

Financial Statements of

HOTELS & RESORTS LIMITED

March 31, 2016



HOTELS & RESORTS LIMITED

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HOTELS & RESORTS LIMITED

CORPORATE INFORMATION

Directors

David Bowen	- Chairman
Ian Knight	- Deputy Chairman
John Cole	- Director
David Moore	- Director
Permanent Secretary Finance	
Betty Alleyne-Headley	- Director (from September 1, 2013)
Nominee of the President of the Barbados Tourism Investment Inc.	
Angella Mitchell-Gittens	- Director
Charmaine St John	- Director
Robin Simmons	- Director

Secretary

Inez Hinkson

Registered Office

Gems of Barbados Corporate Office
Rockley
Christ Church
Barbados

Principal Office

Gems of Barbados Corporate Office
Rockley
Christ Church
Barbados

Bankers

RBC Royal Bank of Canada Barbados Limited
Lower Broad Street
Bridgetown
Barbados

Auditors

KPMG
Hastings
Christ Church
Barbados

Attorneys-at-Law

Clarke Gittens Farmer
Parker House
Willey Business Park
St. Michael
Barbados

Keith Mayers
"Emmanuel House"
Pinfold Street
Bridgetown

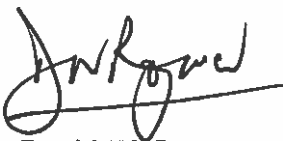
HOTELS & RESORTS LIMITED
Chairman's Annual Report
for the fiscal year ended March 31, 2016

The Tourism Industry in Barbados achieved a significant turn-around in fortunes during the year 2015, with improved tourist arrivals from all major source markets; and the year 2016 is projected to be another year of growth.

During the year under review Blue Horizon, the operational Gems of Barbados hotel, also achieved favourable results with improvements recorded for occupancy and average daily rates, the latter of which can be attributed to the upgraded rooms and property enhancement programme, which was suspended in the early part of the year. The profitability position continued for the second successive year, with the net income and comprehensive income of \$306,965 recorded for the fiscal year ended March 31, 2016.

The original vision of operating the Gems of Barbados hotel rooms with some 500 rooms was officially abandoned by the majority shareholder in 2005. Since then the Company has been pursuing the most favourable exit from the accommodation business, and the divestment of the the Gems of Barbados hotels. Three properties have since been were sold and The Savannah and Time Out are on lease.

Since 2008 the protracted economic recession made it extremely difficult to attract viable investors for the divestment process and made it an uphill battle to achieve profitability. However, after evaluating various options, the Board toward the end of the year recommended a joint venture arrangement for the complete re-development and transformation of Blue Horizon site. The proposed joint venture is along the lines of the Private Sector/HRL joint venture which successfully developed the Sapphire Inc. project on the site of the former Dover Convention Centre.



David W. Bowen
Chairman

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Hotels & Resorts Limited

We have audited the accompanying financial statements of Hotels & Resorts Limited (the "Company"), which comprise the statement of financial position as at March 31, 2016, statements of changes in equity, comprehensive income, 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 International 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.

Auditors' 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 our 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, we consider 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.

INDEPENDENT AUDITORS' REPORT (continued)

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 2016 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to note 3(b) to the financial statements which indicates that, the Company's current liabilities exceeded its current assets by \$917,010 and its total liabilities exceeded its total assets by \$10,879,911. These conditions, along with other matters as set forth in note 3(b), indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.



Chartered Accountants
Bridgetown, Barbados
November 17, 2016

HOTELS & RESORTS LIMITED

Statement of Financial Position

As at March 31, 2016
with figures at March 31, 2015

(Expressed in Barbados Dollars)

	Notes	2016	2015
Assets			
Current Assets			
Cash		\$ 2,877,703	2,429,937
Trade receivables	6	515,000	840,693
Other receivables		295,050	278,547
Prepaid expenses		<u>-</u>	<u>51,427</u>
Total current assets		<u>3,687,753</u>	<u>3,600,604</u>
Non-current Assets			
Property, plant and equipment	7	68,321,012	69,331,441
Investment	8	156,000	156,000
Interest in Joint Venture	9	<u>1,693,761</u>	<u>4,496,454</u>
Total non-current assets		<u>70,170,773</u>	<u>73,983,895</u>
Total Assets		<u>\$ 73,858,526</u>	<u>77,584,499</u>
Liabilities and Shareholders' Deficiency			
Current Liabilities			
Accounts payable and accrued liabilities		\$ 3,900,926	4,051,351
VAT payable		64,421	55,092
Current portion on long term loans	10	<u>639,416</u>	<u>520,640</u>
Total current liabilities		<u>4,604,763</u>	<u>4,627,083</u>
Non-current Liabilities			
Advance from Joint Venture	11	1,667,470	4,058,670
Long term loans	10	73,625	1,693,043
Due to principal shareholder	11	<u>78,392,579</u>	<u>78,392,579</u>
Total non-current liabilities		<u>80,133,674</u>	<u>84,144,292</u>
Shareholders' Deficiency			
Share capital	12	27,291,154	27,291,154
Contributed surplus	13	179,148,310	179,148,310
Deficit		<u>(217,319,375)</u>	<u>(217,626,340)</u>
Total shareholders' deficiency		<u>(10,879,911)</u>	<u>(11,186,876)</u>
Contingencies	14		
Total Liabilities and Shareholders' Deficiency		<u>\$ 73,858,526</u>	<u>77,584,499</u>

