Consolidated Financial Statements of

NON-PROFIT RETIREMENT RESIDENCES OF ELLIOT LAKE INC.

(OPERATING AS ELLIOT LAKE RETIREMENT LIVING)

Year ended December 31, 2018

KPMG

KPMG LLP
Claridge Executive Centre
144 Pine Street
Sudbury Ontario P3C 1X3
Canada
Tel (705) 675-8500
Fax (705) 675-7586

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Non-Profit Retirement Residences of Elliot Lake Inc.

Opinion

We have audited the consolidated financial statements of Non-Profit Retirement Residences of Elliot Lake Inc. (the Entity), which comprise:

- the consolidated of financial position as at December 31, 2018
- the consolidated statement of operations for the year then ended
- the consolidated statement of changes in net assets (deficiency) for the year then ended
- the consolidated statement of cash flows for the year then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements, present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2018, and its consolidated results of operations and its consolidated 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 ***"Auditors' Responsibilities for the Audit of the Financial Statements"*** section of our auditors' report.

We are independent of the Entity 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 for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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 Entity'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 Entity or to cease operations, or has no realistic alternative but to do so.

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

Auditors' 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 auditors' 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 the 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 Entity'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 Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' 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 auditors' report. However, future events or conditions may cause the Entity 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
- 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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Sudbury, Canada

May 22, 2019

NON-PROFIT RETIREMENT RESIDENCES OF ELLIOT LAKE INC.

(OPERATING AS ELLIOT LAKE RETIREMENT LIVING)
Consolidated Statement of Financial Position

December 31, 2018, with comparative information for 2017

	2018	2017
Assets		
Current assets:		
Cash	$ 4,621,955	$ 3,985,151
Trade receivables	152,371	268,062
Inventories	218,406	181,890
Prepaid expenses and deposits	257,253	228,037
	5,249,985	4,663,140
Capital assets: (note 3)		
Cost	68,105,058	66,333,662
Less accumulated amortization	39,946,533	36,729,128
	28,158,525	29,604,534
Intangible assets (note 4)	26,713	29,255
Golf course (note 5)	61,812	100,638
Other	5,267	-
Forgivable loans (note 2)	48,742	84,330
	142,534	214,223
	$ 33,551,044	$ 34,481,897

See accompanying notes to consolidated financial statements.

NON-PROFIT RETIREMENT RESIDENCES OF ELLIOT LAKE INC.

(OPERATING AS ELLIOT LAKE RETIREMENT LIVING)
Consolidated Statement of Financial Position (continued)

December 31, 2018, with comparative information for 2017

	2018	2017
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued liabilities (note 6)	$ 1,473,860	$ 1,339,907
Deposits payable	834,647	759,241
Current portion of long-term debt	-	10,153
Current portion of mortgage payable (note 7)	297,028	286,540
	2,605,535	2,395,841
Mortgage payable (note 7)	8,963,676	9,260,699
Other	-	2,100
Deferred capital contributions (note 9)	6,863,986	7,351,856
	18,433,197	19,010,496
Net assets:		
Investment in capital assets (note 8)	21,294,539	22,252,678
Unrestricted	(6,176,692)	(6,781,277)
	15,117,847	15,471,401
Contingency (note 11)		
	$ 33,551,044	$ 34,481,897

See accompanying notes to consolidated financial statements.

On behalf of the Board:

____

____

NON-PROFIT RETIREMENT RESIDENCES OF ELLIOT LAKE INC.

(OPERATING AS ELLIOT LAKE RETIREMENT LIVING)
Consolidated Statement of Operations

