

BUYER'S GUIDE

TYPES OF OWNERSHIP

FREEHOLD

Page | 1

A freehold interest (also known as a fee simple) is the more precise term for what we ordinarily refer to as ownership of a property. The owner of the freehold interest has full use and control of the land and the buildings on it, subject to any rights of the crown, local land use bylaws and any other restrictions in place at the time of purchase.

LEASEHOLD

In some cases you might purchase the right to use a residential property for a long, but limited, period of time. The owner of this right of use has a type of ownership called a leasehold interest. This type of ownership is used most often for townhouses or apartments built on city owned land. It is also used for single detached houses on farmland and on First Nation reserves.

Leasehold interests are frequently set for periods of 99 years, but regardless of the length of the original term, you will only be able to purchase the remaining portion. Of course, the shorter the remaining portion, the less you, or the person who eventually purchases from you, will be willing to pay for the leasehold interest.

STRATA TITLE OWNERSHIP

Ownership of a strata lot is similar to ownership of any fee simple lot. The strata title ownership is designed to provide exclusive use and ownership of a specific housing unit or lot (the strata lot), which is contained in a larger property (the strata project), plus shared use and ownership of the common space. The owners also share financial responsibility for its maintenance.

CO-OPERATIVE

In the co-operative form of ownership, each owner owns a share in a company or co-operative venture, which, in turn, owns a property containing a number of housing units. Each shareholder is assigned one particular unit in which to reside or lot on which to build.

WHEN MORE THAN ONE PERSON OWNS A HOME

If you buy a home with another person or with several other people, one of the following types of ownership agreements will be in force.

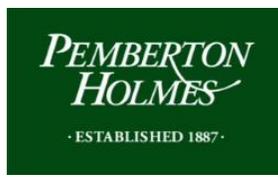
JOINT TENANCY

Each owner holds an equal share in the property regardless of his or her individual financial contribution. An owner can assign his or her share to a non-owner while living, or in a will, thereby ending the joint tenancy. If an owner dies without any specific arrangements having been made, his or her share is automatically transferred to the other owner (s).

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TENANCY IN COMMON OR UNDIVIDED OWNERSHIP

Each owner holds a specified portion of the property but the portions do not have to be equal. Each individual owner can sell or assign his or her share to any other person, subject to any restrictions that were originally stated in the deed.

Page | 2

CO-OWNERSHIP

Co-ownership occurs when the ownership of the whole property is divided (not necessarily on a pro rated basis) between two or more individuals. Usually there is a written agreement between different co-owners in which the rights of each co-owner may sell his or her right of ownership or dispose of it as he or she wishes.

WHAT CAN YOU AFFORD?

Buying a home is an exciting time for everyone, whether you are a first time buyer or a seasoned homeowner. Before you start looking, it is important to know how much you can afford. This knowledge will allow you to spend your valuable time looking productively at homes which are within your predetermined price range.

You can calculate a relatively accurate figure for yourself if you assemble the following information:

- (+) The cash you have saved to be used for this home purchase called the down payment
- (+) Plus: The amount of money borrowed
- (-) Less: Closing costs and other last minute costs
- (=) Equals: Maximum Price: \$_____

THE DOWN PAYMENT

Lending institutions may require you to make a down payment on the purchase price of the home. There are some institutions that will lend 100% and not require a down payment. Lending policy may vary from time to time. However, as a general rule, you should make your cash down payment as large as possible. The less money you borrow, the smaller your monthly payments. Your deposit will form part of your down payment.

THE BORROWED MONEY

The easiest way to determine how much you will be able to borrow as a mortgage loan is to consult with one or two lending institutions.

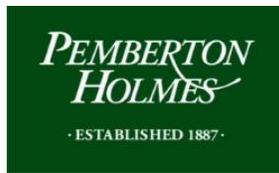
Note: You are advised to check with your current financial institution if you are intending to use them, to make sure that it will lend money for a mortgage on Denman and Hornby Islands.

These lenders will apply standard tests, based on your family's current income and debts, in order to decide the amount of money they will lend to you. They will ask for information about your finances and make a thorough credit check, in order to be sure you are able to repay a loan.