See accompanying notes to financial statements.

Approved on behalf of the Board:

..... Director

..... Director

HOTELS & RESORTS LIMITED

Statement of Changes in Equity

For the year ended March 31, 2016
with figures for the fifteen month period ended March 31, 2015

(Expressed in Barbados Dollars)

	<u>Share Capital</u>	<u>Contributed Surplus</u>	<u>Deficit</u>	<u>Total</u>
Balance at December 31, 2013	\$ 27,291,154	172,148,310	(218,170,504)	(18,731,040)
Loan write off	-	7,000,000	-	7,000,000
Net income for the period	<u>-</u>	<u>-</u>	<u>544,164</u>	<u>544,164</u>
Balance at March 31, 2015	27,291,154	179,148,310	(217,626,340)	(11,186,876)
Profit for the year	<u>-</u>	<u>-</u>	<u>306,965</u>	<u>306,965</u>
Balance at March 31, 2016	\$ <u>27,291,154</u>	<u>179,148,310</u>	<u>(217,319,375)</u>	<u>(10,879,911)</u>

See accompanying notes to financial statements.

HOTELS & RESORTS LIMITED

Statement of Comprehensive Income

For the year ended March 31, 2016
with figures for the fifteen month period ended March 31, 2015

(Expressed in Barbados Dollars)

	Note	2016	2015
Revenue			
Rooms	\$	3,571,961	3,850,460
Other revenue		<u>1,887,404</u>	<u>2,488,152</u>
		<u>5,459,365</u>	<u>6,338,612</u>
Direct Costs			
Room costs		1,130,403	1,253,800
Other costs		<u>74,015</u>	<u>122,264</u>
		<u>1,204,418</u>	<u>1,376,064</u>
Gross operating income		4,254,947	4,962,548
Undistributed Expenses			
Administration		937,316	1,182,967
Sales and marketing		29,333	31,964
Energy		346,399	558,309
Insurance		422,994	521,145
Operations and maintenance		<u>590,129</u>	<u>1,097,504</u>
		<u>2,326,171</u>	<u>3,391,889</u>
Gross operating income		1,928,776	1,570,659
Directors' fees and expenses		<u>59,465</u>	<u>64,907</u>
Net operating income		1,869,311	1,505,752
Depreciation		(1,398,009)	(1,364,047)
Share of (loss) profit of Joint Venture	9	(58,693)	707,605
Interest expense		(124,648)	(330,208)
Interest income		<u>19,004</u>	<u>25,062</u>
Net income and comprehensive income for the year		<u>\$ 306,965</u>	<u>544,164</u>

See accompanying notes to financial statements.

HOTELS & RESORTS LIMITED

Statement of Cash Flows

For the year ended March 31, 2016
with figures for the fifteen month period ended March 31, 2015

(Expressed in Barbados Dollars)

	<u>2016</u>	<u>2015</u>
Cash Flows from Operating Activities:		
Net income for the year	\$ 306,965	544,164
Adjustments for:		
Interest expense	124,648	330,208
Interest income	(19,004)	(25,062)
Depreciation	<u>1,398,009</u>	<u>1,364,047</u>
Operating income before working capital changes	1,810,618	2,213,357
Increase in trade receivables	325,693	159,544
Increase in VAT payable	9,329	42,931
Increase in other receivables	(16,503)	(19,864)
Decrease (increase) in prepaid expenses	51,427	(2,564)
Decrease in accounts payable and accrued liabilities	<u>(150,425)</u>	<u>(474,684)</u>
Net cash from operating activities	<u>2,030,139</u>	<u>1,918,720</u>
Cash Flows from Investing Activities:		
Proceeds from Joint Venture loan	-	1,060,000
Advance from Joint Venture	(2,391,200)	4,058,670
Acquisition of property, plant and equipment	(387,580)	(802,004)
Interest in Joint Venture	<u>2,802,693</u>	<u>(707,605)</u>
Net cash from investing activities	<u>23,913</u>	<u>3,609,061</u>
Cash Flows from Financing Activities:		
Repayment of interest bearing loans	(1,500,642)	(2,914,014)
Interest paid	(124,648)	(330,208)
Interest received	<u>19,004</u>	<u>131,062</u>
Net cash used in financing activities	<u>(1,606,286)</u>	<u>(3,113,160)</u>
Increase in cash	447,766	2,414,621
Cash - beginning of year	<u>2,429,937</u>	<u>15,316</u>
Cash - end of year	\$ <u>2,877,703</u>	<u>2,429,937</u>

Supplemental note non-cash transactions:

See accompanying notes to financial statements.

