The Sunchaser Vacation Villas at Riverside, Hillside and Riverview
Financial Statements

December 31, 2015

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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 The Sunchaser Vacation Villas at Riverside, Hillside and Riverview, for the year ended December 31, 2015, 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.

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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, 2015 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.

We also draw attention to note 3 to the financial statements which describes the impact of the accounting policy change related to revenue recognition. Our opinion is not qualified with respect to this matter, though the comparative figures presented in these financial statements have not been adjusted to reflect the impact of the changes in note 3 and only the net assets, accounts receivable and interest receivable were adjusted in fiscal 2014.

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 PROFESSIONAL ACCOUNTANTS

Calgary, Canada
September 28, 2016

The Sunchaser Vacation Villas at Riverside, Hillside and Riverview
Statement of Receipts and Expenditures
For the Year Ended December 31, 2015

	2015	2014 *(as restated - note 10)*
Receipts		
Maintenance fees - timeshare owners	$ 3,879,164	$ 8,322,561
Maintenance fees - Developer (note 4(i))	582,057	698,793
Less: Provision for expected delinquent accounts	-	(1,491,186)
	4,461,221	7,530,168
Bad debt expense and recovery costs in excess of expected delinquent accounts	(124,410)	(671,951)
Maintenance fees, net of bad debts	4,336,811	6,858,217
Renovation project fees and deficit recovery - timeshare owners	417,179	5,219,016
Deficit recovery - cancelled intervals	55,783	540,230
Deficit recovery - Developer	-	105,877
Reservation fees	114,128	215,256
Administration fees	594,235	470,761
Ancillary services	247,840	282,522
Interest	367,532	938,475
	6,133,508	14,630,354
Expenditures		
Operating labour		
On-site operating wages	1,912,529	2,363,006
On-site benefits	300,236	351,094
Total on-site wages and benefits	2,212,765	2,714,100
Off-site wages and benefits	452,869	633,289
Total wages and benefits	2,665,634	3,347,389
Other staff costs	25,002	47,484
Total labour	2,690,636	3,394,873
Non-labour operating		
Ancillary services	42,864	91,940
Direct operating	112,435	216,870
Contracted services	170,212	194,195
Repairs and maintenance	221,863	317,173
General and administrative	176,510	324,008
Legal	1,458,772	1,281,459
Collection agency fees	423,423	496,346
Utilities	931,560	1,007,865
Insurance	133,599	147,497
Property tax	231,692	251,404
Total non-labour operating	3,902,930	4,328,757
	6,593,566	7,723,630
Refurbishment	4,005	-
Total expenditures before management fee	6,597,571	7,723,630
Management fee	810,790	1,611,253
Total expenditures	7,408,361	9,334,883
Excess (deficiency) of receipts over expenditures before renovation project expenditures	(1,274,853)	5,295,471
Renovation project expenditures	(654,459)	(3,749,694)
Excess (deficiency) of receipts over expenditures	$ (1,929,312)	$ 1,545,777

The Sunchaser Vacation Villas at Riverside, Hillside and Riverview

Statement of Net Assets (Deficit)

For the Year Ended December 31, 2015

	Operating	Replacement Reserve: Renovation Project	Replacement Reserve: General	Replacement Reserve: Total	2015 Total
Net assets, beginning of year As restated	$ (1,242,589)	$ 6,425,739	$ -	$ 6,425,739	$ 5,183,150
Deficiency of receipts over expenditures	(881,242)	(1,048,070)	-	(1,048,070)	(1,929,312)
Excess transferred to renovation project	-	-	-	-	-
Net assets, end of year	$ (2,123,831)	$ 5,377,669	$ -	$ 5,377,669	$ 3,253,838

	Operating	Replacement Reserve: Renovation Project	Replacement Reserve: General	Replacement Reserve: Total	2014 Total
Net assets, beginning of year As previously stated	$ (122,870)	$ 4,729,536	$ -	$ 4,729,536	$ 4,606,666
Prior period adjustment (note 10)	162,918	-	-	-	162,918
Effect of change in accounting policy (note 3)	(1,132,211)	-	-	-	(1,132,211)
As restated	(1,092,163)	4,729,536	-	4,729,536	3,637,373
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	$ (1,242,589)	$ 6,425,739	$ -	$ 6,425,739	$ 5,183,150

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 three 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 principally to have the RPF deemed a fundamental breach of contract. The BC Action as advanced as a "test case" to address all common issues of owners who funded the legal costs.

On March 8, 2016, the Honorable Madam Justice Fitzpatrick of the British Columbia Supreme Court issued judgement in the BC Action dismissing all claims of the plaintiff and ruling in favor of the Resort confirming the Property Manager's interpretation of the Agreements.

On April 7, 2016, the plaintiff filed an appeal which was subsequently scheduled for hearing on October 24 and 25, 2016.

