Consolidated Financial Statements of

EMBARC MEMBERS ASSOCIATION

(Formerly Club Intrawest)

Year ended December 31, 2016

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INDEPENDENT AUDITORS' REPORT

To the Members of Embarc Members Association (formerly Club Intrawest)

We have audited the accompanying consolidated financial statements of Embarc Members Association (formerly Club Intrawest), which comprise the consolidated balance sheet as at December 31, 2016 and the consolidated statements of revenue and expenses and changes in fund balances and cash flows for the year then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian accounting standards for not-for-profit organizations, and for such internal control as management determines is necessary to enable the preparation of consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated 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 consolidated 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, these consolidated financial statements present fairly, in all material respects, the consolidated financial position of Embarc Members Association (formerly Club Intrawest) as at December 31, 2016 and its consolidated results of operations and cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Comparative Information

The consolidated financial statements of Embarc Members Association (formerly Club Intrawest) as at and for the year ended December 31, 2015 were audited by another auditor who expressed an unmodified opinion on those consolidated financial statements on April 28, 2016.

KPMG LLP

Chartered Professional Accountants

May 23, 2017

Vancouver, Canada

EMBARC MEMBERS ASSOCIATION

(formerly Club Intrawest)
Consolidated Balance Sheet

December 31, 2016, with comparative information for 2015

	2016	2015
Assets		
Current assets:		
Cash and cash equivalents	$ 33,221,514	$ 28,658,098
Restricted cash and investments (note 6)	22,366,498	20,606,741
Short-term investments	-	771,248
Accounts receivable	6,456,563	4,657,907
Other receivables	80,871	89,161
Prepaid expenses	589,466	416,592
	62,714,912	55,199,747
Deposits	318,851	74,778
Future income tax asset	118,002	110,229
Long-term investments (note 6)	12,327,757	12,031,364
	$ 75,479,522	$ 67,416,118
Liabilities and Members' Equity		
Current liabilities:		
Unearned resort fees (note 4)	$ 36,455,798	$ 33,807,289
Accounts payable and accrued liabilities (note 7)	18,577,589	12,541,525
Due to related party (note 5)	1,124,352	1,107,718
	56,157,739	47,456,532
Long-term unearned resort fees	206,493	159,958
	56,364,232	47,616,490
Members' equity:		
Operating fund	1,753,463	1,905,581
Capital fund	17,361,827	17,894,047
	19,115,290	19,799,628
Contingencies (note 8)		
	$ 75,479,522	$ 67,416,118

The accompanying notes are an integral part of these consolidated financial statements.

Approved on behalf of the Board:

_______________________ Director _______________________ Director

EMBARC MEMBERS ASSOCIATION

(formerly Club Intrawest)
Consolidated Statement Revenue and Expenses and Changes in Fund Balances

Year ended December 31, 2016, with comparative information for 2015

	Operating Fund	Capital Fund	Total 2016	Total 2015
Revenue:				
Resort fees paid by members	$ 28,711,229	$ 5,297,608	$ 34,008,837	$ 31,890,135
Getaway fees	428,206	-	428,206	543,026
Other revenue	860,738	-	860,738	889,513
Developer resort fee	1,392,975	256,981	1,649,956	1,408,816
Interest income	389,542	395,402	784,944	823,220
Unrealized loss on holding of investments	-	(123,628)	(123,628)	(158,131)
Realized loss on sale of investments	-	(35,023)	(35,023)	(21,330)
Foreign exchange gain (loss)	(426,834)	(543,130)	(969,964)	4,627,135
	31,355,856	5,248,210	36,604,066	40,002,384
Expenses:				
Capital expenditures	-	5,176,192	5,176,192	4,936,737
Cleaning and security	653,386	-	653,386	611,702
Front desk and concierge	2,672,704	-	2,672,704	2,691,827
General and administration	11,463,788	-	11,463,788	10,684,963
Housekeeping	5,746,997	-	5,746,997	5,759,705
Income tax expense (recovery)	34,423	-	34,423	(40,385)
Maintenance	3,732,875	-	3,732,875	3,527,689
Management fee (note 5)	3,475,133	604,238	4,079,371	4,000,610
Property taxes	1,360,022	-	1,360,022	1,347,652
Utilities	2,368,646	-	2,368,646	2,391,550
	31,507,974	5,780,430	37,288,404	35,912,050
Excess of revenue over expenses (expenses over revenues)	(152,118)	(532,220)	(684,338)	4,090,334
Fund balance, beginning of year	1,905,581	17,894,047	19,799,628	15,709,294
Fund balance, end of year	$ 1,753,463	$ 17,361,827	$ 19,115,290	$ 19,799,628

The accompanying notes are an integral part of these consolidated financial statements.

