The Sunchaser Vacation Villas at Riverside, Hillside and Riverview

Financial Statements

December 31, 2014

Collins Barrow
Chartered Accountants & Consultants

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Independent Auditors' Report

To the Owners and 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, 2014, 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 as at December 31, 2014 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, litigation, subsequent events and the potential impact on operations.

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 Owners and 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
July 30, 2015

The Sunchaser Vacation Villas at Riverside, Hillside and Riverview
Statement of Receipts and Expenditures
For the Year Ended December 31, 2014

	2014	2013 *as restated (note 9)*
Receipts		
Maintenance fees - timeshare owners	$ 8,322,561	$ 10,220,678
Maintenance fees - Developer (note 4(j))	698,793	-
Less: Provision for expected delinquent accounts	(1,491,186)	(1,130,700)
	7,530,168	9,089,978
Bad debt expense and recovery costs in excess of expected delinquent accounts	(671,951)	95,144
Maintenance fees, net of bad debts	6,858,217	9,185,122
Renovation project fees and deficit recovery - timeshare owners	5,219,016	10,090,994
Deficit recovery - cancelled intervals	540,230	1,376,036
Deficit recovery - Developer	105,877	208,384
Reservation fees	215,256	344,560
Administration fees	470,761	-
Ancillary services	282,522	421,014
Interest	938,475	349,160
	14,630,354	21,975,270
Expenditures		
Operating labour		
On-site operating wages	2,363,006	2,630,031
On-site benefits	351,094	372,839
Total on-site wages and benefits	2,714,100	3,002,870
Off-site wages and benefits	633,289	878,827
Total wages and benefits	3,347,389	3,881,697
Other staff costs	47,484	63,070
Total labour	3,394,873	3,944,767
Non-labour operating		
Ancillary services	91,940	219,131
Direct operating	216,870	308,744
Contracted services	194,195	211,190
Repairs and maintenance	317,173	312,293
General and administrative	324,008	396,200
Legal	1,281,459	513,222
Collection agency fees	496,346	-
Utilities	1,007,865	1,007,306
Insurance	147,497	188,923
Property tax	251,404	247,940
Total non-labour operating	4,328,757	3,404,949
	7,723,630	7,349,716
Refurbishment	-	325,772
Total expenditures before management fee	7,723,630	7,675,488
Management fee	1,611,253	2,444,165
Total expenditures	9,334,883	10,119,653
Excess of receipts over expenditures before renovation project expenditures	5,295,471	11,855,617
Renovation project expenditures	(3,749,694)	(2,729,904)
Excess of receipts over expenditures	$ 1,545,777	$ 9,125,713

The Sunchaser Vacation Villas at Riverside, Hillside and Riverview
Statement of Net Assets (Deficit)
For the Year Ended December 31, 2014

		Replacement Reserve				
	Operating	Renovation Project	Building 7000	General	Total	2014 Total
						as restated
			(note 3)			*(note 9)*
Net assets, beginning of year As previously stated	$ (122,870)	$ 4,729,536	$ -	$ -	$ 4,729,536	$ 4,606,666
Prior period adjustment (note 9)	162,918	-	-	-	-	162,918
As restated	40,048	4,729,536	-	-	4,729,536	4,769,584
Excess (deficiency) of receipts over expenditures	(150,426)	946,203	-	750,000	1,696,203	1,545,777
Excess transferred to renovation project	-	750,000	-	(750,000)	-	-
Net assets, end of year	$ (110,378)	$ 6,425,739	$ -	$ -	$ 6,425,739	$ 6,315,361

		Replacement Reserve				
	Operating	Renovation Project	Building 7000	General	Total	2013 Total
						as restated
			(note 3)			*(note 9)*
Net assets, beginning of year	$(1,625,841)	$ -	$ (2,730,288)	$ -	$ (2,730,288)	$ (4,356,129)
Excess (deficiency) of receipts over expenditures	1,665,889	4,009,869	2,730,288	719,667	7,459,824	9,125,713
Excess transferred to renovation project	-	719,667	-	(719,667)	-	-
Net assets, end of year	$ 40,048	$ 4,729,536	$ -	$ -	$ 4,729,536	$ 4,769,584

1. Nature of operations

The Sunchaser Vacation Villas at Riverside, Hillside and Riverview (the "Resort") is a time share plan 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 and are prepared in accordance with the terms of the vacation internal agreements (the "Agreements").

