



EMBARC[®]

2017
annual summary



Members of Embarc® can enjoy vacationing in beautifully crafted vacation accommodations across Canada, the United States and Mexico. Each resort was designed to reflect the art and architecture of the region.

EMBARC CURRENTLY CONSISTS OF THE FOLLOWING NINE LOCATIONS:

- Whistler, British Columbia
- Vancouver, British Columbia
- Panorama, British Columbia
- Ucluelet, British Columbia
- Blue Mountain, Ontario
- Tremblant, Quebec
- Palm Desert, California
- Sandestin, Florida
- Zihuatanejo, Mexico

The Embarc Vacation Homes are timeshare units also known as resort interests which are held in trust for members and are not residential homes. While members do not own or receive a deed to a Vacation Home, the real property interest (consisting of leasehold, fee simple, or other interests in real property) are owned or leased by the Club or by a trustee on behalf of the Club for the use of the members, as further described in the Declaration. On December 31, 2017, 497 Vacation Homes were held in trust for the benefit of the members.

The Embarc Members Association is responsible for the overall management and operation of the Club through its member-elected Board of Directors.

The Board of Directors has hired Diamond Resorts™ to oversee operations as the manager of Embarc Members Association.

DIAMOND RESORTS PROVIDES THE FOLLOWING SERVICES THROUGH THE EMBARC MANAGER:

- Operate and maintain the Embarc locations including hiring staff and providing reception, housekeeping, maintenance and all other on-site services;
- Management of a Capital Reserve Fund for refurbishment of and capital improvements to common areas and Vacation Homes;
- Provision of a reservation system and the hiring and training of Member Services Representatives;
- Preparation and management of Embarc budgets and associated financial reporting;
- Management of the Resort Points, including Membership and Reservation Guidelines and Accommodation Calendars;
- Resort Dues invoicing and collection; and
- Development of communication materials such as the member website and the online Embarc newsletter.

overview



T305CCM

OFFICE

ExtraOrdinary[™] *escapes*



Diamond Resorts also operates ExtraOrdinary Escapes[™]. ExtraOrdinary Escapes is a unique exchange program available exclusively to Embarc members.

ExtraOrdinary Escapes includes a select portfolio of international vacation opportunities. ExtraOrdinary Escapes members can use the power of their ExtraOrdinary Escapes membership to



travel the world with leading vacation clubs and resorts. Members can also gain access to a collection of resorts and hotels, cruise vacations and signature once-in-a-lifetime vacations. In addition, members can now take advantage of many exciting member benefits, discounts and additional products and services offered through partner affiliations.





The Embarc Members Association Board of Directors is

responsible for the overall management and operation of Embarc. The Board reviews and approves the annual budget and receives regular reports from the manager. The Board consists of five directors who are elected for three year staggered terms. As of June 30, 2018 the directors are:

Robert Reyes

James Orr

Konrad Kawalec

Mark Nuzzo

Maria Kalber

The current Independent Director is Mr. Konrad Kawalec. Mr. Reyes, Mr. Nuzzo and Ms. Kalber are employees of Diamond Resorts. Mr. Orr is not affiliated with Diamond Resorts.

A sub-set of the Board, the Embarc Members Association Finance and Audit Committee, consists of three Board members:

James Orr, Chairman

Konrad Kawalec

Mark Nuzzo

who review the financial statements with the Auditors of Embarc Members Association along with invited representatives of management.

governance



mem

As of December 31, 2017 the Embarc Members Association consisted of 21,632 memberships. Members are from over 70 different countries with the majority of members living in North America. 55.8% of members reside in Canada, 37.4% reside in the United States while international members make up the remaining 6.8%.

21,632
MEMBERSHIPS
in 70 countries



membership profile



2017

In 2017, the focus was to continue our mission of helping members create the best vacations of their lives and enhancing their vacation experiences.

To that end, we announced four affiliated locations in Europe. All members of Embarc are able to use their points to travel to Paris, the South of France, Italy and Portugal. These accommodations in these resorts were set aside for the exclusive use and enjoyment of Embarc members. We also added more options through ExtraOrdinary Escapes with the ability to book Luxury Hotels and Luxury Cruises. Then in late 2017, we were excited to announce the ability to reserve Member Escorted Journeys for 2018 with itineraries that included amazing destinations such as India, Peru, South Africa, Ireland, Scotland and more. Our goal is to continue to provide the best vacation options for our members while maintaining the high levels of service and quality that our members expect from Embarc and Diamond Resorts.

We also welcomed a change to the Board of Directors as Konrad Kawalec was elected as the new Independent Director. Konrad has been a great addition to the Board and the Finance and Audit Committee and has been participating in a task force to increase communication with the membership.

