presented in the statement of the financial position as current or non-current assets, depending on the destination item. Once the goods and/or services related to advanced payments are received, they should be recognized as an asset or expense in the period income statement, according to the respective nature.

Advanced payments are subject to impairment tests every accounting period, with the purpose of identifying if they have lost their ability to produce future benefits.

#### **c. Provisions**

The liabilities' provisions represent current obligations for past events where outflow of economic resources is possible (it is more likely than not). These provisions have been recorded based on management's best estimation.

#### **d. Income tax**

According to Mexican Tax Law, non-for-profit entities will consider distributable, among other, all payments that are not deductible in accordance to Income Tax Law.

The Association is also liable with tax authorities of withhold and pay certain withholding taxes in accordance to the Income tax Law.

#### **e. Presentation of costs, expenses and additional items in the income statement**

The Association presents expenses in the statements of activities under the classification criterion based on the nature of items since it breaks the expenses items addressing the specific essence of the Association's type of expense. Additionally, for a better analysis of its financial position, the Association has deemed necessary to separately present the amount of the operating surplus (deficit) in the statements of activities as such information is a common disclosure practice of the sector which the Association belongs to.

#### **f. Revenue recognition**

Revenue from fees is recognized when it is probable that the economic benefits associated with the transaction will flow to the Association, in the accounting period in which the services are rendered.

**Condominio Villas at Club Intrawest Zihuatanejo, A. C.**  
**Notes to the Financial Statements**  
**December 31, 2014 and 2013**

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g. Foreign exchange gain (loss)

Transactions in foreign currencies are initially recorded at record currency applying the exchange rates prevailing on the dates they are entered into and/or settled. Assets and liabilities denominated in such currencies are translated at the exchange rate prevailing at the date of the statement of the financial position. Exchange gain or loss arising from fluctuations in the exchange rates between the transaction and settlement dates, or valuation at the period closing are recognized in the income as a component of the financing comprehensive income (RIF) with exception of those exchange differences that, as a part of the eligible assets cost, are capitalized with other components of RIF.

h. Contingencies

Liabilities for loss contingencies are recorded when it is probable that a liability has been incurred and the amount thereof can be reasonably estimated. When a reasonable estimation cannot be made, qualitative disclosure is provided in the notes to the financial statements. Contingent revenues, earnings or assets are not recognized until their realization is assured.

**Note 4 - Balances and transactions with related parties:**

The Association has entered into an administrative service agreement with Extraordinary Escapes Corporation, Mexican Branch, related party, under which, this company commits to managing the villas. The agreed consideration amounts to 12% of expenses incurred by the property manager. This agreement is for an initial 5 year period and will be automatically renewed for subsequent periods of three years.

Receivable and payable balances to related parties as of December 31, 2014 and 2013 are as follows:

	<u>2014</u>	<u>2013</u>
<u>Receivables</u>		
Extraordinary Escapes Corporation - Mexican Branch	\$ -	\$34,485
<u>Payables</u>		
Extraordinary Escapes Corporation - Mexican Branch	\$1,449,436	\$ -

Transactions carried out with related parties during the years ended December 31, 2014 and 2013 were as follows:

	<u>2014</u>	<u>2013</u>
Maintenance fees received:		
Intrawest Resort Ownership US Corporation - Mexican Branch	\$ 230,193	\$ 230,193
Club Intrawest México, S. de R. L. de C. V.	<u>5,996,857</u>	<u>5,996,857</u>
	<u>\$6,227,050</u>	<u>\$6,227,050</u>
Services paid:		
Extraordinary Escapes Corporation - Mexican Branch	\$7,982,294	\$7,954,839
Intrawest Resort Ownership US Corporation	<u>38</u>	<u>-</u>
	<u>\$7,982,332</u>	<u>\$7,954,839</u>

# **Condominio Villas at Club Intrawest Zihuatanejo, A. C.**

## Notes to the Financial Statements

### December 31, 2014 and 2013

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#### **Note 5 - Analysis of net assets:**

Net assets (temporary restricted and not restricted) represent fees collected from members for the operating expenses, Capital Replacement and Contingency Reserve funds. Additionally, it includes any interest earned from investing such funds in a non-risk investment account. These funds are decreased by any expenditure and related management fees incurred during the year. Net assets also includes the Operating result of the year. (See statements of activities).