HOTELS & RESORTS LIMITED

Notes to Financial Statements

March 31, 2016

(Expressed in Barbados Dollars)

1. Incorporation and Principal Activity

Hotels & Resorts Limited (the "Company") was incorporated under the Laws of Barbados on December 27, 1995. The principal activity of the Company was the investment and development of hotel properties.

Through the creation of the hotel brand, Gems of Barbados (Gems), the Company integrated the marketing and management for the hotels on its portfolio.

In 2005, a decision was made to divest and the hotels were put on the market for sale. Given no favourable offers the Company entered into operating leases for two of its hotels – The Savannah Hotel and Time Out at the Gap. This leaves Blue Horizon hotel as the only Gems operated hotel.

2. Basis of Preparation

(a) *Statement of compliance*

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) adopted by the International Accounting Standards Board (IASB).

The financial statements were authorized for issuance by the Directors on November 17, 2016.

(b) *Basis of measurement*

These financial statements have been prepared on the historical cost basis.

(c) *Functional and presentation currency*

These financial statements are presented in Barbados dollars, which is the Company's functional currency. All financial information presented in Barbados dollars has been rounded to the nearest dollar.

(d) *Use of estimates and judgments*

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenues and expenses during the period. Actual results could differ from these estimates.

Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

HOTELS & RESORTS LIMITED

Notes to Financial Statements

March 31, 2016

(Expressed in Barbados Dollars)

3. Summary of Significant Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

(a) *Financial Instruments*

(i) *Non-derivative financial assets*

The Company initially recognizes loans and receivables on the date when they are originated. The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in such transferred financial assets that is created or retained by the Company is recognized as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The Company classifies its non-derivative financial assets as loans and receivables and available for sale financial assets. The classification depends on the purpose for which the financial asset was acquired. Management determines the classification of its financial assets at initial recognition.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any direct attributable transactions costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses. They are included in current assets, except for maturities greater than 12 months after the reporting date. These are classified as non-current assets.

The Company's financial assets comprise cash and cash equivalents, trade receivables, other receivables, interest receivable and loan receivable.

Cash and cash equivalents

Cash and cash equivalents include cash at bank and in hand.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and that are not classified in any other category. Investments which are classified as available-for-sale are stated at market value unless it is not practicable to reliably determine this value, in which case, they are carried at cost, adjusted for any permanent diminution in value.

HOTELS & RESORTS LIMITED

Notes to Financial Statements

March 31, 2016

(Expressed in Barbados Dollars)

3. Summary of Significant Accounting Policies; continued

(a) *Financial Instruments, continued*

(ii) *Non-derivative financial liabilities*

Financial liabilities are recognized on the date at which the Company becomes a party to the contractual provisions of the instrument.

The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled or expire.

The Company classifies non-derivative financial liabilities into other financial liabilities category. Such financial liabilities are recognized initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method.

Other financial liabilities comprise loans and borrowings, bank overdraft and accounts payable and accrued liabilities.

Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

(iii) *Share capital*

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(b) *Going Concern Assumption*

The Company recorded a profit for the year ended March 31, 2016 of \$ 0.3 million (2015: \$0.5 million).

The company had accumulated a deficit at March 31, 2016 of approximately \$217.3 million (2015: \$217.6 million) at the year-end date. Also at that date, current liabilities exceeded current assets by \$0.92 million (2015: \$1.0 million). This raises substantial doubt that the Company will be able to continue as a going concern without the continued financial support of its shareholders. The principal shareholder continues to demonstrate its commitment to the financial support of the Company.

The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or adjustments to amounts and classification of liabilities that may be necessary if the Company is unable to continue as a going concern.

HOTELS & RESORTS LIMITED

Notes to Financial Statements

March 31, 2016

(Expressed in Barbados Dollars)

3. Summary of Significant Accounting Policies; continued

(c) *Property, Plant and Equipment*

Property, plant and equipment are stated at cost less accumulated depreciation and impairment. Depreciation is provided on equipment on the straight-line basis at rates designed to write off the cost of the assets over the period of their estimated useful lives. Hotel buildings are depreciated to their salvage values, estimated at 40% of costs after 50 years.

