REAL ESTATE COMPENSATION FUND CORPORATION

FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2022

manning elliott

17th floor, 1030 West Georgia St., Vancouver, BC, Canada V6E 2Y3

Tel: 604. 714. 3600 Fax: 604. 714. 3669 Web: manningelliott.com

INDEPENDENT AUDITORS' REPORT

To the Directors of:
Real Estate Compensation Fund Corporation

Opinion

We have audited the financial statements of Real Estate Compensation Fund Corporation (the "Corporation"), which comprise the statement of financial position as at March 31, 2022, and the statements of operations and accumulated surplus, changes in net financial assets, cash flows and remeasurement gains and losses for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2022, and the results of its operations and cash flows for the year then ended in accordance with Canadian public sector accounting standards.

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 report. We are independent of the Corporation in accordance with 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 and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Canadian public sector accounting 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.

In preparing the financial statements, management is responsible for assessing the Corporation'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 Corporation or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Corporation'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 these financial statements.

manning elliott

17th floor, 1030 West Georgia St., Vancouver, BC, Canada V6E 2Y3

Tel: 604. 714. 3600 Fax: 604. 714. 3669 Web: manningelliott.com

INDEPENDENT AUDITORS' REPORT

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 Corporation'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 Corporation'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 Corporation 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.

We 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.

Manning Elliott LLP

Chartered Professional Accountants
Vancouver, British Columbia
April 26, 2022

REAL ESTATE COMPENSATION FUND CORPORATION
STATEMENT OF FINANCIAL POSITION
AS AT MARCH 31, 2022

	2022	2021
FINANCIAL ASSETS		
Cash and cash equivalents	**$ 160,665**	$ 635,638
Investments *(Note 3)*	**22,144,915**	19,684,417
Accounts receivable	**104,000**	-
Accrued interest receivable	**323,538**	297,608
	$ 22,733,118	$ 20,617,663
FINANCIAL LIABILITIES		
Accounts payable and accrued liabilities *(Note 4)*	**$ 53,100**	$ 34,873
Reserve for claims liabilities *(Note 5)*	**866,289**	924,200
	919,389	959,073
NET FINANCIAL ASSETS	**21,813,729**	19,658,590
NON-FINANCIAL ASSETS		
Prepaid expenses	**6,419**	7,420
ACCUMULATED SURPLUS	**21,820,148**	19,666,010
ACCUMULATED SURPLUS COMPRISES:		
Accumulated surplus from operations	**22,132,688**	19,408,222
Accumulated remeasurement (losses) gains	**(312,540)**	257,788
	$ 21,820,148	$ 19,666,010

Approved by the Board:

DocuSigned by: Patrick O'Donnell 5B97C33FF68F4BB... *Director*
Patrick O'Donnell

DocuSigned by: Jorda Maisey 6578E0813D244E0... *Director*
Jorda Maisey

REAL ESTATE COMPENSATION FUND CORPORATION
STATEMENT OF OPERATIONS AND ACCUMULATED SURPLUS
FOR THE YEAR ENDED MARCH 31, 2022

	2022	2021
REVENUE		
Assessments	**$ 1,113,617**	$ 768,112
DIRECT EXPENDITURES		
Payment of claims	**2,500**	57,518
Hearing costs *(Note 4)*	**1,795**	57,447
Compensation payouts recovered	**(14,000)**	-
Recovery of outstanding claims *(Note 5)*	**(57,911)**	(44,700)
	(67,616)	70,265
NET ASSESSMENT REVENUE	**1,181,233**	697,847
OPERATING EXPENDITURES		
Administrative and professional expenses - Schedule 1	**241,465**	208,837
Collection fees *(Note 4)*	**18,465**	13,210
	259,930	222,047
	921,303	475,800
OTHER INCOME		
Interest and other investment income	**450,886**	438,170
Gain on disposal of investments	**1,352,277**	83,383
	1,803,163	521,553
ANNUAL SURPLUS FOR THE YEAR	**2,724,466**	997,353
ACCUMULATED SURPLUS FROM OPERATIONS, BEGINNING OF YEAR	**19,408,222**	18,410,869
ACCUMULATED SURPLUS FROM OPERATIONS, END OF YEAR	**$ 22,132,688**	$ 19,408,222