Year ended December 31, 2018, with comparative information for 2017

	2018	2017
Revenue:		
Rental income	$ 11,896,872	$ 11,122,142
Other income	102,110	58,387
Investment income	74,910	35,022
	12,073,892	11,215,551
Expenses:		
Taxes, utilities and insurance (note 10)	3,468,726	3,454,631
Salaries and benefits	2,686,452	2,621,749
Advertising	637,302	630,663
Repairs and maintenance	438,718	348,637
Preparation of units	422,655	485,785
Interest and bank charges	340,854	354,277
Service contracts	263,947	251,965
Office and general	246,501	256,161
Ground maintenance	210,924	208,405
Materials and supplies	185,421	167,624
Freight and duties	167,917	179,089
Professional fees	103,078	80,908
Rent	82,871	91,669
Vehicles	73,217	83,918
Tenant administration	64,330	41,974
Telephone	37,685	12,324
Trade shows	30,976	19,816
Superintendent services	30,412	25,529
Physician recruitment	19,074	29,611
Income taxes	12,682	16,729
Business taxes	4,100	558
	9,527,842	9,362,022
Earnings before the undernoted items	2,546,050	1,853,529
Other expenses (income):		
Amortization of capital assets and intangible assets	3,219,946	3,254,272
Golf course (note 5)	110,143	86,837
Foreign exchange	57,385	45,162
Gain on sale of capital assets	-	(1,595,211)
Amortization of deferred capital contributions	(487,870)	(487,870)
	2,899,604	1,303,190
Excess (deficiency) of revenue over expenses	$ (353,554)	$ 550,339

See accompanying notes to consolidated financial statements.

NON-PROFIT RETIREMENT RESIDENCES OF ELLIOT LAKE INC.

Consolidated Statement of Changes in Net Assets (Deficiency)

Year ended December 31, 2018, with comparative information for 2017

	Invested in capital assets	Unrestricted	2018 Total	2017 Total
Net assets (deficiency), beginning of year	$ 22,252,678	(6,781,277)	$ 15,471,401	$ 14,921,062
Excess (deficiency) of revenue over expenses	(2,729,534)	2,375,980	(353,554)	550,339
Net change in investment in capital assets (note 8 (a))	1,771,395	(1,771,395)	-	-
Net assets (deficiency), end of year	$ 21,294,539	(6,176,692)	$ 15,117,847	$ 15,471,401

See accompanying notes to consolidated financial statements.

NON-PROFIT RETIREMENT RESIDENCES OF ELLIOT LAKE INC.

(OPERATING AS ELLIOT LAKE RETIREMENT LIVING)
Consolidated Statement of Cash Flows

Year ended December 31, 2018, with comparative information for 2017

	2018	2017
Cash provided by (used in):		
Operations:		
Excess (deficiency) of revenue over expenses	$ (353,554)	$ 550,339
Items not involving cash:		
Amortization of capital assets and intangible assets	3,219,946	3,254,272
Amortization of deferred capital contributions	(487,870)	(487,870)
Future income taxes (recovery)	(7,367)	(6,400)
Gain on sale of capital assets	-	(1,595,211)
	2,371,155	1,715,130
Change in non-cash operating working capital:		
Decrease (increase) in trade receivables	115,691	(175,158)
Decrease (increase) in inventories	(36,516)	6
Decrease (increase) in prepaid expenses and deposits	(29,216)	22
Increase in accounts payable and accrued liabilities	133,953	221,655
Increase in deposits payable	75,406	65,607
Decrease in forgivable loans	35,588	62,517
	2,666,061	1,889,779
Financing:		
Repayment of mortgage payable	(286,535)	(276,421)
Repayment of long-term debt	(10,153)	(13,135)
	(296,688)	(289,556)
Investing:		
Purchase of capital assets	(1,771,395)	(1,848,018)
Proceeds on disposal of capital assets	-	1,697,276
Contributions to (from) golf course	38,826	(23,379)
	(1,732,569)	(174,121)
Increase in cash	636,804	1,426,102
Cash, beginning of year	3,985,151	2,559,049
Cash, end of year	$ 4,621,955	$ 3,985,151

See accompanying notes to consolidated financial statements.

Nature of operations:

Non-Profit Retirement Residences of Elliot Lake Inc. operating as Elliot Lake Retirement Living (the "Organization") is incorporated without share capital under the laws of Ontario. Its mandate is to provide and operate affordable housing units, primarily for senior citizens, in a manner that provides quality of life that support the economic base of the City of Elliot Lake.

1. Significant accounting policies:

(a) Basis of presentation:

These consolidated financial statements include the accounts of its wholly-owned subsidiary 1425164 Ontario Ltd. (operating as NorDev Group). The NorDev group follows the CPA Canada accounting standards for private enterprises. The year end is December 31.