The annual rates currently being used are as follows:

Computer equipment	33 1/3%
Motor vehicles	20%
Furniture, fittings and equipment	10%
Hotel buildings	2%

Depreciation methods, useful lives and residual values are reassessed at the reporting date.

Leasehold improvements are written off over the period of the lease.

Operating equipment which includes linen, uniforms, cutlery, crockery and other utensils, is accounted for using the base-stock method. Under this method, a base level of operating equipment is carried at most recent cost. The cost of replacement of operating equipment is charged against income in the year in which it is incurred.

Borrowing costs, including interest and bank charges related to the construction and renovation of hotel properties, are capitalized as a component of the construction cost up to the time of completion of the construction.

(d) *Foreign Currency Translation*

Foreign currency transactions completed during the year are recorded at actual rates of exchange prevailing at the date of such transactions. Monetary assets and monetary liabilities denominated in foreign currency at the reporting date are translated using the rates of exchange prevailing at that date. The resultant exchange differences are included in the statement of comprehensive loss.

(e) *Taxation*

Deferred tax is provided for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets or liabilities, using the tax rates enacted or substantially enacted.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the unused tax losses and credits can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

HOTELS & RESORTS LIMITED

Notes to Financial Statements

March 31, 2016

(Expressed in Barbados Dollars)

3. Summary of Significant Accounting Policies; continued

(f) *Interest-bearing Borrowings*

Interest-bearing borrowings are recognized initially at cost, net of any transaction costs incurred. Subsequent to initial recognition, interest-bearing borrowings are stated at amortized cost with any difference between cost and redemption value being recognized in the statement of comprehensive loss over the period of the borrowings.

(g) *Revenue Recognition*

Revenue is recognized at the point of delivery of service to customers.

(h) *Impairment*

The carrying amounts of the Company's assets, other than inventory (refer to accounting policy note (d)), are reviewed at each statement of financial position date to determine whether there is an indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognized whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognized in the statement of comprehensive loss.

(i) *Interest in Joint Venture*

The investment in the Joint Venture is accounted for using the equity method. The financial statements at March 31, 2016 include the Company's share of the total recognised gains and losses of the Joint Venture.

(j) *Standards, Interpretations and Amendments to Existing Standards Effective for the Current Year*

During the year, certain new standards, interpretations and amendments to the existing standards became effective. Management has assessed that these new standards, interpretations and amendments to the existing standards where relevant did not have any significant impact on the preparation of these financial statements.

HOTELS & RESORTS LIMITED

Notes to Financial Statements

March 31, 2016

(Expressed in Barbados Dollars)

3. Summary of Significant Accounting Policies; continued

(k) New Standards and Interpretations not yet adopted

The following amendments to standards and interpretations are not yet effective for the period ended March 31, 2016, and have not yet been applied in preparing these financial statements:

- IAS 1 (Amendments) - Disclosure Initiative (effective January 1, 2016)
- IAS16 & IAS 38 (Amendments) - Clarification of Acceptable Methods of Depreciation and Amortisation (effective January 1, 2016)
- IAS 16 & IAS 41 (Amendments) - Agriculture: Bearer Plants (effective January 1, 2016)
- IAS 27 (Amendments) – Equity Method in Separate Financial Statements (effective January 1, 2016)
- IAS 7 (Amendments) – Disclosure Initiative (effective January 1, 2017)
- IAS 12- (Amendments) – Recognition of Deferred Tax Assets for Unrealised Losses (effective January 1, 2017)
- IFRS 10 & IAS 28 (Amendments) - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (effective January 1, 2016)
- IFRS10, IFRS 12 & IAS 28 (Amendments) – Investment Entities: Applying the Consolidation Exception (effective January 1, 2016)
- IFRS 11 (Amendments) – Accounting for Acquisitions of Interests in Joint Operations (effective January 1, 2016)
- IFRS 14 - Regulatory Deferral Accounts (effective January 1, 2016)
- Annual Improvements to IFRS 2012-2014Cycle - various standards (effective January 1, 2016)
- IFRS 9 - Financial Instruments (effective January 1, 2018)
- IFRS 15 – Revenue from Contracts with Customers (effective January 1, 2018)
- IFRS 16, Leases (effective January 1, 2019)

The Company does not believe the adoption of those standards, will have a material financial impact on the financial statements in the period of initial adoption.