EMBARC MEMBERS ASSOCIATION

(formerly Club Intrawest)
Consolidated Statement of Cash Flows

December 31, 2016, with comparative information for 2015

	2016	2015
Cash provided by (used in):		
Cash flows from operating activities:		
Excess of expenses over revenues	$ (684,338)	$ 4,090,334
Items not affecting cash:		
Unrealized foreign exchange loss (gain)	820,431	(3,919,801)
Unrealized loss on holding of investments	123,628	158,131
Future income taxes	(7,773)	(37,322)
	251,948	291,342
Changes in non-cash working capital items:		
Accounts receivable	(1,701,112)	276,771
Other receivables	8,290	31,249
Income tax recovery	-	349,176
Prepaid expenses and deposits	(416,947)	357,789
Unearned resort fees	2,693,369	1,693,414
Accounts payable and accrued liabilities	6,036,061	1,216,361
Due to related party	(370,970)	(15,709)
	6,500,639	4,200,393
Cash flows from financing activities:		
Net increase in restricted cash	(1,978,840)	(9,388,173)
Cash flows from investing activities:		
Net increase (decrease) in investments	41,617	1,869,178
Increase (decrease) in cash and cash equivalents	4,563,416	(3,318,602)
Cash and cash equivalents, beginning of year	28,658,098	31,976,700
Cash and cash equivalents, end of year	$ 33,221,514	$ 28,658,098

The accompanying notes are an integral part of these consolidated financial statements.

1. Nature of operations:

On January 29, 2016, Diamond Resorts International completed its acquisition of the Intrawest Resort Club Group from Intrawest Holdings, Inc. ("Intrawest"). The purchase agreement included the assignment of the management agreement of Club Intrawest to the purchaser. Subsequent to the assignment of the management agreement, Club Intrawest was renamed and continued to operate as Embarc Members Association ("Embarc").

Embarc is a non-stock, non-profit company organized and existing under the laws of the State of Delaware, United States of America. Embarc issues points to Diamond Resorts IW Holding Company (Delaware) ("Diamond Resorts") in return for whole or partial interest in real estate units that are directly transferred to a trust and held for the sole beneficial interest of the members who purchase points. Embarc was established to provide a vacation program for the benefit of persons owning resort points sold by Diamond Resorts entitling them to reserve the occupancy of certain resort accommodation.

As agent of the members, Embarc reimburses the manager, Diamond Resorts, for expenses incurred. These costs are proportionately recovered from members as resort fees. Embarc, as agent of the members, also earns incidental revenue in the form of getaway fees and other revenue. These consolidated financial statements include the operating assets and liabilities and operating revenue and expenses of Embarc.

The members' assets, including real estate and equipment at Embarc locations, are held in trust by Computershare Trust Company of Canada, FNTC American Holding Corp., FNTC America Ltd., City National Bank, N.A., and Deutsche Bank Mexico, S.A. for Embarc members who are the beneficial owners of the assets. Accordingly, the cost of the real estate and equipment at Embarc locations are not included in these consolidated financial statements.

At certain Embarc locations, Embarc's facilities and those adjacent properties owned by Diamond Resorts are operated on a common management basis. Accordingly, certain costs and revenues must be allocated between Embarc and Diamond Resorts.

1. Nature of operations (continued):

At December 31, 2016, the trusts held the following real estate and related equipment and fixtures:

	Number of units	
	2016	2015
Location:		
Whistler	114	114
Tremblant	53	53
Panorama	22	22
Blue Mountain	62	62
Vancouver	29	29
Palm Desert	71	66
Sandestin	63	59
Mexico:		
Whole units	54	54
728 weeks in 15 units (equivalent)	15	15
Ucluelet	10	10
	493	484

2. Significant accounting policies:

(a) Basis of presentation:

The consolidated financial statements have been prepared in accordance with Canadian accounting standards for not-for-profit organizations (ASNPO) as issued by the Canadian Accounting Standards Board. All amounts are presented in Canadian dollars, which represents the functional currency for Embarc. The resources and operations of Embarc have been segregated for accounting purposes into the following funds:

- The Operating Fund reports unrestricted revenues and expenses earned and incurred by Embarc on behalf of the members.
- The Capital Fund reports the revenues and expenses related to the real estate and equipment of Embarc, held in the respective trusts.

(b) Principles of consolidation:

These consolidated financial statements include the accounts of Embarc and its wholly owned subsidiaries, Club Intrawest Mexican Branch, Club Intrawest Mexico, LLC and Embarc Mexico S. de R.L. C.V. Co. These companies were formed for the purpose of carrying on business in Mexico.

Intercompany balances and transactions have been eliminated in these consolidated financial statements.