Finally, in 2017 we received the ruling of the Club's challenge in the Federal Court of the Canada Revenue Agency's (CRA) assessment of the Canada Goods and Services Tax (GST) as it applies to Resort Dues. While the Court agreed with us on a substantial part of the case, we are disappointed by the Court's interpretation of other elements of the tax code's application to the timeshare industry in Canada. However, the Federal Court Appeal stipulated that the GST payable by the Club must be determined in accordance with the Club's methodology, rather than that used by the CRA. The effect of using the Club's methodology is addressed in the Financial Review section of this Annual Summary.

year in review

93.9%
OVERALL
SATISFACTION



m e m



Feedback is received from Members through the post stay survey program that is sent to each Member by email upon their return from their Embarc vacations.

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Consistently year over year, the results show that members continue to be very satisfied with their Embarc vacations. Overall hospitality score during their vacation at the resort was **93.9%**, which is an increase of **.9%** from 2016. Resorts that did exceptionally well this year were:

Embarc Zihuatanejo - 97.2%

Embarc Tremblant - 95.3%

Embarc Palm Desert - 94.5%

Embarc Ucluelet - 94.0%

In 2017, we also implemented the Mid-Stay Survey which provides members the opportunity to rate their vacation mid-stay while they are still at the resort. Members rate their vacation from one being low satisfaction to five being high satisfaction and the results show that members gave the Embarc resorts an average high satisfaction score of 93%.

Member Satisfaction



EMBARC WHISTLER

- Started a two-year program to re-upholster sofas
- Continued Vacation Home carpet replacement project
- Started a two-year project to upgrade bathroom fans to a quieter model
- Upgraded the security camera system



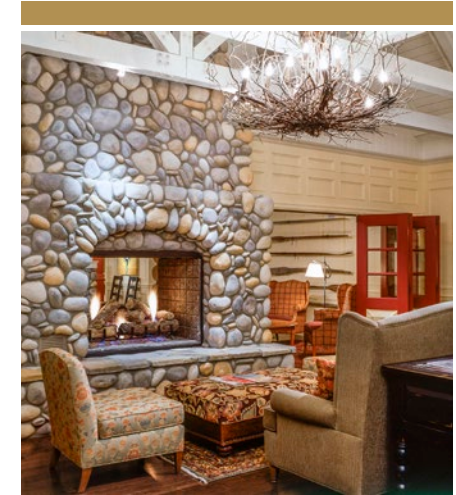
EMBARC VANCOUVER

- Started a three-year project to replace the original heating and cooling system
- Started a two-year program to replace the window sheers



EMBARC PANORAMA

- Replaced Taynton Lodge screen doors



EMBARC BLUE MOUNTAIN

- Completed a three-year program to replace the Vacation Home deck furniture
- Completed a two-year program to re-upholster the living room chairs
- Started a three-year program to replace damaged room shingles
- Replaced the dining benches in the two-bedroom Vacation Homes
- Painted the exterior of the Lodge building
- Replaced the Lodge building air conditioning system
- Replaced the pond bridge

This year, 16% of the members' Resort Dues were allocated towards the Club's Reserve Fund. This fund covers the ongoing costs of the refurbishment of common areas and resort accommodations owned by the Club or held for the Club in trust. Here is a list of the primary upgrades that took place in 2017.

vacation



EMBARC TREMBLANT

- Completed year two of a three-year project to re-upholster the sofas
- Completed the re-upholstery of the living room chairs
- Completed the carpet replacement in buildings 400 and 500
- Painted the exterior of building 600
- Completed project to add handrails to exterior paths and pave selected pathways



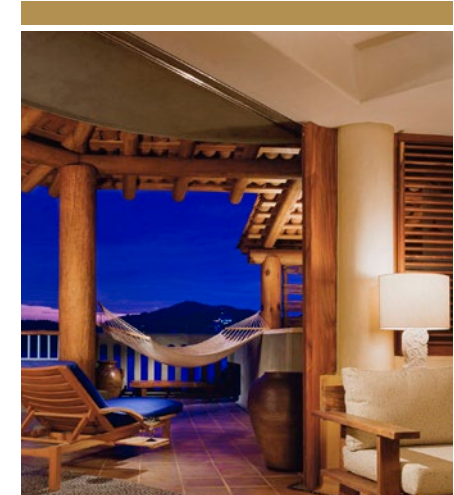
EMBARC PALM DESERT

- Completed year three of a four-year program to update the Vacation Homes
- Completed the furnace replacement program
- Started a three-year program to replace the pool deck furniture
- Replaced the Resort Center concrete pool deck with pavers
- Continued program to replace hot water tanks with on-demand system



EMBARC SANDESTIN

- Completed year two of a three-year program to replace the Vacation Home heating and cooling equipment
- Completed the replacement of the Vacation Home deck furniture
- Completed the program to replace the dining chairs
- Painted the exterior of the building
- Sealed the parking area pavement to extend the life of the surface



