

The Sands at Grace Bay

Owner Q&A

May 2012

What is the overall structure of the Resort and its entities?

If one considers all the expenses that would normally flow through any normal hotel property then in a Condo Hotel model all of those normal expenses will fall into one of three entities.

1. The Resort Management Company (Oceanside Marketing)
2. The Strata Corporation
3. The Individual Condo Owner

What are Strata Corp Related Items and expenses and what are Management Related company items?

Strata typically, the related items would be anything in the resort that would need to be there if it were merely a condominium. This would include grounds, pool and beach, maintenance, Security and Common Area Cleaners.

Management related items will predominantly be those that expenses would be needed to convert the property into an operating resort. This would include Front Desk, Phone Operators, Housekeeping, Accounting, Restaurant, Convenience Store staff, Bellman, Maids, supervisors, Purchasing staff, Reservations staff, costs to run the offices, stores and laundry areas, administrative and executive overhead, all non-strata managers etc.

Some of these items are needed for both and will be described more in detail below.

Costs that typically are passed on to the individual unit owner are those that relate specifically to the consumption and maintenance inside the specific demised walls of the Unit. I.e., power, water, cable, internal repairs and capital improvements.

Who comprises the Strata Corp Board and what is their role?

The Strata Corp Board is a group of 5 Strata Corp owners who are elected on an annual basis by the Strata owners. This election takes place at the Strata Corp Annual General Meeting held in June.

The Strata Corp Board is there for the owners to answer any questions that owners may have regarding Strata Corp items only. It is their responsibility to review the Strata Corp financials, ensure budgets are in line and if not, make recommendations to ensure they are (this may include increasing Strata Fees, Assessments, etc.). The role includes fiduciary responsibility over the activities and fiscal responsibility of the strata corp and related common areas. This includes seeing that adequate insurance is in place, and that long term capex and other key items are being properly considered and administered.

They are there to represent the owners in Strata related items only. They are not involved in the day to day management of the resort. Should owners have questions/comments regarding Management related items, they are directed to contact the Director of Owner Relations or the General Manager.

When are the Strata Corp meetings?

The Annual General Meeting is held the 3rd Thursday in June. We encourage all owners to attend as the meetings are quite informative and provide an excellent venue for questions/comments. Also at this meeting, the re-election of current Strata Corp Board Members takes place. The Agenda for the meeting is sent to all owners prior to the meeting as well as a proxy if they are unable to attend and a voting ballot. There needs to be a quorum in order for the meeting to take place. A quorum consists of 50% of the owners either in attendance or by proxy received. The quorum is established one half hour prior to the beginning of the meeting. If a quorum is not established, the meeting is immediately adjourned and rescheduled for 7 days from that date and whoever is in attendance forms the quorum.

The Annual Board Meeting is held the 2nd Thursday in December. Only Strata Corp Board members and representatives from the Management Company attend this meeting. At this meeting the Budgets are reviewed and approved for the following year as well as a complete review of all the Strata Corp financial reports. This may also include any necessary increases that may need to be implemented in order to have a balanced budget.

For either meeting, owners are requested to submit any Strata Corp related items to be discussed. These can be submitted to the Director of Owner Relations or any Strata Corp Board member.

Minutes of these meetings are distributed to all owners as well as posted on the Owners website.

How do we access the Owners' Website?

www.sandsowners.com. Your username is your last name and the password is provo321. Items posted are the Minutes from the meetings; Financial Statements; Strata Corp Board Members; Newsletters; Updates; etc.

What Expenses are paid by the Strata Corp versus the Management Company?

Again the Strata Corp. is generally responsible for all expenses that usually relate to the common area in a normal Condominium arrangement. This includes irrigation, site lighting, maintenance to the outside of the Buildings, Pool maintenance, landscape material, sewage plant operation.