REAL ESTATE COMPENSATION FUND CORPORATION
STATEMENT OF CHANGES IN NET FINANCIAL ASSETS
FOR THE YEAR ENDED MARCH 31, 2022

	2022	2021
ANNUAL SURPLUS FOR THE YEAR	**$ 2,724,466**	$ 997,353
NET REMEASUREMENT CHANGES FOR THE YEAR	**(570,328)**	1,070,368
	2,154,138	2,067,721
ACQUISITION OF PREPAID EXPENSES	**(6,419)**	(8,116)
USE OF PREPAID EXPENSES	**7,420**	3,696
CHANGES IN NET FINANCIAL ASSETS	**2,155,139**	2,063,301
NET FINANCIAL ASSETS, BEGINNING OF YEAR	**19,658,590**	17,595,289
NET FINANCIAL ASSETS, END OF YEAR	**$ 21,813,729**	$ 19,658,590

REAL ESTATE COMPENSATION FUND CORPORATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED MARCH 31, 2022

	2022	2021
CASH FROM (USED IN):		
OPERATING ACTIVITIES		
Annual surplus for the year	**$ 2,724,466**	$ 997,353
Items not affecting cash:		
Recovery of outstanding claims	**(57,911)**	(44,700)
Gain on disposal of investments	**(1,352,277)**	(83,383)
	1,314,278	869,270
Changes in non-cash working capital:		
Increase in accounts receivable	**(104,000)**	-
Increase in accrued interest receivable	**(25,930)**	(47,298)
Increase in accounts payable and accrued liabilities	**18,227**	4,062
Decrease (increase) in prepaid expenses	**1,001**	(4,420)
	(110,702)	(47,656)
Cash flow from operating activities	**1,203,576**	821,614
INVESTING TRANSACTIONS		
Purchase of investments, net	**(1,678,549)**	(1,057,840)
DECREASE IN CASH AND EQUIVALENTS DURING THE YEAR	**(474,973)**	(236,226)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**635,638**	871,864
CASH AND CASH EQUIVALENTS, END OF YEAR	**$ 160,665**	$ 635,638

REAL ESTATE COMPENSATION FUND CORPORATION
STATEMENT OF REMEASUREMENT GAINS AND LOSSES
FOR THE YEAR ENDED MARCH 31, 2022

	2022	2021
ACCUMULATED REMEASUREMENT GAINS (LOSSES), BEGINNING OF YEAR	**$ 257,788**	$ (812,580)
UNREALIZED GAIN ON INVESTMENTS	**781,949**	1,153,751
REALIZED GAIN ON DISPOSAL OF INVESTMENTS, RECLASSIFIED TO OPERATIONS	**(1,352,277)**	(83,383)
NET REMEASUREMENT CHANGES FOR THE YEAR	**(570,328)**	1,070,368
ACCUMULATED REMEASUREMENT (LOSSES) GAINS , END OF YEAR	**$ (312,540)**	$ 257,788

NATURE OF OPERATIONS

The Real Estate Compensation Fund Corporation ("the Corporation") commenced operations on December 31, 2004 to replace the trust account bonding requirements under the former Real Estate Act. The Corporation is funded by assessments of real estate licensees in accordance with the Real Estate Services Act SBC 2004.

The Corporation provides protection for members of the public who have entrusted real estate licensees (or unlicensed individuals related to the brokerage) with money that was either misappropriated or wrongfully converted; intentionally not paid over or accounted for; or obtained by the fraud of a licensee or individual.

Pursuant to Section 149(1)(l) of the Income Tax Act (Canada), the Corporation qualifies as a not-for-profit organization, and as such, is exempt from tax.

On September 30, 2016, the Province of British Columbia made legislative amendments to the Real Estate Services Act and the Real Estate Services Regulation which empowered the Province of British Columbia to appoint all of the members of the Real Estate Council of British Columbia ("the Council"). As the Council controlled the Corporation through ability to appoint the majority of its board members, the Corporation was required to transition to Canadian public sector accounting standards ("PSAS").

During fiscal 2022, the Province of British Columbia made legislative amendments to dissolve the Real Estate Council of British Columbia and create a single financial services regulator. The new regulator, the BC Financial Services Authority, a crown corporation, appoints the majority of the Corporation’s board.

In March 2020, the World Health Organization declared a global pandemic due to the novel coronavirus (COVID-19). The situation is constantly evolving, and the measures put in place are having multiple impacts on local, provincial, national and global economies.

The Corporation continues to monitor its operations and assess the impact COVID-19 will have on its business activities. Management has asserted that the extent of the effect of the COVID-19 health pandemic on the Corporation is uncertain, however, it does not foresee a significant impact on operations or significant decline in revenues. Furthermore, the Corporation has over $22 million of liquid assets which can be used to sustain operations.