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BUYER'S GUIDE

HOW MUCH CAN YOU AFFORD TO PAY IN MORTGAGE PAYMENTS?

BASED ON YOUR INCOME

Page | 3

Allow no more than 30% of your gross monthly income (before deductions) to make your monthly housing payments. This test of your ability to repay a mortgage loan is generally referred to as the gross debt service ratio. Complete the following calculation to determine the approximate amount you will be able to spend for the mortgage payment and the property taxes.

- (+) Your gross monthly income
- (+) Spouse's gross monthly
- (+) Other income (monthly)
- (=) Total monthly income: \$ _____

(x) Multiply the Total line above by 30% to calculate your

Total monthly maximum housing payment: \$ _____

BASED ON YOUR OTHER FINANCIAL OBLIGATIONS

If you have other monthly financial obligations, such as car or credit card payments, the lending institution will also apply the total debt service ratio test to determine the maximum mortgage loan for which you can qualify.

(+) Your monthly housing payment as calculated previously

Your monthly debt payments (car, credit cards, etc.)

(=) Total monthly payments \$ _____

The total of your monthly housing payments added to your other monthly debt payments should not exceed 40% of your monthly gross income. The gross debt service ratio and the total debt service ratio tests protect both you and the lender by ensuring that you can reasonably afford to repay.

Many lending institutions will pre-qualify you for a specific size and type of mortgage loan before you begin searching for your new home. Taking the time to apply for a pre-approved mortgage will give you the security of knowing how much you can afford to spend.

Before concluding the loan agreement, most lending institutions will require an appraisal of your selected property. The appraised value is a professional opinion of the value of the home and may differ from the purchase price you are willing to pay. The appraised value may affect the final size of the loan.

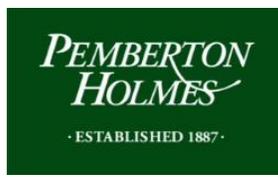
THE CLOSING COSTS

You must be prepared to pay most, and perhaps all, of the following closing costs:

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PROPERTY PURCHASE TAX

The British Columbia Provincial Government imposes a property transfer tax that must be paid before any property can be legally transferred to a new owner. The tax is 1% on the first \$200,000 of the property value and 2% on any value over \$200,000.

Page | 4

GOODS AND SERVICES TAX

If you purchase a newly constructed home, you may be subject to 6% GST on the purchase price. However, if the home is under \$350,000, a rebate will reduce the GST. If the price is over \$350,000 the net GST to be paid increases gradually until it is a full 6% at amounts over \$450,000. For more information you should contact Canada Revenue Agency or visit their website at www.cra-arc.gc.ca

PROPERTY TAX

If the current owners have already paid the full year's property taxes, you will have to reimburse them for your share of the year's taxes.

APPRAISAL FEE

When the lending institution requires an appraisal of the property before approving your loan, it may be your responsibility to pay the appraiser's fee.

SURVEY FEE

The lending institution may also require that a survey certificate be presented to them. The purpose of the survey is to formally establish the boundaries of the property and to ensure that all buildings are within those boundaries. If the current owner cannot provide a recent survey certificate, it will be your responsibility to pay the surveyor's fee.

MORTGAGE APPLICATION FEE

Lending institutions may charge a mortgage application fee. This application fee may vary between institutions.

MORTGAGE DEFAULT INSURANCE

This type of insurance is required on all mortgage loans in excess of 75% of the appraised property value. Its purpose is to insure that the lender will not lose any money if you cannot make your mortgage payments and the value of the property is not sufficient to repay your mortgage debt. The insurance premium is paid to the lender and ranges from 1.5% to 3% of the loan value; however, in most cases this premium is added to the loan amount, and paid for over the term of the loan.

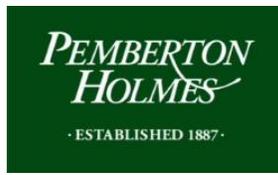
LIFE AND DISABILITY MORTGAGE INSURANCE

At your option, you may purchase insurance, which will ensure that your outstanding mortgage balance is paid if you die or become disabled.

