

***Condominio Villas at Club Inrawest  
Zihuatanejo, A. C.***

Audited Financial Statements  
December 31, 2013

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

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**December 31, 2013 and 2012**

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## **Independent Auditor's Report**

Mexico City, April 25, 2014

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 balance sheet at December 31, 2013 and the related statements of activities 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**

The Association's Management 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.

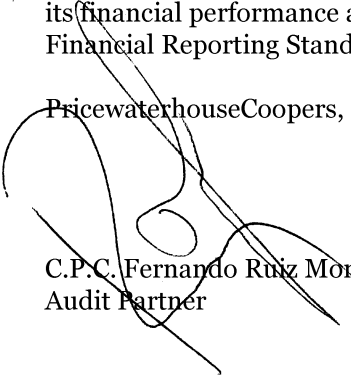
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or 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 financial statements referred to above present fairly, in all material respects, the financial position of Condominio Villas At Club Intrawest Zihuatanejo, A. C., at December 31, 2013, and its financial performance and its cash flows for the year then ended, in accordance with Mexican Financial Reporting Standards.

PricewaterhouseCoopers, S. C.



C.P.C. Fernando Ruiz Monroy  
Audit Partner

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

## Balance Sheets

December 31, 2013 and 2012

*Amounts expressed in Mexican pesos*

	2013		2012	
	Not restricted	Temporary restricted (Note 5)	Not restricted	Temporary restricted (Note 5)
	<u>Total</u>	<u>Total</u>	<u>Total</u>	<u>Total</u>
<b><u>ASSETS</u></b>				
CURRENT ASSETS:				
Cash and cash equivalents	\$ 231,152	\$ 858,458	\$ 1,101,742	\$ 918,559
Accounts receivable	303,483	-	195,498	-
Related parties	34,485	-	-	-
Prepaid expenses	14,638	-	115,136	-
	<u>583,758</u>	<u>858,458</u>	<u>1,412,376</u>	<u>918,559</u>
<b>Total assets</b>	<b>\$ 583,758</b>	<b>\$ 858,458</b>	<b>\$ 1,412,376</b>	<b>\$ 918,559</b>
<b><u>LIABILITIES AND NET ASSETS</u></b>				
CURRENT LIABILITIES:				
Accrued liabilities	\$ 314,475	\$ -	\$ 152,113	\$ -
Related parties (Note 4)	-	-	1,710,644	-
	<u>314,475</u>	<u>-</u>	<u>1,862,757</u>	<u>-</u>
<b>Total current liabilities</b>	<b>\$ 314,475</b>	<b>\$ -</b>	<b>\$ 1,862,757</b>	<b>\$ -</b>
Contingences (Note 6)	-	-	-	-
Net assets (Note 5)	269,283	858,458	(450,381)	918,559
	<u>583,758</u>	<u>858,458</u>	<u>1,412,376</u>	<u>918,559</u>
<b>Total liabilities and net assets</b>	<b>\$ 583,758</b>	<b>\$ 858,458</b>	<b>\$ 1,412,376</b>	<b>\$ 918,559</b>

The attached notes are an integral part of these financial statements, which were authorized for issuance on April 25, 2014, by Enrique Vazquez, Director of Finance-Mexico.

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

## Statements of Activities

December 31, 2013 and 2012

	Amounts expressed in Mexican pesos					
	2013		2012			
	Not restricted	Temporary restricted (Note 5)	Total	Not restricted	Temporary restricted (Note 5)	Total
<b>Changes in net assets</b>						
Fees paid by members (Note 5)	\$ 7,521,174	\$ 1,592,175	\$ 9,113,349	\$ 7,362,323	\$ 1,104,349	\$ 8,466,672
Miscellaneous Revenue	-	-	-	12,070	-	12,070
Interest gained	-	41,373	41,373	-	159,354	159,354
	7,521,174	1,633,548	9,154,722	7,374,393	1,263,703	8,638,096
Operating expenses: (Note 4)						
Utilities	1,465,228	-	1,465,228	1,253,157	-	1,253,157
Maintenance	1,403,667	-	1,403,667	1,742,614	-	1,742,614
Accounting	285,479	-	285,479	276,225	-	276,225
Front desk and concierge	207,307	-	207,307	226,317	-	226,317
Cleaning and security	446,685	-	446,685	439,994	-	439,994
Insurance	315,888	-	315,888	307,241	-	307,241
Maid costs	-	-	-	71,771	-	71,771
Property taxes	185,976	-	185,976	176,038	-	176,038
Management fees	897,920	156,971	1,054,891	955,966	399,173	1,355,139
Trust fees	144,304	-	144,304	184,110	-	184,110
Owner services	386,585	-	386,585	396,976	-	396,976
General and administration	940,361	-	940,361	1,124,296	-	1,124,296
Contingency and capital replacement funds	-	1,086,297	1,086,297	-	3,026,973	3,026,973
Others	669,094	-	669,094	668,831	-	668,831
	7,348,494	1,243,268	8,591,762	7,823,536	3,426,146	11,249,682
Total operating expenses						
Operating gain (loss)	172,680	390,280	562,960	(449,143)	(2,162,443)	(2,611,586)
Foreign exchange gain (loss) - Net	96,603	-	96,603	(1,238)	-	(1,238)
Increase (decrease) in net assets	269,283	390,280	659,563	(450,381)	(2,162,443)	(2,612,824)
Net assets at the beginning of the year	(450,381)	918,559	468,178	-	3,081,002	3,081,002
Transfer of funds	450,381	(450,381)	-	-	-	-
Net assets at the end of the year	\$ 269,283	\$ 858,458	\$ 1,127,741	(\$ 450,381)	\$ 918,559	\$ 468,178