1. SIGNIFICANT ACCOUNTING POLICIES

These financial statements are the representations of management, prepared in accordance with Canadian public sector accounting standards ("PSAS").

(a) Basis of presentation

Sources of revenue and expenses are recorded on the accrual basis of accounting. The accrual basis of accounting recognizes revenue as it becomes available and measurable; expenses are recognized as they are incurred and measurable as a result of the receipt of goods or services and the creation of a legal obligation to pay.

(b) Net financial assets

The Corporation’s financial statements are presented so as to highlight net financial assets as the measurement of financial position. The net financial assets of the Corporation is determined by its financial assets less its financial liabilities. Net financial assets combined with non-financial assets comprise a second indicator of financial position, accumulated surplus.

1. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(c) Asset classification

Assets are classified as either financial or non-financial. Financial assets are assets that could be used to discharge existing liabilities or finance future operations. Non-financial assets are acquired, constructed or developed assets that do not normally provide resources to discharge existing liabilities but are employed to deliver the Corporation's services, may be consumed in normal operations and are not for resale in the normal course of operations. Non-financial assets include prepaid expenses.

(d) Cash and cash equivalents

Cash and cash equivalents include balances held with banks and brokerage institutions and highly liquid investments which are readily convertible into cash with maturities of three months or less when purchased.

(e) Financial instruments policy

i) Measurement

The Corporation’s financial instruments consist of cash and cash equivalents, accounts receivable, accrued interest receivable, investments and accounts payable.

The Corporation initially measures all of its financial assets and liabilities at fair value, except for certain non-arm's length transactions. The Corporation subsequently measures all of its financial assets and liabilities at amortized cost, except for investments in equity instruments that are quoted in an active market, which are measured at fair value, and investments in debt instruments that are quoted in an active market, which the Corporation has elected to measure at fair value. Changes in fair value of financial instruments carried at fair value are recognized in the statement of operations. Realized gains and losses are recognized in the statement of operations, and unrealized gains and losses from changes in fair value are recognized in the Statement of Remeasurement Gains and Losses.

ii) Impairment

Financial assets measured at amortized cost are tested for impairment when there are indicators of impairment. The amount of any write-down that is determined is recognized in the statement of operations. A previously recognized impairment loss may be reversed to the extent of any improvement, provided it is no greater than the amount that would have been reported at the date of the reversal had the impairment not been recognized previously. The amount of the reversal is recognized in the statement of operations in the period in which it is determined.

iii) Transaction costs

The Corporation recognizes its transaction costs in the statement of operations in the period incurred. However, financial instruments that will not be subsequently measured at fair value are adjusted by the transaction costs that are directly attributable to their origination, issuance or assumption.

(f) Revenue recognition

The Corporation collects assessment fees from new real estate licensees. These fees are recognized as income in the period received as the Corporation has no continuing obligations with respect to these fees.

1. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(g) Reserve for claims liabilities

The actuarial evaluation of the reserve for claims liabilities is an estimate of the present value of future claims based on an analysis of the historic patterns in which claims are reported, interim payments are made, reserves are set and adjusted, final settlements are reached, and claims are finally closed. Implicit in this methodology is the assumption that the emergence of loss costs and claim settlement patterns in the future will be similar to those in the past. Other key assumptions used in the actuarial evaluation include inflation based on the current Consumer Price Index and investment income from assets based on current long-term bond rates.

(h) Use of estimates

The preparation of financial statements in conformity with Canadian public sector accounting standards 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 reporting period. Management believes that the estimates used are reasonable and prudent, however, actual results could differ from those estimates. Significant areas requiring the use of management estimates relate to the valuation of accounts receivable and investments, the amounts recorded as accrued liabilities and the reserve for claims liabilities.

2. FINANCIAL INSTRUMENTS RISKS

The Corporation's financial instruments are described in Note 1(e). In management's opinion, the Corporation is not exposed to significant currency, credit, liquidity, interest rate or other market risks except as explained below. In addition, the Corporation is not exposed to any material concentrations of risk and there has been no significant change in the risk exposures described below from the prior year.

(a) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Corporation is exposed to this risk mainly in respect of its accounts receivable. The Corporation mitigates this risk through proactive credit management policies and regular monitoring of counterparties' payment history and performance.

(b) Liquidity risk

Liquidity risk is the risk that the Corporation will encounter difficulty in meeting obligations associated with liabilities. The Corporation is not exposed to significant liquidity risk.

