DAEDALUS PROJECTS: THREE SCENARIOS FOR THE FUTURE

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PROJECT SUBMITTED IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE DEGREE OF

MASTER OF BUSINESS ADMINISTRATION

In the
Faculty of Business Administration
(EMBA Program)

SIMON FRASER UNIVERSITY

Summer 2007

APPROVAL

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Degree:	**Master of Business Administration**
Title of Project:	**Daedalus Projects: three scenarios for the future**

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ABSTRACT

This report presents an analysis of Daedalus Projects Inc., a start-up real-estate development company based in Vancouver, British Columbia (B.C.). The company has recently started looking at three development opportunities. The purpose of this report is not necessarily to recommend which of the three development opportunities Daedalus should pursue, but instead to be a jumping off point for discussions among the key personnel at Daedalus relating to the opportunities and the future of the firm.

This report summarises the salient details of the three development opportunities, including a complete description of the property, proposed development, financial analysis, and risk analysis. The three projects will be scrutinized through a SWOT analysis (Strengths, Weaknesses, Opportunities, Threats) to determine how well each one fits with the capabilities and resources that Daedalus has. To conclude, the projects are ranked based on the outcome of the SWOT analysis and a near-term action plan is developed.

DEDICATION

I would like to dedicate this project to my wife Karla. It was a tough two years but now I'm finally done and ready to have some fun again. Thanks for sticking it out with me.

ACKNOWLEDGEMENTS

Thank you to Rene Cardinal, who started me off on this endeavour, and Doug Regelous who supported me the rest of the way. I would also like to thank my teammates and classmates for their support and camaraderie.

TABLE OF CONTENTS

LIST OF FIGURES

1 INTRODUCTION

The purpose of this report is to provide an in depth analysis of Daedalus, and the three projects in which the start-up real-estate development firm is considering investing. Each project will be presented based on the facts and information known at the time of this report.

1.1 Company History

In Greek mythology Daedalus was "a renowned craftsman, sculptor, inventor and builder of the Labyrinth."[1] Daedalus Projects Inc. (Daedalus) is a start-up real-estate development company based in Vancouver, BC.

Prior to the formation of Daedalus, founder Chuck Brook had, and still does, own and operate a real-estate consultancy firm named Brook + Associates. Chuck has been the principal of Brook + Associates since he started the company in 1988. Brook + Associates deals with government authorities on behalf of their clients, focusing on complex, large scale, and controversial entitlement processes. The company also conducts studies, performs due diligence, and provides expert testimony in litigation cases. After 17 years of running his own real-estate business, Chuck decided it was time to try something different. He incorporated Daedalus in the spring of 2005. He is the sole shareholder in the company.

A development in Mammoth Lakes, California was the catalyst that set in motion the events that eventually led to the creation of Daedalus. Chuck was hired as a consultant on the project to rezone the land to a higher density. After a couple of years without success due to insurmountable difficulties with the municipality and one of the project's owners, the investors

[1] Daedalus. (n.d.). Dictionary.com Unabridged (v 1.1). Retrieved July 26, 2007, from Dictionary.com website: http://dictionary.reference.com/browse/Daedalus

decided it was time to get out. Chuck, along with one of the investors who was also in charge of the development, found a buyer for the land and the two successfully brokered the sale. The commission earned by brokering the sale of the Mammoth Lakes property was what presented the opportunity for Chuck to capitalize his new company.

The Mammoth project involved the acquisition of approximately 10-acres of land at a prime location on Mammoth Mountain. Mammoth Mountain is a "world class mountain resort"[2] located in the resort town of Mammoth Lakes. Mammoth Lakes is a "four season mountain paradise nestled in the midst of the Sierra Nevadas"[3] in eastern California. These lands, which were located on three of the four corners that made up the main intersection known as the 'Gateway to Mammoth' were also immediately adjacent to the new village core built by Intrawest. When it is completely built out, the village will comprise of "three neighbourhoods totalling over 2000 lodging units"[4]. The property was zoned at only 48 units per acre while the village land it was adjacent to was zoned at 80 units per acre. The business plan was to apply to the Town of Mammoth Lakes to have the property rezoned to the same density as the village lands and to master plan the property in order to obtain a development permit. The rezoned and master planned land would then be sold at a premium to developers who would do the vertical construction. The rezoning and master planning did not proceed as expected.

The project faced challenges both internally and externally. For starters, everyone involved in the project grossly underestimated the challenge that the Town of Mammoth Lakes would present. Up until recently, Town staff and council were accustomed to managing a sleepy little resort town. It seems that they were unprepared for the volume and velocity of development

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[2] Mammoth Mountain. Mammoth Past & Future. Retrieved July 21, 2007, from http://www.mammothmountain.com/company_info/history/past_future/
[3] Mammoth Lakes. Welcome to Mammoth Lakes. Retrieved July 21, 2007, from http://www.mammothlakes.com/
[4] Intrawest. Intrawest's Playgrounds – Our Resort World. Retrieved July 21, 2007, from http://www.intrawest.com/about-us/our-playgrounds/index.htm

that followed Intrawest's purchase of the mountain. As a result the Town made some hasty decisions. These caused severe scrutiny from the local population. This scrutiny resulted in the Town clamping down on issuing zoning amendments or issuing permits. One of the most difficult issues the development community faced was that the Town wavered in its advice, directions, and responses to questions.

The Town was in the process of "remodelling its own internal processes for issuing permits"[5] so they did not have the guidelines or processes in place that would enable them to make rational and educated decisions on the issues being brought before them by the development community. With the Town constantly moving the goal posts, it became nearly impossible to get a project approved. Even though Chuck had many years of experience dealing with municipalities on complicated and controversial entitlement processes, this experience seemed to be the proverbial 'straw that broke the camels back.' Additionally, it was a daily struggle for Chuck to deal with a particularly capricious investor who also happened to be involved in the management of the project. It was Chuck's experience on the Mammoth project, as well as years of being the 'consultant' on other people's developments, that spawned the idea that he himself would take the reins and become the developer. Daedalus became the vehicle for this.

Chuck's initial vision for Daedalus was to explore development opportunities with municipalities in order to capitalize on the knowledge and skills he gained through Brook + Associates. The initial focus was on opportunities in the Okanagan, which is how the Penticton Project was located. Soon the scope for possible real-estate development projects was expanded to include the rest of British Columbia as well as Alberta.

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[5] Mammoth Times Weekly. Town unveils remodelled development process. Retrieved July 22, 2007, from http://www.mammothtimes.com/articles/2005/11/17/this_week/top_stories/remodeleddevelopment.txt

Chuck's work with Brook + Associates has predominantly been on projects located throughout British Columbia. Through this experience he has been able to see the "highly competitive" nature of development in the area. He felt that Daedalus could tap into the lesser sought after niches that still enjoy the trailing benefits provided by hot markets such as in Vancouver, Calgary and Edmonton.

After Daedalus was formed, the company laid dormant for the remainder of 2005 and 2006. Chuck was, and still is, involved in projects with Brook + Associates but is in the process of selling the company to several of his senior associates. At the beginning of 2007, Chuck's workload with Brook + Associates reduced to the point where he could revive Daedalus and start actively working on building his new business.

Chuck got in touch with various people in his network to put the word out that Daedalus was looking for development opportunities. So far three opportunities have been identified and are currently in the due diligence phase to determine if they are feasible projects. The three development opportunities are the Penticton Project, the Gibsons Project, and the Calgary Foothills Project.

1.2 Project Array

This section is intended to summarize the germane issues of each of the three projects that Daedalus is currently looking at. A more in-depth analysis of each project is provided in Chapters 2, 3, and 4 of the report.

1.2.1 Penticton, British Columbia

This proposed development is located on 3.5 acres in Penticton across the street from the Trade & Convention Centre and two blocks south of Lake Okanagan. A large construction company based in Vancouver (hereinafter referred to as ConstructionCo) owns the land and has presented the project to Daedalus with the intention of entering into a joint-venture agreement. The agreement would see Daedalus take on the development management of the project while ConstructionCo would manage the construction. A prospectus has been given to Daedalus that includes background information on ConstructionCo, a resume of the architects work, financial proformas, drawings, and market information.

The proposed concept is to build three towers on the site. The tower closest to the convention centre is intended be a 100+ room strata titled hotel and restaurant that would primarily provide accommodation to guests using the convention centre. The other two towers on the part of the site nearest to Lake Okanagan are planned to have roughly 100 residential suites each. Although the site would need to be rezoned in order to construct the proposed hotel tower and two residential condominium towers, ConstructionCo has already had preliminary discussions with the City of Penticton about the likelihood of being able to rezone the land. It appears from those discussions that the City of Penticton is somewhat anxious for hotel accommodations in order to complement their new convention centre. If this information is accurate and remains the city's position, the task of rezoning could be made less complicated.

A cursory review of the financial and market information included in the prospectus has been performed by Daedalus. The profit margin estimated in the prospectus is reasonable given the risks. A separate analysis done by Daedalus however has turned up some material variances compared to the projections done by ConstructionCo.

The project also has a number of other risks that were identified. These risks include:

1. Achieving rezoning approval;
2. Building the project at the projected construction costs;
3. Finding a hotel operator;

4. Selling all the suites;

5. Achieving projected revenue.

Daedalus is currently in the process of a detailed review of the project to determine if it is viable both from a risk and profitability perspective and whether it's a fit for Daedalus in terms of capital and resource requirements.

1.2.2 Gibsons, British Columbia

The subject site is located on Gibsons Harbour, which is in Lower Gibsons on the Sunshine Coast. Gibsons is accessible from Vancouver via a 40-minute ferry ride west from Horseshoe Bay in West Vancouver. The property is situated on the south side of Gower Point Road, which is an extension of the main street in Lower Gibsons. It has its own dock and moorage in the harbour. The exact area of the property isn't known yet, but it is believed to be approximately 4-acres. Gower Point road consists mainly of small shops and restaurants. Adjacent properties, such as the former Esso service station and tank farm are vacant. An elderly man who has expressed an interest in selling, owns the site. To date, no formal offers have yet been made.

The site provides panoramic views of, and access to, the harbour and marina. The existing building is old and in generally poor repair. There is a parking structure at the southwest corner that was constructed in the 1980's as part of a failed redevelopment at the time. The site is thought to be ideal for a waterfront boutique lodge-style hotel. Daedalus is looking into the feasibility of either purchasing half of the land to build a hotel or, if it is reasonably affordable, purchasing all the land for a larger hotel.

The acquisition cost for the entire property is estimated to be between \$3.5 and \$4.0 million. Daedalus has not discussed with the owner the possibility of acquiring only that portion of land that is currently zoned for hotel use. Initial financial projections show gross profit ranging from 27 percent to 32 percent.

There are several risks associated with the development of the site: the cost of construction given that Gibsons is isolated from the mainland; whether Daedalus could find a buyer for the hotel or be able to sell the units individually, and the possibility of site contamination from the adjacent Esso station and tank farm. If Daedalus chooses to develop the whole site as a hotel, a rezoning would be necessary, which would add another risk to the project.

1.2.3 Calgary Foothills, Alberta

The subject property is located in the Alberta foothills, roughly a one-hour drive southwest of Calgary. The Calgary Foothills area is mainly rural and agricultural. It is highly desired due to its vicinity to Calgary. The site is almost an entire a quarter section in size. Quarter sections are 160-acre sections of land laid out in a grid format that the municipality uses to divide up and designate rural areas. The current owners live in a relatively new house they have built on the property. A cabin, once belonging to the previous owner, is also situated on the property. The present owners need to sell the land quickly for personal reasons. The need for the husband and wife to sell the property was discovered by a relative of Chuck's who lives in the area. Chuck was able to meet with the family and present an offer to purchase the land before they enlisted the help of a realtor. The property has therefore not been listed on a multiple listing service. The sellers are asking for $5.35 million for the land. Daedalus has already ordered an as-is appraisal of the property. The appraisal indicates that the asking price is around $1 million dollars too high.

The development opportunity lies in re-designating the land from Agricultural to Country Residential, which would allow Daedalus to subdivide the land into large lots. The lots would then be serviced and sold. The business plan anticipates three options that depend on how many lots the municipality will allow Daedalus to subdivide. Option 1 is an exit strategy in case the rezoning fails. The strategy is to invest in nominal upgrades to the house and cabin and then to sell the property as is. This scenario results in nearly a break-even position. Option 2 is the most probable outcome and is based on receiving approval to subdivide a moderate amount of lots. Option 3 is based on being able to subdivide the maximum number of lots permissible under the zoning regulations.

There are four major risks Daedalus faces with the Calgary Foothills Project. The only one that remains a risk after the property has been purchased is the risk of not achieving approval to rezone the land. In this situation Daedalus would complete the nominal upgrades to the house and cabin and then sell the property. The other risks, which can be mitigated before the land is purchased, include the availability of enough water to service the lots, the ability of Daedalus to receive clear title to the land, and whether Daedalus can negotiate down the price of the land.

1.3 Company's Personnel Roster

Through Chuck's prior working relationships, Daedalus has been able to assemble a team capable of performing the due diligence and development management it needs to operate as a real-estate development company. The current team consists of Chuck Brook as President, Herb Eibensteiner as Vice President Finance and Administration, Mike Hobbs as Construction Manager, and Doug Regelous who provides strategic advice on an adhoc basis on various elements of the development deals.

1.3.1 Chuck Brook

Chuck Brook grew up in Winnipeg, Manitoba and after graduating from high school went on to earn an architectural degree from the University of Manitoba. After that he worked as a graduate architect for Jack Ross Architects. While there, Chuck gained experience working as a drafts person on various jobs. He was at Jack Ross Architects for just over a year before moving on to become a partner in a relatively small architectural firm.

With the addition of Chuck, the firm was renamed to Hancock, Nicholson, Brook Architects (HNBA). For the next two years he was responsible for overseeing the production of drawings for several jobs at HNBA. Chuck decided to make a change in his career and left HNBA to become the Urban Design and Historical Projects Coordinator for the City of Winnipeg. He remained with the City of Winnipeg for eleven years.

When an opportunity came up for a Senior Planner position with the City of Vancouver, Chuck packed his bags and moved to the west coast. It was only another year and a half before Chuck decided to make yet another career change to start up his own consultancy business called Brook + Associates on November 1st, 1988. Through Brook + Associates Chuck has gained a vast amount of experience dealing with government authorities on development related issues. He is currently still President of Brook + Associates but is in the process of selling the company to several Brook + Associates senior planners so he can focus on building his new company Daedalus Projects (refer to Appendix A: Excerpts from an interview with Chuck Brook).