2. Significant accounting policies (continued):

(c) Revenue recognition:

Embarc follows the deferral method of accounting for revenues. Resort fees are reported in their respective funds in the year for which the fee is assessed and the services are provided. Fees received prior to the year of assessment are recorded as deferred revenue. All other revenue is recognized when the services are provided or when the goods are delivered.

(d) Cash and cash equivalents:

Cash and cash equivalents comprise cash in the bank and highly liquid investments having maturities of three months or less at the acquisition date.

(e) Restricted cash and investments:

The balance is subject to internally and externally imposed restrictions. Internal restrictions relate to the Investment Reserve accounts. Embarc holds bonds with maturities of less than one year from the balance sheet date that carry cash balances which cannot be withdrawn for operating purposes. Investments are held with custodian National Financial Services LLC, a single member limited liability company wholly owned by Fidelity Global Brokerage Group, Inc., a wholly owned subsidiary of FMR LLC, and managed by The Rainier Group Inc.

(f) Short-term investments:

Short-term investments comprise highly liquid investments with maturities of less than one year from the balance sheet date, as well as bond securities.

(g) Foreign currency translation:

Embarc’s foreign operations are considered to be integrated. Accordingly, monetary items are translated at the rates of exchange in effect at the balance sheet date, and non-monetary items are translated at historical exchange rates. Revenues and expenses are translated at the average rate of exchange in effect during the period in which they occur. Gains and losses on translation of monetary items are included in the consolidated statement of revenue and expenses and changes in fund balances.

2. Significant accounting policies (continued):

(h) Use of estimates:

The preparation of consolidated financial statements in accordance with ASNPO requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Significant items subject to such estimates and assumptions include the valuation of investments, future income tax assets, accounts receivable and contingent liabilities (note 8). Actual results could differ from those reported.

(i) Income taxes:

Embarc uses the asset and liability method of accounting for income taxes. Under the asset and liability method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the consolidated financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in earnings in the year that includes the date of enactment or substantive enactment.

(j) Financial instruments:

Financial instruments are recorded at fair value on initial recognition. Freestanding derivative instruments that are not in a qualifying hedging relationship and equity instruments that are quoted in an active market are subsequently measured at fair value. All other financial instruments are subsequently recorded at cost or amortized cost, unless management has elected to carry the instruments at fair value. Embarc has elected to carry its investments at fair value.

Transaction costs incurred on the acquisition of financial instruments measured subsequently at fair value are expensed as incurred. All other financial instruments are adjusted by transaction costs incurred on acquisition and financing costs, which are amortized using the straight-line method.

Financial assets carried at cost or amortized cost are assessed for impairment on an annual basis at the end of the fiscal year if there are indicators of impairment. If there is an indicator of impairment, Embarc determines if there is a significant adverse change in the expected amount or timing of future cash flows from the financial asset. If there is a significant adverse change in the expected cash flows, the carrying value of the financial asset is reduced to the highest of the present value of the expected cash flows, the amount that could be realized from selling the financial asset or the amount the Embarc expects to realize by exercising its right to any collateral. If events and circumstances reverse in a future period, an impairment loss will be reversed to the extent of the improvement, not exceeding the initial carrying value.

3. Change in estimate:

During 2011, Embarc changed its tax treatment of accruals for goods and services tax (GST)/harmonized sales tax (HST). The revenues collected and the expenses accrued related to GST/HST are now treated as capital items for tax as any excess of revenue over expense upon settlement will remain in the Capital Fund.

4. Unearned resort fees:

Included in the total unearned resort fees for 2016 is $5,335,069 of capital resort fees that pertain to 2017 fee assessments (2015 - $5,281,262).

5. Related party balances and transactions:

Diamond Resorts, the developer of the resort properties, provides management services to Embarc (in 2015, prior to the sale of the management contract, Intrawest was the developer and manager, see note 1). A management fee is charged at 15% (Whistler, Tremblant) and 10% (Palm Desert, Blue Mountain, Panorama, Vancouver, Sandestin, Mexico and Ucluclet) of expenses and incidental revenues, excluding revenues and expenses for third party services, and revenue from getaway fees. Revenue and expenses recorded by the Vancouver Office are charged at 15%. Revenue and expenses from third party services are subject to a 5% management fee. The management fee for the current year is $4,079,371 (2015 - $4,000,610).

At December 31, 2016, 189,932 of 4,425,798 points (inclusive of 12,247 Advantage Member points) were held by Diamond Resorts for future sale (2015 - 155,251 of 4,319,141 points inclusive of 12,247 Advantage Member points held by Intrawest). During the year, resort fees of $1,649,956 (2015 - $1,408,816 charged to Intrawest) related to points held by Diamond Resorts were charged to Diamond Resorts, of which $256,981 related to contributions to the Capital Fund (2015 - $226,214).

