The Sunchaser Vacation Villas at Riverside, Hillside and Riverview

Financial Statements

December 31, 2013

Collins Barrow
Chartered Accountants & Consultants

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Independent Auditors' Report

To the Leaseholders
The Sunchaser Vacation Villas at Riverside, Hillside and Riverview

We have audited the accompanying statements of receipts and expenditures and net assets of The Sunchaser Vacation Villas at Riverside, Hillside and Riverview, for the year ended December 31, 2013, and a summary of significant accounting policies and other explanatory information (together the "financial statements"). The financial statements have been prepared by management using the receipts and expenditures basis of accounting described in note 2.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the receipts and expenditures basis of accounting described in note 2; this includes determining that the receipts and expenditures basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances, 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 Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the receipts and expenditures and net assets of The Sunchaser Vacation Villas at Riverside, Hillside and Riverview for the year ended December 31, 2013 in accordance with the receipts and expenditures basis of accounting described in note 2.

Emphasis of Matter

Without modifying our opinion, we draw attention to note 1 to the financial statements which describes the Resort Realignment.

Basis of Accounting

Without modifying our opinion, we draw attention to note 2 to the financial statements which describes the basis of accounting. The financial statements are prepared to provide information to the Leaseholders of The Sunchaser Vacation Villas at Riverside, Hillside and Riverview. As a result, the statements may not be suitable for other purposes.

Collins Barrow Calgary LLP

CHARTERED ACCOUNTANTS

Calgary, Canada
May 13, 2014

The Sunchaser Vacation Villas at Riverside, Hillside and Riverview
Statement of Receipts and Expenditures
For the Year Ended December 31, 2013

	2013	2012
Receipts		
Maintenance fees	$ 10,220,678	$ 9,538,384
Less: Provision for expected delinquent accounts	(1,130,700)	(505,137)
	9,089,978	9,033,247
Bad debt expense and recovery costs in excess of expected delinquent accounts	(67,774)	(302,806)
Maintenance fees, net of bad debts	9,022,204	8,730,441
Renovation project fees	10,090,994	-
Deficit recovery - cancelled intervals	1,376,036	-
Deficit recovery - Developer	208,384	-
Reservation fees	344,560	417,668
Ancillary services	421,014	493,261
Interest	349,160	177,775
	21,812,352	9,819,145
Expenditures		
Operating labour		
On-site operating wages	2,630,031	2,626,684
On-site benefits	372,839	380,413
Total on-site wages and benefits	3,002,870	3,007,097
Off-site wages and benefits	878,827	979,854
Total wages and benefits	3,881,697	3,986,951
Other staff costs	63,070	57,269
Total labour	3,944,767	4,044,220
Non-labour operating		
Ancillary services	219,131	255,801
Direct operating	308,744	284,378
Contracted services	211,190	153,949
Repairs and maintenance	312,293	313,432
General and administrative	909,422	526,092
Utilities	1,007,306	1,031,888
Insurance	188,923	244,169
Property tax	247,940	226,209
Total non-labour operating	3,404,949	3,035,918
	7,349,716	7,080,138
Building monitoring	-	293,800
Refurbishment	325,772	1,241,364
Total expenditures before management fee	7,675,488	8,615,302
Management fee	2,444,165	1,284,519
Total expenditures	10,119,653	9,899,821
Excess (deficiency) of receipts over expenditures before Building 7000 and Renovation project expenditures	11,692,699	(80,676)
Building 7000 expenditures, net (note 3)	-	1,058,970
Renovation project expenditures	(2,729,904)	-
Excess (deficiency) of receipts over expenditures	$ 8,962,795	$ (1,139,646)

The Sunchaser Vacation Villas at Riverside, Hillside and Riverview

Statement of Net Assets (Deficit)

For the Year Ended December 31, 2013

	Operating	Replacement Reserve				2013
		Renovation Project	Building 7000	General	Total	Total *(note 8)*
Net assets, beginning of year	$ (1,625,841)	$ -	$ (2,730,288)	$ -	$ (2,730,288)	$ (4,356,129)
Excess (deficiency) of receipts over expenditures	1,502,971	$ 4,009,869	2,730,288	719,667	7,459,824	8,962,795
Excess transferred to renovation project	-	$ 719,667	-	(719,667)	-	-
Net assets, end of year	$ (122,870)	$ 4,729,536	$ -	$ -	$ 4,729,536	$ 4,606,666