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

While the Resort believes the appeal to be without merit, there can be no certainty as to the outcome and the effect of the ongoing proceedings on the future operations of the Resort. Further, there can be no certainty as to the outcome of the Resort Realignment. Uncertainty exists, but is not limited to, 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. The effect of these uncertainties 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 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 receipt of cash occurs.

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 RPF or terminate their vacation interval agreement. Therefore, any RPF revenue is not recognized until such time as an owner makes the decision to pay the invoice.

Deficit recovery

The RPF 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 when 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. Based on management's uncertainty on collectability of overdue maintenance fees subsequent to year end, interest revenue has been recorded on a cash receipt 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 consist 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. As per note 3, the Resort has removed these estimates and are recording maintenance fee and interest revenue on a cash receipt basis.

(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. Significant changes in accounting policies

Maintenance fees and accounts receivable

The Resort has changed the accounting policies related to maintenance fees and accounts receivable to reflect cash receipts during the fiscal year as opposed to accrued receipts, due to the uncertainty of collections based on the litigation in note 1(b).

The change removes the Resort's accrual of estimated recoverable accounts receivable for amounts invoiced but not yet paid by time share owners. The change provides a clearer presentation of the cash needs of the Resort as there can be no certainty as to if or when delinquent amounts will be paid.

By recording receipts on a cash basis and removing the estimated recovery, the change increases the estimated deficit of the Resort by that amount which would otherwise be estimated as recoverable.

The gross outstanding accounts receivables and the amount of prior year maintenance fees collected in the current year has been included in note 9.

Interest

The Resort has changed the accounting policy for interest on overdue maintenance fees to reflect cash receipts during the fiscal year as opposed to accrued receipts, due to the uncertainty of collections based on the litigation in note 1(b).

The change removes the Resort's accrual of estimated interest receivable for interest charged but not yet paid by time share owners. The change provides a clearer presentation of the cash needs of the Resort as there can be no certainty as to if or when delinquent amounts will be paid.

By recording receipts on a cash basis and removing the estimated recovery, the change increases the estimated deficit of the Resort by that amount which would otherwise be estimated as recoverable.

Effect of accounting policy change

Estimated recoverable maintenance fees receivable and interest receivable at December 31, 2014 were $913,985 and $218,226, respectively. Collectively, the $1,132,211 has been adjusted to the opening operating deficit to reflect the change in accounting policies for maintenance fees, accounts receivable, and interest receivable.

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:

		2015	2014
(a)	Accounting, reservation, and administrative costs charged by a company related to the Property Manager	$ 471,237	$ 633,289
(b)	Management fees paid to the Property Manager	$ 810,790	$ 1,611,253
(c)	Water park lease paid to the Developer	$ 30,795	$ 46,400
(d)	Additional administrative costs for the Renovation Project Fee charged by a company related to the Property Manager	$ 1,423	$ 11,909
(e)	Recovery of deficit from the Developer	$ -	$ 105,877
(f)	Recovery of deficit from the Developer in respect of cancelled intervals	$ 55,783	$ 540,230
(g)	Fees charged by the Property Manager related to litigation work performed	$ 382,380	$ 120,452
(h)	Fees charged by the Property Manager related to renovation project work performed	$ 180,732	$ 204,927

(i) The Developer is responsible for maintenance fees on developer owned inventory provided such inventory is online and available for use by the Developer. Where inventory is inactive, the Developer is credited to reflect the cost savings of the Resort. Developer maintenance fees after credits are as follows:

	2015	2014
Developer maintenance fees	$ 582,057	$ 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
2016	$ 30,795
2017	30,795
2018	30,795
2019	30,795
	$ 123,180

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 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 are as follows:

	2015	2014 *(as restated)*
Cash	$ 5,052,403	$ 3,869,315
Accounts receivable	742,305	2,330,898
Prepaid expenses	86,022	135,389
Accounts payable and accrued liabilities	(113,850)	(293,650)
Due to the Developer and entities related to the Developer	(1,605,466)	(66,106)
Deferred revenue	(907,576)	(792,696)
Net Assets	$ 3,253,838	$ 5,183,150

9. Accounts receivable

	2015	2014
Maintenance fees receivable - prior years	$ 4,929,026	$ 2,515,416
Maintenance fees receivable - current year	3,393,759	3,046,282
RPF receivable	731,352	2,165,883
Other	10,853	165,115
	$ 9,064,990	$ 7,892,696

Amounts shown reflect gross outstanding balances and are not reflective of expected recoveries which are affected by numerous factors, including but not limited to: the financial capability of timeshare owners, the location of timeshare owners, the time required for collection and costs of recovery.

During the year, $415,363 (2014 - $513,454) in maintenance fees related to prior years was received by the Resort and are included in maintenance fees for time-share owners.

10. Prior period adjustment

    In 2014, the Resort determined that the amount receivable from Sunchaser Premier Owners 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 $162,198 and decrease the bad debt expense and recovery costs in excess of expected delinquent accounts by $162,198 for the year ended December 31, 2013.

11. Comparative figures

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