The management company pays for all of the expenses relating to Office and Administration operations, (There is a 17% Management fee paid to the Management Company from Strata which is explained in detail below) laundry operating costs (power, water, propane, equipment costs etc.), phone system costs (the individual unit costs are billed back to the unit owner), payroll & accounting functions, main computer systems including the capital cost and ongoing maintenance costs, communication costs, Owner's web site maintenance, advertising and promotion.

What Wages are paid by the Strata Corp Versus the Management Company?

By and large the best indicator as to if a wage is paid by the Strata Corp., is to determine if that person would still be required were the property was not run as a resort, as opposed to a normal Condominium operation.

For example, Pool and Beach Attendants, Maintenance Technicians, Painters, Gardeners, Security Guards, and common area cleaning staff fall under the umbrella of the wages dedicated to the Strata area budget. These are staff required to maintain the common grounds regardless of rental operation.

Staff required specifically for the resort operation are generally paid for by the management company. This includes the Housekeeping staff such as room attendants, housemen, coordinators, supervisors, laundry attendants; Front Office staff such as bellmen, receptionists, front desk attendants, concierge and greeters; and Administrative personnel such as human resources, various accounting staff, reservationists. One of the major expense areas relates to all upper management roles. Virtually all of the present executive positions with the exception of the Chief Engineer are paid for by the management company.

Wages that are split also exist are the Engineering Administrator who covers purchasing, work orders, Strata inventories, stocking and deliveries. Additionally there is a vehicle that was purchased by the Management Company but is used by both companies; hence the operating expenses are shared equally.

The one area that is not as clearly defined, is the additional pool and beach staff used to run the water sports area. In order to support this program and offset this cost, the Management Company voluntarily contributes \$20,000 per year to the Strata Corp. based on the premise that this feature greatly enhances the guest experience thus helping us compete with other properties.

Does the Management Company pay Strata Fees?

Yes, the Management Company pays full Strata fees on all of the Buildings it owns within the Strata Plan. This includes, the Laundry Building/Store area, Lobby and Office Area and the Restaurant Area. Please note that fees are not paid on basement areas. The reasoning behind this is that these areas were optionally built by the management company at its own expense. The building could have been built as a slab on grad (no basement) but the extra expense was absorbed to have additional operational area. They are legally surveyed as a separate strata lot and owned by the management company. The reason they do not pay strata fees is twofold. Firstly they are not areas that generate any substantial income and are not positioned like other above ground strata lots. They simply receive a nominal unit entitlement in exchange for not being assessed normal fees. The second reason is these areas are large and often take up the entire ground floor foot print. If the developer had these as full entitlement units, it would in fact have a very heavy weight in the annual voting of the strata corp and would like have significant influence as such. Similar to other resorts, these are treated as passive operational use areas.

Who makes the decision for renovations and major upgrades within the Units in the rental pool?

The Management Company has individual contracts which each owner in the rental pool. This is distinctly different than the Strata Management Agreement which is one agreement between the Strata Corporation and the Management Company. Per the Maintenance and Rental Agreement, the Management Company has the right to set standard that must be maintained in order to ensure the level of quality and most importantly...consistency remains intact in order to retain our current market share and an to be able to work with large scale tour operators who need to know what the standard is throughout the entire property. This is decided by Management based on guest feedback, travel agent comments, and management inspections, owner requests, and the decision in terms of maximum market positioning as it relates to other competitive properties.

Who owns the Water Sports Equipment?

The Water Sport Equipment is owned by the Strata Corp. and is available for use by the Owners without charge. As mentioned previously, the management Company contributes \$20,000 per year towards the maintenance of the equipment and labor to oversee the program.

Does the Developer own any Condo Units at The Sands?

No, neither Developer, nor Management Company or any of its associated companies own any interest in a condo unit, either directly or indirectly within The Sands development.

Who gets the Revenue from work orders that are done in my Unit?

All revenue generated through routine work orders is credited back to the Strata Corporation for the benefit of all Owners. The Management Company does not charge a mark-up on work orders but uses the strata lot management fees to help offset the considerable expenses related to the tracking and overseeing such work.

