

Combined Financial Statements of

**TRUE NORTH HOSTELLING ASSOCIATION
O/A HOSTELLING INTERNATIONAL - CANADA
- PACIFIC MOUNTAIN REGION**

Year ended March 31, 2009



KPMG LLP
Chartered Accountants
PO Box 10426 777 Dunsmuir Street
Vancouver BC V7Y 1K3
Canada

Telephone (604) 691-3000
Fax (604) 691-3031
Internet www.kpmg.ca

AUDITORS' REPORT

To the Members of the True North Hostelling Association

We have audited the combined statement of financial position of the True North Hostelling Association, the Canadian Hostelling Association - British Columbia Region, 1025 Granville Street Trust, the Canadian Hostelling Association - Southern Alberta Region, the Canadian Hostelling Association – Northern Alberta Region, and The Travel Shop Ltd. (collectively referred to as the “Association”) as at March 31, 2009 and the combined statements of operations, changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Association's management. 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 plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these combined financial statements present fairly, in all material respects, the financial position of the Association as at March 31, 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the Canada Corporations Act, we report that, in our opinion, these principles have been applied, after giving retroactive effect to the change accounting for depreciation as explained in note 2 to the financial statements, on a basis consistent with that of the preceding year.

Chartered Accountants

Vancouver, Canada

May 8, 2009

TRUE NORTH HOSTELLING ASSOCIATION O/A HOSTELLING INTERNATIONAL - CANADA - PACIFIC MOUNTAIN REGION

Combined Statement of Financial Position

March 31, 2009, with comparative figures for 2008


	2009	2008 (restated - note 2)
Assets		
Current assets:		
Cash and cash equivalents	\$ 2,518,581	\$ 1,925,458
Restricted cash (note 10(d))	50,000	50,000
Short-term investments (note 4)	1,869,896	1,589,571
Accounts receivable	113,081	335,802
Inventory	165,179	144,509
Prepaid expenses	196,188	212,988
	<u>4,912,925</u>	<u>4,258,328</u>
Capital assets (note 5)	16,488,105	16,135,599
	<u>\$ 21,401,030</u>	<u>\$ 20,393,927</u>

Liabilities and Net Assets

Current liabilities:		
Accounts payable and accrued liabilities	\$ 1,341,686	\$ 1,309,364
Unearned revenue and deposits	352,583	152,833
Loans payable (note 6)	2,454,085	2,714,753
	<u>4,148,354</u>	<u>4,176,950</u>
Deferred contributions (note 7)	77,054	96,025
Deferred capital contributions (note 8)	1,010,118	1,073,373
Net assets:		
Invested in capital assets (note 9(a))	13,023,902	12,347,472
Unrestricted	3,141,602	2,700,107
	<u>16,165,504</u>	<u>15,047,579</u>
Commitments and contingencies (note 10)		
	<u>\$ 21,401,030</u>	<u>\$ 20,393,927</u>

See accompanying notes to combined financial statements.

Approved on behalf of the Board:



Director



Director

TRUE NORTH HOSTELLING ASSOCIATION O/A HOSTELLING INTERNATIONAL - CANADA - PACIFIC MOUNTAIN REGION

Combined Statement of Operations

Year ended March 31, 2009, with comparative figures for 2008

	2009	2008 (restated - note 2)
Revenue:		
Overnights	\$ 9,726,933	\$ 9,536,449
Memberships	521,376	510,998
Other, including food, beverage and merchandise	3,086,836	2,961,203
	13,335,145	13,008,650
Expenses:		
Hostels	9,534,212	8,747,304
Administration and membership	1,672,936	1,773,643
Amortization of capital assets	819,431	725,800
	12,026,579	11,246,747
Excess of revenue over expenses from operations	1,308,566	1,761,903
Other expenses:		
Interest	46,187	121,587
Reorganization costs	144,454	-
	190,641	121,587
Excess of revenue over expenses	\$ 1,117,925	\$ 1,640,316

See accompanying notes to combined financial statements.

