Consolidated Financial Statements of

EMBARC MEMBERS ASSOCIATION

Year ended December 31, 2018

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INDEPENDENT AUDITORS' REPORT

To the Members of Embarc Members Association

Opinion

We have audited the consolidated financial statements of Embarc Members Association (the Entity), which comprise:

- the consolidated statement of financial position as at December 31, 2018
- the consolidated statement of operations and changes in fund balances for the year then ended
- the consolidated statement of cash flows for the year then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements, present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2018, and its consolidated results of operations and its consolidated cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "***Auditors' Responsibilities for the Audit of the Financial Statements***" section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG LLP

Chartered Professional Accountants

Vancouver, Canada
April 30, 2019

EMBARC MEMBERS ASSOCIATION
Consolidated Statement of Financial Position

December 31, 2018, with comparative information for 2017

		2018		2017
Assets				
Current assets:				
Cash and cash equivalents	$	28,299,909	$	26,259,294
Restricted cash and investments at fair value (note 3)		19,730,422		24,583,229
Accounts receivable		9,407,765		6,758,576
Prepaid expenses and other assets		921,267		1,094,749
		58,359,363		58,695,848
Investments at fair value (note 3)		16,671,493		11,514,576
	$	75,030,856	$	70,210,424
Liabilities and Members' Equity				
Current liabilities:				
Unearned resort fees (note 4)	$	36,073,098	$	34,322,951
Accounts payable and accrued liabilities (note 5)		5,764,093		7,865,982
Due to related party (note 6)		1,425,310		2,783,813
		43,262,501		44,972,746
Long-term unearned resort fees (note 4)		91,774		143,703
		43,354,275		45,116,449
Members' equity:				
Operating fund		4,584,742		3,654,980
Capital fund		27,091,839		21,438,995
		31,676,581		25,093,975
Contingencies (note 7)				
	$	75,030,856	$	70,210,424

See accompanying notes to the consolidated financial statements.

Approved on behalf of the Board:

Director

Director

EMBARC MEMBERS ASSOCIATION

Consolidated Statement of Operations and Changes in Fund Balances

Year ended December 31, 2018, with comparative information for 2017

	Operating Fund	Capital Fund	Total 2018	Total 2017
Revenue:				
Resort fees paid by members	$ 28,151,029	$ 6,047,965	$ 34,198,994	$ 37,357,661
Getaway fees	640,445	-	640,445	550,438
Other revenue	1,635,894	-	1,635,894	1,292,292
Developer resort fee (note 6)	1,021,369	166,867	1,188,236	1,458,324
Interest income	605,385	580,095	1,185,480	1,128,519
Unrealized gain (loss) on investments	-	674,083	674,083	(182,790)
Realized gain (loss) on sale of investments	-	759,550	759,550	(14,642)
	32,054,122	8,228,560	40,282,682	41,589,802
Expenses:				
Capital expenditures	-	4,875,452	4,875,452	4,402,825
Cleaning and security	133,303	-	133,303	135,966
Front desk and concierge	2,425,984	-	2,425,984	2,834,859
General and administration	7,798,327	-	7,798,327	11,848,233
Housekeeping	7,638,550	-	7,638,550	7,219,793
Maintenance	5,177,002	-	5,177,002	4,730,701
Management fee (note 6)	3,233,158	532,719	3,765,877	3,753,817
Property taxes	1,354,466	-	1,354,466	1,326,588
Utilities	2,456,817	-	2,456,817	2,350,520
Foreign exchange loss (gain)	906,753	(808,733)	98,020	973,990
	31,124,360	4,599,438	35,723,798	39,577,292
Excess of revenue over expenses before undernoted	929,762	3,629,122	4,558,884	2,012,510
Recovery on settlement (note 7)	2,023,722	-	2,023,722	3,966,175
Excess of revenue over expenses	2,953,484	3,629,122	6,582,606	5,978,685
Fund balance, beginning of year	3,654,980	21,438,995	25,093,975	19,115,290
Interfund transfers (note 7)	(2,023,722)	2,023,722	-	-
Fund balance, end of year	$ 4,584,742	$ 27,091,839	$ 31,676,581	$ 25,093,975

See accompanying notes to the consolidated financial statements.

EMBARC MEMBERS ASSOCIATION

Consolidated Statement of Cash Flows

December 31, 2018, with comparative information for 2017

	2018	2017
Cash provided by (used in):		
Cash flows from operating activities:		
Excess of revenue over expenses	$ 6,582,606	$ 5,978,685
Unrealized (gain) loss on investments, a non-cash item	(674,083)	182,790
	5,908,523	6,161,475
Changes in non-cash working capital items:		
Accounts receivable	(2,649,189)	(221,142)
Prepaid expenses and other assets	173,482	(68,430)
Unearned resort fees	1,698,218	(2,195,637)
Accounts payable and accrued liabilities	(2,101,889)	(10,711,607)
Due to related party	(1,358,503)	1,659,461
	1,670,642	(5,375,880)
Cash flows from financing activities:		
Net change from restricted cash and investments	4,852,807	(2,216,731)
Cash flows from investing activities:		
Net change from investments	(4,482,834)	630,391
Increase (decrease) in cash and cash equivalents	2,040,615	(6,962,220)
Cash and cash equivalents, beginning of year	26,259,294	33,221,514
Cash and cash equivalents, end of year	$ 28,299,909	$ 26,259,294

See accompanying notes to the consolidated financial statements.