1.3.2 Herb Eibensteiner

Herb Eibensteiner is the Vice President, Finance and Administration for Daedalus Projects. Herb completed several years in university towards a Bachelor in Business Administration before transferring over to the Certified General Accountants program. He obtained his degree from the CGA Association in November 2002 and is currently working towards a Masters in Business Administration. Herb has worked in the construction and development industry for over 10 years. Prior to joining Daedalus he most recently worked as a Development Manager for Mammoth Crossing Development in Vancouver. Mammoth Crossing Development also has offices in Seattle Washington and in Mammoth Lakes California.

Prior to joining Mammoth Crossing Development, Herb held jobs as a Director of Development, a Senior Accountant, and as a Construction Assistant. At Intrawest Resort

Ownership Corporation (IROC) he was initially hired to manage project finances and accounting, but was soon promoted to Director of Development to oversee all of IROC's resort developments. IROC is a division of Intrawest Corporation that develops and sells high-end timeshare resorts throughout Canada, the U.S., and Mexico. He also worked as a Senior Accountant for a paving and construction company called Columbia Bitulithic (a division of the Lafarge Group), and as a Construction Assistant for Qualico Homes, which is a national residential homebuilder.

Chuck and Herb first met when Brook + Associates were hired to assist with a development permit application for an IROC project in Whistler that Herb was managing. Their paths would cross again when Herb joined the Mammoth Crossing Development team, which Chuck was also working with. Herb is still currently with Mammoth Crossing Development until its development winds up sometime in 2008, but has agreed to also join and provided services to Daedalus.

1.3.3 Mike Hobbs

Mike started his career working as a Quantity Surveyor in England. After working as a Quantity Surveyor for six years, he moved from England to Johannesburg South Africa to become a Project Manager of a large construction company that provided services to the diamond mining companies. Shortly after joining the company he was promoted to CEO. Mike stayed in Johannesburg for the next 13 years running the construction company. In 1979 Mike moved to Canada and became a partner in a large architectural firm based in Vancouver. While working for this architectural firm for the next ten years, he concurrently opened and operated a project management company specializing in commercial real-estate development and construction. Mike has continued on as an independent project manager ever since (refer to Appendix B: Excerpts from an interview with Mike Hobbs).

Mike and Herb had worked together in the past on various projects for Intrawest Resort Ownership Corporation. Mike continues to provide services to Intrawest but has also contracted to provide services to the Mammoth Crossing Development project as well as to Daedalus.

1.3.4 Doug Regelous

Chuck and Doug first met back in 1990 when Doug hired Brook + Associates to work on a development permit for his company Campion Property Group. Doug and Chuck have worked with each other off and on ever since. The two decided to partner up together in 2005 to broker the sale of the development land they had been working on in Mammoth Lakes, California.

Doug started out his career as a professional liability insurance litigation lawyer with a legal firm in Winnipeg called Buchwald Asper. Doug became a partner in the firm but decided to veer from the lawyer path to start up his own development companies. He successfully ran a project management company, a facilities management company, and a real-estate investment company for many years

During the transition of selling his companies to his employees, the companies lost business and eventually had to be shut down. It was at this point that Doug moved to Vancouver to accept a position with Intrawest Resort Ownership Corporation as a Senior Vice President of Development. It was during this time that Herb and Doug first met. After working with Intrawest for roughly four years. Doug moved on from Intrawest to pursue the development opportunity in Mammoth. He now owns a similar company to Daedalus that he operates in the U.S. and Mexico.

1.4 Company Structure

Daedalus is based in Vancouver and sublets office space from Brook + Associates. This arrangement has worked well for Chuck who is still phasing out of his involvement with Brook + Associates. As an added benefit, being located in the same office has also provided easy access for Daedalus to Brook + Associates services. However, Chuck has acknowledged that being so close to Brook + Associates has prolonged the amount of time it has taken to phase himself out of the business and is part of the reason that Daedalus lay dormant for nearly a year and a half.

Because Daedalus is a small start-up company, the structure and responsibilities of the employees is very loose. Although everyone has their specialization, the expectation and understanding is that everyone rolls up their sleeves in order to get done whatever needs doing. All other resources that Daedalus needs, such as architectural and engineering, are contracted out as they are needed. Chuck foresees that five years down the road the company will probably have about three to five employees and be working on several concurrent developments. In addition to generally managing Daedalus, Chuck's responsibilities include sourcing development opportunities, managing the due diligence process for each development opportunity, managing the approvals processes with the regulatory authorities, and then providing general oversight after the project has started.

Herb Eibensteiner is primarily responsible for managing the accounting for Daedalus, the projects undertaken by Daedalus, project financing, and various administrative tasks. Project financing tasks would include preparing Requests for Financing, budgets, cash flows, and other financial reporting, as well as preparing investor and lender reports. As with everyone who pitches in where they can, Herb also performs some project management tasks.

Mike Hobbs provides Project Management and Construction Management services exclusively for Daedalus. Although Mike is a consultant who bills hourly for his services, he is effectively viewed as an employee since he works on all Daedalus projects and works out of Daedalus' office in Vancouver. His scope of work includes reviewing and administering consulting and construction contracts, providing detailed construction estimates, managing the construction drawing and contracting processes, and providing oversight once construction has commenced. Mike has worked with Chuck and Herb in the past as a core team member and will likely continue that role indefinitely for future Daedalus projects.

Finally, a quasi-member of the Daedalus team is Chuck's business associate Doug Regelous. Doug has widespread knowledge of real-estate development, especially in the area of structuring development agreements and financing arrangements. Both Doug and Chuck provide strategic advice and limited services to each other on a "friendly" quid pro quo basis.

The approach at this stage in the company's existence is to do whatever it takes to get the business off the ground and to keep costs down in order to maximize profits.

1.5 Daedalus Today

Daedalus already has several development prospects but it must always be on the lookout for new developments. The three projects Daedalus is looking at are all still in the due diligence phase and there is always the possibility that some or all of them may not pan out. So far, potential development deals have been discovered using Chuck's network of friends, family, and business contacts. Daedalus has been eager to find and secure a development deal so the question of what those deals should look like, and what Daedalus should look like, has not been fully thought through.

Each of the developments that Daedalus is looking at have only one common thread, which is that all of them will require rezoning. The Penticton project is proposed to be a joint venture deal with a large vertical development component. The Gibsons project is also a vertical development, except smaller in scale and no investors or joint venture partners have been identified yet. Finally, the Calgary Foothills project is a horizontal development with a passive investor and no vertical development. Additionally, the projects are spread out from the extreme west coast, to the interior of British Columbia, and out to Calgary Alberta.

The wrong decision at this crucial stage could have serious consequences for Daedalus down the road. Daedalus must take this opportunity to pick the right project or projects. Each project has different risk profiles and demands on the limited resources Daedalus has. The right project for Daedalus would include the following criteria:

1. Gross profitability of the project must be over 20 percent. Anything lower would not be worth the risk for Daedalus and it would be unlikely Daedalus could find an equity investor willing to put their money into a project with a profitability less than this threshold.

2. Demand on resources in the near-term must provide enough slack to allow Daedalus to continue to source out new development opportunities and engage in another development without having to increase staff.

3. Equity required should be less than $10 million. This will allow Daedalus to achieve a reasonable stake in the project through contributing its development management expertise as sweat equity. Anything beyond $10 million is also likely to be beyond the scope of the type of private investor Daedalus would like to partner with.

4. A threshold for risk is difficult to set a specific limit to. Daedalus should be reasonably certain that it could overcome the risks of each project. It will need to weigh the risk and reward a case-by-case basis.

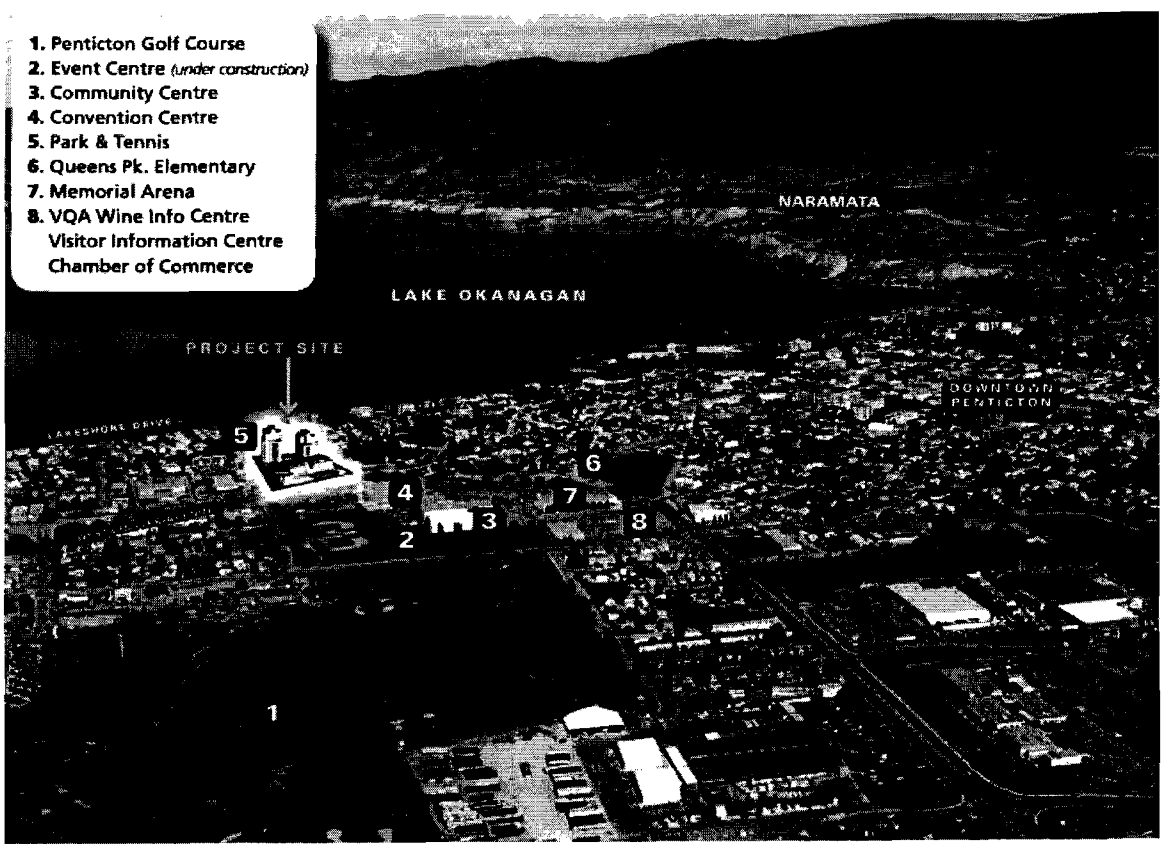
If Daedalus can start out on the right path at this stage, its chances of becoming a successful company for years to come greatly increase. The next three chapters will look at a) property descriptions, b) project descriptions, c) financial analyses, and d) risk analyses in each of the three projects – Penticton, Gibsons, and Calgary Foothills.

2 THE PENTICTON PROJECT

2.1 Property Description

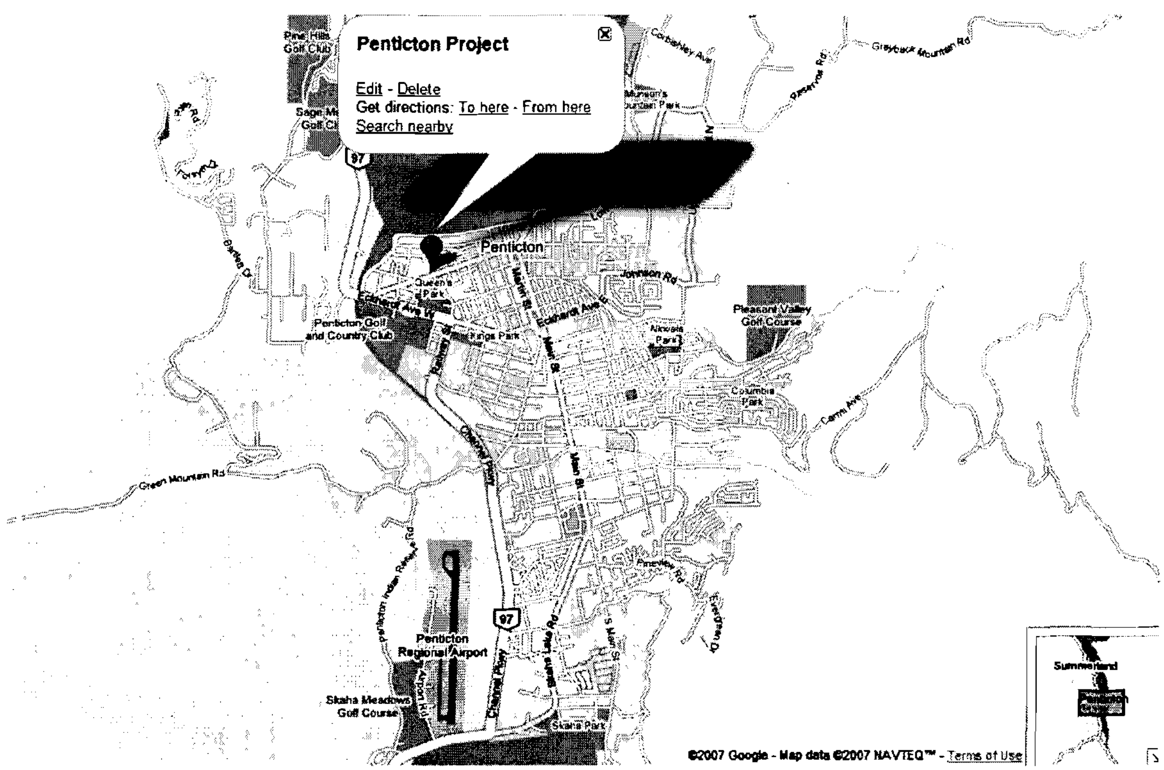
The Penticton Project property is located at the corner of Westminster Avenue West and Power Street in the city of Penticton, British Columbia (see Figure 1). Civic addresses for the lots range from 813 to 877 Westminster Avenue W. The property is located approximately 2 blocks from Lake Okanagan to the north and just west of what is considered the downtown core of Penticton. Westminster Avenue is a four-lane street that connects Highway 97 to the west with downtown Penticton.