HOTELS & RESORTS LIMITED

Notes to Financial Statements

March 31, 2016

(Expressed in Barbados Dollars)

4. Determination of Fair Values

A number of the Company's accounting policies and disclosures require the determination of fair value, for its financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(i) *Loan receivables*

The fair value of loan receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

(ii) *Non-derivative financial liabilities*

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

5. Financial Risk Management

Overview

The Company has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Further quantitative disclosures are included throughout these financial statements.

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework.

The Company's risk management policies are established to identify and analyse the risks faced by the Company, set appropriate risk limits and controls, and monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

Credit risk

Credit risk is the risk of financial loss to the Company if a member or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from customers.

HOTELS & RESORTS LIMITED

Notes to Financial Statements

March 31, 2016

(Expressed in Barbados Dollars)

5. Financial Risk Management; continued

Credit risk; continued

Trade and other receivables

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The Company's revenue is attributable to customers' credit sales and the demographics of the customers' geographical location, including default risk of the industry and the country in which customers operate, has less of an influence on credit risk.

Management has instituted standard repayment periods for credit sales and monitors each receivable balance on a weekly basis with regard to credit sales granted and payments received.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it has sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. In addition, the Company may rely on the continued financial support of the Principal Shareholder - the Government of Barbados in meeting its liquidity requirements.

The daily liquidity position is monitored, and in order to manage its liquidity risks, management seeks to maintain levels of cash deposits which are sufficient to meet reasonable expectations of its short term obligations and conduct continuous negotiations with its suppliers.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

(i) *Currency risk*

The Company is exposed to currency risk on sales and purchases that are denominated in a currency other than the functional currency of the Company mainly the US Dollar (USD) and Pound Sterling (GBP).

The Company's currency risk is significantly reduced as sales are conducted in US dollars which is pegged to the Barbados dollar. In addition, there are few purchase transactions in Pound Sterling.

(ii) *Interest rate risk*

The Company is exposed to various risks associated with the effects of fluctuations in the levels of interest rates on certain financial assets and liabilities. The interest rates and terms of repayments of long-term debt are disclosed in notes 10 and 11 to the financial statements.

(iii) *Capital management*

The Company's principal shareholder is the Government of Barbados which guarantees the repayment of long-term and short-term debt instruments. The Company is economically dependent on the Government of Barbados for its continued operations.

There were no changes to the Company's approach to capital management during the year.

HOTELS & RESORTS LIMITED

Notes to Financial Statements

March 31, 2016

(Expressed in Barbados Dollars)

6. Trade Receivables

The receivables are shown net of a provision for doubtful debts of \$105,775 (2015: \$122,341).

7. Property, Plant and Equipment

	<u>Buildings</u>	<u>Land</u>	<u>Furniture Fittings & Equipment</u>	<u>Operating Equipment</u>	<u>Total</u>
Cost					
At January 1, 2014	\$ 80,965,146	6,174,889	15,393,350	1,089,012	103,622,397
Additions	486,948	-	315,056	-	802,004
Disposals	-	-	-	-	-
At March 31, 2015	<u>81,452,094</u>	<u>6,174,889</u>	<u>15,708,406</u>	<u>1,089,012</u>	<u>104,424,401</u>
At April 1, 2015	81,452,094	6,174,889	15,708,406	1,089,012	104,424,401
Additions	169,257	-	218,323	-	387,580
Disposals	-	-	-	-	-
At March 31, 2016	<u>81,621,351</u>	<u>6,174,889</u>	<u>15,926,729</u>	<u>1,089,012</u>	<u>104,811,981</u>
Depreciation and Impairment					
At January 1, 2014	21,341,915	-	12,386,998	-	33,728,913
Charge for the period	1,217,315	-	146,732	-	1,364,047
Disposals	-	-	-	-	-
At March 31, 2015	<u>22,559,230</u>	<u>-</u>	<u>12,533,730</u>	<u>-</u>	<u>35,092,960</u>
At April 1, 2015	22,559,230	-	12,533,730	-	35,092,960
Charge for the year	1,224,043	-	173,966	-	1,398,009
Disposals	-	-	-	-	-
At March 31, 2016	<u>23,783,273</u>	<u>-</u>	<u>12,707,696</u>	<u>-</u>	<u>36,490,969</u>
Net Book Value					
At January 1, 2014	\$ <u>59,623,231</u>	<u>6,174,889</u>	<u>3,006,352</u>	<u>1,089,012</u>	<u>69,893,484</u>
At March 31, 2015	\$ <u>58,892,864</u>	<u>6,174,889</u>	<u>3,174,676</u>	<u>1,089,012</u>	<u>69,331,441</u>
At April 1, 2015	\$ <u>58,892,864</u>	<u>6,174,889</u>	<u>3,174,676</u>	<u>1,089,012</u>	<u>69,331,441</u>
At March 31, 2016	\$ <u>57,838,078</u>	<u>6,174,889</u>	<u>3,219,033</u>	<u>1,089,012</u>	<u>68,321,012</u>

HOTELS & RESORTS LIMITED

Notes to Financial Statements

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(Expressed in Barbados Dollars)

8. Investment

	<u>2016</u>	<u>2015</u>
Southern Golf & Country Club Ltd. 156,000 Class B shares @ \$1.00 each	\$ <u>156,000</u>	<u>156,000</u>

These shares are carried at cost, as they are not traded on a recognized stock market and it was not considered practicable to otherwise reliably determine their market value.