TRUE NORTH HOSTELLING ASSOCIATION O/A HOSTELLING INTERNATIONAL - CANADA - PACIFIC MOUNTAIN REGION

Combined Statement of Changes in Net Assets

Year ended March 31, 2009, with comparative figures for 2008

	Invested in capital assets (note 9)	Unrestricted	Total 2009	Total 2008 (restated - note 2)
Balance, beginning of year:				
As previously reported	\$ 10,623,087	\$ 2,108,986	\$ 12,732,073	\$ 11,246,491
Merger with Hostelling International - Northern Alberta District (note 2)	475,951	591,120	1,067,071	1,000,556
Impact of change in accounting policy (note 2)	1,248,435	-	1,248,435	1,160,216
As restated	12,347,473	2,700,106	15,047,579	13,407,263
Excess (deficiency) of revenue over expenses	(756,176)	1,874,101	1,117,925	1,640,316
Net change in invested in capital assets	1,432,605	(1,432,605)	-	-
Balance, end of year	\$ 13,023,902	\$ 3,141,602	\$ 16,165,504	\$ 15,047,579

See accompanying notes to combined financial statements.

TRUE NORTH HOSTELLING ASSOCIATION O/A HOSTELLING INTERNATIONAL - CANADA - PACIFIC MOUNTAIN REGION

Combined Statement of Cash Flows

Year ended March 31, 2009, with comparative figures for 2008

	2009	2008 (restated - note 2)
Cash provided by (used in):		
Operations:		
Excess of revenue over expenses	\$ 1,117,925	\$ 1,640,316
Items not involving cash:		
Amortization of capital assets	819,431	725,800
Amortization of deferred contributions	(18,971)	(161,114)
Amortization of deferred capital contributions	(63,255)	(69,094)
	1,855,130	2,135,908
Changes in non-cash operating working capital:		
Accounts receivable	222,721	27,674
Inventory	(20,670)	8,512
Prepaid expenses	16,800	(7,088)
Accounts payable and accrued liabilities	32,322	86,876
Unearned revenue and deposits	199,750	84,563
	2,306,053	2,336,445
Financing:		
Repayment of loans payable	(260,668)	(531,443)
Investments:		
Cash acquired from merger (note 1)	-	(61,099)
Purchase of short-term investments	(280,325)	-
Expenditures on capital assets	(1,171,937)	(519,332)
	(1,452,262)	(580,431)
Increase in cash and cash equivalents	593,123	1,224,571
Cash and cash equivalents, beginning of year	1,925,458	700,887
Cash and cash equivalents, end of year	\$ 2,518,581	\$ 1,925,458
Supplementary information:		
Interest paid, net of interest received	\$ 46,137	\$ 121,587
Non-cash transactions:		
Increase in accounts receivable and deferred contributions	-	195,726

See accompanying notes to combined financial statements.

TRUE NORTH HOSTELLING ASSOCIATION O/A HOSTELLING INTERNATIONAL - CANADA - PACIFIC MOUNTAIN REGION

Notes to Combined Financial Statements

Year ended March 31, 2009

1. Operations:

The True North Hostelling Association, o/a Hostelling International – Canada – Pacific Mountain Region (the Association) is a group of not-for-profit organizations whose mission is to “help all, especially the young, gain greater understanding of people, places and cultures through hostelling”. The Association qualifies as not-for-profit organization under the Income Tax Act and accordingly is exempt from income taxes. The Association’s investments in 1025 Granville Street Trust and The Travel Shop Ltd. are not tax exempt entities. However, these entities have not generated taxable income.

2. Merger with Hostelling International – Northern Alberta District and change in accounting policy:

On March 12, 2008, the members of Canadian Hostelling Association – Northern Alberta District (“HI-NA”) voted in favour of merging with the True North Hostelling Association (“True North”). The withdrawal of recognition of HI-NA as a region and change in regional boundaries for True North Hostelling Association to incorporate the old HI-NA region was approved by Hostelling International-Canada on March 19, 2008 to be effective April 10, 2008. True North entered into an agreement with HI-NA to begin managing the properties effective April 1, 2008. This was accounted for by aggregating the financial statement elements of HI-NA with those of the Association. The comparative accounts for 2008 have been adjusted to include the account of HI-NA.