Figure 1 Penticton Project – Illustration of Project Location



The city of Penticton is located in the Regional District of Okanagan-Similkameen (RDOS), 370 kilometres east of Vancouver and 72 kilometres north of the U.S. border. It is bounded by Okanagan Lake to the north, Skaha Lake to the south, and the Penticton Indian Reserve to the west (see Figure 2). Penticton receives low levels of precipitation, high average temperatures, comfortable humidity levels, short winters and early spring seasons. Approximately 31,000 people live in the Penticton area, with a total of around 83,000 in the Okanagan-Similkameen region. According to the City's Comprehensive Development Plan, the population is expected to grow by 2.5% per year over the next 20 years[6].

Figure 2 Penticton Project – Area Map



The Penticton Trade and Convention Centre is the closest and most significant amenity nearby. It is the largest Convention Centre in BC outside of Vancouver, with "60,000 square feet

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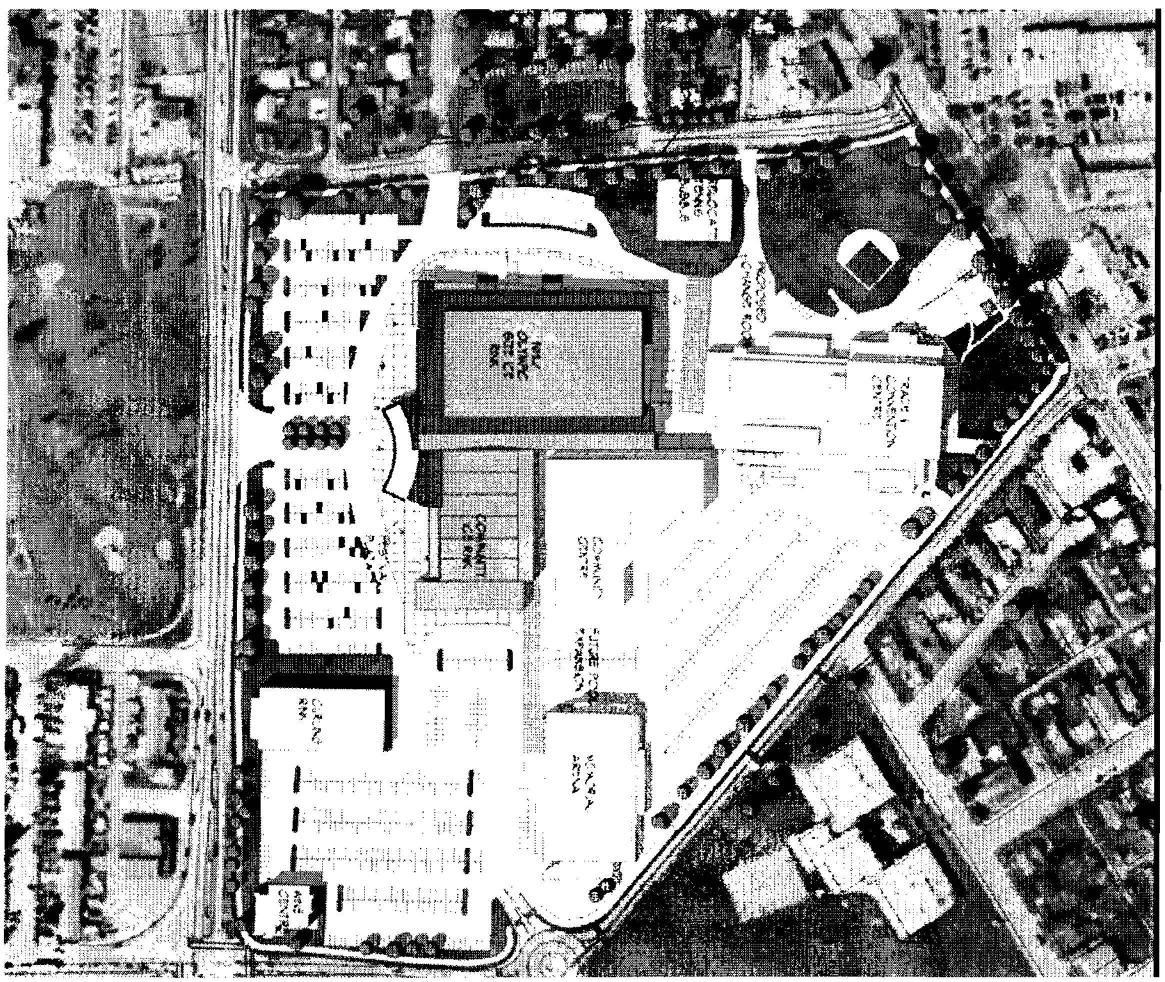
[6] The City of Penticton. (n.d.). Comprehensive Development Plan 2005. Retreived July 15, 2007, from http://www.penticton.ca/city/development_services/Planning/default.asp

of flexible meeting space, accommodating groups from 35 to 3,500 delegates"[7]. The Convention Centre is part of a larger development called the South Okanagan Events Centre (SOEC) (see Figure 3). The SOEC development already includes the Trade and Convention Centre, indoor tennis courts, a community centre, Memorial Arena, curling rink, wine centre and a sports field. It will also include the soon to be built Olympic size ice rink and community ice rink complexes. The property is in close proximity to Okanagan Lake, Skaha Lake, the shops and services of Penticton, Apex Ski Resort, and numerous wineries and golf courses.

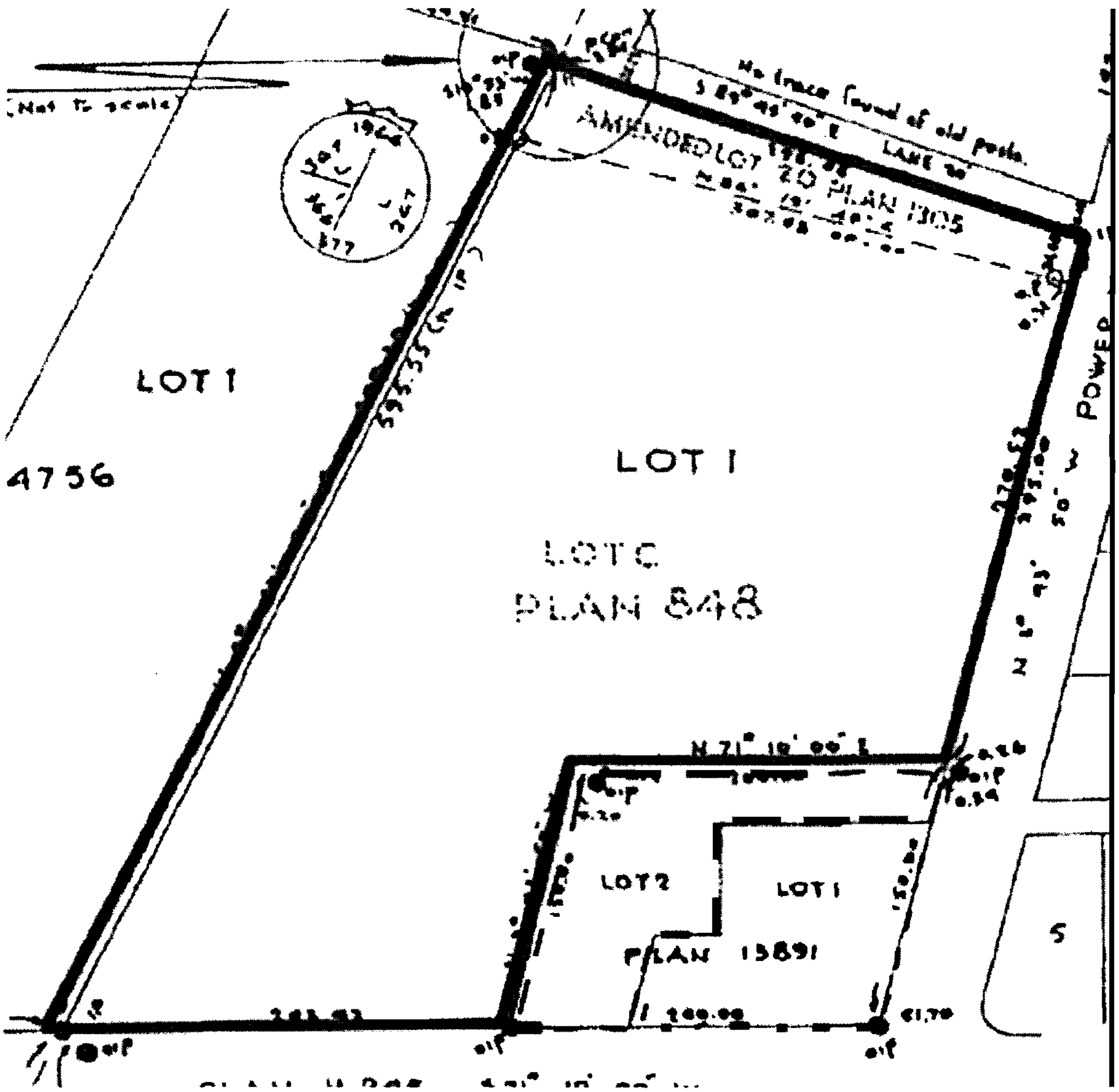
Figure 3 Penticton Project – South Okanagan Event Centre



[7] City of Penticton. Trade & Convention Centre. Retrieved on July 23, 2007, from http://www.penticton.ca/convention/aboutptcc.asp

The site is comprised of three irregularly shaped lots. Lot 1 of Plan 15658 is 3.47-acres and is outlined in a solid line in Figure 4 below and will be referred to hereinafter as Lot Solid. Lots 1 and 2 of Plan 13891 total 0.69-acres and are outlined in dashed and dotted lines in Figure 4 and will be referred to hereinafter as Lot Dash and Lot Dot. All together the three lots total 4.16-acres.

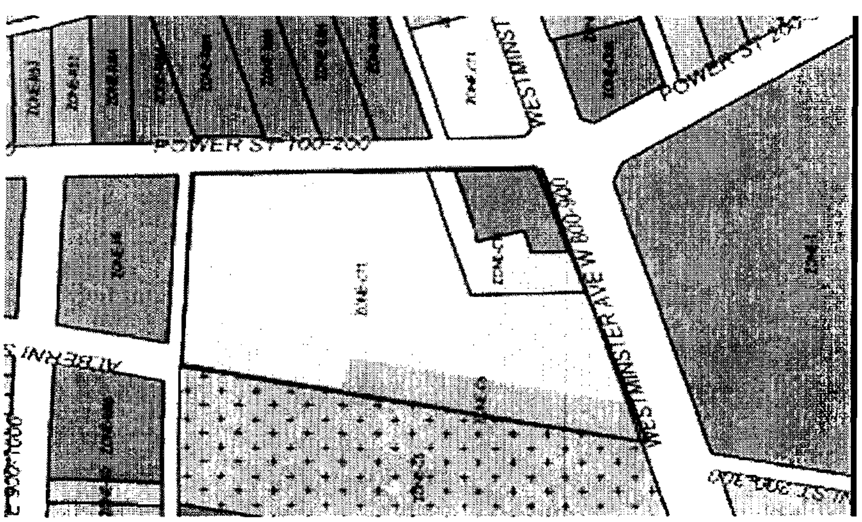
Figure 4 Penticton Project – Property Survey



The property was purchased from El Rancho Enterprises Ltd for an undisclosed amount. The 2007 property assessment was $1,988,600 for Lot Solid and $483,400 for Lots Dash and Dot together, for a total assessment of $2,472,000. The last time the property was sold was in 1965, which makes the sales price unsuitable for analysis. The current owner's are proposing to sell the land into a joint venture partnership for $10,500,000. The price of the land assumes that it has been rezoned to RM12, which is the zoning that would allow the proposed development of a hotel and two residential towers.

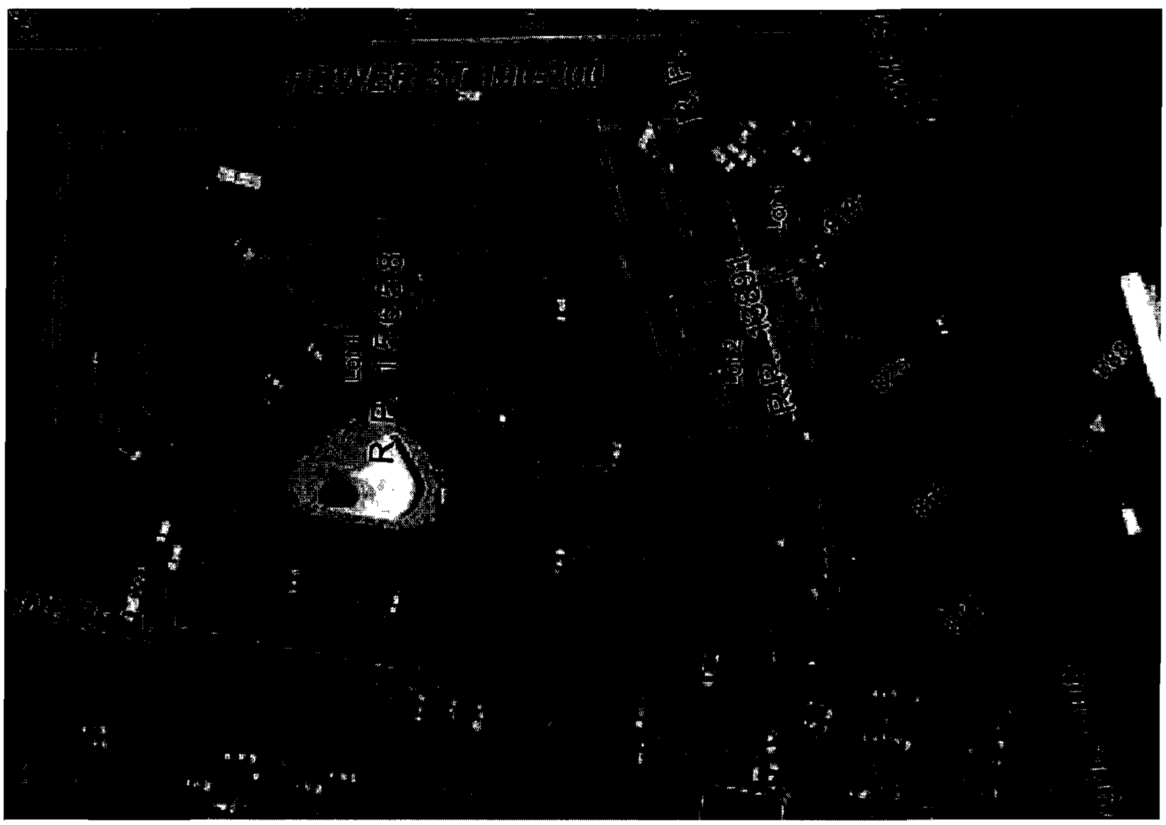
The current zoning of the Lots are CT1 – Tourist Facilities and CS – Commercial Service as illustrated in Figure 5. Permitted uses in CT1 and CS zones are virtually the same and include such things as eating and drinking establishments, motels, indoor recreation facilities, theatres, night clubs, etc. In order to build the proposed hotel and residential condominium towers the property would require rezoning to RM12, which is Multi-Family Residential, as well as an amendment to the Official Community Plan. RM12 allows for, among other things, the construction of apartment complexes up to a maximum density of 200 units per hectare, 50% site coverage, a floor space ratio of 2.5, and a maximum height allowance of 45 metres.