9. Interest in Joint Venture

	<u>2016</u>	<u>2015</u>
Balance – beginning of year/period	\$ 4,496,454	3,788,849
Capital Reduction	(1,764,000)	-
Dividend Income	(980,000)	-
Share of net (loss) income	<u>(58,693)</u>	<u>707,605</u>
Balance – end of year/period	\$ <u>1,693,761</u>	<u>4,496,454</u>

On July 30, 2004, Hotels & Resorts Limited and Growth Development Inc. formed a company Sapphire Inc. for the purpose of owning, developing and selling the property known as the Dover Convention Centre as condominiums. Hotels & Resorts Limited has 49% interest in the Company and Growth Development Inc. has 51%.

The Dover lands were vested in Sapphire Inc. at a value of \$4 million; \$2.94 million represented Hotels & Resorts Limited's equity in the joint venture and \$1.06 million represented a loan receivable from the joint venture which bore interest at 2.5%.

The investment in the Joint Venture is accounted for using the equity method. At March 31, 2016, the Company's share of the retained earnings \$1,497,458 was reflected in the financial statements (2015: \$1,556,453).

The summarized financial information of Sapphire Inc. – 100 per cent is as follows:

	<u>2016</u>	<u>2015</u>
Assets	\$ 3,473,829	9,395,686
Liabilities	<u>17,173</u>	<u>219,249</u>
Net assets	\$ <u>3,456,656</u>	<u>9,176,437</u>
Company's share of joint venture's net assets	\$ <u>1,693,761</u>	<u>4,496,454</u>
Revenue	\$ <u>1,117,504</u>	<u>12,726,600</u>
Net (loss) income	\$ <u>(119,781)</u>	<u>1,444,093</u>
Share of joint venture's net (loss) income	\$ <u>(58,693)</u>	<u>707,605</u>

HOTELS & RESORTS LIMITED

Notes to Financial Statements

March 31, 2016

(Expressed in Barbados Dollars)

10. Interest Bearing Loans

	<u>2016</u>	<u>2015</u>
Demand Loan	\$ 713,041	2,213,683
Less current portion	<u>(639,416)</u>	<u>(520,640)</u>
	<u>\$ 73,625</u>	<u>1,693,043</u>

This represents loans held with RBC Royal Bank (Barbados Limited). The demand loan is repayable by blended monthly payments of principal and interest in the amount of \$56,042 over a 36 month period.

Interest is charged at the RBC prime rate less 0.25%, currently 7.75%. The loan is secured by a Letter of Comfort from the Government of Barbados for \$5.55 million.

11. Related Party Transactions and Balances

	<u>2016</u>	<u>2015</u>
Loan - Government of Barbados Principal Shareholder	\$ 78,392,579	78,392,579
Less current portion	<u>-</u>	<u>-</u>
	<u>\$ 78,392,579</u>	<u>78,392,579</u>

Due to Principal Shareholder

This amount represents advances made by the principal shareholder on behalf of the Company to settle long-term debt obligations.

This loan is repayable over twenty years in semi-annual instalments on June 30th and December 31st. The amount bore interest at a rate of 7.25% per annum and accrued until the first payment.

In 2010, the Principal Shareholder agreed to a \$116,000,000 write off of the loans, to maintain a net amount after write-off of \$85,392,579. In addition annual write offs of approximately \$10,000,000 are to be made annually, until the loan is fully written off or repaid.

The principal shareholder wrote off all accrued interest as at March 31, 2012, and no further interest was charged from that date.

During the year ended March 31, 2016, \$Nil (2015: \$7,000,000) was written off from the loan.

HOTELS & RESORTS LIMITED

Notes to Financial Statements

March 31, 2016

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11. Related Party Transactions and Balances; continued

Related party transactions

Related party transactions comprise the following:

	<u>2016</u>	<u>2015</u>
Revenue from government agencies	\$ <u>728,196</u>	<u>597,941</u>
<i>Remuneration of Key Management Personnel</i>		
Executive management salaries	\$ <u>165,105</u>	<u>203,175</u>

Advance from Joint Venture

	<u>2016</u>	<u>2015</u>
Advance from Joint Venture	\$ <u>1,667,470</u>	<u>4,058,670</u>

This amount represents advances sums received from the Joint Venture. The amount is unsecured and interest free with no fixed date for repayment.