Net assets as of December 31, 2014 are as follows:

Net assets breakdown:	Opening balance	Addition- dues	Transfer of funds	Interest	Capital expenditure	Manage- ment fee on funds	Operating surplus	Ending Balance
Capital replacement fund	\$ 681,203	\$ 477,720	\$ -	\$ -	(\$ 271,622)	(\$ 37,810)	\$ -	\$ 849,491
Contingency Replacement fund	163,636	829,448	269,283	20,331	(305,976)	(45,422)	-	931,300
Loss recovery	13,619	-	-	-	-	-	-	13,619
Operating (deficit) surplus	<u>269,283</u>	<u>-</u>	<u>(269,283)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>202,491</u>	<u>202,491</u>
Totals	<u>\$ 1,127,741</u>	<u>\$ 1,307,168</u>	<u>\$ -</u>	<u>\$ 20,331</u>	<u>(\$ 577,598)</u>	<u>(\$ 83,232)</u>	<u>\$ 202,491</u>	<u>\$ 1,996,901</u>

#### **Note 6 - Contingent liabilities:**

1. The five-year period prior to the most recent income tax return filed is open to governmental tax examination.
2. In accordance with the Income Tax Law, companies carrying out transactions with related parties are subject to certain requirements as to the determination of prices, since such prices, must be similar to those that would be used in arm's-length transactions.

Should the tax authorities examine the transactions and reject the related-party prices, they could assess additional taxes plus the related inflation adjustment and interest, in addition to penalties of up to 100% of the omitted taxes.

#### **Note 7 - Tax situation:**

The Association is registered as a nonprofit entity for tax purposes and is exempt from income tax and corporate tax rate only, in accordance with title III Act 79. of Income tax Law.

#### **Note 8 - New accounting pronouncements:**

Following are described a series of MFRS that the CINIF issued during December 2013 and 2014, which will become effective in the year indicated. It is considered that those MFRS will not have a significant effect on the financial information presented by the Company.

#### 2018

MFRS C-3 "Accounts receivable". Establishes the valuation, presentation and disclosure standards for the initial and subsequent recognition of trade receivables and other receivables in the financial statements of an economic entity. Specifies that the accounts receivable based on a contract represent a financial instrument. Earlier adoption is permitted as of January 1, 2016, only if is applied in conjunction with the MFRS C-20 "Receivables Financing Instruments".

# ***Condominio Villas at Club Intrawest Zihuatanejo, A. C.***

## **Notes to the Financial Statements**

### **December 31, 2014 and 2013**

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MFRS C-9 “Provisions, contingencies and commitments”. Establishes standards for the accounting recognition of provisions on the financial statements of entities, and the rules for disclosure contingent assets, contingent liabilities and commitments on the financial statements. Reduce scope to relocate the item on the accounting treatment of financial liabilities in MFRS C-19. “Financial instruments payable”. Additionally, the terminology used throughout the regulatory approach is updated. Earlier adoption is permitted as of January 1, 2016, only if is applied in conjunction with the MFRS C-19 “Financial instruments payable”.

#### Improvements to NIF 2015

MFRS B-16 “Financial statements of entities with non-profit purposes.” Treatment of ORI included, without requiring to be presented separately from other lines in the statement of activities.

Bulletin C-9 “Liabilities, Provisions, contingent assets and liabilities and commitments”. It is established the accounting treatment of advances from customer’s liabilities for the sale of goods or services for which recovery is denominated in foreign currency, requiring that the balance of the customer advances should be no change to currency fluctuations between the functional currency and the currency payment. In this manner consistent with the accounting treatment of prepayments in foreign currency is established.

MFRS C-3 “Accounts receivable” and MFRS C-20 “Financial receivables financing”. The effective dates were modified for those MFRS. Instead those MFRS would be effective as of January 1, 2016 (early adoption permitted as of January 1, 2015, only if both NIF jointly were adopted), the new effective date for both MFRS is now as of January 1, 2018 (early adoption is permitted as of January 1, 2016, only if both NIF jointly are adopted).