Figure 5 Penticton Project – Land Use Map



The property is directly bordered on the west side by the Sentes Chev Olds car dealership (see Figure 6). To the north of the property, across a lane is a grouping of tennis courts that are in a state of disrepair. Continuing north beyond the tennis courts is a small park and then Lake Okanagan. Across Power Street to the east are some single-family residential dwellings as well as an Italian restaurant on the corner of Power and Westminster. To the south of the property across Westminster Avenue are the complexes that make up the South Okanagan Event Centre. The surrounding properties, with perhaps the exception of the Trade and Convention Centre, would not be considered attractive by potential purchasers, especially when compared to some of the competing developments.

Figure 6 Penticton Project – Aerial Property Photograph

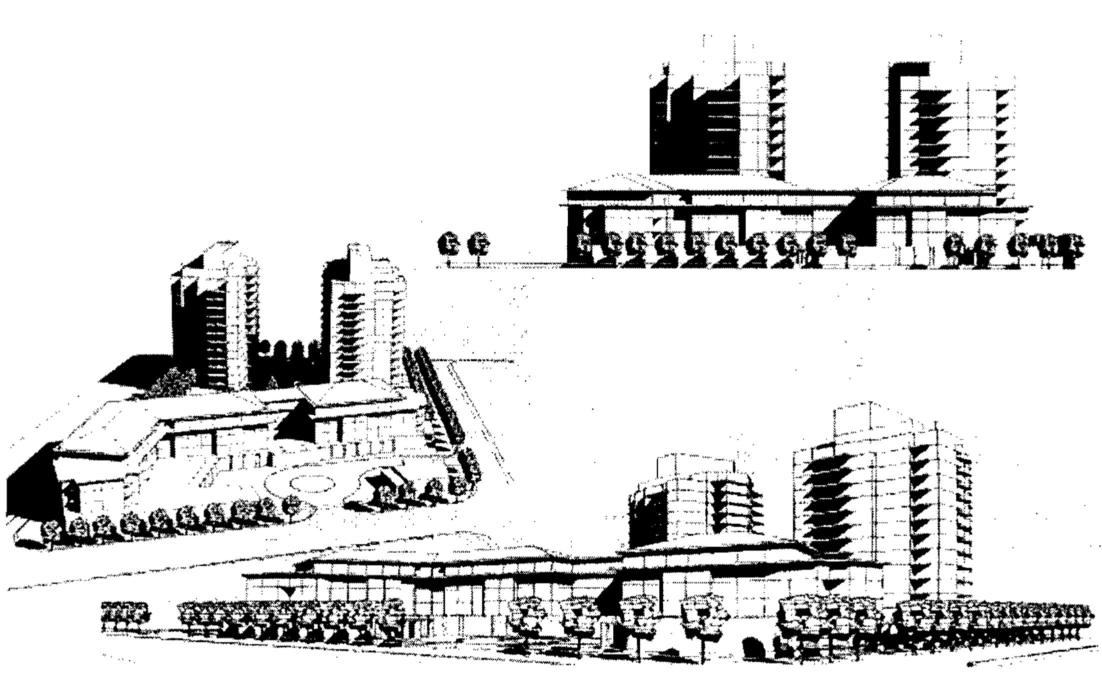


The only existing permanent structures on the land are the El Rancho Motor Hotel buildings. Sentes Chev Olds leases a section of land in the southwest corner of the property but it is only used for car parking. The lots are all level, at grade, and include all the typical urban services such as water, sanitary and storm sewer, electrical, natural gas, street lighting, and telephone.

2.2 Project Description

The proposed development would comprise two residential condominium towers at the north end of the property and a hotel on the south end (see Figure 7). A partial set of concept drawings is included in Appendix D.

Figure 7 Penticton Project – Elevation Rendering



The residential component would include roughly 10 town homes at grade level and 190 apartments in two 15-storey towers. Each tower would incorporate a mix of 1 and 2 bedroom units with an approximate program of:

- 1 bedroom / den, 850 sf, 15%

- 2 bedroom, 1,150 sf, 75%
- 2 bedroom / den, 1,350 sf, 10%

Gardens, waterfalls, pools, hot tubs, and outdoor function space would also be provided. Gross floor area is estimated to be around 275,000 square feet with net saleable area amounting to roughly 238,000 square feet. The development is intended to offer very attractive apartment style condominiums with high-end finishes, concrete construction, and unobstructed views from upper level units that would overlook Lake Okanagan to the north and the City of Penticton and Lake Skaha to the south.

The hotel would include 110 rooms, a restaurant, spa, health club, and a separate Commercial Retail Unit at the corner of Westminster and Power. Gross floor area is estimated to be around 115,000 square feet with net saleable area amounting to roughly 82,500 square feet. Ground floor and the second level would be constructed from concrete with four floors of wood frame construction above. The building is designed to be a 3 to 4 star business class hotel. The initial concept is to stratify and sell the hotel units, while a hotel operator would run the day-to-day operations of the hotel and Home Owner's Association.

Due to a high ground water table, underground parking is not possible. Parking for the hotel and residential units will be above grade but will be concealed by the hotel facilities as well as the town homes.

ConstructionCo wishes to enter into a joint venture agreement with Daedalus to complete the construction and sales of the proposed project. ConstructionCo is a Vancouver based construction company who have completed in excess of $400 million dollars worth of business since the company's inception. The deal terms would see Daedalus perform the development management while ConstructionCo would manage construction. Each partner would contribute

50% of the equity required to obtain conventional financing and residual profits would be split 50/50 as well.

A detailed development schedule or sales and marketing plan for the project have not yet been produced.

2.3 Financial Analysis

Financial projections included in the Prospectus (refer to Appendix C: Penticton Prospectus Excerpts) indicate that the joint venture partnership could realize a gross profit of $26,540,000. This profit is derived from net revenue of $40,350,000 and costs of $31,600,000 from the hotel portion of the development, and net revenue of $103,620,000 and costs of $85,830,000 from the residential component. If the projected revenues and costs were attained the project would achieve an 18% Gross Profit and 23% Return on Cost.

The Prospectus did not go as far as to estimate the capital required to obtain conventional financing, but for the purposes of this analysis a fairly typical 70% loan-to-value ratio could be used. Assuming a 30% equity requirement would mean that the joint venture partnership would have to contribute a down payment of roughly $10 million on the hotel portion of the development and nearly $26 million on the residential portion. Return on Equity for the project would be 74%. Assuming a typical 18 month build-out for each of the towers and hotel, and that each one is sequentially phased one after the other for a total of 54 months construction, the joint venture partners would receive a 100% internal rate of return on their money.

An independent analysis of revenues and costs performed by Daedalus however found quite different results (refer to Appendix E: Penticton Financial Analysis). Daedalus projected over $3 million dollars less in net revenue due to an estimate of higher sales commissions than in the Prospectus. Costs were also estimated to be almost $11 million dollars higher than those stated in the Prospectus, primarily due to a higher construction contingency, a higher construction insurance premium estimate, and the addition of development management fees for Daedalus. With the new numbers, Gross Profit and Return on Cost decline from 18% and 23% to 9% and 10%.

2.4 Risk Analysis

There are numerous risks related to the development, ranging from ones that can be controlled by the partnership such as construction mistakes, to risks that are out of anyone's control like interest rates or earthquakes. There are however, several identifiable risks that stand out in the proposed development. These risks include:

1. Achieving rezoning approval;
2. Building the project at the projected construction costs;
3. Finding a hotel operator;
4. Selling all the suites;
5. Achieving projected revenue;

Even though the City of Penticton would like to see a hotel near the Trade and Convention Centre to service the accommodation needs of guests using the facilities, achieving a rezoning of the property is still a significant risk. The City could find any number of reasons to reject the application, such as the proposed development being too large in mass in relation to the surrounding properties or due to negative public support. Another possibility is that the City may agree with only part of the development proposal. For example they may agree with a rezoning to permit the construction of the hotel component, but they may not agree with the two residential towers. Reducing the density of the residential towers would almost certainly make the project unfeasible from a financial standpoint, especially considering that the land would have been purchased into the joint venture at a price significantly above its current value. Unless the land can be rezoned as envisioned, the partnership will be straddled with an over-priced piece of land.

Construction costs are another considerable risk factor to the development. There may be some comfort taken in the fact that ConstructionCo would be assuming the role of the General Contractor, but the cost of materials and sub-trade labour is still out of their control and continues to rise due to hot real-estate markets all over British Columbia and Alberta. It becomes especially difficult to assess this risk given the fact that the project would be built in several phases over a period of probably 4 to 5 years.

Finding a hotel operator might not be an easy task. An operator would take into consideration the seasonality of tourism to Penticton, which is basically during late spring to early fall. The Trade and Convention Centre would supplement some occupancy in the low season. An operator would realize though that their occupancy would depend considerably on the success of the Trade and Convention Centre. Additionally, the fact that the hotel units would be strata titled and sold to owners that would be allowed scheduled use of their unit, further complicates the operating revenue model and operation of the hotel. It is possible that financial incentives would have to be given in order to attract a hotel operation company.

The risk of being able to sell all the suites and the risk of achieving the projected revenue are negatively correlated. Price the suites too low and they will sell but projected revenue will not be achieved. Price the suites too high and projected revenue could be achieved except the suites probably will not sell or won't sell quickly enough. Competition is high with waterfront developments such as Lakeshore Two in Penticton, Royal Private Residence Club in Kelowna, the Skaha Beach Club on Skaha Lake in Penticton, Watermark Beach Resort in Osoyoos, and numerous other developments that are in the works. Coupled with the fact that interest rates are on the rise and the Bank of Canada has said that more "modest" increases may be necessary in the near term[8], the risk of the real-estate market softening is a genuine concern.

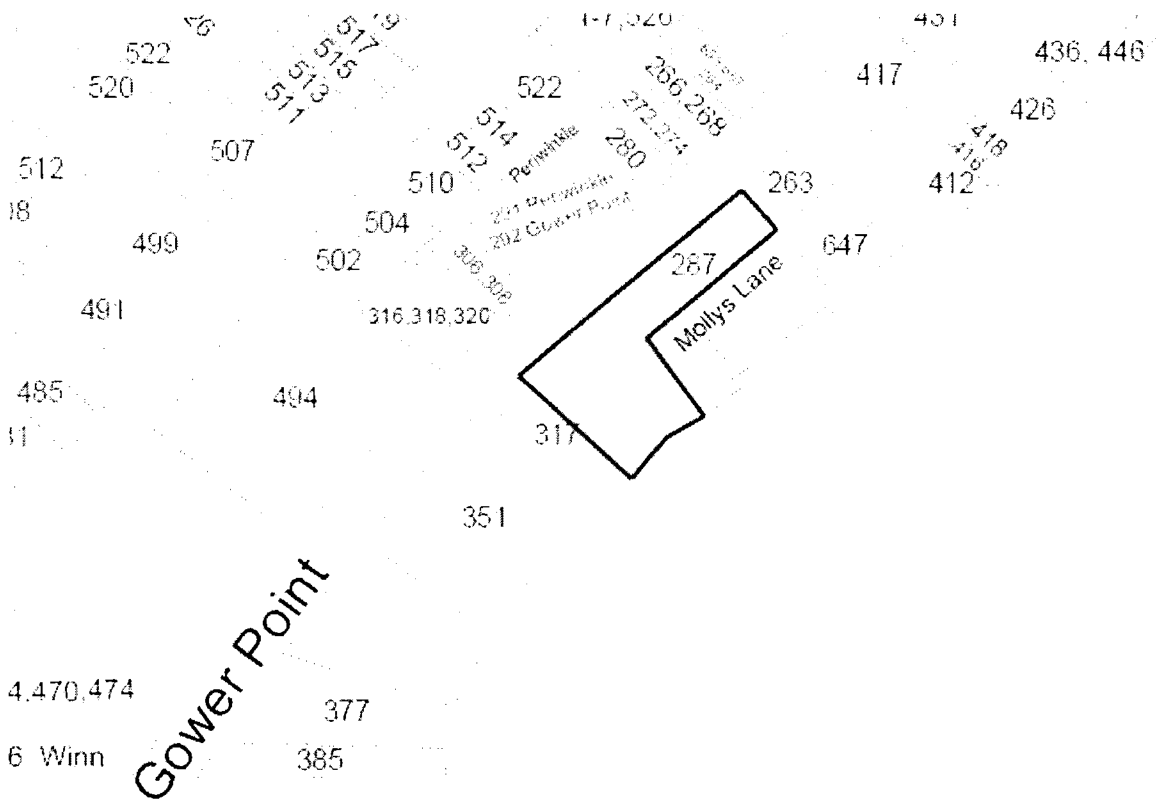
[8] Bank of Canada. (n.d.). Press Release: Bank of Canada raises overnight rate target by 1/4 percentage point to 4 1/2 per cent. Retreived on July 16, 2007, from http://www.bank-banque-canada.ca/en/fixed-dates/2007/rate_100707.html