The only exception to this would be major renovation items in which case the management company would have the right to charge a 10% fee as per Clause 2.4 (a) to cover the cost of overseeing and coordinating the trades and suppliers involved. In many cases the management company has not taken advantage of this fee and has even reduced the mark-up as a gesture of good faith. This includes the recent bathroom renovations.

I can purchase appliances much cheaper at home, than what I am charged for replacement at the resort. Why?

Yes, this is true but please factor what is involved in procuring that appliance and getting to the Island. You have someone to source the item for the best price for the best quality; shipping to the freight forwarder; freight to get it to the island; 6% customs processing fee; 30%+ duty; delivery to the resort; installation.

Why can't I bring my own televisions to the resort?

Some owners would rather bring their own televisions down in order to save the expense as described above. If the television is the same as the ones in the resort, (i.e. exact brand, size etc.) that is fine. They are then responsible for the duty, shipping etc. However, if the television is not the same brand (i.e. LG vs. Toshiba) and the remote breaks, we then have to replace the remote with a Universal remote and hope that it is compatible and these tend to create a number of issues as they frequently lose their programming to that type of set. Additionally, universal remotes do not have all of the same features as a normal remote and can annoy guests. Ideally, there needs to be a standardized TV specification that should be a commercial unit rather than a residential unit. Commercial units will typically have a different remote for the user and a master remote for the management so that guests do not remove channels etc. from the auto programming or change settings that lead to service calls. Many commercial TV sets also have a more robust power supply that is less resistant to electrical surges and drop as well as lightning

What Fees are paid to The Management Company by the Strata Company?

The Management company receives two primary sources of revenues from the Strata Corporation. The first source is a Strata Management Fee which is calculated as 17% of the "Total Strata Assessments" as determined in advance for the upcoming year. This method was chosen in lieu of using "Actual Expenditures" so that the management company would never be rewarded for being over budget or punished for bringing the strata costs under budget.

The second source of remuneration is in the form of a monthly Strata Lot fee which is assessed at \$65.72 Per Strata lot.

These fees are in place to cover the administration and management expenses related to the common area and the administration of billings etc. inside of your unit with the exception of major renovations. This includes all executive management, accounting,

supervision and administration associated with the interior and exterior areas of the property.

Who owns the rights to the name “The Sands at Grace Bay” and the related logo?

The Sands name and logo are owned and trademarked by Oceanside Marketing who is also the company that paid for the initial creation and promotion of the name and logo. Unlike some similar properties, Oceanside does *not* charge any branding fee for the use of the name to those participating in the rental pool.

As such, Owners not in the rental pool are not legally able to use “The Sands” or The Sands at Grace Bay” name or Logo in advertising their units for rental, no matter what format the rental is being offered.

How are the Utilities Billed for my unit?

The utilities are billed through the Strata Corporation and any mark-up residual remains in the Strata Corporation for the benefit of all owners.

Oceanside Marketing has used its Resort Business License to apply for a discounted electrical rate that reduces the base rate to approximately 25 cents per KWH (before any fuel surcharges). This discount would not be available otherwise.

The Strata Corporation adds a markup in order to cover line loss (the difference that will occur between the main meter and all of the sub-meters) and offset the costs of meter readings etc.

This mark-up is credited to the Strata Corp. for the general benefit of all owners. The same applies to the water charges and varies month to month from \$0.04 to \$0.48 per gal.

For full clarification....The Management Company does not take a mark-up of any kind in relation to the utilities billed to the Condo Owners.

