

Update from your Board of Directors

Sea Palace Timeshare Owners Association

March 2017 Update

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REFINANCE of EXISTING LOAN – PLEASE REMIT YOUR VOTE AS SOON AS YOUR PROXY ARRIVES.

As part of our purchase of Sea Palace Resort in 2015 and the related lengthy and expensive litigation (\$750,000), plus cost over-runs that elevated our total renovation to \$3.4 million (including a new roof), and new furniture of almost \$500,000, our Owners previously voted to approve a loan for these purposes. Our Owners greatly benefitted from the purchase of the four non-timeshare units (front desk, laundry & 2 offices). In addition, our Owners purchased 100% of the Developers Rights, which includes the vital right to sell unsold weeks. This 'life or death battle' guaranteed Owners that no unscrupulous Developer could take away our Owners' weeks, like we have witnessed at five timeshares in Sint Maarten in the past three years. Now, we are the only Owner-owned timeshare resort in Sint Maarten. To fund this vital legal battle, the new furniture, and to assist with renovation cost overruns, Ken

McKelvey with Defender Resorts personally lent our resort \$1,200,000+. Presently, we owe Ken \$1,148,681 and we are requesting our Owners to vote to refinance the loan for a repayment schedule which will be up to 15 years. The loan terms include the Right of Anticipation, which permits us to repay the loan in full at any time rather than pay during the full term. It is our intention to retire this debt much earlier. However, we need the cushion of the longer term so that the monthly payments will be low in the initial years. Incidentally, the interest rate that Ken offered our Owners is approximately 2½% lower than the interest rates offered by our banks. We are most grateful to Ken. We are calling a Special Owners Meeting so that you can vote (hopefully yes) to allow us to extend the loan terms for up to 15 years. Also, there is a small piece of land south of the building (right behind Pink Pearl Oceanside) that runs from our building to the Boardwalk. This land is owned by the Sint Maarten Government and one day, we may want to negotiate a purchase.

Your Notice of Meeting (scheduled for March 30, 2017) will be mailed to you with your proxy. Please mail the proxy back to us even if you cannot attend. **WE NEED YOUR VOTE!!!**

RENOVATIONS ARE COMPLETE. We are delighted to announce the completion of the total renovation of the interior and the exterior of Sea Palace, which was begun in the spring of 2013. We are hearing rave reviews from our Owners, as well as exchangers and walk-in renters. As with all renovation and construction projects, there are still loose ends to be handled. However, most of them are minor. The only significant problem involved the shipment of the washing machines and dryers. We did not receive two washers and two dryers. Units 205 and 405 do not have them yet, but they were back-ordered from the U.S. in December. We have 33 residential units in Sea Palace. New furniture has been installed in the 18 units on floors 3, 4 & 5. There are 15 remaining on floors 1, 2, 6 & 7. This furniture will be installed by the end of May.

EARTHQUAKES. As you may know, we have experienced four earthquakes between August 2015 and March 2016 – far more in a short period of time than in anyone's memory. The March 2016 earthquake was the strongest. It caused a number of cracks in the exterior walls and some cracks in the interior walls. The exterior cracks on the north, west and south walls have been repaired and we are in the process of repairing the east wall now. Toward the later portion of the "rainy season" which ended in early January, the cracks allowed water into some of the east wall units ending in "1" and "6." As soon as the cracks are repaired, we will touch-up inside the units that received water intrusion. Due to the extent of the damage, we intend to file a claim with our insurance carrier, which has been notified; however, earthquakes typically are deemed 'natural occurrences' and our ability to collect is not known at this time.

ELECTRICITY & WATER SAVINGS FROM RENOVATION. One of the renovation goals was to reduce our large utility bills. Our LED lighting throughout the resort, high efficiency A/Cs & appliances, tankless hot water heaters, etc. played a huge roll in reducing utility expenses. Our new plumbing devices use less water and we eliminated leaking plumbing in the building. Incidentally, GEBE (Sint Maarten government-owned electricity, water & sewage) enters into multi-year purchase agreements for oil, so the savings below are not impacted by the fluctuating oil prices because the cost per kilowatt hour has remained the same since. This savings will be applied toward paying our renovation loan (see next page) and as always helping to keep maintenance fee increases to the absolute minimum.

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| <u>Electricity</u> | 2010 | \$149,614; 2011 \$151,706; 2012 \$147,215; |
| | 2016 | \$ 46,744 (yes, only \$46,744) |
| <u>Water/Sewage</u> | 2010 | \$67,214; 2011 \$53,212; 2012 \$63,431 |
| | 2016 | \$36,051 |

SPECIAL ASSESSMENTS & MONEY SPENT. Special Assessments were for the years 2013, 2014, 2015, 2016 and 2017. This year, 2017, is the final year and these assessments will be billed on June 1 and in the fall. The total cost of litigating and purchasing the resort, plus the renovations, including new furniture, and the planned new roof totals approximately \$4 $\frac{2}{3}$ million.