3 THE GIBSONS PROJECT

3.1 Property Description

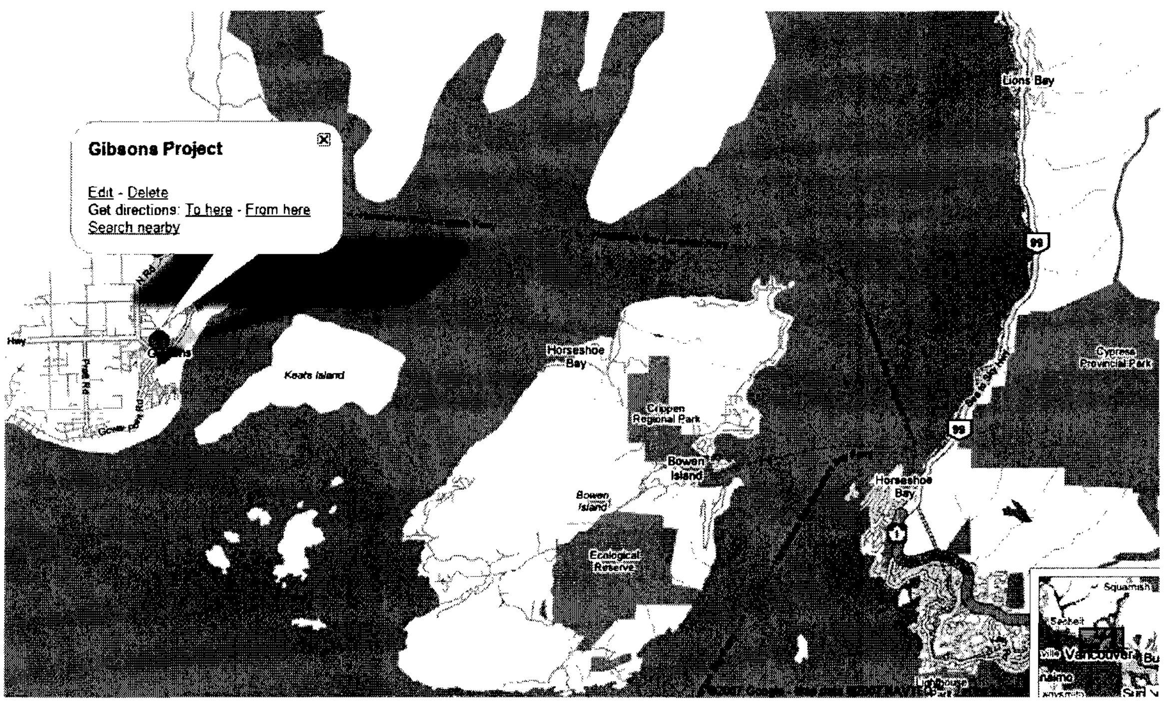
The Gibsons Project is located at 287 Gower Point Road, which is near the corner of Gower Point Road and School Road in Lower Gibsons (see Figure 8). Gower Point Road is an extension of Marine Drive, which connects Lower Gibsons to the Horseshoe Bay-Langdale ferry terminal. Part of the property stretches down to the water where it has its own dock and moorage extending into Gibsons Harbour.

Figure 8 Gibsons Project – Property Map



The town of Gibsons is located 40 minutes by ferry west of Horseshoe Bay in West Vancouver (see Figure 9). The town is known as the "gateway to the Sunshine Coast"[9] and is best known locally for being the filming location of an older TV show called the Beachcombers. Gibsons is a small town with a population of just under 4,000 people. It is divided into two commercial centres. Upper Gibsons is located around Gibsons Way, which turns into the Sunshine Coast Highway #101, and is comprised mostly of shopping malls, restaurants, services and light industrial. Lower Gibsons is still a fishing village located around Gibsons Harbour and is comprised mostly of small shops, cafes and bakeries.

Figure 9 Gibsons Project – Area Map

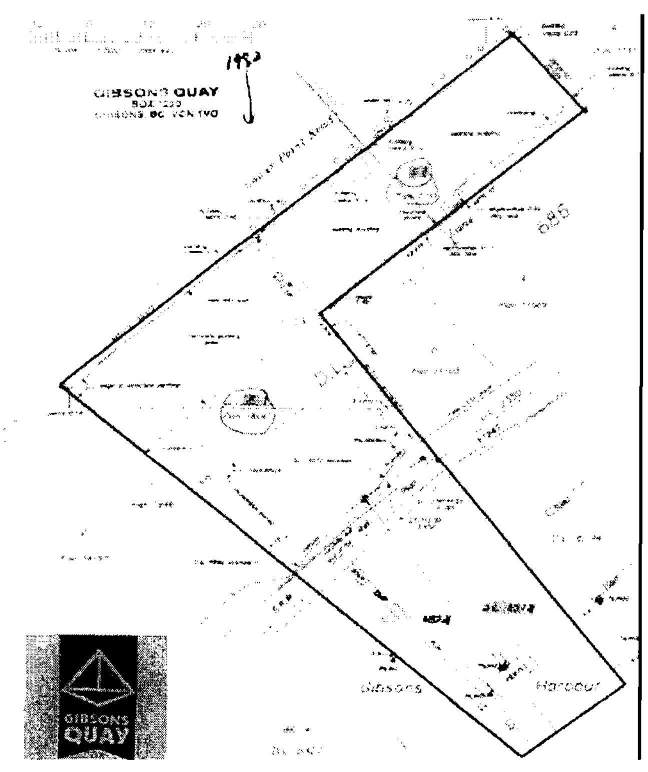


[9] Town of Gibsons. About The Town of Gibsons. Retrieved on July 23, 2007, from http://www.gibsons.ca/aboutGibsons.html

One of the main attractions of Gibsons is its natural beauty. There are numerous hiking and biking paths in the area, as well as golf and easy access to the rest of the Sunshine Coast. Gibsons also offers a variety of ocean related activities such as kayaking, fishing and whale watching. The weather in Gibsons, with generally mild summer and winter months, is similar to the weather received in the Greater Vancouver area.

The subject property consists of two adjacent lots that together create a single, irregularly shaped, lot (see Figure 10). The exact size of the property has not yet been verified, but the two lots together are thought to be roughly 4-acres in size. The property boundary along Gower Point road is approximately 350 feet long. Molly's Lane separates the northern lot from two parcels to the south that are owned by Shell Canada Ltd. The southern lot of the subject property extends to the waters edge and has its own dock and moorage.

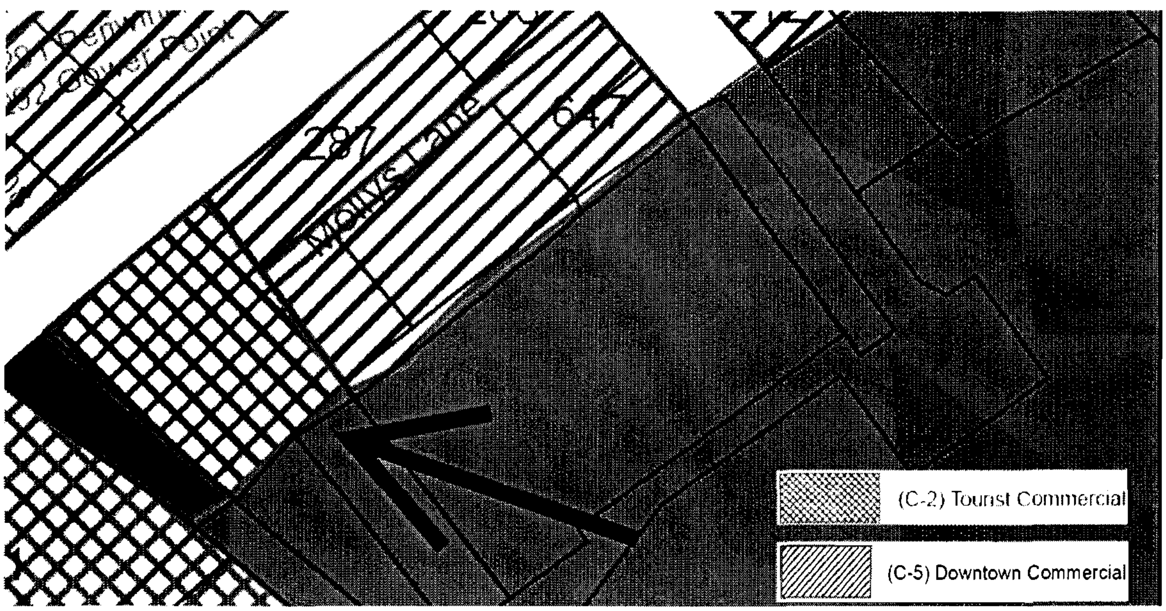
Figure 10 Gibsons Project – Site Plan



A man, who is around 70 years old and has expressed an interest in selling the land, owns the property. Based on discussions with the owner, Daedalus estimates that the acquisition cost would be between $3.5 and $4.0 million dollars. Currently no formal offers have been made.

The property currently falls within two zoning classes (see Figure 11). The northern lot is zoned C-5 Downtown Commercial and the southern lot is zoned C-2 Tourist Commercial. Permitted uses under the C-5 Downtown Commercial zoning include such things as commercial retail, above ground dwelling units, and parking structures. Permitted uses under the C-2 Tourist Commercial zoning includes such things as hotels, motels, boarding houses, retail, restaurants, and parking.

Figure 11 Gibsons Project – Zoning Map



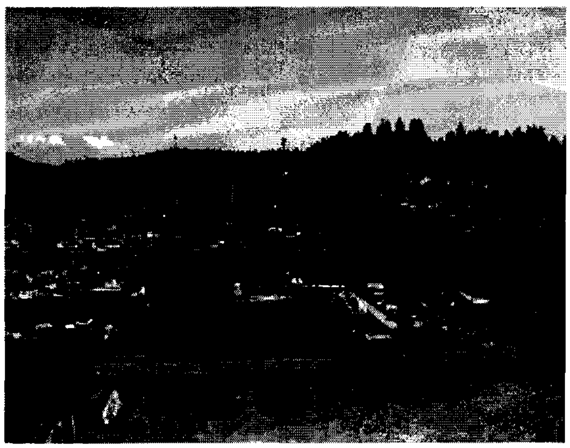
All the properties that are immediately adjacent to the subject property are vacant. The lots to the southeast of Molly's Lane are owned by Shell Canada and have some remediation equipment on them to clean up any contamination left over from the former underground tank farm. Buildings across Gower Point Road are older, one-storey structures that house restaurants, antique and clothing stores.

Existing structures on the property include a concrete parking structure and commercial retail units (see Figure 12). The parking structure is located on the southwest lot and was built in the 1980's as part of a failed redevelopment at the time. The structure is located along the Gower Point Road frontage and takes up about one third of the lot. The remainder of the lot is at grade gravel parking. The concrete and gravel parking together provide roughly 70 parking stalls that are used by the commercial retail units. The retail is located on the northern lot along Gower Point Road and Molly's Lane.

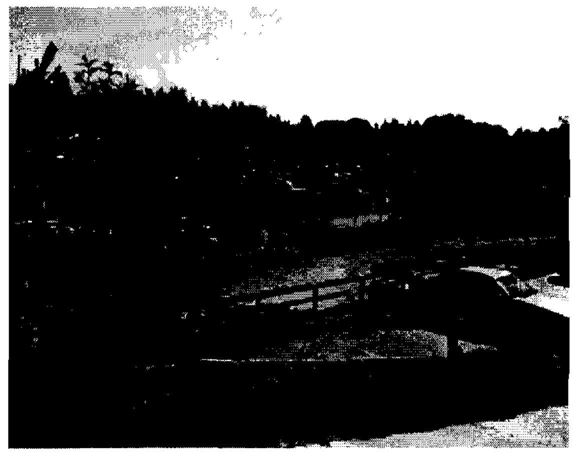
Figure 12 Gibsons Project – Ariel Photograph

The property is located in an urban area and is fully serviced with water, sewer, gas, electricity, telephone, sidewalks, curb and gutter, and street lighting. Daedalus does not have a topographic map of the property but site inspections have shown that property drops approximately 30-40 vertical feet from Gower Point Road down to the water (see Figure 13).

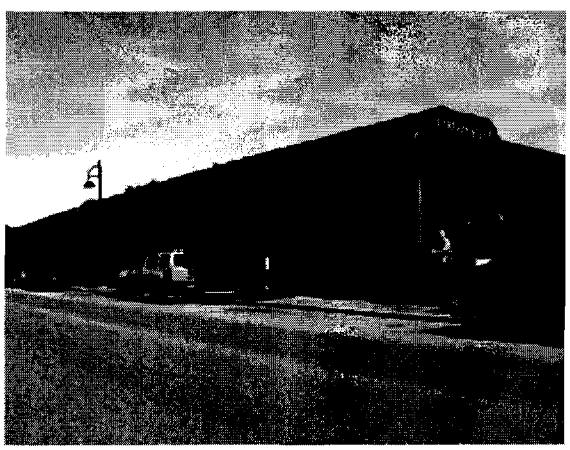
Figure 13 Gibsons Project – Site Photographs



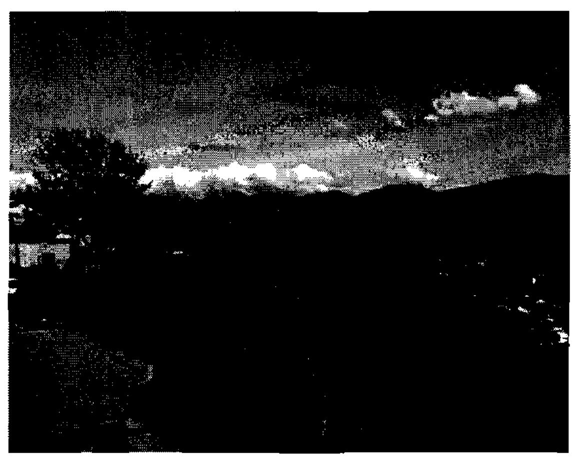
View south, pan



Rear of property, showing marina and private dock.



Gower Point Road frontage



View southeast from deck of property –Esso site in foreground

3.2 Project Description

The Gibsons Project is in the very early stages of due diligence and thus a definitive concept for the development has yet to be worked out. Initially, two scenarios for development were considered:

- Scenario 1 – build a boutique destination type hotel/lodge on the portion of land zoned C-2 and residential condominiums on the part of the property that is zoned C-5.
- Scenario 2 – build the entire development as residential condominiums.

