

THE LEASEHOLDERS: FAIRMONT VACATION VILLAS AT MOUNTAINSIDE

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting entity

The Leaseholders: Fairmont Vacation Villas at Mountainside ("the organization") These financial statements include the net assets held, revenue earned and expenses incurred on behalf of the leaseholders of Fairmont Vacation Villas at Mountainside by the manager, Fairmont Financial Services Ltd. The villas are located at Fairmont Hot Springs, B.C.

The organization is a non-profit entity, with the excess of revenue (expenses) for the year being credited to (recoverable from) leaseholders by inclusion in the next year's revenue (expenses).

Adoption of Canadian accounting standards for private enterprises These financial statements have been prepared in accordance with Canadian accounting standards for private enterprises (ASPE).

Effective January 1, 2011 the organization adopted the requirements of the Canadian Institute of Chartered Accountants (CICA) Handbook - Accounting, electing to adopt the new accounting framework, ASPE. These are the organization's first financial statements prepared in accordance with ASPE, and the ASPE standards have been applied retrospectively. The accounting policies in this note have been applied in preparing the financial statements for the year ended December 31, 2011, the comparative information presented in these financial statements for the year ended December 31, 2010 and the opening ASPE balance sheet at January 1, 2010 (the organization's date of transition).

The organization previously issued financial statements for the year ended December 31, 2010 using generally accepted accounting principles prescribed by CICA Handbook - Accounting XFI. The adoption of ASPE had no impact on the previously reported assets or liabilities of the organization, and accordingly no adjustments have been recorded in the comparative balance sheet or statements of revenue and expenses and cash flows. Certain of the organization's disclosures included in these financial statements reflect the new disclosure requirements of ASPE.

Financial instruments
Financial instruments are initially recorded at fair value and subsequently measured at amortized cost, reduced by adjustments for impairment if applicable.

Cash and operating cash
Cash is comprised of cash in bank and investment accounts and cash on hand.

Operating cash is cash used for operating purposes, and excludes cash in the Replacement Reserve.

Smith Green Andruschuk LLP
CHARTERED ACCOUNTANTS

THE LEASEHOLDERS: FAIRMONT VACATION VILLAS AT MOUNTAINSIDE

NOTES TO FINANCIAL STATEMENTS - continued

YEAR ENDED DECEMBER 31, 2011

3. EQUIPMENT, VEHICLES AND BUILDING

	2011			2010
	Cost	Accumulated Amortization	Net	Net
Equipment and furniture				
Office	\$ 116,001	\$ 94,694	\$ 21,307	\$ 32,009
Maintenance	75,782	69,774	6,008	11,441
Recreation centre	28,431	28,431	-	-
Vehicles	99,538	89,340	10,198	14,277
Maintenance building	12,345	12,545	-	-
	\$ 322,297	\$ 294,784	\$ 37,513	\$ 58,527

4. REPLACEMENT RESERVE

	2011	2010
Replacement Reserve Assets		
Investments		
Bonds		
Amortized cost	\$ 470,365	\$ 469,952
Accrued interest	4,882	3,595
Cash	32,499	16,275
Receivable from operating	507,746	489,822
Replacement Reserve Liabilities		
Bank advances (note 5)	157,110	16,460
Replacement Reserve Net Assets	664,856	506,282
Replacement Reserve		
Balance at beginning of year	\$ 275,748	200,524
Annual fees transferred	305,758	514,098
Interest earned	482,103	482,103
Expenditures	17,425	23,897
Balance at end of year	\$ 389,108	\$ 305,758

The organization's investment in bonds is comprised of a variety of federal, provincial and corporate bonds with stated interest rates of 3.7% to 6.28% (2010 - 3.7% to 7.18%) and maturity dates ranging from 2012 to 2021.