WISH LIST. We have a considerable list of items that we hope to accomplish in the future as funds become available. A few examples are that we want to box-in the individual unit electric meters that are in each floor hallway, add shelving in the bathrooms, and purchase the small plot of land between the back of our resort (ocean side) and the boardwalk. This potential purchase will block any potential vendors from using it as a place to store jet skis or sell items, which would create a significant nuisance and eyesore for our resort.

SEA PALACE RESERVE / REPLACEMENT ACCOUNT. We have experienced the pain of the previous management company's failure to establish a fiscally responsible Reserve/Replacement Account. This resulted in our recent Special Assessments. Your Board of Directors and Defender Resorts are now going to allocate an appropriate amount to the Reserve/Replacement Account which will be adequately funded each year. This will eliminate the need for future Special Assessments. This will increase the budget somewhat, but this is a fiscally responsible plan and it must be done and augmented by new sales explained below.

MAINTENANCE FEE PROJECTIONS. Despite the huge cumulative amount of expenditures listed above which tally to \$4 $\frac{2}{3}$ million, we do not foresee the need for

large increases in Maintenance Fees. Our current projections reveal that increases should be in the mid-single digit percentages in the foreseeable future, with the advent of increased sales.

SALE of UNSOLD WEEKS by CAPITAL RESORTS GROUP, LLC. In January, our Association entered into an agreement with Capital Resorts Group, LLC (“CRG”) to sell our unsold weeks. This contract authorizes CRG to have the *Exclusive Right* to be our Sales Agent. Presently, slightly more than one-fourth of our 1,664 weeks are unsold. Clearly, we need to generate more Maintenance Fees by selling these unsold weeks. It is vital to our cash flow and it is vital to keeping our Maintenance Fees as low as possible. As you may recall, we had hoped to start selling units a few years ago, but we could not legally do so. Now that we have cleared that legal hurdle, our agreement with CRG, a U.S.-based company, will give us the best chance to sell current units that are unsold and thereby increase our revenue. The contract stipulates that CRG will sell 100 weeks per year for three years, i.e. 300 weeks during the three years. CRG is presently filing the necessary registration forms and related documents that will allow them to begin selling, hopefully in June. For 2017, our Maintenance Fees are: Studio – \$591; 1-Bedroom – \$625; Penthouse - \$685. The average Maintenance Fee is approximately \$625 per year. Thus, by June 2018 we expect to have an additional \$62,500 per year in Maintenance Fees; June 2019 – \$125,000; June 2020 – \$187,500. At the end of the three-year contract, we will discuss with CRG the possibility of selling the approximately 100 remaining weeks. If this were to happen, this would bring us an additional \$250,000 per year. This agreement will not impact current Owners because current Owners will always have the right to re-sell their units and this contract leaves our Owners’ right intact.

DEFENDER RESORTS SOLD (our Management Company). On May 31, 2016, CRG purchased 100% of Defender Resorts, Inc. CRG also purchased two other timeshare management companies in the past year. However, CRG is a Timeshare Sales organization and a Vacation Club. CRG intends for the timeshare management companies to continue to be managed by their respective timeshare management company staff, with some consolidation of tasks. In our case, Defender Resorts will continue to manage with no changes and our management contract remains between Defender Resorts and our Association. All correspondence, timeshare billings, telephone and e-mail communications, etc. will continue to be with Defender Resorts. Defender Resorts will have the same staff, including Ken McKelvey, the previous Chairman & Chief Executive Officer of Defender Resorts, although he will be performing as an independent contractor to CRG during the four years of his contract. To our benefit, Ken will no longer have primary responsibility for all of the timeshares managed by Defender Resorts. Instead, he will only have responsibility for Coral Sands Resort, Grand Cayman; Turtle Reef, Jensen Beach, FL; and, Sea Palace. Happily, we will have

more of Ken's time than in the past. Ken is extremely dedicated to Sea Palace. In the past few years, he has purchased eight weeks in Sea Palace. He has a vested interest in our wonderful resort as a multi-week owner and as our sole financial lender, as mentioned in the first topic above.

NEW ROOF. Although our cash flow is tight now, it is necessary to replace our roof in 2017. We had hoped (and forecasted) the roof would last a few more years. But, it will not. Our metal roof was installed in 1984 – one-third of a century ago. Happily, it lasted this long despite the harsh environment with salt and hurricanes. But, it has outlived its useful life and it is leaking. We cannot afford to have water intrusion into our brand-new resort. Thus, we must bite the bullet now and replace the roof. A Professional Engineering firm delivered the plans for the new roof early this month. We are using these plans to solicit Requests For Proposals (“RFP”). These RFPs are being sent to roofing companies. We will evaluate each proposal when received, after which we will select a roof contractor and schedule an installation date. We will purchase the metal roof materials directly, so as to preclude the roofing contractor from increasing their proposals with their commission/mark-up on the purchase of materials.