However, after completing a draft proforma based on the two scenarios it was found that the residential condominium component was unprofitable (refer to Appendix F – Gibsons Project Financial Analysis Scenarios 1 & 2). Daedalus is now looking into the possibility of developing the entire property as a boutique lodge-style hotel, possibly similar to the Brentwood Bay Lodge, which is located at the Saanich Peninsula on Vancouver Island (see Figure 14).

Figure 14 Gibsons Project – Brentwood Bay Lodge Picture

Again there are two scenarios that Daedalus is exploring under this concept:

- Scenario A – purchase only the portion of land that is currently zoned C-2 for hotel use.
- Scenario B – purchase the entire property and rezone the portion of land from C-5 to C2

There are a couple of challenges with each of these. Under Scenario A the owner of the land would have to agree to sell Daedalus just the part of the land that is zoned for hotel use. The idea has not been discussed with the owner so it is unknown at this point whether he would agree to the offer. Secondly, the land that Daedalus would like under Scenario A currently services the parking needs for the retail units that are situated on the other portion of land. The seller would almost certainly require Daedalus to figure out a way to provide the required parking for the retail units as a condition of the sale.

Scenario B also has a couple challenges that would need to be considered. First, building a hotel that covers the entire site might make the hotel too big with too many rooms in relation to demand. Second, the northern lot would need to be rezoned from C-5 to C-2 in order to permit the proposed development.

Daedalus is currently in the process of engaging a design architect to do preliminary concept drawings under both scenarios to determine whether a hotel could be built taking into consideration the zoning and physical constraints of the property. If it were found that a hotel would be feasible, a hotel consultant would be engaged to analyze if a market exists for a hotel in Lower Gibsons, and if so, how many rooms it could support.

Due to the limited amount of information Daedalus has on this project, it is difficult to accurately evaluate it against the Penticton and Calgary Foothills Projects. Under the circumstances Daedalus will have to make the best estimates it can as to what could, and should, be built on the property. The limited information might also make the financial projections fairly speculative, although they should be a close enough indication of reality to allow Daedalus to base decisions on.

3.3 Financial Analysis

A rough projection of the numbers for the two scenarios shows that both could be highly profitable ventures. Scenario A would likely see net revenue of around \$20 - \$21 million dollars and costs of approximately \$15 million, leaving a gross profit of over \$5 million dollars. Gross Profit and Return on Cost for Scenario A would be around 27% and 36%. Under Scenario B net revenue would likely be around \$38 million dollars and costs would be near \$26 million, leaving a gross profit of approximately \$12 million dollars. Gross Profit and Return on Cost for Scenario B would be around 32% and 46%.

Assuming a 70% loan to value ratio, Scenario A would require around \$10.5 million in debt financing and \$4.5 million in equity. Scenario B would require around \$18.5 million in debt financing and \$8 million in equity. Return on equity and Internal Rate of Return for the two scenarios would be 110% and 116% for Scenario A and 150% and 119% for Scenario B.

Daedalus would need to find an investment partner to be brought into the deal under either scenario in order to satisfy the equity required for conventional debt financing. Daedalus will probably approach the same investor that it has already had discussions with regarding the Calgary Foothills Project.

3.4 Risk Analysis

There are several risks that exist under both Gibsons scenarios and some that are present only for a certain scenario. Disregarding the risks that are typical in any development, the significant risks that affect both scenarios include:

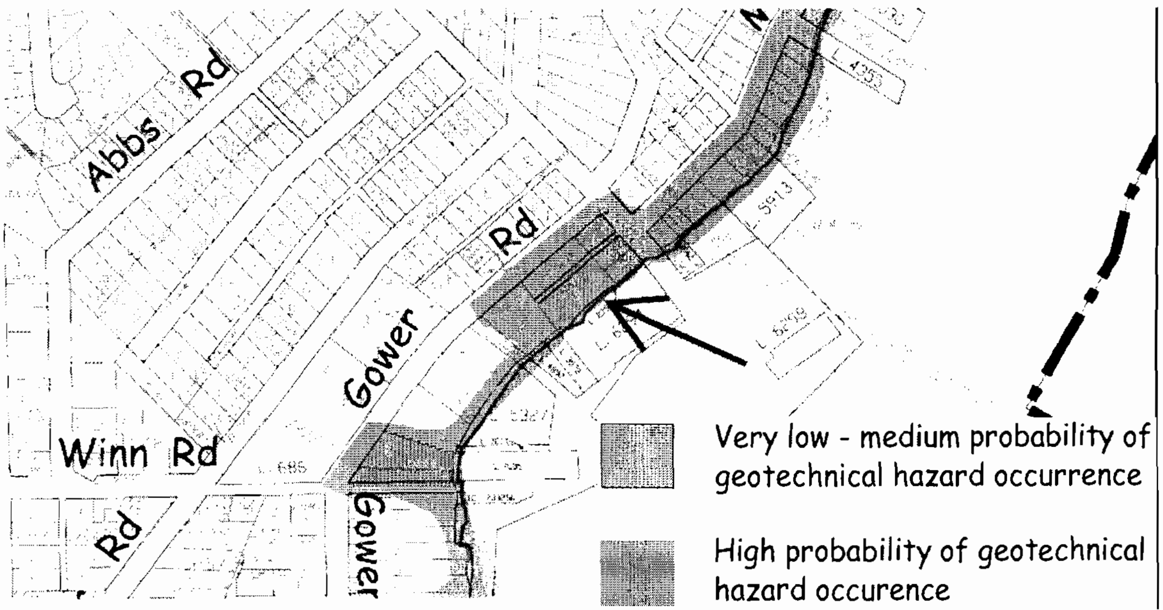
- Building the project at the projected construction costs;
- Selling all the units or finding a single purchaser;
- Site contamination;

Daedalus still needs to look into the risk associated with the cost of construction given Gibsons isolation from the mainland. If construction trades and materials need to be supplied from the mainland the cost of construction could increase significantly. Shipping materials and workers from the mainland also raises the risk of delays, which would also cause the project to incur unexpected costs such as additional overhead to the general contractor and added interest carry from the delay in completing sales.

Its isolation is also a risk factor when it comes to selling the units or finding a single purchaser for the hotel. The ferry from Horseshoe Bay is the only way to reach Gibsons and there are massive line-ups and waits on weekends and especially on holidays. There is only limited parking at the Horseshoe Bay terminal for those wishing to walk-on to the ferry. BC Ferries has not mentioned any plan of increasing service along this route. The difficulty of getting over to Gibsons may detract potential purchasers from the mainland, as well as potential hotel purchasers or operators.

Finally there is the risk that the site could be contaminated from the adjacent Shell tank farm. The Geotechnical Hazard map shown in Figure 15 indicates a high probability of geotechnical hazard on the properties to the northeast of the subject property. However, given that the contaminated site is at a lower elevation, there is a good chance that any possible contamination would not have spread up to the subject property. Daedalus will need to look into the status of the on-site remediation and may require indemnification from the seller of the property. This risk of contamination can be dealt with prior to purchasing the property.

Figure 15 Gibsons Project – Geotechnical Hazard Map



There are also risks that are specific to each Scenario. The significant risks in Scenarios A and B are:

- **Scenario A** – Daedalus my not be able to purchase only the C-2 zoned potion of the property;
- **Scenario A** – Daedalus may be required to provide alternate parking for retail units;
- **Scenario B** – Daedalus may not achieve a partial rezoning of the land;

- **Scenario B** – A market study may indicate that there is not enough demand to support a 100+ room hotel;

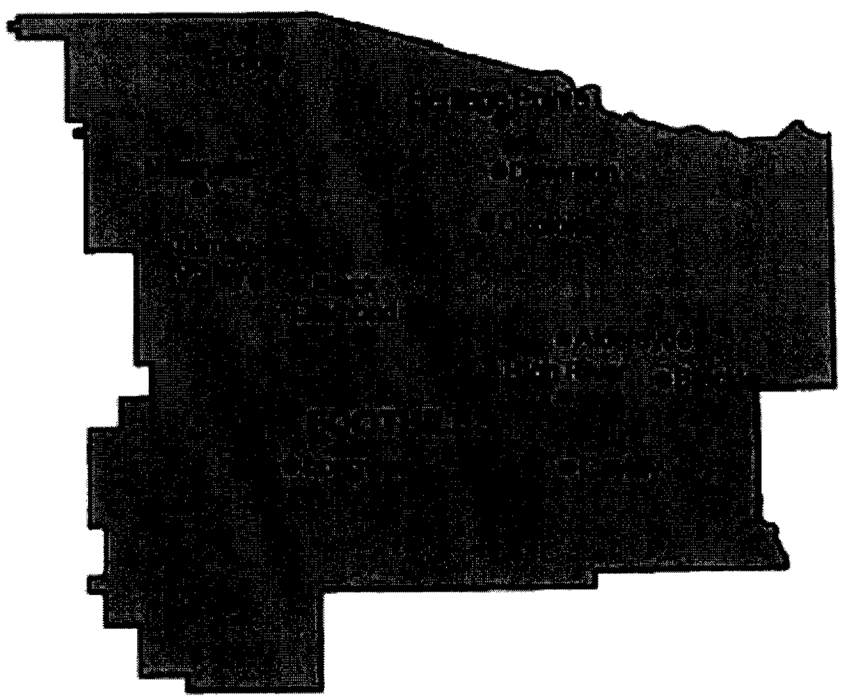
Fortunately all of the risks, except the risk associated with rezoning part of the land, can be dealt with before completing the purchase of the property. Rezoning the land for the development of a hotel in Lower Gibsons would undoubtedly create a stir in the community. Gibsons is a small town and there will be residents there who would like to keep it that way. The proposed hotel in either scenario would be a large, highly visible building, and it is highly likely that there would be some negative public opinion received during the development permit application process.

4 THE CALGARY FOOTHILLS PROJECT

4.1 Property Description

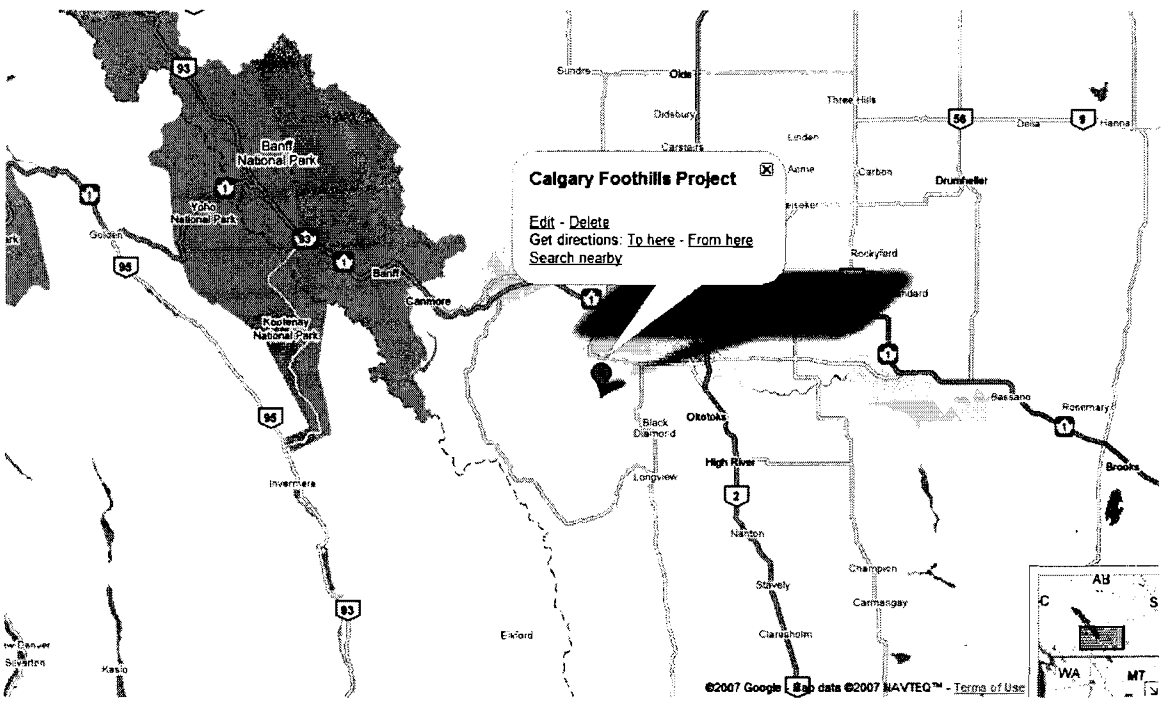
The subject property is located roughly 75 kilometres southwest of Calgary in the northwest quarter of section 16, Township 21, Range 4, West of Meridian 5. The closest town, or hamlet as it's referred to in Alberta, is Millarville, which is 13 kilometres to the east. The surrounding area is mostly rural and agricultural. The property falls within the boundaries of the Municipal District of Foothills No. 31 (see Figure 16).

Figure 16 Calgary Foothills Project – Area Map



The Foothills district is located "adjacent to and immediately south of the City of Calgary"[10]. It is a rural municipality with a population of approximately 20,000 people. Shopping is available in the well-developed town of Okotoks 17 kilometres to the east of the subject property. Roughly 100 kilometres to the west is the Kananaskis Ski Resort and just beyond that are Banff, Kootney and Yoho National Parks (see Figure 17). Weather conditions in the Foothills district are similar to those in Calgary. Temperature in the winter drops down to an average of about –5 degrees Celsius and temperatures in the summer average in the high teens. Snow cover in the winter averages about 5 centimetres.