As part of the merger with the HI-NA, the Association performed a review of their amortization policies. It was determined that the amortization method should be changed from straight-line to declining balance to better reflect the use of future benefits related to these assets. This change in accounting policy was applied retrospectively with prior year restatements.

TRUE NORTH HOSTELLING ASSOCIATION O/A HOSTELLING INTERNATIONAL - CANADA - PACIFIC MOUNTAIN REGION

Notes to Combined Financial Statements (continued)

Year ended March 31, 2009

2. Merger with Hostelling International – Northern Alberta District and change in accounting policy (continued):

The effects of the merger and the change in accounting policy on the 2008 comparative accounts are as follows:

	As previously reported	Impact of HI-NA merger	Impact of accounting policy change	As restated
Statement of financial position:				
Current assets	\$ 3,300,074	\$ 958,254	\$ -	\$ 4,258,328
Capital assets	14,090,693	764,070	1,280,836	16,135,599
Current liabilities	3,830,443	346,507	-	4,176,950
Deferred contributions	-	96,025	-	96,025
Deferred capital contributions	828,251	212,721	32,401	1,073,373
Net assets	12,732,073	1,067,071	1,248,435	15,047,579
Statement of operations:				
Revenue	11,254,749	1,766,806	(12,905)	13,008,650
Expenses	9,654,580	1,693,291	(101,124)	11,246,747
Interest expense	114,587	7,000	-	121,587
Excess of revenue over expenses	1,485,582	66,515	88,219	1,640,316
Statement of cash flows:				
Operations	2,216,008	120,437	-	2,336,445
Financing	(488,871)	(42,572)	-	(531,443)
Investments	(480,592)	(99,839)	-	(580,431)

TRUE NORTH HOSTELLING ASSOCIATION O/A HOSTELLING INTERNATIONAL - CANADA - PACIFIC MOUNTAIN REGION

Notes to Combined Financial Statements (continued)

Year ended March 31, 2009

3. Significant accounting policies:

(a) Basis of presentation:

The combined financial statements of the Society are the representation of management prepared in accordance with Canadian generally accepted accounting principles as prescribed by the Canadian Institute of Chartered Accountants for not-for-profit entities. The combined financial statements include the combined accounts of the True North Hostelling Association, the Canadian Hostelling Association - British Columbia Region, 1025 Granville Street Trust, the Canadian Hostelling Association - Southern Alberta Region, the Canadian Hostelling Association – Northern Alberta District, and The Travel Shop Ltd. These combined statements have been prepared in accordance with Canadian generally accepted accounting principles for not-for-profit organizations. Transactions between these entities have been eliminated upon combination.

The Association accounts for its investment in a 69.57% owned joint venture, which operates as the Canadian Alpine Center and International Hostel at Lake Louise (CAC), by the proportionate consolidation method whereby the Association's proportionate share of the assets, liabilities and the related revenue and expenses of the CAC joint venture are included in the combined financial statements (note 12).

(b) Cash and cash equivalents:

The Association considers deposits in banks, certificates of deposit and short-term investments with original maturity of three months or less as cash and cash equivalents.

(c) Short-term investments:

Short-term investments consist of government and corporate bonds, and mutual funds acquired in the merger with the Canadian Hostelling Association – Northern Alberta Region and guaranteed investment certificates and term deposits with original terms to maturity of greater than three months and less than one year when purchased and have been classified as held for trading.

(d) Inventory:

Inventory is stated at the lower of cost, on a first-in, first-out basis, and net realizable value.