1. Nature of operations:

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 are allocated between Embarc and Diamond Resorts.

At December 31, 2018, the trusts held the following real estate and related equipment and fixtures:

	Number of units	
	2018	2017
Location:		
Whistler	117	117
Tremblant	54	54
Panorama	22	22
Blue Mountain	62	62
Vancouver	29	29
Palm Desert	71	71
Sandestin	63	63
Mexico:		
Whole units	54	54
728 weeks in 15 units (equivalent)	15	15
Ucluelet	10	10
	497	497

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, Embarc Members Association Mexico Branch, Embarc Mexico, LLC and Embarc Mexico S. de R.L. de C.V. 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.

(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, and collectability is reasonably assured.

(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 at fair value:

The balance is subject to internally imposed restrictions. Internal restrictions relate to the investment reserve accounts, which have been created to fund unexpected future costs at the Board’s discretion. These amounts cannot be withdrawn for operating purposes.

2. Significant accounting policies (continued):

(f) 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. Exchange gains and losses on translation of monetary items are included in the consolidated statement of operations and changes in fund balances.

(g) 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.

(h) 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.

2. Significant accounting policies (continued):

(i) Use of estimates:

The preparation of consolidated financial statements 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, accounts receivable and contingent liabilities. Actual results could differ from those reported.

3. Financial instruments, at fair value:

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

	2018	2017
Restricted cash and investments at fair value	$ 19,730,422	$ 24,583,229
Investments at fair value	16,671,493	11,514,576
	$ 36,401,915	$ 36,097,805
Cash and cash equivalents	$ 14,381,194	$ 17,869,934
Bonds and fixed income funds	17,651,061	12,708,203
Mutual funds	4,369,660	5,519,668
	$ 36,401,915	$ 36,097,805

4. Unearned resort fees:

Included in the total unearned resort fees for 2018 is $5,182,426 of capital resort fees that pertain to 2019 fee assessments (2017 - $4,832,225).

5. Accounts payable and accrued liabilities:

Included in accounts payable and accrued liabilities are government remittances consisting of amounts (for property taxes, sales taxes and payroll withholding taxes) required to be paid to government authorities. The government remittance amounts for both 2018 and 2017 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 Canadian Goods and Services Tax (“GST”) payable (note 7).

6. Related party balances and transactions:

Diamond Resorts, the developer of the resort properties, provides management services to Embarc. A management fee is charged at 15% (Whistler, Tremblant) and 10% (Palm Desert, Blue Mountain, Panorama, Vancouver, Sandestin, Mexico, and Ucluelet) of expenses, incidental revenues, and revenue from getaway fees. Revenue and expenses recorded by the Vancouver Office are charged at 15%. The management fee for the current year totaled $3,765,877 (2017 - $3,753,817).

At December 31, 2018, 119,116 of 4,462,848 points (inclusive of 12,247 Advantage Member points) were held by Diamond Resorts for future sale (2017 - 169,153 of 4,462,848 points). During the year, resort fees of $1,188,236 (2017 - $1,458,324) related to points held by Diamond Resorts.

At December 31, 2018, $1,425,310 was due to Diamond Resorts and its related entities (2017 - $2,783,813). This amount is non-interest bearing, due on demand and with no set terms of repayment.

7. Contingencies:

In 2008, Embarc received notification that the Canada Revenue Agency (“CRA”) was preparing an assessment for Goods and Service tax (“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 opposed the CRA's position and had 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 challenged the ruling through the Federal Court of Appeal.

On July 11, 2017, the Federal Court of Appeal provided its ruling on the revised treatment of GST for the period under review in favour of Embarc. As a result of the ruling, Embarc remitted to the CRA a lump sum GST payment for the period from 2013 to 2017 under the revised treatment. The revised treatment for GST resulted in a recovery on GST amounts previously paid and accrued of $3,966,175 which has been transferred from the Operating Fund to the Capital Fund for the year ended December 31, 2017.

In 2018, the revised treatment and amounts considered statute barred for GST resulted in a recovery on GST amounts previously accrued of $2,023,722 for the period 2009-2010 which was transferred from the Operating Fund to the Capital Fund.

8. Financial risks and concentration of risks:

(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.

(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. As at December 31, 2018, Embarc held 43% and 0.4% of its cash and cash equivalents in US dollars and Mexican pesos and 47% of its restricted cash and investments in US dollars.

(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.

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 or higher credit rating and the overall portfolio in the Operating Fund will have a minimum A credit rating or higher.

It is management's opinion that Embarc is not exposed to significant interest rate or credit risk.

(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 have been no changes to the above noted risk exposures from the prior year.

9. Comparative information:

Certain comparative information has been reclassified to conform with the consolidated financial statement presentation adopted in the current year.