	Operating	Replacement Reserve				2012
		Renovation Project	Building 7000	General	Total	Total *(note 8)*
Deficit, beginning of year	$ (1,545,165)	$ -	$ (1,671,318)	$ -	$ (1,671,318)	$ (3,216,483)
Excess (deficiency) of receipts over expenditures	(186,008)	-	(1,058,970)	105,332	(953,638)	(1,139,646)
	(1,731,173)	-	(2,730,288)	105,332	(2,624,956)	(4,356,129)
Excess transferred to operating	105,332	-	-	(105,332)	(105,332)	-
Deficit, end of year	$ (1,625,841)	$ -	$ (2,730,288)	$ -	$ (2,730,288)	$ (4,356,129)

1. Nature of operations

The Sunchaser Vacation Villas at Riverside, Hillside and Riverview (the "Resort") is a timeshare resort located in Fairmont Hot Springs, B.C. The Resort consists of condominium units in various multi-unit buildings in which owners and leaseholders hold rights to use the property for an allotted period of time. These financial statements only present receipts and expenditures related to the operation of the Resort.

Resort Realignment

During the year, the Property Manager began a resort realignment (the "Resort Realignment") to address the significant deferred maintenance at the Resort, the cumulative deficit, delinquent vacation interval owners, and vacation interval owners looking for an opportunity to cancel their obligations.

The Resort Realignment is based on renovating a modified resort based on the number of vacation interval owners who choose to continue their agreement at the Resort, and transferring any inventory owned by the developer out of the timeshare regime.

As part of the Resort Realignment, the Property Manager requested that the trustee of the timeshare regime cooperate in the execution of a proposal to restructure and renovate the Resort. On April 16, 2013, the trustee filed a petition (action S-132760) in the Supreme Court of British Columbia with Northmont Resort Properties Ltd. ("Northmont") support seeking advice and direction regarding the Resort Realignment proposal (the "Petition"). An Order Made After Application was issued by Master Scarth outlining the process for serving the timeshare members. As a result of that process, a special case was heard on October 8-10, 2013 by the Honorable Madam Justice Loo to determine the validity of the Renovation Project and Cancellation fee. Timeshare owners were provided an option to enroll in the Renovation Project or cancel their vacation interval agreement through a one-time payment. On November 15, 2013, Justice Loo issued her Reasons for Judgment confirming the validity of both fees.

On December 12, 2013, an owner as representative for approximately 300 timeshare owners and leaseholders filed an appeal of Justice Loo’s order. As of the date of the statement of receipts and expenditures, no determination has been made and the appeal is ongoing. A hearing was held on May 12, 2014 and the judgment was reserved to a later date.

As part of the Resort Realignment, the Property Manager entered into a contract to undertake major repairs and renovations to the Resort buildings. The contract is a cost plus contract with a maximum value up to $32,154,492. A separate contract was also entered into to undertake improvements to infrastructure around the Resort. This contract is a cost plus contract with a maximum value up to $2,329,581. In addition, the Resort expects to incur an additional $3,500,000 in new furnishings and equipment and $1,000,000 on improvements to the recreation building. Provincial sales tax of approximately $1,860,269 is expected to be incurred on these costs. The total budgeted cost to upgrade the Resort is $40,844,342 for a full renovation. The actual renovation and contract value will be reduced based on the number of units removed from the timeshare regime by the developer.

The initial issue of the Petition addressing the resort alignment is temporarily suspended pending the outcome of the appeal. There can be no certainty as to the outcome of the Resort Realignment. Uncertainty exists, but is not limited to, the outcome of the trustee's petition, the level of participation by vacation interval owners in the continued operation of the Resort, and the level of delinquency. In addition, although the Property Manager believes that the appeal is without merit and will be dismissed, there is uncertainty regarding the outcome. The effect of these uncertainties would have a material impact on the operation of the Resort and the statement of receipts and expenditures.

2. Significant accounting policies

(a) Basis of accounting

The statement of receipts and expenditures and statement of deficit were prepared in accordance with the terms of the Vacation Interval Agreements between Northmont and the timeshare owners, as contained in the disclosure agreement dated June 26, 2012 (the "Agreements").