In December 2015, Sapphire Inc., made a capital reduction of \$3.6 million and declared a dividend of \$2 million. The advance from the Joint Venture was reduced by the company's 49% share in the Joint Venture, that is, \$1.76 million and \$0.98 million respectively.

12. Share Capital

Authorized:

The Company is authorized to issue an unlimited number of common shares of no par value.

Issued:

	<u>2016</u>	<u>2015</u>
Number of common shares	\$ <u>27,291,154</u>	<u>27,291,154</u>
Stated value	\$ <u>27,291,154</u>	<u>27,291,154</u>

13. Contributed Surplus

	<u>2016</u>	<u>2015</u>
Balance January 1	\$ 179,148,310	172,148,310
Loan/accrued interest write off	<u>-</u>	<u>7,000,000</u>
Balance March 31	\$ <u>179,148,310</u>	<u>179,148,310</u>

In March 2016, \$Nil (2015: \$7,000,000) was written off against the loan and accrued interest due to the principal shareholder; this amount has been reflected as contributed surplus in the year.

HOTELS & RESORTS LIMITED

Notes to Financial Statements

March 31, 2016

(Expressed in Barbados Dollars)

14. Contingencies

The Company's former hotel manager, Commonwealth Hospitality Ltd. (CHL) has made a claim for an aggregate sum of US\$13,583,521 which is the subject of arbitration proceedings. The sum claimed includes US\$11,415,104 for liquidated damages for wrongful termination of the Management Agreement between the Company and CHL. The Company is contending that it was entitled to terminate the Management Agreement and is therefore not liable to pay CHL the amount claimed or any other amount by way of liquidated damages. The sum claimed also includes US\$595,377 as Management Incentive Fees and US\$171,920 as Termination Fee. The Company is contending it is not liable to pay CHL any amount in respect of either Management Incentive Fees or Termination Fee. It is not possible to predict the outcome of these proceedings. An accrual equivalent to US\$1,091,450 has been made against the remainder of the CHL claim as was determined at December 31, 2001. Negotiations between the parties are continuing in the expectation that a mutually agreeable settlement can be reached.

Various other claims have been made against the Company. Provisions have been made only against those claims which have been quantified and for which the outcome could be reasonably determined.

15. Staff Costs

Staff costs included within expenditure classified by function are as follows:

	<u>2016</u>	<u>2015</u>
<i>Direct costs</i>		
Room	\$ 596,340	699,835
<i>Undistributed expenses</i>		
Administration	546,616	643,104
Operations and maintenance	<u>75,143</u>	<u>62,412</u>
	\$ <u>1,218,099</u>	<u>1,405,351</u>

16. Operating Leases

The Company leases out its hotel property held under operating leases. The future minimum lease payments under terms of the leases are as follows:

	<u>2016</u>	<u>2015</u>
Less than one year	\$ 1,764,000	1,764,000
Between one and five years	8,820,000	8,820,000
More than 5 years	7,836,000	9,600,000

During the year ended March 31, 2016, \$1,764,000 (2015: \$2,205,000) was recognized as rental income in the statement of comprehensive income.

HOTELS & RESORTS LIMITED

Notes to Financial Statements

March 31, 2016

(Expressed in Barbados Dollars)

17. Tax

The Company has incurred significant losses and as such the tax losses are available to be offset. However, there is no virtual certainty that the Company will make taxable profits in the future and a deferred tax asset has not been recognized in these financial statements.

18. Financial Instruments

Financial assets of the Company include cash, trade receivables and other receivables. Financial liabilities include bank overdraft, accounts payable and accrued liabilities, advance from Joint Venture, long-term loans and due to principal shareholder.

(a) *Credit Risk*

The financial instruments which potentially subject the Company to concentrations of credit risk are cash and trade receivable. The Company places all of its cash with a reputable financial institution. Credit risk on trade receivable is limited as it is shown net of a provision for bad and doubtful debts. Management has instituted standard repayment periods for credit sales and monitors each receivable balance on a weekly basis with regard to credit sales granted and payments received.

(b) *Interest Rate Risk*

The interest rates and terms of repayments of long-term loans are disclosed in notes 10 and 11 to the financial statements.

(c) *Fair Value*

The fair value of cash, trade and other receivables, accounts payable and accrued liabilities are determined not to be materially different from their carrying value due to their short term nature. The fair value of advance from Joint Venture, shareholder's loans and long-term debt are not materially different from their carrying amounts.