TRUE NORTH HOSTELLING ASSOCIATION O/A HOSTELLING INTERNATIONAL - CANADA - PACIFIC MOUNTAIN REGION

Notes to Combined Financial Statements (continued)

Year ended March 31, 2009

3. Significant accounting policies (continued):

(e) Capital assets:

Capital assets are stated at cost less accumulated amortization. Amortization is provided using the declining balance method at the following rates:

Asset	Rate
Buildings and building lease improvements	5%
Automobile	30%
Computer equipment and software	30% - 50%
Furniture and equipment	20%

(f) Revenue recognition:

The Association follows the deferral method of accounting for contributions. Unrestricted contributions are recorded as revenue when received or receivable if the amounts can be estimated and collection is reasonably assured. Government grants not restricted as to their use are recognized as revenue when receivable. Other unrestricted revenue, including revenue from hostel operations, is reported as revenue at the time the services are provided or the products are delivered. Revenue from the sale of non-cancelable, non-refundable annual memberships is recognized when the memberships are sold.

Externally restricted contributions are reported as revenue when the restrictions imposed by the contributors on the use of the monies are satisfied as follows:

- (i) Non-capital contributions for specific purposes are recognized as revenue in the year in which the related expense is incurred.
- (ii) Contributions of or for the purchase of capital assets having a limited life are recognized as revenue on the same basis as the amortization expense related to the capital asset purchased is recorded. Where the capital asset involved is land to be held for use by the Association, the contribution is reported as a direct increase in net assets invested in capital assets rather than as revenue.

Investment income is recognized as revenue when it is earned. Volunteers contribute a significant amount of time each year to assist the Association in carrying out its programs and services. Because of the difficulty of determining their fair value, contributed services are not recognized in these financial statements.

TRUE NORTH HOSTELLING ASSOCIATION O/A HOSTELLING INTERNATIONAL - CANADA - PACIFIC MOUNTAIN REGION

Notes to Combined Financial Statements (continued)

Year ended March 31, 2009

3. Significant accounting policies (continued):

(g) Financial instruments:

The Association designated its cash and cash equivalents and short-term investments as held for trading and therefore measured at fair value. Accounts receivables are classified as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities and loans payable are classified as other financial liabilities and are measured at amortized cost.

(h) Adoption of new accounting standards:

Effective April 1, 2008, the Association adopted the following new accounting standards:

(i) Going concern:

The Canadian Institute of Chartered Accountants ("CICA") section 1400, *General Standards of Financial Statement Presentation*, requires management to assess and disclose an entity's ability to continue as a going concern. The Association is not aware of any material uncertainties related to events or conditions that may cast significant doubt upon the Association's ability to continue as a going concern.

(ii) Capital disclosures:

Effective April 1, 2008, the Association adopted the CICA Section 1535, *Capital Disclosures*. The Association defines capital to be net assets which include amounts held in the unrestricted and the invested in capital assets funds. The Association receives its principal source of capital through overnight and membership revenues, grants and investment income earned on cash and cash equivalents and short-term investments. In carrying out its purpose, the Association uses its capital funds to fund the annual capital upgrades to current facilities, fund future expansion projects and to meet its "End Statements". The Association is not subject to any other external capital requirements or restrictions.

(i) Future accounting pronouncements:

(i) Financial instruments:

During the Association's 2009 fiscal year, the CICA announced that not-for-profit organizations could elect to continue to apply Handbook Section 3861, *Financial Instruments – Disclosure and Presentation*, in place of Handbook Sections 3862, *Financial Instruments – Disclosure*, and 3863, *Financial Instruments – Presentation*. Sections 3862 and 3863 place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how an entity manages those risks. The Association has elected to continue to apply the financial instrument disclosure and presentation standards in accordance with Section 3861.

TRUE NORTH HOSTELLING ASSOCIATION O/A HOSTELLING INTERNATIONAL - CANADA - PACIFIC MOUNTAIN REGION

Notes to Combined Financial Statements (continued)

Year ended March 31, 2009

3. Significant accounting policies (continued):

(i) Future accounting pronouncements (continued):

(ii) Revisions to Not-for-Profit accounting standards:

In September 2008, the CICA issued amendments to Handbook Sections 4400, *Financial Statement Presentation by Not-for-Profit Organizations*, and 4470, *Disclosure of Allocated Expenses by Not-for-Profit Organizations*. The amendments are effective for the Association's fiscal year commencing April 1, 2009 and remove the requirement to disclose net assets invested in capital assets, clarify capital asset recognition criteria and amortization, expand interim financial statement requirements to not-for-profit organizations that prepare interim financial statements, require disclosure of allocated fundraising and general support expenses by not-for-profit organizations, and include the requirement to follow Handbook Section 1540, *Cash Flow Statements*. The Association does not believe it will have a material impact on its financial statements.