EMBARC ZIHUATANEJO

- Completed year two of a three-year program to upgrade the bathroom sinks and counters
- Completed year two of a three-year program to refinish the interior of the dip pools
- Replaced the microwave ovens in the Vacation Homes
- Completed a three-year project to replace the palapa and terrace roofs
- Upgraded the air conditioning electrical system to limit the impacts of power fluctuations

home upgrades



Exciting changes in 2017

The program is evolving continuously to enhance our ExtraOrdinary Escape member's experiences, escapes and benefits. Here is a glimpse of the benefits added in 2017:

- ShipSticks and ShipSkis – we will pick up your gear or luggage at your home, deliver them to your destination, and return the items home again.
- Great American Days is coming soon and members will be able to broaden their horizons and try something new from more than 6,000 amazing experiences such as:
 - Desert champagne balloon flight in Phoenix, Arizona
 - Drive an exotic supercar in Denver, Colorado
 - Scuba diving introduction
 - Skateboard lessons nationwide
 - Spa packages nationwide
 - Drive a stock car at Phoenix International Raceway
 - Private cooking lessons
 - Air combat experience in Phoenix, Arizona
- Air Miles®- members will now be able to use points to purchase air miles from major airlines:
 - United Airlines
 - Virgin Atlantic
 - American Airlines®
 - Southwest Airlines
 - Frontier
 - Hawaiian Airlines®

- Member Escorted Journey's – experience the people, culture, traditions and highlights of the places you have always dreamed of visiting! Journey's to look forward to unforgettable adventures such as:

- **Grand Safari** – The ultimate safari destination
- **Northern Lights** – Go in search of the elusive Northern Lights
- **Essential Scotland** – Visit castles, lochs and palaces

Additionally, we have added the following 17 luxury resorts in the following locations:

- Amalfi
- Tuscany
- Rome
- Barcelona
- Paris
- Paris – Palais
- London
- Maui
- Maui – Loa Lani
- Sonoma
- San Diego
- Amelia Island
- Palm Springs
- Lake Tahoe
- Orlando
- Turks and Caicos
- Costa Rica

inary escapes



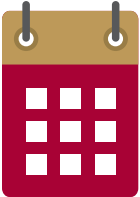
In 2017, Member Services answered and assisted 51,304 calls and responded to 15,302 email communications from members. These contacts resulted in members making 40,202 reservations with Embarc and ExtraOrdinary Escapes. In 2017, the online reservation rate for Embarc and ExtraOrdinary Escapes was 71.09%.

CALLS



51,304+

RESERVATIONS



40,202

EMAILS



15,302+

ONLINE RESERVATIONS



71.09%

member servicing



CONSOLIDATED STATEMENT OF FINANCIAL POSITION:

The Embarc Members Association continues to be in a strong financial position with assets of over \$70 million. Assets consist primarily of 2018 Resort Dues collected and receivable and Capital Fund investments. Embarc investment policy requires the overall portfolio in the reserve fund to have a minimum “A” credit rating and the overall portfolio in the operating fund to have a minimum “AA” credit rating. Investments are not to hold positions of greater than 7 years to maturity and have no corporate holdings greater than 5% of the market value of the entire portfolio. Embarc holds account in three currencies, which are held by 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 Coldstream Wealth Management. These accounts are segregated between the capital fund and the current year’s Resort Dues. These investments are reported on the Consolidated Statement of Financial Position at current market value. At March 31, 2018, the 2018 Resort Dues were 91% collected.

CONSOLIDATED STATEMENT OPERATIONS AND CHANGES IN FUND BALANCES:

In fiscal 2017 revenues exceeded expenses by \$1,901,517 in the Operating Fund and \$110,993 in the Capital Fund. In addition, there was a recovery of \$3,966,175 of GST previously paid and accrued as a result of a Federal Court Of Appeals ruling on the revised treatment of GST for the period under review.

OPERATING FUND

The financial statements were prepared by management in accordance with Canadian accounting standards for not-for-profit organizations and were audited by, and received an approval audit opinion from KPMG LLP.

Overall Operating Fund revenues rose by almost \$4.2 million from 2016 to hit over \$35.5 million. Expenses rose by just over \$2.1 million from 2016 to just under \$33.7 million. As a result, revenues exceeded expenses by \$1.9 million, an improvement of over \$2 million from the small deficiency in 2016. Combined with the GST recovery noted earlier, revenue exceeded expenses by \$5.9 million. The GST recovery was transferred to the Capital Fund leaving the Operating Fund balance at \$3.65 million compared to \$1.75 million in 2016.

CAPITAL FUND

During the year, the Club spent \$4.4 million on capital projects. Some of the projects are highlighted in the Vacation Home Upgrade section of this report. As a result of the transfer of the GST refund to the Capital Account, the Capital Fund balance increased to \$21.44 million compared to \$17.36 million in 2016.

The information and material contained in this Annual Summary are for general references only. A copy of the Disclosure Statement filed under the Real Estate Development Marketing Act (British Columbia) may be obtained from the developer, Diamond Resorts Canada, Ltd.

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financial review

EMBARC