(b) Inventories:

Inventories were valued at the lower of cost and net realizable value, determined on a first-in, first-out basis. The Organization uses the same cost formula for all inventories having a similar nature and use to the entity. When circumstances which previously caused inventories to be written down no longer exists the previous impairment is reversed.

(c) Capital assets:

Capital assets are stated at cost less accumulated amortization. Amortization is provided on a straight-line basis at the following annual rates:

Asset	Rate
Furniture and fixtures	7% - 20%
Vehicles	20%
Equipment	4% - 20%
Computer equipment	10% - 20%
Housing improvements	4% - 20%
Leasehold improvements	20%
Revenue-producing properties	4% - 20%
Hotel	3% - 10%

Assets under development are not amortized until they are put in use. Capital assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable and exceeds its fair value.

1. Significant accounting policies (continued):

(d) Intangible assets:

Intangible assets are measured initially at cost and are amortized over their useful life. Franchise rights acquired for the hotel operations are being amortized over 20 years which is the length of the franchise agreement.

(e) Impairment of long-lived assets:

Long-lived assets, including capital assets and intangible assets subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability is measured by a comparison of the asset's carrying amount to the estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of the asset exceeds its estimated future cash flows, an impairment charge is recognized for the amount by which the carrying amount of the asset exceeds the fair value of the asset. When quoted market prices are not available, the Organization uses the expected future cash flows discounted at a rate commensurate with the risks associated with the recovery of the asset as an estimate of fair value.

(f) Revenue recognition:

Revenue from rental properties includes rent from tenants under lease agreement, property taxes, operating costs, recoveries and incidental income. These amounts are recorded as the services are performed and collection is reasonably determinable.

The Organization follows the deferral method of accounting for contributions such as grants and government contributions. Grants and contributions are recorded as revenue in the period to which they relate. Grants for future periods are deferred and recogonized in the subsequent period when the related activity occurs.

Contributions for capital assets and the golf course are deferred and amortized into revenue on the same basis and rate as the related capital asset. The contributions for the golf course joint venture have been offset against the cost of the golf course assets.

Other revenues are recognized as the services are provided and collection is reasonably determinable.

1. Significant accounting policies (continued):

(g) Use of estimates:

The preparation of the consolidated financial statements in accordance with Canadian generally accepted accounting principals for not-for-profit organizations requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Significant items subject to such estimates and assumptions include the carrying amount of capital assets and inventory. Actual results could differ from those estimates.

(h) Financial instruments:

Financial instruments are recorded at fair value on initial recognition. Freestanding derivative instruments that are not in a qualifying hedging relationship and equity instruments that are quoted in an active market are subsequently measured at fair value. All other financial instruments are subsequently recorded at cost or amortized cost, unless management has elected to carry the instruments at fair value. The Organization has not elected to carry any such financial instruments at fair value.

Transaction costs incurred on the acquisition of financial instruments measured subsequently at fair value are expensed as incurred. All other financial instruments are adjusted by transaction costs incurred on acquisition and financing costs, which are amortized using the straight-line method.

Financial assets are assessed for impairment on an annual basis at the end of the fiscal year if there are indicators of impairment. If there is an indicator of impairment, the Organization determines if there is a significant adverse change in the expected amount or timing of future cash flows from the financial asset. If there is a significant adverse change in the expected cash flows, the carrying value of the financial asset is reduced to the highest of the present value of the expected cash flows, the amount that could be realized from selling the financial asset or the amount the Organization expects to realize by exercising its right to any collateral. If events and circumstances reverse in a future period, an impairment loss will be reversed to the extent of the improvement, not exceeding the initial carrying value.

2. Forgivable loans:

The Organization, as part of its commitment to help develop the City of Elliot Lake, has agreed to provide forgivable loans to a number of physicians in an effort to attract them to open practices in the community. The Organization has offered these loans, conditional on the physicians opening their practices and remaining in the community for a period of time specified in their individual agreements. Should the physicians violate the terms of the agreements, the loans would be repayable to the Organization. The commitment with the City of Elliot Lake to provide forgivable loans expired on December 31, 2011 and a new commitment agreement will not be entered into.