(a) Resort Realignment

In 2013, Resort Villa Management (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 Northmont Resort Properties Ltd. (the "Developer" or "Northmont") out of the timeshare regime.

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.

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. 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 to the Developer after paying the Resort for their proportion of the cumulative deficit. 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 various timeshare owners and leaseholders filed an appeal of Justice Loo's order. In June 2014, the Court of Appeal for British Columbia (the "Court of Appeal") set aside the ruling of Justice Loo on the basis that a special case was the improper procedure for addressing the issues. As a result of the Court of Appeal ruling, substantial additional litigation related to the operation of the Resort proceeded or was initiated (note 1(b)).

(b) Litigation and subsequent events

As a result of the Court of Appeal ruling, Northmont has begun filing individual claims against delinquent owners for payment of outstanding maintenance fees including the renovation project fee (the "RPF"). To date, in excess of two thousand claims have been filed in Alberta and British Columbia. This was necessary to preserve limitation rights for the Resort and additional claims are anticipated to be filed as needed for the same reason.

Ongoing legal matters and claims filed involving delinquent timeshare owners of the Resort has resulted in a series of counterclaims that have been filed in response by a group of defendants under a single counsel. The counterclaims are each limited to a sum of $50,000. The number of delinquent timeshare owners involved in the legal proceedings and results of these ongoing legal matters is uncertain.

In addition, the representative in the appeal filed its own action in the Supreme Court of British Columbia (the "BC Action") against Northmont seeking, among other things, to have the Agreements repudiated or terminated. In the alternative, it seeks to have the courts interpret the Agreements as assigning responsibility for some or all of the costs of the RPF to Northmont instead of the owners or to charge Northmont damages as a result of alleged failures of itself or the previous manager and Developer, Fairmont Resort Properties Ltd. ("Fairmont") in proper management of the Resort.

With the guidance of the court, counsel in the BC Action and Northmont have proceeded with the BC Action in advance of other action to avoid a multitude of simultaneous court proceedings. While not binding on the remaining cases, the expectation is the result of the BC Action will be "instructive" to all parties and the court thereby minimizing the extent of the remaining claims.

As of the date of these financial statements, the BC Action has completed most of the discovery and pleadings process and is scheduled for trial for three weeks starting January 4, 2016.

A second action in the Alberta Court of Queen's Bench (the "Alberta Claim") was expected to proceed to trial on June 1, 2015. However, on the eve of trial, the plaintiffs, who were three time share members, abandoned their claim and defense to counterclaim. As a result, Northmont was awarded summary judgment on June 2, 2015 in the amount of $25,815 for the RPF balances owing under six leases.

On July 2, 2015, judgment was issued on the interest and costs in the Alberta Claim. Interest of $4,500 was agreed by consent between parties. Costs in accordance with Schedule C, Column 1 were granted for all steps from the commencement of the proceeding until May 29, 2015 and for one-half day of trial. Further, additional costs of $11,000 were awarded resulting from two unsuccessful adjournment applications May 29, 2015 and June 1, 2015, thrown-away costs for preparation for trial, and preparation of briefs on the issue of costs.

Contrary to the Resort's position, Justice Moreau did not award costs with respect to one plaintiff whose agreement included an indemnity provision on a solicitor and client basis. Rather, limiting costs to Schedule C. As this decision did not result from a trial, it is unclear to what extent, if any, such decision will have precedential value. However, it raises uncertainty as to the scope of cost recovery that the Resort may achieve in judgments. The scope of cost awards in judgments could have a material impact on the operation of the Resort and these financial statements.

(c) Uncertainty with respect to Resort Realignment and future operations

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, the level of delinquency and the outcome of other litigation including the BC Action (note 1(b)). The effect of these uncertainties could have a material impact on the operation of the Resort and these financial statements.