Figure 17 Calgary Foothills Project – Municipal District of Foothills Map

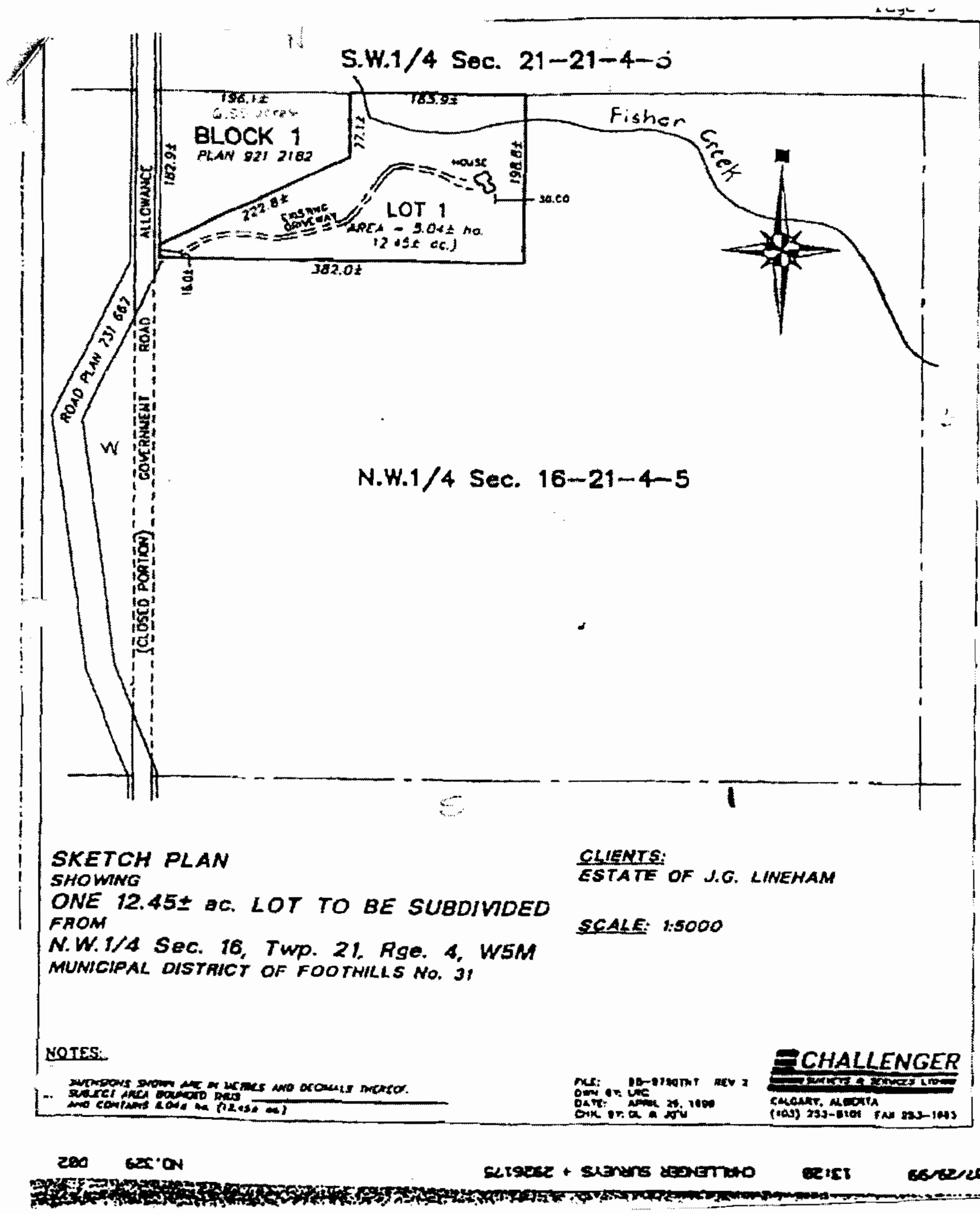


The property is just under 160-acres, which is the size of a unit of measure used in the area called a quarter section. The quarter section has been subdivided into a 140.92-acre lot, a 12.48-acre lot, a 6.3-acre lot, and a 0.3-acre allowance for a government road that has been closed

[10] M.D. of Foothills No. 31. Retrieved on July 23, 2007, from http://www.mdfoothills.com/

(see Figure 18). Daedalus has contracted to purchase 153.4-acres, consisting of the 140.92-acre and 12.48 acre lots (herein after referred to as Lot 1 and Lot 2 respectively). The shape of the property is roughly square except for the 6.3-acre subdivision in the northwest corner and the government road allowance that runs along the western property line. The length of each side of a quarter section is roughly 800 metres.

Figure 18 Calgary Foothills Project – Land Survey



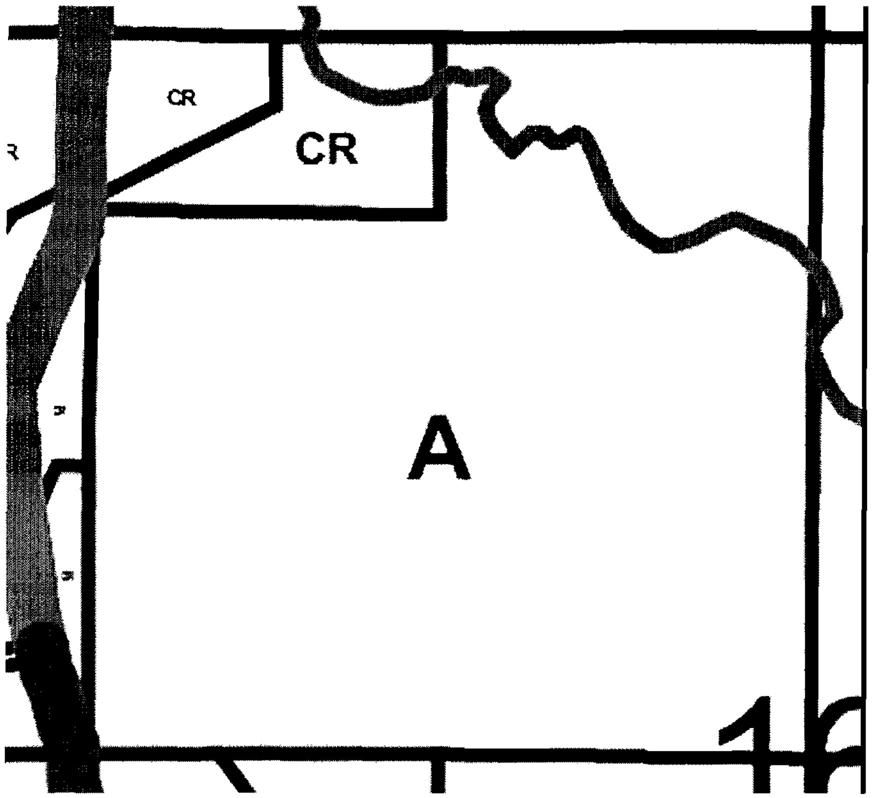
A husband and wife have owned Lot 1 and Lot 2 since February 9, 2006. At the time the couple purchased the land they paid $1,700,000 for Lot 1 and $280,000 for Lot 2. The couple need to sell it quickly due to personal reasons. They are asking $5,350,000 for the two lots. Chuck's niece, who lives in the area, discovered that the property was coming up for sale and Daedalus was able to enter into a purchase and sale agreement with the owner before a realtor had been engaged and the property listed on a multiple listing service. The original Purchase and Sale Agreement was signed on April 27th, 2007 and stipulated for subjects to be removed by May 26th and completion on July 1st. The Agreement was subsequently amended to have subject removal on June 30th, 2007 and completion on July 31st. At the time of this paper being written the Purchase and Sale Agreement had lapsed without subjects being removed. However, Daedalus was still moving ahead with its due diligence and the seller was still interested in seeing the process through.

Lot 1 and Lot 2 are governed by two different zoning designations. Lot 1 falls under the Agricultural zoning designation while Lot 2 is zoned Country Residential (see Figure 19). The intent of Agricultural zoning is to "preserve agricultural lands for agricultural purposes"[4]. It is restricted such that no more than one detached single-family residence is allowed on lots smaller than 80-acres in size, and no more than two detached single-family residences are allowed on lots larger than 80-acres. The intent of Country Residential zoning is to "provide for smaller parcels intended for Country Residential Development"[11]. A maximum of 32 subdivisions are allowed per quarter section with a minimum lot size of 2-acres. No more than one detached single-family residence is allowed on each subdivided lot. There are no established land development policies in this part of the Municipal District. Typically, adjacent landowners in the MD favour larger

[4] Municipal District of Foothills No. 31. Land Use Bylaw. Retreived July 19, 2007, from http://www.mdfoothills.com/LUB.pdf

parcel developments, such as 4-5 acre minimum parcel sizes. Ultimately, Country Residential rezoning applications in agricultural areas depend on the support of the local neighbours.

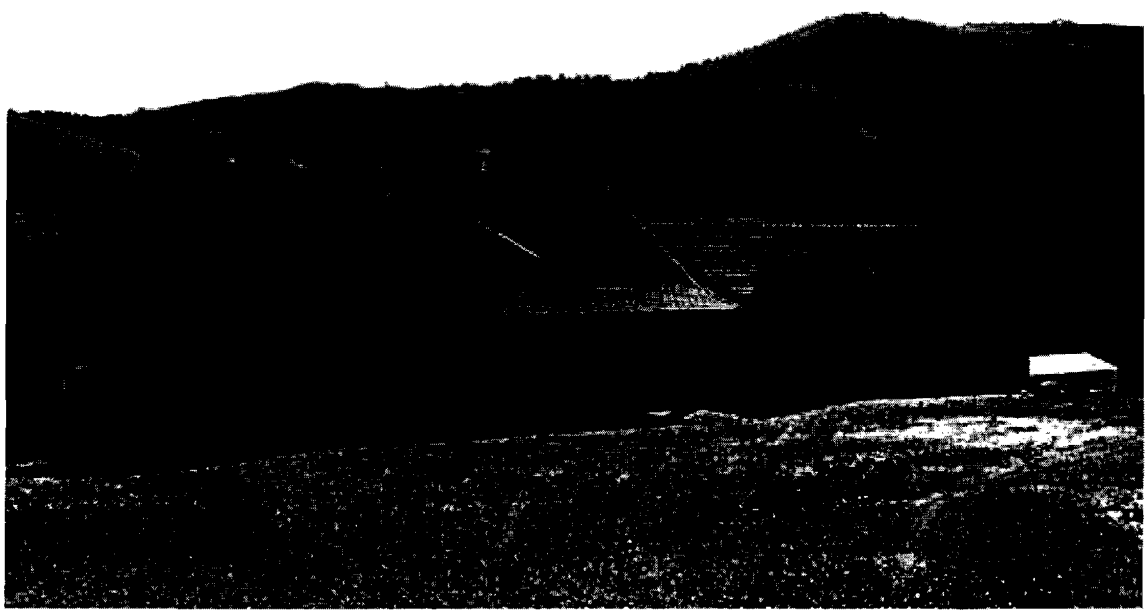
Figure 19 Calgary Foothills Project – Land Use Map



Neighbouring properties range from exclusive executive class developments to ranch land. To the north is a 320-acre estate that has a large home, riding stables, 18-hole private golf course, and an artificial lake. To the south is the Roxy Ranch, which has not yet been subdivided but a portion of the land has been re-designated to Country Residential. To the west is a western-style townhouse development called Square Butte. The Square Butte development already has several subdivided home sites built and will eventually consist of approximately 36 single-family homes and 12 town homes. The development includes common area for stables, pastures and equestrian trails. The neighbour to the east remains agricultural. Properties beyond those that are immediately adjacent to the subject property are still mostly un-subdivided agricultural quarter sections.

Existing structures on the property include a house built in 2005 on Lot 1 (see Figure 20) and a 35 year-old log cabin that stands on Lot 2 (see Figure 21). The current owners live in the house but the log cabin is currently unoccupied and in need of repair. The house is just over 2,250 square feet of liveable area but also includes an on-grade 3 car attached garage, separate workshop, a below grade 3 car garage, a large wood patio, and a squash court. According to the appraisal ordered by Daedalus, the house by itself is valued at approximately $690,000. The appraised value of the house and Lot 1 together came in at $3,250,000.

Figure 20 Calgary Foothills Project – Photograph of House



The log cabin is 2,663 square feet on two levels. The main floor, which includes a partial basement and a carport, is 1,507 square feet. The second floor is 1,156 square feet. The cabin is in average condition but does require some renovations. The cabin by itself was appraised at $590,000. The appraised value of the cabin and Lot 2 together came in at $942,000. Therefore the total appraised value of the subject property, including the house and cabin, is $4,192,000. The existing use of Lots 1 and 2 are considered to be at the highest and best under their current land designations. The discrepancy between the appraisal and the asking price is over $1 million dollars, which suggests that the asking price is too high.

Figure 21 Calgary Foothills Project – Photograph of Cabin

Both Lots 1 and 2 are fully serviced with electricity, natural gas, telephone, spring fed cisterns for water, and private septic tanks and septic field systems. The site topography ranges from flat meadow areas to steep slopes exceeding 30 percent grades. Generally the lots are treed and hilly with good rural views. Fisher Creek runs from the northwest corner of the property to about midway along the eastern property line and has running water year round. Soils conditions have not yet been tested for development stability, but site visits have found that there is water percolating out of the ground in many areas. High ground water levels were confirmed by percolation tests that revealed ground water only a couple of feet below the surface.

The area has seen extensive development due to its proximity to Calgary and the exceptional views. The area is expected to continue to develop with demand for residential acreage expected to remain strong for the foreseeable future.

4.2 Project Description

The development opportunity lies in re-designating the property from Agricultural to Country Residential use and creating a new subdivision of large lots. These lots will be offered for sale to high-wealth purchasers wishing to construct a large home with or without outbuildings in a rural setting still proximate to the Calgary business centre.