3. Capital assets:

			2018
	Cost	Accumulated amortization	Net book value
Elliot Lake Retirement Living:			
Revenue-producing properties	$ 14,346,924	$ 9,373,097	$ 4,973,827
Housing improvements	33,774,785	21,582,781	12,192,004
Furniture and fixtures	1,962,075	1,761,441	200,634
Equipment	2,406,874	1,185,661	1,221,213
Vehicles	607,750	583,758	23,992
Leasehold improvements	297,602	297,602	-
Computer equipment	668,430	649,710	18,720
Hotel	12,633,757	3,701,167	8,932,590
Assets under developement:			
Condominium development	508,868	-	508,868
NorDev Group:			
Leasehold improvements	80,555	19,893	60,662
Equipment	204,520	192,473	12,047
Furniture and fixtures	590,713	576,745	13,968
Vehicles	22,205	22,205	-
	$ 68,105,058	$ 39,946,533	$ 28,158,525

3. Capital assets (continued):

		Cost		Accumulated amortization		2017 Net book value
Elliot Lake Retirement Living:						
Revenue-producing properties	$	14,346,924	$	8,932,039	$	5,414,885
Housing improvements		32,751,785		19,514,427		13,237,358
Furniture and fixtures		1,910,887		1,688,596		222,291
Equipment		1,828,946		1,046,065		782,881
Vehicles		607,750		571,763		35,987
Leasehold improvements - internal		297,602		297,602		-
Computer equipment		666,937		634,092		32,845
Hotel		12,633,757		3,310,241		9,323,516
Assets under development:						
Condominium development		407,168		-		407,168
NorDev Group:						
Leasehold improvements		74,593		15,318		59,275
Equipment		203,430		178,724		24,706
Furniture and fixtures		581,678		518,056		63,622
Vehicles		22,205		22,205		-
	$	66,333,662	$	36,729,128	$	29,604,534

The condominium project is under development and amortization will commence upon completion of project.

4. Intangible assets:

		2018		2017
Franchise rights	$	50,830	$	50,830
Accumulated amortization		(24,117)		(21,575)
	$	26,713	$	29,255

5. Stone Ridge Golf Course:

In 2003, an agreement was entered into between the City of Elliot Lake (the "City") and the Organization to create the Stone Ridge Golf Course. Capital asset purchases for the course have been funded by the City, the Organization, Human Resources and Skills Development Canada ("HRSDC") and private contributions. The course opened in the summer of 2005.

In 2016, the agreement was amended to attribute the profit or loss from the operation of the golf course and to fund capital purchases to the Organization and the City evenly at 50% each. This agreement reflects a contribution agreement with the City as discussions related to operating, financing and investing activities are made by the Organization.

The following amounts represent the financial results of the Golf Course for the year ended December 31, 2018.

	2018	2017
Inventories and prepaid expenses	$ 49,774	$ 50,655
Capital assets	12,038	49,983
	$ 61,812	$ 100,638

	2018	2017
Revenues	$ 815,773	$ 710,334
Expenses	(925,916)	(797,171)
Deficiency of revenue over expenses	$ (110,143)	$ (86,837)

6. Accounts payable and accrued liabilities:

Included in accounts payable and accrued liabilities are government remittances payable of $41,344 (2017 - $41,145), which includes amounts payable for HST and payroll related taxes.

7. Mortgage payable:

The Organization's bank borrowing facilities provide an unsecured line of credit in the amount of $250,000 with an interest rate of prime plus 0.5%. As of December 31, 2018, there are no amounts drawn on this facility.

	2018	2017
Mortgage payable #1	$ 4,583,630	$ 4,731,096
Mortgage payable #2	4,677,074	4,816,143
	9,260,704	9,547,239
Less current portion	(297,028)	(286,540)
	$ 8,963,676	$ 9,260,699

Mortgage payable #1 bears interest at 3.36% and is secured by a first charge on the Organization's assets and cash flows related to specific properties, an unlimited corporate guarantee from its subsidiary, 1425164 Ontario Ltd. (operating as NorDev Group), a general security agreement presenting a first charge on assets and cash flow specific to the hotel and office properties constructed on Highway 108 North, Elliot Lake, continuing market collateral mortgage in the amount of $5,214,719 on specific properties, general assignment of rents and leases on all above properties and assignment of fire insurance. The term of the mortgage payable is for five years ending January 2020 and is being amortized over 25 years.