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FIRE AND LIABILITY INSURANCE

The mortgage lender will insist that you purchase an insurance policy which guarantees that, in the event of a fire, the lender will receive the balance owing on the mortgage loan before you receive any insured proceeds.

Page | 5

LEGAL FEES

The transfer of property ownership from the seller to the buyer must be recorded in the land title office in order to protect the new owner's interests. You will probably want to engage a lawyer or a notary public to act on your behalf during the completion of your purchase. The legal fees for this service will include payment of a registration fee. If you are financing your purchase with a new mortgage loan, there will be a further fee to prepare and register the mortgage documents.

OTHER COSTS TO CONSIDER

- Moving expenses
- Redecorating or renovation costs

WORKING WITH AN AGENT

THE AGENCY RELATIONSHIP

REALTORS® work within a legal relationship called agency. The agency relationship exists between you, the principal, and your agent, the company under which the individual salesperson, who is representing you, is licensed. The essence of the agency relationship is that the agent has the authority to represent the principal in dealings with others.

Agents and their salespeople are legally obligated to protect and promote the interests of their principals as they would their own. Specifically, the agent has the following duties:

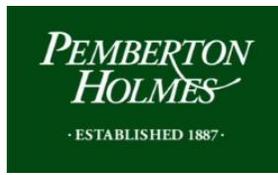
1. Undivided loyalty. The agent must protect the principal's negotiating position at all times, and disclose all known facts that may affect or influence the principal's decision.
2. To obey all lawful instructions of the principal.
3. An obligation to keep the confidences of the principal.
4. The exercise of reasonable care and skill in performing all assigned duties.
5. The duty to account for all money and property placed in an agent's hands while acting for the principal.

You can expect competent service from your agent, knowing that the company is bound by ethics and the law to be honest and thorough in representing a property listed for sale. Both the buyer and the seller can be represented by their own agents in a single transaction.

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BUYER'S GUIDE

DUAL AGENCY

Dual agency occurs when a real estate agent is representing both buyer and seller in the same transaction. Since the agent has promised a duty of confidentiality, loyalty and full disclosure to both parties simultaneously, it is necessary to limit these duties in this situation, if both parties consent.

Page | 6

If you find yourself involved in a dual agency relationship, before making or receiving an offer both you and the other party will be asked to consent in writing to this new limited agency relationship. The relationship involves the following limitations:

- a. The agent will deal with the buyer and the seller impartially;
- b. The agent will have a duty of disclosure to both the buyer and the seller except:
 1. The agent will not disclose that the buyer is willing to pay a price or agree to terms other than those contained in the offer, or that the seller is willing to accept a price or terms other than those contained in the listing;
 2. The agent will not disclose the motivation of the buyer to buy or the seller to sell unless authorized by the buyer or the seller;
 3. The agent will not disclose personal information about either the buyer or the seller unless authorized in writing;
- c. The agent will disclose to the buyer defects about the physical condition of the property known to the agent.

YOUR RESPONSIBILITIES AS A BUYER

As a buyer, you should:

- a. Carefully read all documents and understand what you are signing.
- b. If you need special or expert advice, seek other professionals such as lawyers, notaries, accountants, home inspectors, contractors, engineers and surveyors.

DEFINITIONS

The AGENT is the Real Estate Company under which the individual salesperson who is representing you is licensed.

REALTOR[®] is often used interchangeably with Licensee, Real Estate Agent or Salesperson and in British Columbia, is licensed under the Real Estate Act. A REALTOR[®] can use the term REALTOR[®] if he/she belongs to a local board or association that enforces a strict code of ethics.

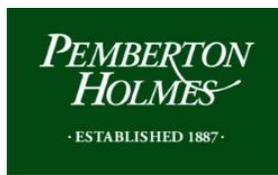
The BUYER is often referred to as the purchaser. The seller is often referred to as the vendor.

The PRINCIPAL is someone who has engaged an agent to act for and on his or her behalf to either buy or sell a home.