ONE NON-TIMESHARE UNIT. When our Owners purchased the four facilities mentioned in the above paragraph, one of the offices was converted to a Studio rental unit. It would have been very expensive for us to pay to have this unit included as a timeshare unit because under Dutch law it would require a completely new filing of all of our timeshares, for simply adding only one more unit. Additionally, this Studio is smaller than our other Studios. We have been renting this unit, known as Unit 106, on the first floor (the floor above our lobby), and we have enjoyed good rental income. Incidentally, we always try to rent our Association-owned units and this rental income is used to minimize our Maintenance Fees.

CASH FLOW. Our cash flow during the next year or more will be more restricted than in future years, as we await the additional sales revenue from the upcoming CRG sales. This means that we will not be able to perform many of the items on our Wish List during the next year or more. As our cash flow improves over the next several years, we will be in a position to begin performing the items on our Wish List, as well as repay Ken.

RCI EVALUATION / RATING. The RCI Evaluation Team met at Sea Palace with Ken this past summer and they were most impressed. However, renovations were still ongoing at that time and none of our new furniture had been installed. RCI committed to return after the final delivery of new furniture, which is scheduled for May. They want to actually witness that we accomplished everything we promised. Ken is well regarded by RCI and he is personally handling this RCI evaluation for us. The evaluation will

result in a higher rating for Sea Palace which will increase our trading power and trading points.

NEW BEACH TOWEL POLICY. We will place beach towels in Owners / Exchangers / Renters units prior to their arrival. Owners, exchangers and guests will be responsible for the towels for the duration of their stay. If the towels are not in the unit during checkout, the occupants will be charged \$20 per towel. We now have washing machines and dryers in most of the units, so occupants can wash their towels daily, if they desire. We will no longer exchange towels at the Reception Desk on a daily basis. The only exception is for occupants in the Studios, if they desire. They do not have washing machines and dryers in their units. Also upon request, occupants can have fresh beach towels on Wednesdays when the housekeeping staff changes all the unit towels and sheets. This new policy will significantly reduce payroll expenses, as well as reducing electricity and propane. This savings will be used to keep Operating Expenses low and, therefore, Maintenance Fees low.

NEW BEACH CHAIR POLICY. We have experienced problems with our beach chairs. Accordingly, we will no longer allow occupants to visit our beach early in the morning and place their towels on the chairs in an attempt to “reserve” those chairs exclusively for them. We have had many instances where the chairs have been “reserved by Owners/Guests” and we have seen that the occupants who “reserve” them at 7 AM or 8 AM will sit in them for a short time and then leave. They do not return until mid-afternoon. These chairs are generally the coveted chairs on the front row and this is unfair to other Owners and Guests. If our beach boy and/or our staff observe chairs being “reserved,” they will remove the towels and any other items left behind. They will deliver them to our Reception Desk where the occupants may reclaim them. For occupants who leave for lunch or other breaks, and if they return in less than two hours, they will not have their towels and belongings removed.

NEW GENERAL MANAGER. We are proud to announce that we have recruited Patrinia Elliott as our new General Manager effective January 1, 2017. (Pronounced: *Pa tree knee ah*). She comes to us from Port de Plaisance, a timeshare resort on the Dutch side, and she has very good timeshare management experience.

NEW DEFENDER OWNER SERVICES MANAGER. With the excellent Reception Desk staff that we now have, all inquiries should be directed to them at our Toll Free phone number from Canada and the U.S., 1-800-969-1805 or 1-721-542-2700 (International calling rates apply). If for any reason our Sea Palace staff cannot handle your request, we have a new Defender Owner Services Manager in Myrtle Beach, South Carolina. She replaces Laken Dillard-Johnson who has been promoted to Assistant Controller. The new Owner Services Manager is Shannon McKelvey and she can be reached at 1-843-449-6500, Extension 234.

SEA PALACE WEBSITE UPDATED. Please logon to www.SeaPalaceResort.com to see new pictures of the resort in early June. We will not update Resort interior pictures until ALL UNITS have new furniture.

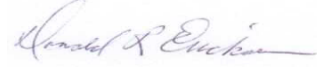
Tropically yours,



Art Bell, President



Theo R Nix, Jr, Vice President, Esquire



Don Ericksen, Vice President



Ruth Watkins, Secretary



Barry Slaughter, CPA, CGMA, CBM, Treasurer