Price list	Studio	1-Bedroom	2-Bedroom	3-Bedroom	3-Bedroom Deluxe	Explanation:
Linen Charge	\$ 570.00	\$ 570.00	\$ 880.00	\$ 1,150.00	\$1,200.00	
Fire Extinguisher Check (\$5 markup but goes to strata)	\$ 30.00	\$ 30.00	\$ 30.00	\$ 60.00	\$ 60.00	(\$30 for checking plus \$70 if refill is necessary)
Clean / change A/C Filters – all strata revenues	\$ 95.00	\$ 95.00	\$ 95.00	\$ 190.00	\$ 190.00	(\$95.00 per A/C unit)
Change batteries of safes– all strata revenues	\$ 28.00	\$ 28.00	\$ 28.00	\$ 60.00	\$ 60.00	(\$28.00 per safe)
Change batteries TV remote controls– all strata revenues	\$ 18.00	\$ 35.00	\$ 35.00	\$ 53.00	\$ 53.00	(\$18 per Remote control)
Pest Control– all strata revenues	\$ 35.00	\$ 35.00	\$ 50.00	\$ 70.00	\$ 70.00	
Deep cleaning– OSM labor costs markup is 11 to 14%	\$ 185.00	\$ 235.00	\$ 315.00	\$ 375.00	\$ 435.00	
Light bulbs – strata revenue	\$ 33.00	\$ 40.00	\$ 45.00	\$ 75.00		

Can I verify my meter readings if desired?

Yes. The meter readings are independently read by maintenance and then the readings are put into an allocation sheet by the accounting department. The total of all these readings are then used as the basis for the allocation of the power charges from the main meter.

What Buildings and areas are owned by The Management Company?

The Management Company owns the Main Office and Lobby Building, the Restaurant, the Laundry and Retail Area, as well as the Basements and related improvements in Buildings 1, and 6.

When is something my personal expense versus a Strata Corp Expense?

Generally, if something is worn or damaged inside of a unit then this is an expense of the Owner. Exceptions to this would be something that happens inside a service chase that has pipes going to multiple units. For example if a leak takes place in this chase it is considered a common space and so the repair would be deemed an expense of the Strata Corp.

Anything outside the demised space of your unit is maintained at the expense of the Strata Corp. This includes rear decks, exterior painting on walls and roofs. Screening is considered to be within the demised space of the units and is the responsibility of the Unit Owner.

Who pays for Advertising and promotion?

The majority of this expense is paid for by the Management Company. No direct costs relating to advertising are ever billed to the Strata Corporation.

The management company has always had the right under section 14.2 of the Management & Rental Agreement to make a yearly assessment to the Owners to offset a portion of its marketing Costs. The assessment equates to two nights rack rate (1 high season and one low season rate).

With the high number of new properties coming on line in 2005-2007, and then the massive decline in the travel market shortly after, the need for expansive advertising has increased dramatically. We currently charge the average of one night winter and one night summer rates as per the Management Agreement. It had endeavored to primarily make use of comp nights and has absorbed the bulk of the marketing and promotion costs as much as possible. As an example, in 2011, the Management Company spent \$354,108 in advertising and promotion of the property, and recovered \$91,386 of that back from the Owner group. This also highlights why those not in the rental program and not contributing in any way to the Branding and awareness of the resort are not permitted to usurp on the massive efforts put forth to achieve the awareness we do.

Social Media such as Facebook, Twitter, Blogs, etc. are prime examples which represent 20% of the marketing capture mix, not to mention increased SEO efforts to remain ahead of our Competitive Set.

How many Comp. nights are allowed in my unit and what are they for?

The Management Company has the right to use 6 nights for various reasons as per Section 14.1 of the Management Agreement. Comp nights are usually used in relation to the promotion of the resort, i.e. promotions, travel agent wholesalers, and various fundraisers (Cancer, Aids Foundation, and Children's' Orphanage)

The management company will normally not place (reserve) the comp nights into the system until the last minute so as to not displace a potential booking.

Historically, the management company has only used less than 50% of its complimentary room night allocation

Who Owns Hemingway's?

The Building that houses Hemingway's is owned by the Management Company and is leased to a company in which Terry Drummey is the major shareholder. All of the electricity and other utilities used in the restaurant are paid for by the restaurant company. All repairs and improvements to the Building are paid for by either the Management Company or the restaurant company. (The only exception would be the public bathrooms, which are cost shared with the strata corp as they are used by both restaurant and resort guests and serve as the primary rest room for the pool and public areas.)