(iii) Changes in accounting framework:

The CICA has decided to transition Canadian GAAP for publicly accountable entities to International Financial Reporting Standards (IFRS) effective January 1, 2011. The Association is currently classified as a not-for-profit organization. The Accounting Standards Board (AcSB) and Public Sector Accounting Board (PSAB) have jointly issued an Invitation to Comment to invite feedback on the future of financial reporting by not-for-profit organizations. The Association is in the process of reviewing the impact of these documents on its reporting framework and financial statements.

(iv) Goodwill and intangible assets:

In February 2008, the CICA issued Handbook Section 3064, *Goodwill and Intangible Assets*, which replaced existing Handbook Section 3062, *Goodwill and Other Intangible Assets*, and Handbook Section 3450, *Research and Development*. The new standard provides guidance on the recognition, measurement, presentation and disclosure of goodwill and intangible assets. This standard is effective for the Association's fiscal year commencing April 1, 2009. The Association does not believe it will have a material impact on its financial statements.

TRUE NORTH HOSTELLING ASSOCIATION O/A HOSTELLING INTERNATIONAL - CANADA - PACIFIC MOUNTAIN REGION

Notes to Combined Financial Statements (continued)

Year ended March 31, 2009

3. Significant accounting policies (continued):

(j) Use of estimates:

The preparation of financial statements 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 period. Actual results could differ from those estimates.

4. Short-term investments:

	2009	2008
Corporate bonds and fixed income	\$ 535,202	\$ 532,823
Mutual funds	179,280	56,748
Guaranteed investment certificates and term deposits	1,155,414	1,000,000
	\$ 1,869,896	\$ 1,589,571

5. Capital assets:

			2009	2008
	Cost	Accumulated amortization	Net book value	Net book value (restated - note 2)
Land	\$ 4,462,863	\$ -	\$ 4,462,863	\$ 4,382,863
Buildings and building lease improvements	19,161,950	8,156,145	11,005,805	10,637,119
Automobiles	184,418	106,030	78,388	11,942
Computer equipment and software	733,066	539,003	194,063	105,788
Furniture and equipment	3,161,035	2,414,049	746,986	917,887
	\$ 27,703,332	\$ 11,215,227	\$ 16,488,105	\$ 16,055,599

TRUE NORTH HOSTELLING ASSOCIATION O/A HOSTELLING INTERNATIONAL - CANADA - PACIFIC MOUNTAIN REGION

Notes to Combined Financial Statements (continued)

Year ended March 31, 2009

6. Loans payable:

	2009	2008 (restated - note 2)
Demand term loan (a)	\$ 298,281	\$ 392,170
Loan payable (b)	2,155,804	-
Loan payable, refinanced	-	2,247,185
HI-NA loan payable, repaid	-	75,398
	\$ 2,454,085	\$ 2,714,753

- (a) The demand term loan bears interest at prime plus 0.75% per annum, matures July 31, 2014 with blended biweekly payments of \$2,991. The Association also has an unused line of credit, its share being a maximum of \$139,130, bearing interest at prime plus 1% per annum. This demand term loan and line of credit are secured by the Lake Louise Hostel assets, and a debenture covering a fixed charge on the leases for land.
- (b) The loan payable bears interest at 4.38% per annum, matures October 19, 2009 with blended monthly instalments of \$16,697. The Association also has an unused line of credit, its share being a maximum of \$350,000, bearing interest at prime plus 0.75% per annum. This loan payable and line of credit are secured by the following:
- (i) General security agreement covering a first ranking security interest in all personal property of the Association;
 - (ii) Guarantee and postponement of claims in the amount of \$2,675,000 each provided by the Canadian Hostelling Association - British Columbia Region, Northern Alberta District and Southern Alberta Region, supported by a general security agreement covering all present and after-acquired personal property and a floating charge on land;
 - (iii) Certificate of insurance on the 1025 Granville St. Hostel showing the bank as a first mortgage; and
 - (iv) Collateral mortgage in the amount of \$2,675,000 constituting a first fixed charge on the lands and improvements on the 1025 Granville St. Hostel.