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SERVICES YOU CAN EXPECT FROM A REALTOR®

- a. Helping you to clarify the type of property you need and can afford.
- b. Providing information about available properties and sources of financing.
- c. Arranging appointments to view the available properties.
- d. Providing accurate answers to any questions you may have about a certain property you are considering.
- e. Explaining the forms used in a real estate transaction and assisting you in making a written offer to purchase.
- f. Presenting the written offer to the seller.
- g. Familiarizing you with the steps you must take to complete the purchase after the seller accepts your offer.

BUYER ALERT! DENMAN AND HORNBY ISLANDS ARE UNIQUE!

Those of you who are accustomed to the services and amenities provided by a city or municipality should take the time to familiarize yourselves with the differences between urban and rural living. Before you buy, investigate. Your resident REALTOR®, Don Lockett will help you through this stage.

ZONING

It is very important to note that all land on the Islands is zoned and that only a single dwelling on each parcel is permitted with a few minor exceptions.

SITING AND USE PERMIT

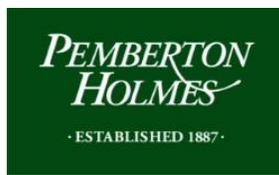
Hornby and Denman Island local trust areas are subject to land use by laws that regulate (a) the use of the land (b) the use, location and size of buildings and structures permitted on the land. Building permits are not required but siting and use permits established under section 28 of The Islands Trust Act are required. These permits verify that any proposed construction/siting/use complies with requirements of the land use bylaws and must be obtained prior to construction.

The requirements of the Hornby and Denman Island use bylaws are expressed in both the general regulations that apply to all land or in the zone specific regulations that apply to land within these zones. You should review the land use bylaw pertaining to the Island where the siting and use permit is proposed to ensure that all bylaw requirements are met. The relative locations of property lines, all existing buildings and structures, sewage disposal systems, wells, the natural boundaries of the sea, lakes and water courses and the edges of cliffs are important. In order to ensure that it's possible to locate all the desired uses on any given property, it is recommended that, you first (a) obtain and read a copy of the local land use bylaws: (b) establish a water supply, and (c) file sewage disposal plan. (see Septic Systems) For more information please visit the Islands Trust website at www.islandstrust.bc.ca

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BUYER'S GUIDE

DEVELOPMENT PERMIT

Where a local trust committee has determined that existing land use controls such as zoning, subdivision, parking, landscaping, or sign bylaws do not adequately regulate new developments, Development Permits Areas (DPA's) have been designated on certain lands in the Official Community Plans. Lands that are in a DPA designation cannot be subdivided nor can building construction or demolition or land alteration begin until a development permit is obtained.

Page | 8

HIGHWAY ACCESS PERMITS

Highway access permits and permission to construct works, driveway accesses and signs on the highway right of way must be obtained from the District Highways Office in Courtenay.

SEPTIC SYSTEMS

Any domestic building that is not serviced by a municipal or city sewage system needs a method of disposal of human wastes. Although some rustic minded homesteaders are content to use an outhouse (which is permissible), indoor plumbing requires a sewage disposal system. This will usually include a septic tank, a distribution box and an approved method of ground disposal. The process to install such a system is as follows:

The sewerage system regulation that came into force May 31, 2005 changed the old permit process into a filing process; the health authorities no longer approve the construction and maintenance of on-site septic systems. With the new filing process, the owner retains the services of an authorized person who will assess your needs and design, install, and maintain the septic system; while these three functions are separate, they may be done by a single authorized person if he/she is so qualified.

An authorized person may be a registered on-site wastewater practitioner (ROWP) with the Applied Science Technologists and Technicians of BC (ASTTBC) or a Professional Engineer (PEng) and registered with the Association of Professional Engineers and Geoscientists of BC (APEGBC).