5. BANK ADVANCES

	2011	2010
Replacement Reserve (note 4)		
Demand loan, secured by charge over		
Replacement Reserve investments (note 4), with interest payable at bank prime rate plus 1 1/4%	\$ 275,748	\$ 200,524

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THE LEASEHOLDERS: FAIRMONT VACATION VILLAS AT MOUNTAINSIDE

NOTES TO FINANCIAL STATEMENTS - continued

YEAR ENDED DECEMBER 31, 2011

1. SUMMARY OF ACCOUNTING POLICIES - continued

Inventories

Inventories are comprised primarily of maintenance, housekeeping, and other supplies, and are carried at the lower of cost, determined on a first-in first-out basis, and net realizable value.

Equipment, vehicles and building

Equipment, vehicles and building are carried at cost less accumulated amortization. Amortization is recorded by applying a rate of 20% on a straight-line basis.

Replacement Reserve

A portion of the fees paid by the leaseholders is transferred to a reserve for future replacement expenditures. The reserve is also increased by interest earned on reserve investments, and is reduced as expenditures are made.

Revenue

Fees are invoiced to leaseholders yearly and are recognized as revenue on a calendar-year basis. Interest income is recognized on an accrual basis, and other revenue is recognized as rental commissions are earned, goods are sold, or services are provided.

Income taxes

Due to its nature as a non-profit entity, the organization does not pay income taxes.

2. ACCOUNTS RECEIVABLE - LEASEHOLDERS' FEES

	2011	2010
Accounts receivable - leaseholders' fees		
Fairmont Hot Springs Resort Ltd. (note 6)	\$ -	\$ 107,327
Other leaseholders	260,822	135,086
Less provision for doubtful accounts	104,688	23,950
	156,134	111,136
	\$ 156,134	\$ 218,463

Management is of the opinion that the provision for doubtful accounts at December 31, 2011 is adequate.

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Smith Green Andruschuk LLP
CHARTERED ACCOUNTANTS



5247 Fairmont Creek Road
Fairmont Hot Springs, B.C. V0B 1L1
Phone: (250) 345-6341
Fax: (250) 345-6299
Email: info@mountainsidevillas.com
Website: www.mountainsidevillas.com

INTERVAL INTERNATIONAL
Premier
MEMBER RESORT

March 1, 2012

Financial Statements for 2011

I am pleased to enclose our audited annual financial statements for the year ending December 31, 2011.

We will finish and close the year over budget and carry forward a deficit into the 2012 operating expenses. The budget was sent to all owners last November.

Major expenditures over budget were hydro, propane, bad debt provision, and housekeeping supplies. We had an unseasonably cold January and February in 2011 which contributed to the overage in our heating costs. The largest shortfall on the income side was rental income. We are looking at various ways to increase rentals especially with the units that are in foreclosure due to maintenance fees not being paid. Rental income would then offset some of the fees.

Regarding the provision for doubtful accounts, all efforts will be made to sell off the foreclosure leases so we won't have to use this reserve when calculating the 2013 fees. We are currently negotiating with a marketing organization to move the foreclosed leases to present and future owners.

For owners, friends and neighbours interested in acquiring additional vacation opportunities, there are a number of foreclosed leases to be sold at very attractive prices. For information on how you can own additional time at low cost please contact David at info@mountainsidevillas.com.

Replacement / refurbishment expenditure in 2011 were less than collections. We are pleased to project that after a few years of higher than average refurbishing costs; we will be rebuilding our total reserve to a more sustainable number. We are pleased to report that after 33 years of management, we have never had to present a special assessment to our members for additional funds to cover refurbishing costs, and plan to be able to continue this excellent record.

I trust that you find the financial results for 2011 satisfactory.

Again, I wish to extend my thanks and appreciation to your Villa Management team for doing an outstanding job of retaining the highest quality rating in the industry and a moderate cost.