The attached notes are an integral part of these financial statements, which were authorized for issuance on April 25, 2014, by Enrique Vazquez, Director of Finance-Mexico.

**Condominio Villas at Club Intrawest Zihuatanejo, A. C.**  
**Statements of Cash Flows**  
**December 31, 2013 and 2012**

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*Amounts expressed in Mexican pesos*

	Years ended <u>December 31,</u>	
	<u>2013</u>	<u>2012</u>
Cash flows from operating activities:		
Increase (decrease) in net assets	\$ 659,563	(\$2,612,824)
Accounts receivable	(107,986)	(117,896)
Related parties, net	(1,745,129)	656,363
Prepaid expenses	100,498	(31,718)
Accrued liabilities	<u>162,363</u>	<u>119,262</u>
Net cash used in operating activities	<u>(930,691)</u>	<u>(1,986,813)</u>
Net decrease in cash and cash equivalents	<u>(930,691)</u>	<u>(1,986,813)</u>
Cash and cash equivalents at beginning of year	<u>2,020,301</u>	<u>4,007,114</u>
Cash and cash equivalents at end of the year	<u>\$1,089,610</u>	<u>\$2,020,301</u>

The attached notes are an integral part of these financial statements, which were authorized for issuance on April 25, 2014, by Enrique Vazquez, Director of Finance-Mexico.

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

## **Notes to the Financial Statements**

### **December 31, 2013 and 2012**

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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 2013 and 2012 were obtained from affiliated companies. Furthermore, majority of expenses incurred during those years were paid to affiliated companies.

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

##### Mexican Financial Reporting Standards (MFRS)

The accompanying financial statements at December 31, 2013 and 2012, fairly meet the provisions of the Mexican Financial Reporting Standards (MFRS) to show a fair presentation of the Association’s financial position. The MFRS state that the International Financial Reporting Standards (IFRS), the International Accounting Standards (IAC), International Financial Reporting Interpretations (IFRIC) and the Interpretation Committee (SIC) are a suppletory part of the MFRS when the absence of MFRS requires it.

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.



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

## **Notes to the Financial Statements**

### **December 31, 2013 and 2012**

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As of January 1, 2013 and 2012, the Association adopted the following MFRS and their Interpretations, issued by Consejo Mexicano para la Información Financiera and Desarrollo de Información Financiera (CINIF) and which became effective as of the aforementioned date.

#### 2013

MFRS B-6 "Statement of the financial position". States in only one standard the structure of the financial position statement, as well as the related presentation and disclosure standards.

#### Improvements to MFRS

- MFRS C- 5 "Advanced payments", Bulletin C-9 "Liabilities, provisions, contingent assets and liabilities and commitments" and Bulletin C-12 "Financial instruments with characteristics of liabilities, equity or both". Obligations issuance costs should be presented as a reduction in the corresponding liability and should be applied to income based on the effective equity method. Previously, it was provided that such costs should be recognized as deferred charges and, therefore, an asset was recognized for the costs of issuance in different items of the statement of financial position.
- MFRS A-1 "Structure of financial reporting standards" and Bulletin C-9 "Liabilities, provisions, contingent assets and liabilities and commitments". It specifies the meaning of likely mentioned that is when there is certainty that the future event will occur based on information, evidence or data available.

#### 2012

#### Improvements to MFRS

- MFRS A-7 "Presentation and disclosure". It specifies that the key assumptions used at balance sheet date should be disclosed in the determination of the accounting estimations involving uncertainties with the risk of significant adjustments in the value of assets or liabilities within the next accounting period.
- MFRS C-1 "Cash and cash equivalents". It establishes that the short-term asset should include cash and cash equivalents, unless its usage is restricted to the following twelve months or after its normal business cycle at the date of the financial position statement.