TRUE NORTH HOSTELLING ASSOCIATION O/A HOSTELLING INTERNATIONAL - CANADA - PACIFIC MOUNTAIN REGION

Notes to Combined Financial Statements (continued)

Year ended March 31, 2009

6. Loans payable (continued):

Notwithstanding certain of the loans are repayable on demand and/or maturing in the next twelve months, the Association is currently scheduled under the above debt agreements to make periodic payments over a period beyond one year. Principal repayments required on loans payable over each of the next five fiscal years, assuming renewal at similar terms and conditions, are estimated as follows:

2009	\$	158,826
2010		166,482
2011		174,553
2012		183,066
2013		192,046
Thereafter		1,579,112
	\$	2,454,085

7. Deferred contributions:

	2009	2008 (restated - note 2)
Balance, beginning of year	\$ 96,025	\$ 95,001
Contributions received or receivable	-	195,726
Contributions invested in property and equipment	-	(32,588)
Contributions utilized for operating expenses	(18,971)	(161,114)
Balance, end of year	\$ 77,054	\$ 96,025

8. Deferred capital contributions:

	2009	2008 (restated - note 2)
Balance, beginning of year	\$ 1,073,373	\$ 1,109,879
Deferred contributions realized	-	32,588
Amortization during the year	(63,255)	(69,094)
Balance, end of year	\$ 1,010,118	\$ 1,073,373

TRUE NORTH HOSTELLING ASSOCIATION O/A HOSTELLING INTERNATIONAL - CANADA - PACIFIC MOUNTAIN REGION

Notes to Combined Financial Statements (continued)

Year ended March 31, 2009

9. Invested in capital assets:

(a) Net assets invested in capital assets are calculated as follows:

	2009	2008
		(restated - note 2)
Capital assets, net book value	\$ 16,488,105	\$ 16,135,599
Amounts financed by:		
Loans payable	(2,454,085)	(2,714,753)
Deferred capital contributions	(1,010,118)	(1,073,373)
	<u>\$ 13,023,902</u>	<u>\$ 12,347,473</u>

(b) Net change in invested in capital assets

	2009	2008
		(restated - note 2)
Purchase of capital assets	\$ 1,171,937	\$ 519,332
Repayment of loans payable	260,668	531,443
	<u>\$ 1,432,605</u>	<u>\$ 1,050,775</u>

(c) Deficiency of revenue over expenses:

	2009	2008
		(restated - note 2)
Amortization of capital assets	\$ (819,431)	\$ (725,800)
Amortization of deferred capital contributions	63,255	69,094
	<u>\$ (756,176)</u>	<u>\$ (656,706)</u>

TRUE NORTH HOSTELLING ASSOCIATION O/A HOSTELLING INTERNATIONAL - CANADA - PACIFIC MOUNTAIN REGION

Notes to Combined Financial Statements (continued)

Year ended March 31, 2009

10. Commitments and contingencies:

(a) Operating leases:

The Association leases certain premises under operating leases that will expire in fiscal 2012. Minimum annual rental payments under these premises leases for the next three years are approximately as follows:

2010	\$	85,744
2011		85,744
2012		69,506

(b) Purchase and sale of Whistler Hostel:

The Association entered into a purchase and sale agreement with Whistler 2020 Development Corp ("Whistler 2020"), a corporation formed by the Resort Municipality of Whistler ("RMOW"), dated December 13, 2007, and amended March 25, 2008, for the future purchase of a property, consisting of land and building, in Whistler, BC to be used as the Association's new 180 bed Whistler hostel (herein referred to as the "new hostel"). The anticipated completion of the purchase is expected to take place in the spring of 2010. The purchase price for the land and building has been agreed to be \$8,900,000.