Mortgage payable #2 bears interest at 3.91% and is secured by a first charge on the Organization's assets and cash flows related to specific properties, a limited corporate guarantee from its subsidiary, 1425164 Ontario Ltd. (operating as NorDev Group) in the amount of $6.2 million, a general security agreement presenting a first charge on appliances and other person property owned by NorDev Group at 279 Hwy 108, Elliot Lake, general assignment of rents and leases on specific properties and assignment of fire insurance. The term of the mortgage payable is ten years ending March 2025 and is being amortized over 25 years.

The mortgage is subject to certain financial and non-financial restrictive covenants. At December 31, 2018, the Organization is in compliance with these covenants.

8. Investment in capital assets:

(a) Investment in capital assets is calculated as follows:

	2018	2017
Capital assets	$ 28,158,525	$ 29,604,534
Amounts financed by:		
Deferred contributions	(6,863,986)	(7,351,856)
	$ 21,294,539	$ 22,252,678
Excess of revenue over expenses:		
Amortization of deferred contributions related to capital assets	$ 487,870	$ 487,870
Amortization of capital assets	(3,217,404)	(3,251,729)
	$ (2,729,534)	$ (2,763,859)
Net change in investment in capital assets:		
Purchases of capital assets	$ 1,771,395	$ 1,848,018
Disposition of capital assets	-	(102,065)
	$ 1,771,395	$ 1,745,953

(b) Details of amortization and purchase of capital assets are as follows:

	2018	2017
Purchase of capital assets:		
Elliot Lake Retirement Living	$ 1,755,308	$ 1,837,972
NorDev	16,087	10,046
	$ 1,771,395	$ 1,848,018
Amortization of capital assets:		
Elliot Lake Retirement Living	3,140,392	3,175,463
NorDev	77,012	76,266
	$ 3,217,404	$ 3,251,729

9. Deferred capital contributions:

Deferred capital contributions represent the unamortized amount of donations and grants received for the purchase of capital assets.

	2018	2017
Balance, beginning of year	$ 7,351,856	$ 7,839,726
Less amounts amortized to income	(487,870)	(487,870)
Balance, end of year	$ 6,863,986	$ 7,351,856

10. Taxes, utilities and insurance:

Elliot Lake Retirement Living

	2018	2017
Property taxes and insurance	$ 1,844,290	$ 1,778,389
Gas	209,734	238,931
Water	905,716	853,229
Hydro	305,523	376,260
	$ 3,265,263	$ 3,246,809

NorDev Group

	2018	2017
Property taxes and insurance	$ 103,853	$ 109,221
Heating	68,100	65,505
Water	25,029	27,270
Hydro	6,481	5,826
	$ 203,463	$ 207,822
	$ 3,468,726	$ 3,454,631

11. Contingency:

In 2014, the Organization was named in several legal actions related to the collapse of the Algo Centre Mall. Management is unable to determine at this time what liability, if any, exists related to these actions, and consequently, no provision has been recorded in the books of the Organization.

12. Comparative information:

The financial statements have been reclassified, where applicable, to conform to the presentation used in the current year. The changes do not affect prior year earnings.

13. Financial risks and concentration of risk:

(a) Market risk:

The Organization's revenue is derived from the rental of properties in the City of Elliot Lake and guest room and meeting room rentals. The introduction of new rental properties or an additional hotel in the community could have an impact on future gross margins.

(b) Credit risk:

Credit risk refers to the risk that a counterparty may default on its contractual obligations resulting in a financial loss. The Organization deals with creditworthy counterparties to mitigate the risk of financial loss from defaults. The Organization monitors the credit risk of customers through credit rating reviews.

(c) Liquidity risk:

Liquidity risk is the risk that the Organization will be unable to fulfill its obligations on a timely basis or at a reasonable cost. The Organization manages its liquidity risk by monitoring its operating requirements. The Organization prepares budget and cash forecasts to ensure it has sufficient funds to fulfill its obligations. There has been no change to the risk exposures from 2017.