(b) Receipt and expenditure recognition

Maintenance fees

Under the terms of the Agreements, the Property Manager is responsible for preparing a budget each year to determine the contribution required from each timeshare owner to meet the operating costs and capital reserve fund requirements for the Resort. An annual assessment is issued to each timeshare owner based on this budget. Receipts of maintenance fees are recognized in the year in which the assessment relates.

An estimate of expected uncollectible accounts was made and recorded as a provision against maintenance fees invoiced for the year. Recovery costs and additional uncollectible amounts, if any, are recorded as bad debts.

Renovation project fees

The Resort Realignment will result in timeshare units being removed from the timeshare regime in a non-renovated state. In conjunction, the Resort Realignment provides owners the ability to pay the Renovation Project Fee or terminate their vacation interval agreement. Therefore, any Renovation Project Fee revenue is not recognized until such time as an owner makes the decision to pay the invoice.

Deficit recovery

The renovation project fee includes charges for the recovery of the past deficit of the Resort in addition to charges for the renovation of the units. Units that are scheduled for the removal under the Resort Realignment remain obligated for the past deficit. As such, the Resort recognizes receipts for deficit recovery for each cancelled vacation interval agreement and for intervals held by the developer.

Reservation fees

Lock-off villas can be used in an exchange program as two separate units. A separate administrative fee is charged to timeshare owners when such a request is made. The lock-off fee receipt is recognized in the year in which the lock-off villa was scheduled to be occupied by the timeshare owner prior to the exchange.

Ancillary services

Receipts are also earned from sales of golf passes, ski passes, extra housekeeping fees, rentals, miscellaneous administrative services provided to timeshare owners, and retail sales of sundry items. Receipts on these activities are recognized as goods or services are provided.

Interest

Interest on excess cash held on deposit is recognized as it is earned on an accrual basis.

Interest is also charged on overdue maintenance fees owing by timeshare owners. This interest is recorded when it is earned and there is reasonable assurance of collection. Based on management's expected recovery of overdue maintenance fees subsequent to year end, interest revenue has been recorded on an accrual basis.

Expenditures

Expenditures include costs related to the operation of the Resort as set out in the Agreements. The Property Manager is entitled to a management fee which is calculated as a 15% charge on the budgeted costs incurred in the operation and refurbishment of the Resort, including the renovation project fee.

Costs related to the acquisition of capital assets, purchases of items acquired for resale, and refurbishment expenditures are recognized as expenditures in the period in which the costs are incurred.

Refurbishment expenditures include costs related to replacement of furnishings, equipment and fixtures, refurbishment of the interiors and exteriors of buildings and grounds at the Resort.

Renovation fee expenditures consists of costs incurred to undertake long-term repairs and renovations to the Resort buildings and improvements to infrastructure around the Resort. The expenditures also include costs of furnishings and equipment.

(c) Translation of foreign currencies

Foreign currency denominated assets and liabilities are translated at the exchange rate prevailing at the year-end date for monetary items and at the transaction date for non-monetary items. Receipts and expenditures are translated at exchange rates at the transaction dates. Gains or losses on translation are included in the statement of receipts and expenditures.

(d) Measurement uncertainty

Bad debt expense and the provisions for expected delinquent accounts are based on management's best estimate of amounts due from timeshare owners which have been determined to be uncollectible and amounts of current maintenance fees that are expected to be uncollectible, respectively.

By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future periods could be significant.

(e) Financial instruments

The Resort initially measures its financial assets and liabilities at fair value, except certain non-arm's length transactions that are measured at the exchange amount.

The Resort subsequently measures all its financial assets and financial liabilities at amortized cost.

Financial assets measured at amortized cost include cash and accounts receivable.

Financial liabilities measured at amortized cost include accounts payable and accrued liabilities, and amounts due to the Property Manager.

Financial assets measured at cost or amortized cost are tested for impairment, at the end of each year, to determine whether there are indicators that the asset may be impaired. The amount of the write-down, if any, is recognized in the statement of receipts and expenditures. The previously recognized impairment loss may be reversed to the extent of the improvement, directly or by adjusting the allowance account. The reversal may be recorded provided it is no greater than the amount that had been previously reported as a reduction in the asset and it does not exceed original cost. The amount of the reversal is recognized in the statement of receipts and expenditures.