Are the Visa/Charge card Costs Shared with the Management Company?

Yes. The average annual charge card costs are approximately 2.9% to 3.1% and this amount is deducted in the calculation of Gross Revenue so that the cost is shared on a 60/40 basis.

How is the Gross Revenue amount shown on my monthly statements calculated (i.e. before the 60/40 split)?

The gross revenue shown on your statements represents the actual revenue received after any related discounts, travel agent and reservation fees. Credit cards fees are also deducted.

The reason these fees are taken of before the 60/40 split so that the Management Company is effectively cost sharing any of these costs or deductions with the Owner. Thus, the Management Company motivated to find the most cost effective way possible to create revenue and avoid fees wherever possible.

How is my unit rotated in the rental pool with other units?

Each Unit within the development is labeled into a specific room category. For example, "Two Bedroom Ocean View". When a reservation request is entered into the system, the computer looks within that specific category and identifies the unit with the lowest number of room nights. An Occupied Room Nights is considered to be either rental nights or owner occupied nights. The system will also take into account future reservations on file as well. The unit with the lowest number of nights will be given the priority on the booking.

Like any system there is never perfection in the ability to have revenues come out equal for all unit holders within a certain category, despite best attempts to do so. Each unit can still differ depending on several factors such as, timing of various rentals, location of the specific unit, amount and timing of Owner use etc. Also to be taken into consideration is the fact that certain units are specifically requested due to various factors.....location, view, etc. Obviously last minute cancellations can also impact bookings, as can last minute room upgrade requests made upon check-in.

On a quarterly basis management does an overview of the various categories to see if there are any units that for one reason or another vary greatly from the average within

a category. If this is evident after taking all of the above factors into consideration we try to take measures to adjust future bookings in order to normalize the performance of the unit.

We hope this serves as clarification as to why a great deal of factors lead to a variance of overall individual unit performance. The Management Company cannot guarantee the equality of unit performance.

I had a work order to repair something in my unit, should this have not been charged to the Guest staying in the unit?

All of us, in our day to day businesses need to make judgment calls on how we want to treat our customers, and this case is no different. On the rare occasion that there is a clear and evident example of deliberate damage from a guest, then the Management Company will most certainly charge the Guest for the damage. In most cases however, any damage incurred is minimal and is not something that can be easily pinpointed to a specific guest. Often this is merely a case of normal wear and tear.

Hundreds of thousands of dollars are spent by the Management Company to build relationships with the key travel agents, tour companies and wholesalers who provide a very large part of our business. It is simply not good business for all concerned to potentially lose a booking over such a small dispute of wear and tear and potentially harm the properties reputation over such matters. While we nevertheless appreciate and understand the frustrations minor repairs can cause, it is important that we look at the larger picture and respect the judgment call the Management Company makes in relation to such matters. Within reason, normal repairs become a part of doing business within the industry but the Management Company by all means will enforce and claim any damage that it feels was deliberately done by a guest.

What are the main sources of our rental income and what fees apply?

While The Sands experiences a very strong returning guest base, the reality is that a large portion of the business is nurtured through relationships with the Travel Agents, Tour Companies and Wholesalers. It is important to note that in many cases these organizations control a large portion of the airlift to the Island so it is essential to be able to attract their business and we do everything possible to maintain a strong relationship and reputation amongst these agencies.

Fees to the Wholesalers and Tour companies normally come in the form of a "net" rate that they will be offered, (normally 20-25% off rack depending on the circumstances).

Travel Agents normally charge a fee based on the booking amount which is usually in the 15% range.