At December 31, 2016, $1,124,352 was due to Diamond Resorts and related entities (2015 - $1,107,718 due to Intrawest).

Traner Smith & Company, PLLC, a certified public accountant firm, provides U.S. income tax services to Embarc. Kenneth Smith, a shareholder of Traner Smith & Company, PLLC, is also a current director on Embarc’s Board of Directors. The tax services fee for the current year occurred in the normal course of business and is recorded at the exchange amount of $20,196 (2015 - $19,519). Embarc engages Canadian tax professionals for Canadian tax related services.

6. Financial instruments:

(a) Fair values:

Embarc's financial instruments consist of cash and cash equivalents, restricted cash and investments, accounts receivable, investments, other receivables and accounts payable and accrued liabilities. The estimated fair values of these financial instruments approximate their carrying values due to the short-term nature of the accounts.

Investments are measured at fair market value and consist of cash and cash equivalents, fixed income instruments and mutual funds comprised of the following:

	2016	2015
Restricted cash and investments at fair value	$ 22,366,498	$ 20,606,741
Short-term investments at fair value	-	771,248
Long-term investments at fair value	12,327,757	12,031,364
	$ 34,694,255	$ 33,409,353
Cash and cash equivalents	$ 13,410,901	$ 13,969,982
Bonds and fixed income funds	15,370,657	12,802,611
Mutual funds	5,912,697	6,636,760
Total investments at fair value	$ 34,694,255	$ 33,409,353

(b) Currency risk:

Embarc is exposed to currency risk on certain balances, including investments, accounts payable and accrued liabilities and accounts receivable, which are denominated in US dollars and Mexican pesos. Embarc manages currency risk by holding funds in the same currency as expected expenses and entering into forward contracts to purchase currencies to match expenses, of which no contracts were outstanding at year end. As at December 31, 2016, Embarc held 2% and 8% (2015 – 0% and 15%) of its cash and cash equivalents in US dollars and Mexican pesos and 50% (2015 – 36%) of its restricted cash and investments in US dollars. There has been no change to this risk exposure from 2015.

(c) Credit and interest rate risk:

Credit risk refers to the risk that a counterparty may default on its contractual obligations resulting in a financial loss. Embarc is exposed to credit risk and a concentration of credit risk with respect to the accounts receivable from members. Embarc assesses, on a continuous basis, accounts receivable and provides for any amounts that are not collectible in the allowance for doubtful accounts.

6. Financial instruments (continued):

(c) Credit and interest rate risk (continued):

Embarc is also exposed to credit risk on its investments in government and corporate bond securities and mutual funds. Embarc manages credit risk by only investing in securities with a credit rating of at least A by at least one rating agency. The overall portfolio in the reserve fund will have a minimum A credit rating and the overall portfolio in the Operating Fund will have a minimum AA credit rating.

It is management's opinion that Embarc is not exposed to significant interest rate or credit risk arising from these financial instruments. There has been no change to this risk exposure from 2015.

(d) Liquidity risk:

Liquidity risk is the risk that Embarc will be unable to fulfill its obligations on a timely basis or at a reasonable cost. Embarc manages its liquidity risk by monitoring its operating requirements. Embarc prepares budget and cash forecasts to ensure it has sufficient funds to fulfill its obligations. There has been no change to this risk exposure from 2015.

7. Government remittances:

Government remittances consist of amounts (such as property taxes, sales taxes and payroll withholding taxes) required to be paid to government authorities and are recognized when the amounts become due. The government remittance amounts other than sales taxes for 2016 and 2015 are in a receivable position resulting in no payable amounts at year-end.

Certain additional amounts have been accrued in the consolidated financial statements related to the GST payable (note 8).

8. Contingencies:

In 2008, Embarc received notification that the Canada Revenue Agency (“CRA”) was preparing an assessment for GST against Embarc. The CRA stated that it intended to assess Embarc for amounts billed to members as resort fees related to Canadian operations.

In 2010, Embarc paid assessments from the CRA totaling $1,939,464 relating to years 2002 - 2008. The funds required to make this payment were transferred from the Capital Fund to the Operating Fund. Embarc has opposed and continues to oppose the CRA's position and has issued notices of objection on all assessments.

On June 9, 2016, the Tax Court of Canada provided a ruling on the treatment of GST in favour of the CRA of which Embarc is in the process of challenging through the Federal Court of Appeal. As the final outcome of this matter cannot be predicted with certainty, there can be no assurance that its final resolution will be in favour of Embarc, however, management does not anticipate the impact on the operations to be material.