#### Inflation effects in financial information

According with the provisions in the MFRS B-10 "Inflation effects", 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) in the most recent three year period. Therefore, as of January 1, 2008 it has been required to discontinue the recognition of the inflation effects in the financial information (disconnection from inflationary accounting). Consequently, the figures of the accompanying financial statements at December 31, 2013 and 2012 are stated in historical Mexican pesos (Ps Mex).

Inflation in 2013 is 3.97% (3.57% in 2012) and accumulated in the last three year is 12.25% (in 2012 was 12.25%).

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

## **Notes to the Financial Statements**

### **December 31, 2013 and 2012**

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#### Authorization of financial statements

The accompanying financial statements and their notes were authorized, for their issuance on April 25, 2014, 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.

##### 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 Company 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 balance sheet 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 expense or an asset, 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. 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.

##### d. Foreign exchange loss

Transactions in foreign currency are recorded at the exchange rate prevailing on the date transactions are entered into or settlement. Foreign currency assets and liabilities are translated at the exchange rate in force at the balance sheet date. Exchange differences arising from assets and liabilities denominated in foreign currencies are reported as not restricted operations for the year.

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

## Notes to the Financial Statements

December 31, 2013 and 2012

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### e. 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.

### f. Provisions

The liabilities provisions represent obligations for past events where the outflow of economic resources is possible. The provisions have been recorded based on management's best estimation.

### g. 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.

### **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, 2013 and 2012 are as follows:

	<u>2013</u>	<u>2012</u>
<u>Receivables</u>		
Extraordinary Escapes Corporation - Mexican Branch	<u>\$ 34,485</u>	<u>\$ -</u>
<u>Payables</u>		
Extraordinary Escapes Corporation - Mexican Branch	<u>\$ -</u>	<u>\$1,710,644</u>

**Condominio Villas at Club Intrawest Zihuatanejo, A. C.**  
**Notes to the Financial Statements**  
**December 31, 2013 and 2012**

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Transactions carried out with related parties during the years ended December 31, 2013 and 2012 were as follows:

	<u>2013</u>	<u>2012</u>
Maintenance fees received:		
Intrawest Resort Ownership US Corporation - Mexican Branch	\$ 230,193	\$ 1,011,569
Club Intrawest México, S. de R. L. de C. V.	<u>5,996,857</u>	<u>4,821,448</u>
	<u>\$6,227,049</u>	<u>\$ 5,833,017</u>
Services received:		
Extraordinary Escapes Corporation - Mexican Branch	<u>\$7,954,839</u>	<u>\$10,794,296</u>
	<u>\$7,954,839</u>	<u>\$10,794,296</u>

**Nota 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, 2013 are as follows:

<u>Net assets breakdown:</u>	<u>Opening balance</u>	<u>Addition-dues</u>	<u>Transfer of funds</u>	<u>Interest</u>	<u>Capital expenditure</u>	<u>Management fee on funds</u>	<u>Operating surplus</u>	<u>Ending Balance</u>
Capital replacement fund	\$ 528,639	\$ 329,314	\$ -	\$ -	(\$ 155,153)	(\$ 21,597)	\$ -	\$ 681,203
Contingency Replacement fund	389,920	798,861	-	41,373	(931,144)	(135,374)	-	163,636
Loss recovery		464,000	(450,381)	-	-	-	-	13,619
Operating (deficit) surplus	<u>(450,381)</u>	<u>-</u>	<u>450,381</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>269,283</u>	<u>269,283</u>
Totals	<u>\$ 468,178</u>	<u>\$ 1,592,175</u>	<u>\$ -</u>	<u>\$ 41,373</u>	<u>(\$ 1,086,297)</u>	<u>(\$ 156,971)</u>	<u>\$ 269,283</u>	<u>\$ 1,127,741</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.

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

## **Notes to the Financial Statements**

### **December 31, 2013 and 2012**

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#### **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 95. of Income tax Law.

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

During December 2013 and 2012, the Consejo Mexicano para la Investigación y Desarrollo de Normas de Información Financiera (CINIF) issued a series of Mexican Financial Reporting Standards (MFRS) and interpretations to those standards, which will become effective as of January 1, 2014, with exception of MFRS C-3 "Accounts Receivable" and MFRS C-20 "Receivable financial instruments" which will become effective as of January 1, 2016, which early application is allowed. Those MFRS and their interpretation are not considered to have a significant affectation in the financial information to be presented by the Company:

#### 2016

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.

#### Improvements to MFRS 2014

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 income statement of the period under other income and expenses.