Concurrently, the Association entered into a sales agreement with the RMOW for the sale and lease-back of the Association's existing Whistler hostel (herein referred to as the "existing hostel") which completed November 18, 2008. The Association received proceeds of \$2,700,000 for the existing hostel which was applied directly as a deposit for the new hostel. In addition, the Association will be allowed the full use of the existing hostel, at an annual rental cost of \$1, from the date of completion to the date of move to the new hostel. Under the terms of the agreement, if the purchase of the new hostel does not complete, the Association will be able to reacquire the existing hotel at no charge and the Resort Municipality of Whistler will be responsible for recovering the proceeds from Whistler 2020.

The Association will not record the disposal of the existing hostel until the date of completion for the new hostel and will continue to record amortization expense until the conditions for recognition of the sale has been met.

TRUE NORTH HOSTELLING ASSOCIATION O/A HOSTELLING INTERNATIONAL - CANADA - PACIFIC MOUNTAIN REGION

Notes to Combined Financial Statements (continued)

Year ended March 31, 2009

10. Commitments and contingencies (continued):

(c) National levy:

The Association pays a levy to the Canadian Hostelling Association based on membership sales and overnights recorded for the last complete fiscal year. The levy paid in 2009 totaled \$451,835 (2008 - \$380,349) and is recorded in Hostels' expenses.

(d) Letter of credit:

A letter of credit of \$75,000 has been issued by the Association's bank for the Association's corporate visa cards. The security for the letter of credit has been provided by \$50,000 restricted cash on deposit with the bank.

(e) Jasper Hostel:

The Association may be required to restore the site of a hostel in Jasper National Park under certain conditions. The extent of the restoration and the related cost is not reasonably determinable at this time and the Association has not accrued the potential cost in these financial statements.

(f) Litigation:

From time to time, in connection with its operations, the Association is named as defendants in actions for damages and costs allegedly sustained by the plaintiffs. While it is not possible to estimate the outcome of the various proceeding at this time, such actions have generally been resolved with minimal damages or expenses in excess of amounts covered by insurance. Settlements of claims, in excess of those provided, will be accounted for as current period transactions.

11. Financial instruments:

(a) Credit risk:

Due to the nature of the hostel business, the Association does not face any significant concentrations of credit risk. The Association mitigates its exposure to credit risk by only dealing with reputable third parties.

(b) Interest risk:

The Association is exposed to interest rate risk as the demand loan bears interest at variable rates and fluctuates with movements in the prime lending rate.

(c) Fair value:

The carrying value of the demand term loan payable approximates its fair value due to the relatively short periods to maturity of this item. The carrying values of the revolving line of credit and the loan payable approximate their fair values as the loans bear interest at floating.

TRUE NORTH HOSTELLING ASSOCIATION O/A HOSTELLING INTERNATIONAL - CANADA - PACIFIC MOUNTAIN REGION

Notes to Combined Financial Statements (continued)

Year ended March 31, 2009

12. Investment in joint ventures:

The combined financial statements include the Association's proportionate share of the revenue, expenses, assets and liabilities of the CAC joint venture as follows.

	2009	2008 (Restated - note 2)
Assets:		
Current assets	\$ 156,593	\$ 231,956
Capital assets	2,383,215	2,872,012
	\$ 2,539,808	\$ 3,103,968
Liabilities and Net Assets:		
Accounts payable and other current liabilities, excluding current portion of loans payable	\$ 110,044	\$ 92,561
Loan payable	298,281	392,170
Deferred contributions	490,743	509,766
Net assets	1,640,740	2,109,470
	\$ 2,539,808	\$ 3,103,967
Revenue	\$ 1,442,093	\$ 1,495,342
Excess of revenue over expenses	\$ 130,978	\$ 265,348
Cash flow from operations	\$ 260,875	\$ 260,530
Cash flow from financing	(204,657)	(172,994)
Cash flow from investments	(122,147)	(50,174)

13. Comparative figures:

Certain 2008 comparative figures have been reclassified to conform with the financial statement presentation adopted for the current year.