Wishing you the very best in the coming year, I remain,

Yours truly,

Don Seable
President

Smith Green Andruschuk LLP
CHARTERED ACCOUNTANTS

THE LEASEHOLDERS: FAIRMONT VACATION VILLAS AT MOUNTAINSIDE

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2011

Smith Green Andruschuk LLP

CHARTERED ACCOUNTANTS

Independent Auditor's Report

ROGER SMITH, B.Com., C.A.¹RICHARD ANDRUSCHUK, B.Com., C.A.²CAROL A. GARNER, B.Com., C.A.³KEVIN R. ANDRUSCHUK, B.Com., C.A.⁴

*Incorporated Professionals

PO BOX 1229 1-7TH AVE,

INVERMERE, B.C. V0A 1K0

TELEPHONE (250) 342-9271

TOLL-FREE (888) 435-3777

EMAIL: mail@valleyaca.ca

"Incorporated Professionals"

INDEPENDENT AUDITOR'S REPORT

To The Leaseholders: Fairmont Vacation Villas at Mountainside

We have audited the accompanying financial statements of The Leaseholders: Fairmont Vacation Villas at Mountainside, which comprise the balance sheet as at December 31, 2011, and the statements of revenue and expenses 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.

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 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, including the assessment of the procedures selected by 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 financial statements present fairly, in all material respects, the financial position of The Leaseholders: Fairmont Vacation Villas at Mountainside as at December 31, 2011, and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for private enterprises.

Comparative Information

Without modifying our opinion, we draw attention to Note 1 to the financial statements which describes that The Leaseholders: Fairmont Vacation Villas at Mountainside adopted Canadian accounting standards for private enterprises on January 1, 2011 with a transition date of January 1, 2010. These standards were applied retrospectively by management to the comparative information in these financial statements, including the balance sheets as at December 31, 2010 and January 1, 2010 and the statements of revenue and expenses and cash flows for the year ended December 31, 2010 and related disclosures. We were not engaged to report on the restated comparative information and, as such, it is unaudited.

Chartered Accountants

Independent Auditor's Report

February 27, 2012

THE LEASEHOLDERS:

FAIRMONT VACATION VILLAS AT MOUNTAINSIDE

BALANCE SHEET

Statement of Revenue and Expenses

Notes to Financial Statements

THE LEASEHOLDERS: FAIRMONT VACATION VILLAS AT MOUNTAINSIDE

BALANCE SHEET AS AT DECEMBER 31, 2011

	December 31, 2011	January 1, 2010
	2011	2010
CURRENT ASSETS		
Operating		
Cash		
Accounts receivable		
Leaseholders' fees (note 2)		
Fairmont Hot Springs Resort Ltd.	107,327	230,624
Other leaseholders	111,136	12,835
Other	49,642	
Receivable from leaseholders - excess of expenses	156,134	
Inventory	33,281	
Prepaid expenses	263,887	127,409
Replacement Reserve	113,025	119,930
Receivable from operating (note 4)	56,959	45,719
Bank advances	678,235	585,405
Accounts payable and accrued liabilities	835,345	601,865
Payables to Fairmont Financial Services Ltd. (note 6)	354,671	455,913
Payables to Fairmont Hot Springs Resort Ltd. (note 6)	30,319	33,462
Repayment Reserve (note 4)	56,994	31,286
Repacement Reserve	77,507	73,194
Bank advances (notes 4 and 5)	715,748	643,932
Bank advances (notes 4 and 5)	275,748	200,524
Bank advances (notes 4 and 5)	991,496	844,456
Bank advances (notes 4 and 5)	389,108	305,758
LIABILITIES AND RESERVE	\$ 1,380,604	\$ 1,150,214
CURRENT LIABILITIES		
Operating		
Bank advances		
Accounts payable and accrued liabilities	-	-
Government remittances payable	313,498	30,880
Payables to Fairmont Financial Services Ltd. (note 6)	36,500	8,444
Repacement Reserve (note 4)	108,275	524,433
Repacement Reserve	715,748	643,932
Bank advances (notes 4 and 5)	991,496	844,456
Bank advances (notes 4 and 5)	275,748	200,524
Bank advances (notes 4 and 5)	389,108	305,758
TRANSACTIONS WITH RELATED PARTIES (note 6)	\$ 1,380,604	\$ 1,098,533
STATEMENT OF REVENUE AND EXPENSES		
YEAR ENDED DECEMBER 31, 2011	2011	2010
Revenue		
Fees	\$ 3,183,430	\$ 3,058,199
Less transfers to Replacement Reserve	<u>2,482,103</u>	<u>2,462,103</u>
Operating and management fees	2,701,327	2,576,096
Interest	123,613	109,369
Rental commissions	30,243	42,330
Recreation centre	22,566	25,190
Other	<u>66,611</u>	<u>70,987</u>
Expenses		
Operating		
Salaries, wages and benefits	1,497,704	1,433,392
Electricity	264,508	253,696
Supplies and cleaning services	132,524	133,599
Repairs and maintenance	129,545	143,254
Waste disposal and water	100,113	99,688
Proportion for doubtful accounts	94,800	58,563
Propane and fireplace wood	91,707	68,492
Property taxes	64,405	67,292
Bank charges and interest	57,922	56,409
Office and data processing support	38,069	22,146
Insurance	37,461	35,543
Automobile	35,297	30,352
Audit and legal	23,313	15,000
Amortization	21,282	19,286
Miscellaneous	17,767	19,679
Trustee fees	15,914	16,681
Communications with leaseholders	15,758	16,110
Cable television	13,889	14,169
Telephone	8,558	8,291
Postage	<u>4,363</u>	<u>7,729</u>
Management fees	415,239	398,395
Excess of expenses in prior year	127,409	32,725
	<u>3,208,247</u>	<u>2,951,991</u>
EXCESS OF EXPENSES BEFORE RECOVERY FROM LEASEHOLDERS	(263,887)	(127,409)
Excess of expenses recoverable from leaseholders	263,887	127,409
EXCESS OF REVENUE (EXPENSES) FOR THE YEAR	\$ —	\$ —
STATEMENT OF CASH FLOWS		
YEAR ENDED DECEMBER 31, 2011	2011	2010
OPERATING CASH FLOW BY (USED IN)		
OPERATING ACTIVITIES		
Excess of revenue (expenses) for the year	\$ 21,282	\$ 19,286
Add amortization which does not involve cash	(3,143)	2,582
Changes in non-cash working capital items		
Accounts receivable		
Leaseholders' fees	62,329	12,161
Other	(16,361)	(36,887)
Receivable from leaseholders - excess of expenses	(136,478)	(94,684)
Inventories	6,905	(12,002)
Prepaid expenses	(11,240)	7,313
Accounts payable and accrued liabilities	(101,242)	142,415
Government remittances payable		
Payables to Fairmont Financial Services Ltd.		
Fairmont Financial Services Ltd.	25,708	31,286
Fairmont Hot Springs Resort Ltd.	5,530	(2,883)
Prepaid leaseholders' fees	4,313	(35,081)
Operating cash provided by (used in) operating activities	(109,675)	33,586
FINANCING ACTIVITIES		
Increase in payable to Replacement Reserve	140,650	8,016
INVESTING ACTIVITIES		
Purchase of equipment	(268)	(15,580)
Proceeds on disposal of equipment	—	4,834
	(268)	(10,746)
INCREASE IN OPERATING CASH POSITION	30,707	30,856
OPERATING CASH POSITION (DEFICIENCY) AT BEGINNING OF YEAR	24,242	(6,614)
OPERATING CASH AT END OF YEAR	\$ 54,949	\$ 24,242

THE LEASEHOLDERS:

FAIRMONT VACATION VILLAS AT MOUNTAINSIDE

BALANCE SHEET

Statement of Revenue and Expenses

Notes to Financial Statements

THE LEASEHOLDERS:

FAIRMONT VACATION VILLAS AT MOUNTAINSIDE

BALANCE SHEET AS AT DECEMBER 31, 2011

2011

2010

unaudited

unaudited