Fair value estimates are made at a specific point in time, based on market conditions and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates. All non-financial instruments such as inventory and expenses are excluded from fair value disclosure. Thus the total fair value amounts cannot be aggregated to determine the underlying economic value of the Company.

The basis for determining fair values is disclosed in note 4.

HOTELS & RESORTS LIMITED

Notes to Financial Statements

March 31, 2016

(Expressed in Barbados Dollars)

18. Financial Instruments; continued

Credit risk

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

		<u>Carrying amount</u>	
		<u>2016</u>	<u>2015</u>
Trade receivable (note 6)	\$	515,000	840,693
Cash		2,877,703	2,429,937

There was no significant exposure to credit risk for receivables at the reporting date.

Impairment losses

The aging of trade receivables at the reporting date was:

		<u>Gross</u>	<u>Impairment</u>	<u>Gross</u>	<u>Impairment</u>
		<u>2016</u>	<u>2016</u>	<u>2015</u>	<u>2015</u>
Not past due	\$	385,515	-	628,193	-
Past due 0-30 days		66,612	-	218,445	5,945
Past due 31-120 days		122,668	59,795	52,239	52,239
More than one year		<u>45,980</u>	<u>45,980</u>	<u>64,157</u>	<u>64,157</u>
	\$	<u>620,775</u>	<u>105,775</u>	<u>963,034</u>	<u>122,341</u>

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

		<u>2016</u>	<u>2015</u>
Balance at beginning of the year	\$	122,341	348,732
Bad debt recovery		<u>(16,566)</u>	<u>(226,391)</u>
Balance at end of the year	\$	<u>105,775</u>	<u>122,341</u>

The allowance accounts in respect of trade receivables are used to record impairment losses unless the Company is satisfied that no recovery of the amount owing is possible; at that point the amounts are considered irrecoverable and are written off against the financial asset directly.

HOTELS & RESORTS LIMITED

Notes to Financial Statements

March 31, 2016

(Expressed in Barbados Dollars)

18. Financial Instruments; continued

Liquidity risk

March 31, 2016

	<u>Carrying Amount</u>	<u>Gross Cash Flow</u>	<u>Up to 1 Year</u>	<u>1 to 5 Years</u>	<u>Over 5 Years</u>
Long term loans	\$ 713,041	746,537	672,283	74,254	-
Accounts payable and accrued liabilities	3,900,926	3,900,926	3,900,926	-	-
Advance from Joint Venture	1,693,761	1,693,761	-	1,693,761	-
Due to principal shareholder	78,392,579	78,392,579	-	-	78,392,579

March 31, 2015

	<u>Carrying Amount</u>	<u>Gross Cash Flow</u>	<u>Up to 1 Year</u>	<u>1 to 5 Years</u>	<u>Over 5 Years</u>
Long term loans	\$ 2,213,683	2,552,545	673,339	1,879,206	-
Accounts payable and accrued liabilities	4,051,351	4,051,351	4,051,351	-	-
Advance from Joint Venture	4,058,670	4,058,670	-	4,058,670	-
Due to principal shareholder	78,392,579	78,392,579	-	-	78,392,579

Currency risk

Exposure to currency risk

The Company's exposure to foreign currency risk is limited to sales and purchases in United States dollars to which the functional currency, the Barbados dollar is pegged.

The following significant exchange rates applied during the year:

<i>BDS</i>	<u>Average rate</u>		<u>Reporting date Spot rate</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
GBP£1	3.01705	3.03223	2.87400	2.96577

HOTELS & RESORTS LIMITED

Notes to Financial Statements

March 31, 2016

(Expressed in Barbados Dollars)

18. Financial Instruments; continued

Fair values

The fair values of financial assets and liabilities, together with the carrying amounts shown in the statement of financial position, are as follows:

	2016		2015	
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
Cash	\$ 2,877,703	2,877,703	2,429,937	2,429,937
Trade receivables	515,000	515,000	840,693	840,693
Other receivables	295,050	295,050	278,547	278,547
Accounts payable and accrued liabilities	(3,900,926)	(3,900,926)	(4,051,351)	(4,051,351)
Advance from Joint Venture	(1,667,470)	(1,667,470)	(4,058,670)	(4,058,670)
Long term loans	(713,041)	(713,041)	(2,213,683)	(2,213,683)
Due to principal shareholder	<u>(78,392,579)</u>	<u>(78,392,579)</u>	<u>(78,392,579)</u>	<u>(78,392,579)</u>
	\$ <u>(79,318,793)</u>	<u>(79,318,793)</u>	<u>(85,167,106)</u>	<u>(85,167,106)</u>

19. Subsequent Events

Long term Loans

The amount due to RBC Royal Bank (Barbados) Limited was repaid in June 2016.