The BC Action defenses filed to Northmont claims that payment of the RPF revolve around the rights and obligations of the owners and Northmont under the Agreements and the effect of the operation of the Resort before and after Northmont became Property Manager. The judgment may directly affect the financial statements if they reflect differing contractual obligations than Northmont’s interpretation. In addition, the judgment may indirectly affect the financial statements by impacting the estimated collectability of outstanding maintenance fees, the renovation project and cancellation fees. The judgment could have a material impact on the operation of the Resort and these financial statements.

2. Significant accounting policies

(a) Basis of accounting

The statement of receipts and expenditures and statement of net assets 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 interpretation of the elements of the Agreements is the subject of ongoing litigation (note 1(b)). In the event that the courts determine that the Property Manager's interpretation of the terms of the Agreements is incorrect, the effect could have a material impact on the operation of the Resort and these financial statements.

(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 is 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.

Administration fee receipts and legal costs

The Resort incurs substantial legal and administration costs in pursuit of delinquent owners. It charges administration fees to those owners who settle their outstanding balances to recover those costs as far as it is practical to do so. Administration fees are recorded as receipts in the statement of receipts and expenditures. The administration costs are recorded in multiple areas, primarily off-site wages and benefits along with general and administrative.

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 when 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 project 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

The provisions for bad debt expense and 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.

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 Developer and entities related to Developer.

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 2013, 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. The repair was completed in 2012 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:

		2014	2013
(a)	Accounting, reservation, and administrative costs charged by a company related to the Property Manager	$ 633,289	$ 878,827
(b)	Management fees paid to the Property Manager	$ 1,611,253	$ 2,444,165
(c)	Water park lease paid to the Developer	$ 46,400	$ 67,650
(d)	Additional administrative costs for the Renovation Project Fee charged by a company related to the Property Manager	$ 11,909	$ 57,713
(e)	Recovery of deficit from the Developer	$ 105,877	$ 208,384
(f)	Recovery of deficit from the Developer in respect of cancelled intervals	$ 540,230	$ 1,376,036
(g)	Renovation project fees paid by the Developer	$ -	$ 779,419
(h)	Fees charged by the Property Manager related to litigation work performed	$ 120,452	$ -
(i)	Fees charged by the Property Manager related to renovation project work performed	$ 204,927	$ -

(j) The Developer is responsible for maintenance fees on developer owned inventory provided such inventory is online and available for use by the Developer. As such, Developer maintenance fees are calculated as follows:

	2014	2013
Gross maintenance fees - Developer	$ 3,360,250	$ -
Less: cost reductions associated with inactive inventory owned by the developer	(2,661,457)	-
	$ 698,793	$ -

The operating costs reductions associated to inactive inventory owned by the Developer are credited to the Developer due to the change in active inventory usage per the Agreements. Included in operating costs credited are the following: operating wages and benefits, offsite wages, non-wage staff costs, direct operating, contracted services, repairs and maintenance, general and administrative, utilities, insurance, refurbishment and management fee expenditures. This calculation is prepared by the Property Manager and agreed by the Developer, an entity related by virtue of common control.

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
2015	$ 67,650	$ 10,293	$ 77,943
2016	67,650	-	67,650
2017	67,650	-	67,650
2018	67,650	-	67,650
2019	67,650	-	67,650
	$ 338,250	$ 10,293	$ 348,543

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 Agreements, 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

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

	2014	2013
Cash	$ 3,869,315	$ 2,483,825
Accounts receivable	3,463,109	4,624,003
Prepaid expenses	135,389	104,507
Accounts payable and accrued liabilities	(293,650)	(596,327)
Due to the Developer and entities related to the Developer	(66,106)	(678,634)
Deferred revenue	(792,696)	(1,167,790)
Net Assets	$ 6,315,361	$ 4,769,584

9. Prior period adjustment

   The Resort determined that the amount receivable from the Sunchaser Premier Owner's Association, an entity related by virtue of common management, reported on the financial statements for the year ended December 31, 2013 was understated.

The effect of the restatement was to decrease the amount due to the Developer and entities related to the Developer by $162,918 and decrease the bad debt expense and recovery costs in excess of expected delinquent accounts by $162,918 for the year ended December 31, 2013.

10. Comparative figures

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