3. Building 7000 expenditures, net

Under a Limited Subsidy Agreement dated July 6, 2010 between Northmont and Resort Villa Management Ltd. ("RVM"), Northmont agreed to support the funding of the repair of Building 7000 at the Resort. Northmont agreed to contribute $400 from each timeshare lease converted to fee simple and each timeshare interval sold at the Resort ("timeshare sales") to a maximum amount of the lesser of the estimated repair costs of $4,540,000 or the actual repair cost. Northmont has not assumed liability for the repair obligation. The funds are to be used by RVM to perform foundation repairs to Building 7000. During 2012, Northmont suspended its sales and conversion activities at the Resort.

The Building 7000 expenditures, net, represents the amount by which the cost of the foundation repair exceeds the funds received from Northmont. During 2013, the repair was completed and the balance of the project was invoiced as part of the renovation project fee.

4. Related party transactions

The Property Manager and entities which are related to it by virtue of common control or significant influence are considered related persons in respect of these financial statements. During the year, the Resort entered into certain transactions with these related parties. The aggregate of these transactions are as follows:

		2013	**2012**
(a)	Extra cleaning fees charged to developer	$ -	$ 29,200
(b)	Accounting, reservation, and administrative costs charged by a company related to the Property Manager	$ 878,827	$ 979,854
(c)	Management fees paid to Property Manager	$ 2,444,165	$ 1,284,519
(d)	Water park lease paid to the developer	$ 67,650	$ 68,054
(e)	Additional administrative costs for the Renovation Project Fee charged by a company related to the Property Manager	$ 57,713	$ -
(f)	Recovery of deficit from developer	$ 208,384	$ -
(g)	Recovery of deficit from developer in respect of cancelled intervals	$ 1,376,036	$ -
(h)	Renovation project fees paid by developer	$ 779,419	$ -

These transactions are in the normal course of operations and are measured at the exchange amount which is the amount of consideration established and agreed to by the related parties.

5. Lease commitments

The Resort is committed under leases for the following future minimum payments as follows:

	Water park lease	Equipment lease	Total
2014	$ 67,650	$ 13,724	$ 81,374
2015	67,650	10,293	77,943
2016	67,650	-	67,650
2017	67,650	-	67,650
2018	67,650	-	67,650
	$ 338,250	$ 24,017	$ 362,267

The Water Park lease is with the developer.

6. Financial instruments

(a) Credit risk

The financial instruments that potentially subject the Resort to a significant concentration of credit risk consist primarily of cash and accounts receivable from individual leaseholders. The Resort mitigates its exposure to credit loss by placing its cash with major financial institutions, and by restricting use of the Resort by leaseholders until their receivables are collected.

(b) Foreign currency risk

A significant portion of the Resort's cash is denominated in U.S. dollars. Consequently, the Resort is subject to the risk of fluctuating exchange rates.

7. Replacement Reserve

Under the terms of the Vacation Interval Agreement, the Property Manager is authorized to set up a Replacement Reserve to enable furnishing and fixture replacements to be made when required. Timeshare owners can be invoiced for maintenance fees in advance to cover costs to pay for refurbishment costs in future years.

8. Net assets (deficit)

At December 31, the cumulative net assets (deficit) is financed as follows:

	2013	2012
Cash	$ 2,483,825	$ 441,721
Accounts receivable	4,624,003	228,785
Prepaid expenses	104,507	214,585
Accounts payable and accrued liabilities	(1,083,487)	(1,161,684)
Due to developer and entities related to developer	(354,392)	(1,794,410)
Deferred revenue	(1,167,790)	(2,285,126)
Net Assets (deficit)	$ 4,606,666	$ (4,356,129)

9. Contingent liabilities

In the normal course of operations, the Resort is susceptible to certain legal matters that may result in a liability to the Resort.

As of December 31, 2013, the Resort was in process of discussing alternatives as a former employee had obtained legal counsel and was seeking potential settlement in regards to the termination of the employment. The outcome of any potential settlement is not determinable at the date of these financial statements and an estimate of the amount of contingent loss, if any, is not determinable. Management believes that any legal claims are without merit.

10. Comparative figures

Certain comparative figures have been reclassified to conform with the current year's presentation.