As for the filing process, the authorized person (planner) assesses the site, determines your needs, and designs an appropriate system being in general conformance with the standard practice manual. The authorized person then submits the design to the health authority for filing. Once an authorized person (installer) installs the system as designed, the planner then submits a letter certifying that the construction is in accordance with the filed design as well as an as-built drawing of the installation and a maintenance plan/manual for the system. The owner should get a copy of all the documents that are given to the health authority for filing, especially the as-built drawing and the maintenance plan/manual for future reference. For more information visit: www.healthservices.gov.bc.ca/protect/sewage.html

WATER SUPPLY

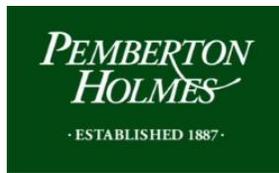
There is no municipal water supply on Denman or Hornby Island. There are some private water systems supplying a limited number of properties, but in most cases your current or future source of water will be from one of the following sources: 1) surface water - from a lake, pond, river or stream. 2) ground water - that which occurs naturally in underground formations and can be accessed by way of a well or drill hole. 3) Cisterns - water is collected from roofs.

On the Islands, before buying, determine the existing source and investigate. Check the well log if it is a

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BUYER'S GUIDE

drilled well. Information on the log will give you the depth of the well and the recovery at the time of drilling. Some well logs are now available on the Internet at www.env.gov.bc.ca.

If the water source is surface water, you are advised to determine if a water license is required. It is illegal to alter or divert a watercourse from its natural state without a permit. For further information contact the Ministry Of Environment, Lands and Parks in Nanaimo.

Water quality tests kits are available from the Government Agent, 2500 Cliffe Ave., in Courtenay.

WOOD STOVES

The use of a wood stove as a backup to the primary heating system is a common energy conserving practice on the Islands. Buyers should be aware that difficulties could arise from existing wood stoves and fireplace inserts regarding insurability of the property. It is a wise idea to determine the following: 1) Is the wood stove to remain upon sale of the property? 2) Is the wood stove an approved unit, i.e. CSA, ULC or Warnock Hersey? 3) Is the home currently insured with full disclosure of the existing woodstove?

BUILDING INSPECTION

If you have found the right house, now is the time to call in an expert. We strongly recommend having the house inspected by a certified building inspection service.

WHAT OTHER QUESTIONS SHOULD YOU ASK?

IS A PROPERTY CONDITION DISCLOSURE STATEMENT AVAILABLE?

In British Columbia, sellers are required to complete a property condition disclosure statement in a prescribed form. This statement provides information by the sellers to the best of their knowledge about the state of the property to all potential buyers.

WHAT IS THE ZONING?

The Islands Trust establishes the zoning of the property. Zoning sets the type of buildings, which may be built on any particular piece of property and how those buildings may be used. It once again must be emphasized that only a single dwelling is permitted on virtually all lots on the islands with few exceptions.

ARE THERE ANY RESTRICTIVE COVENANTS?

A restrictive covenant places a specific limitation on the owner's use or occupancy of the property. Such things as a prohibited type of exterior finish, tree cutting restrictions or the maximum height of the structure are only a few examples of the type of restrictive covenant you may encounter. The act of purchasing a property that has a restrictive covenant compels you to abide by it.

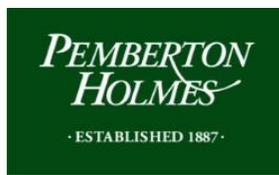
ARE THERE ANY EASEMENTS?

An easement is a right or privilege one party has to use the land of another for a special purpose. Examples are: Easements given to telephone and electric companies to erect poles and run lines over private property or easements given to people to drive or walk across someone else's land.

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IS THE FIREPLACE INSERT OR "FIXTURE"?

Things contained in a building or on the land are classified as either fixtures or chattels. The difference between a fixture and a chattel is very important to you because fixtures stay with the property when it is sold, but chattels depart with the old owner. If you see an attractive fireplace insert or a "Murphy bed" in the spare closet that you think should stay, but are not certain if the seller agrees, ASK if it is a fixture.

MAKING AN OFFER

Once you have found the property you would like to purchase, a written offer to purchase must be prepared. An offer is usually recorded on a standard form entitled: Contract of Purchase and Sale.

Be fully aware that once you sign this document, and the seller also signs it, a legally binding contract has been formed.

Legally binding means that both you and the seller will be bound by the terms of the contract and must each perform your respective obligations as stated within that contract. Either of you can go to court to compel the other to perform his or her part of the contract.