(c) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises of three types of risk: currency risk, interest rate risk and other price risk. The Corporation's investments include guaranteed investment certificates ("GICs") and equity securities. Accordingly, through certain of these investments, the Corporation is exposed to market risk.

(d) Currency risk

Currency risk is the risk to earnings that arises from fluctuation of foreign exchange rates and the degree of volatility of these rates. The Corporation is not exposed to significant currency risk as all its financial instruments are denominated in Canadian dollars.

2. FINANCIAL INSTRUMENTS RISKS *(continued)*

(e) Interest rate risk

Interest rate risk is the risk that the value of a financial instrument might be adversely affected by a change in the interest rates. The Corporation is exposed to interest rate risk on its interest bearing fixed income investments, preferred shares and interest rate sensitive equities. The majority of the Corporation's investments are comprised of guaranteed investment certificates with fixed rates of interest and staggered maturity dates, and Bonds. The fair value of the Corporation's investments is disclosed in Note 3. The Corporation's investment policy mitigates this risk by maintaining a minimum balance of its investments in fixed income.

(f) Other price risk

Other price risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from currency risk or interest risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. The Corporation has equity investments subject to this risk, however risk is managed through broad asset class diversification. As such, the Corporation is not exposed to significant other price risk.

3. INVESTMENTS

	Fair Value Hierarchy	**2022 Cost**	**2022 Market value**	2021 Cost	2021 Market value
Fixed income	**Level 2**	**$ 15,210,597**	**$ 15,134,912**	$ 15,614,315	$ 15,614,315
Equity securities	**Level 1**	**6,647,471**	**7,010,003**	3,213,776	4,070,102
		$ 21,858,068	**$ 22,144,915**	$ 18,828,091	$ 19,684,417

Investments that are quoted in an active market are reflected at fair value as at the reporting date. Sales and purchases of investments are recorded on the trade date. Transaction costs related to the acquisition of investments are recorded as an expense. Unrealized gains and losses on financial assets are recognized in the Statement of Remeasurement Gains and Losses until such time that the financial asset is derecognized due to disposal or impairment. At the time of derecognition, the related realized gains and losses are recognized in the Statement of Operations and Accumulated Surplus and reversed from the Statement of Remeasurement Gains and Losses.

PSAS requires an organization to classify fair value measurements using a fair value hierarchy, which includes three levels of information that may be used to measure fair value:

Level 1
Unadjusted quoted market prices in an active market for identical assets or liabilities;

Level 2
Observable or corroborated inputs, other than Level 1, such as quoted prices for similar assets or liabilities; and

Level 3
Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets and liabilities.

4. RELATED PARTY BALANCES AND TRANSACTIONS

The BC Financial Services Authority (the "BCFSA") appoints three of the five members of the Corporation’s Board of Directors. The BCFSA is responsible for collecting assessment fees on behalf of the Corporation and provides advice on the payment of assessment claims. The BCFSA also charges the Corporation an administrative fee which is based on the number of licences issued during the year.

As at March 31, 2022, $7,071 (2021 - $7,371) owing to the BCFSA is included in accounts payable and accrued liabilities. A gross amount of $20,260 (2021 - $70,657) was paid or accrued to the BCFSA during the year for collection fees, hearing costs and other legal expenses. A total of $22,952 (2021 - $15,985) was paid to the BCFSA during the year for credit card fees.

Related party transactions are measured at their exchange amount, which is the amount of consideration established and agreed to by the related parties.

5. RESERVE FOR CLAIMS LIABILITIES

	2022	2021
Reserve for claims liabilities	**$ 924,200**	$ 968,900
Recovery of outstanding claims	**(57,911)**	(44,700)
Balance at end of year	**$ 866,289**	$ 924,200

The reserve represents an actuarial evaluation of the anticipated future claims, as at the Statement of Financial Position date.

REAL ESTATE COMPENSATION FUND CORPORATION

SCHEDULE OF ADMINISTRATIVE AND PROFESSIONAL EXPENSES (Schedule 1)

FOR THE YEAR ENDED MARCH 31, 2022

	2022	2021
ADMINISTRATIVE AND PROFESSIONAL EXPENSES		
Administration fee	**$ 102,713**	$ 90,737
Bank charges	**22,976**	16,010
Board members' per diems	**26,800**	24,500
Consulting fees	**-**	12,936
Insurance	**5,445**	3,696
Meeting costs	**11,005**	540
Office and miscellaneous	**12,269**	4,519
Professional fees	**54,463**	55,899
Travel and accommodations	**5,794**	-
	$ 241,465	$ 208,837