Direct Bookings are the highest yielding method of business, but of course it is harder to get large volumes in this manner. The Management Company is constantly trying to make its best effort to attract direct bookings as it increases the yield for both the Owner and the Management Company. This must be done carefully however, because if the Travel Suppliers mentioned above see specials etc. being offered in the market place that are lower than what they can offer, they understandably begin to reduce their support of the property and will send bookings away from properties that undercut them. It is also important to understand that the Wholesalers also often tie up large volumes of airlift and in turn can make it difficult for direct booking customers to find available airlift during peak times. Thus it is critical to maintain a well-balanced relationship with all providers during the year.

In all cases, the Management Company is motivated to try and find the highest yielding way to attract business as these fees proportionately reduce its overall revenue as well.

Does the Management Company or the Developer have any Conflict of Interest with any of the Executive Board members?

No, neither the Management Company, nor the Developer, has any business dealings with any of the members of the Executive Committee that would in any way lead to a conflict of interest.

Who pays for Vehicle Expenses?

Each party (Strata and Management Company) are responsible for its own vehicle expense. For example all Management Company vehicles should be paid for by Oceanside Marketing and the Strata Corporation should be paying for any Maintenance Vehicles it requires.

Who owns the Gym Equipment?

The Gym Equipment is owned by the Strata Corporation. The initial Gym equipment which is a Strata Corporation asset would normally be charged to the Strata Corp., however this was not done and all of the initial equipment was provided by the Management Company at no charge.

Replacements are the responsibility of the Strata Corp.; however the Management Company has purchased some items periodically over the years and paid 33% of the costs of the last gym renovation.

The Strata Corporation covers the daily operating costs of the gym.

As discussed in the December 2011 Strata Board Meeting, the Developer would like to enhance the gym experience with a structure similar to the Gansevoort and other new resorts that have opened over the past 5 years. The Management Company has offered to split the cost of the new gym facility with the Strata Corp on a 60/40 basis should that facility be approved.

Who Owns the Lounge and Gym Area?

These areas are owned by the Management Company. The use of the gym area is provided to the Strata Corp. through a license agreement at no charge. The operating costs of the Gym are the responsibility of the Strata Corp and the operating costs of the Lounge are covered by the Management Company as it has full discretion over the use of this area.

Why are there only Quarterly draws if my Statement shows I have funds in my account?

The fact that you show a positive balance in your account does not necessarily mean that the funds from your rentals have been received by the Management Company. Because many booking are paid through travel agents and tour companies, the Management Company is forced to carry a large amount of account receivables.

This can mean that the rentals proceeds which are shown on your statement may not be actually received for 60-90 days. During certain parts of the year the Management Company can have nearly \$1,000,000 + in accounts receivable, especially near the end of busy season. This, as you can appreciate, is a large amount even if divided over the approximate 85 owners in the rental program.

Some Rental Management Companies only report revenue on the Owners statement when it is actually received in cash from the travel agents etc. We prefer to report the revenue to you when it is earned (i.e. in the month that the guest stay took place) so that you can more easily track the performance of your unit in a timely manner. This can however create a timing issue with cash flow which is we allow for draws on a quarterly basis based on the closing balance of the last quarter reported.

What happens with Bad Debts?

The Management company can deduct back rental income (the 60% portion), should a guest stay that was reported on a statement become uncollectible.

To date the Management Company has absorbed the bad debts that have arisen and has not made charge back claims as a gesture towards positive Owner relations. It is possible however, that as volumes increase, the occurrence of bad debts might rise. Should this become more prevalent, then the Management Company may be forced to offset bad debts back to the Owner who received credit for the rental in advance. This is one of the reasons why some other Resort Management Companies in TCI only credit revenues to your Owners statements once they are actually received, and not when the guest stays in your unit to avoid this issue.

The Management Company has absorbed over \$100,000 in bad debts to date.

Who pays for the Washrooms at Hemingway's?

The cost of operating the washrooms at Hemingway's is split 50/50 between the Strata Corporation and Hemingway's. This includes items such as water, cleaning and maintenance.

Does the Management Company share in the reservation and agent fees?

Yes. Because these costs are deducted before the calculation of Gross revenue on your statement, these costs are in essence split 60/40. This fee is 3.5%.