Your offer should include: a) Date of the offer. b) Date and time the offer expires. c) Full legal names and addresses of both the buyer and the seller. d) Full legal description of the property. e) Amount of the deposit you are putting down (which will be held in a trust account). f) Sale price .g) Your desired closing and possession dates. h) A list of the conditions, which must be satisfied before the sale, can occur. These are called subject clauses or conditions precedent.) A list of items which are not attached to the building (chattels), but which you state is to be included in the sale price. j) Your signature.

An offer can be an extremely complicated process and your best course of action is to consult a Licensed REALTOR® who has been trained in the correct procedure of putting together such a document.

WHAT ARE THE SELLER'S OPTIONS?

When the seller receives your offer to purchase, he or she has three options:

1. Accept the offer exactly as written. If the seller signs your offer without making any changes, a legally binding contract has been formed.
2. Reject the offer.
3. Make a counter-offer. If the seller changes anything at all on your original offer, the seller is considered to have rejected your offer and to be making a new offer back to you. This is usually referred to as a counter-offer.

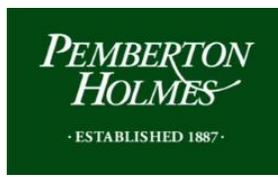
When you receive the counter-offer, you then have the same three options as the seller had: accept, reject or make a further counter-offer. The process of counter-offers may continue until an agreement is reached.

If the counter-offer is unacceptable or if you have changed your mind about the purchase, the seller does not have the option of returning to your original offer and accepting it.

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MORE ABOUT SUBJECT CLAUSES

The purpose of a subject clause (also known as a condition precedent) contained in an offer to purchase is to set out a specific condition, which must be fulfilled before the sale can go through.

Page | 11

There can be as many subject clauses as you are able to negotiate with the seller; however, the fewer you put in the offer, the more serious you seem as a buyer and the better the chance is that your offer will be accepted. Remember that you are, in effect, asking the seller to take the property off the market during the period while you are attempting to fulfill the conditions you have set.

When you place subject to clauses on your offer to purchase, you are required to use every reasonable effort to see that the conditions are satisfied. Once you have fulfilled the conditions, written notice is given to the seller that you are removing the subject clauses.

If you are unable to meet the conditions after making every reasonable effort to do so, the contract ends and there is no legal obligation to complete the purchase.

A seller may wish to accept your offer containing subject clauses, yet still be free to consider other offers until you have removed the conditions. To allow him or herself this freedom, the seller may ask for a clause in the agreement which permits the seller to require you to remove all subjects conditions within a short, specified time period (usually 24 to 72 hours) if the seller receives another attractive offer. If you cannot do so, your conditional contract comes to an end. Sellers are most likely to request this time clause where you have made an offer, which is subject to the sale of your current home.

COMPLETING THE PURCHASE

The Contract of Purchase and Sale, which you signed, will state the completion day for the transaction. On that day legal ownership will transfer from the old owner to you in exchange for the purchase price of the property.

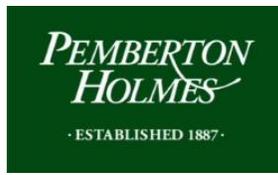
It is normal practice for the buyer to engage a lawyer or notary public to prepare the documents necessary to transfer the legal ownership. Among other things, he or she will protect your interests by:

1. Searching the title in the Land Title Office registration system to find if anyone other than the seller has the legal rights to the property and to see if there are any registered easements or restrictive covenants.
2. Preparing the documents to transfer ownership from the seller to you, including the property purchase tax return.
3. Ensuring that the seller's old mortgage has been properly discharged if this is required.
4. Confirming that all payments for which the seller is responsible have been made.

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5. Arranging for you to sign the transfer documents.
6. Preparing a Statement of Adjustments outlining all monies owed by you and the funds you will need to complete the transaction.
7. Delivering the final amount due to the seller and ensuring you are registered as the owner in the Land Title Office.

Congratulations, the day has arrived! You have signed the documents, turned over the cheque and received the keys to your new home from Don.