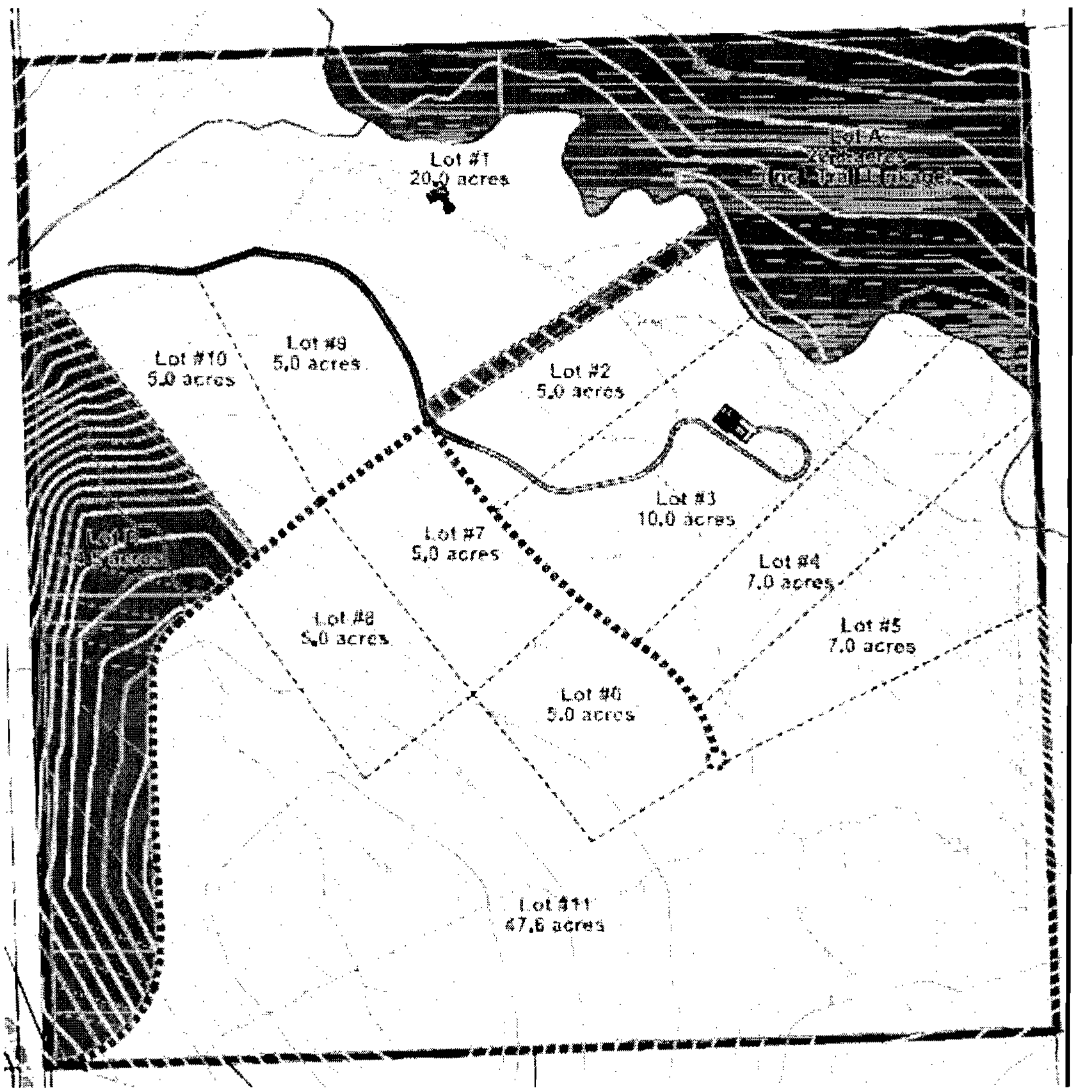
The business plan contemplates the acquisition and development of the property with equity and debt. The development process would be managed by Daedalus, and would include oversight and management of site engineering, site planning, the subdivision entitlement process, permitting, construction of infrastructure and utilities required, and the management of the marketing and sale of the lots.

The business plan strategies are predicated on the degree to which the Municipality will permit subdivision of the two parcels. Three development scenarios have been devised and contemplate the worst case, probably case, and best case.

Option 1 is a worst-case exit strategy that assumes the municipality for whatever reason declines to permit any sub-division at all. Based on current market information, it is believed that by simply upgrading the existing buildings on the two existing parcels, the project could be exited at essentially break even with the loss projected to be borne by Daedalus and a very modest return to the equity partner.

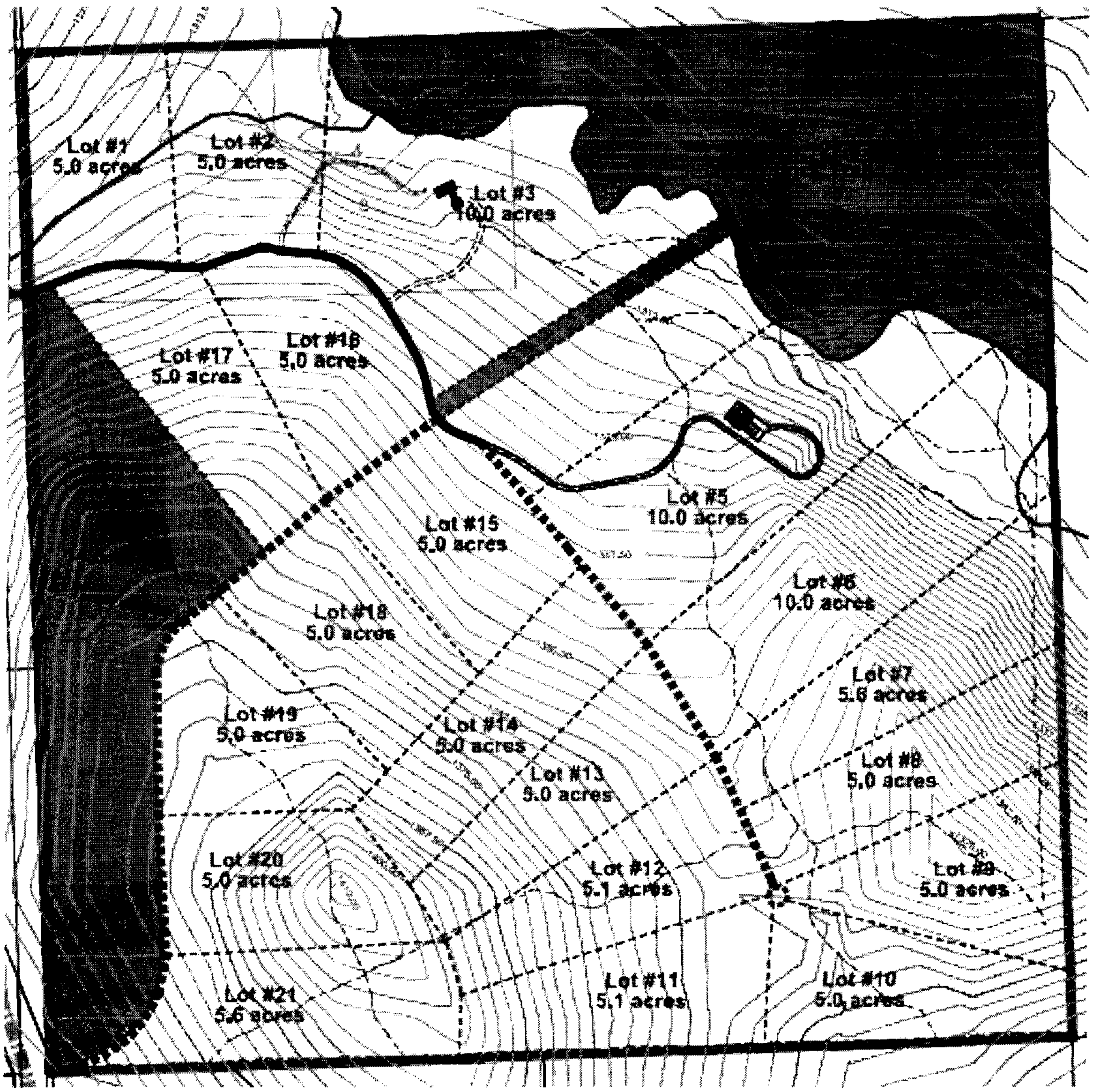
Option 2 (see Figure 22) is believed to be readily achievable, as it is similar to other subdivisions that have been permitted by the Municipality in the areas immediately surrounding the subject property. In fact, the number of parcels seemingly permitted in some of the adjoining properties exceeds what Daedalus has programmed in this scenario. Option 2 involves subdividing the property into 11 saleable lots, while leaving over 37 acres as environmental reserve land. The lots range in size from 5 acres to 47 acres.

Figure 22 Calgary Foothills Project – Option 2 Subdivision Plan



Option 3 (see Figure 23) is an optimal, but supportable and achievable, model. Any variation of this scheme downward obviously reduces profitability. However, any improvement on Option 2 improves cost efficiency and gross revenue and, therefore, profitability. Option 3 involves subdividing the property into 21 saleable lots ranging in size from 5 acres to 10 acres, while leaving over 37 acres as environmental reserve land.

Figure 23 Calgary Foothills Project – Option 3 Subdivision Plan



Preliminary market analysis indicates that there a very few direct comparisons to the subject site. Generally, 5-acre subdivision lot values range from $ 500,000 to $ 750,000 depending on location, site and amenities. One example is nearby 6-7 acre serviced lots that are being sold for around $700,000. These lots are considered to be of inferior quality to the subject site.

4.3 Financial Analysis

Under Option 1, which is the exit scenario, net revenue resulting from some modest upgrading to the house and cabin but no subdivision of the land was estimated to be around $6.9 million dollars. With costs of just under $6.6 million dollars, this scenario results in a very small $300,000 gross profit. Gross profit and Return on Cost for this scenario were both 5%.

Option 2 assumed the municipality would allow a moderate amount of subdivided lots. Net revenue under this scenario was estimated to be approximately $10.9 million with costs of $7.5 million, resulting in a gross profit of just under $3.4 million dollars. Gross profit and Return on Cost for this scenario would be 31% and 45%.

Option 3 assumed the maximum number of lots that could be physically located on the subject property given its zoning and physical constraints. Net revenue under this scenario was estimated to be approximately $13.5 million dollars with costs of just over $8.4 million, resulting in a gross profit of around $5.1 million dollars. Gross profit and Return on Cost for this Scenario would be 38% and 61%.

Since Daedalus would need to obtain financing before it knew the outcome of the rezoning application, financing would have to be based on developing the maximum number of lots, which is Option 3. Under Option 3, assuming a 70% loan-to-value ratio, approximately $2.5 million in equity would be required for conventional debt financing.

Chuck has already been in contact with a personal contact of his who has expressed an interest in investing in the project. The deal terms discussed to date would see the investor contributing the equity required for financing in exchange for a preferred return of 10% plus a 70% share of the distributable profits. Daedalus would contribute development management and would accrue its fees with no preferred return and to be paid only after the investors preferred return, as well as a 30% participation in the remaining distributable profits (refer to Appendix H: Calgary Foothills Financial Analysis).

4.4 Risk Analysis

There are several critical risks associated with this project. These risks include:

- The ability to rezone the land to allow it to be subdivided;
- Availability of water necessary to service the subdivided lots;
- The ability for title to the land to be transferred to Daedalus;
- The ability of Daedalus to negotiate down the price of the land

There are several nearby examples of quarter sections that have been rezoned and then subdivided into smaller lots. However, because there are no established land development policies in the Foothills district, rezoning applications tend to hinge in large part on the positive or negative support of the neighbouring property owners. Although Daedalus believes it can win the support of the neighbours through the development of large parcels and large environmental reserves that would buffer the subdivision from the neighbouring properties, there are still those who would prefer to see the Foothills district remain as rural as possible. Additionally, two of the town councillors for the Foothills district are known to be supporters of limited or no growth in the region. "Municipal elections will be held in Alberta, Canada on October 15,"[12] 2007, which is

[12] Alberta municipal elections, 2007. (2007, July 27). In *Wikipedia, The Free Encyclopedia.* Retrieved July 31, 2007, from http://en.wikipedia.org/w/index.php?title=Alberta_municipal_elections%2C_2007&oldid=147468660

around the time that Daedalus would have its application to rezone under review. If another anti-growth candidate were to be elected to council, the five-person council would have more anti-growth councillors than pro-growth and Daedalus' application to rezone the land would have a good chance of being rejected.

The availability of water is another critical risk to the project. Daedalus has already hired a consulting firm and well drillers to test the capacity of water on the site. There is a possibility that the tests could come back indicating that there is not enough water to support the number of lots Daedalus needs to build. If this happens there would be no point for Daedalus to complete on the purchase of the land.

There is also a chance that even if Daedalus would like to complete on the purchase of the land, the transfer of title may not occur. The husband and wife who are selling the land are in the midst of a bitter divorce. Daedalus has only been dealing with the husband because the wife has moved away. Although the husband is the only one listed on title for the land, there is a chance that the wife could block the sale.

Finally, there is the issue of the asking price for the property. Clearly the appraisal, which valued the land at around $4.2 million, does not support the asking price of $5.35 million. It would be irrational for Daedalus to agree to pay the $5.35 million. The seller has been informed of the appraisal value but seems to be sticking with the original asking price. If Daedalus submits a counter offer that is not accepted, the current agreement becomes void and there is a chance that the seller could enlist a real-estate agent to help sell the land through a multiple listing service.

If either the availability of water, the transfer of title, or the sellers not reducing their asking price prevent Daedalus from purchasing the land then the company will be out only the money it has spent on due diligence and the non-refundable deposit it paid to the seller. In total this could add up to around $100,000. If Daedalus is able to complete on the land, but then is not able to subdivide the land, it could stand to lose up to another $100,000.

5 DAEDALUS' FUTURE SCENARIOS

5.1 SWOT Analysis

The previous chapters have analyzed the a) property descriptions, b) project descriptions, c) financial analyses, and d) risk analyses for each project. This chapter will use SWOT analysis to determine how well or poorly each project fits with Daedalus' present position. A SWOT analysis is a "strategic planning tool used to evaluate the ***S***trengths, ***W***eaknesses, **O**pportunities and ***T***hreats"[13] of a business venture. The analysis is not meant to come up with the answer, but is a tool used to stimulate discussion.

The SWOT analyses that follow will look into the internal strengths and weaknesses of Daedalus with regard to each project. External threats and opportunities will also be included in the analysis in order to provide a clear picture of the pros and cons of each project. The content of each SWOT analysis was generated by extending the previous analysis for the external factors, and from a general understanding of Daedalus for the internal factors.

5.1.1 Penticton Project SWOT Analysis

In the Penticton Project SWOT Analysis illustrated in Figure 24, the matrix is clearly weighted more on the right side, which are negative aspects of the project. On top of the threats, which have already been explored in section 2.4 – Risk Analysis, Daedalus has quite a few weaknesses related to this project.

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[13] SWOT analysis. (2007, July 18). In *Wikipedia, The Free Encyclopedia.* Retrieved 03:39, July 31, 2007, from http://en.wikipedia.org/w/index.php?title=SWOT_analysis&oldid=145486963

Figure 24 Penticton Project – SWOT Analysis

	Positive	Negative
Internal	**Strengths** • Daedalus has rezoning expertise • Daedalus has construction and development management expertise • Daedalus has contacts with many BC consultants • Daedalus has residential condo and hotel experience	**Weaknesses** • Daedalus would need to bring in an equity partner • High capital requirement • Large project would consume all of Daedalus' resources • Daedalus did not find the project
External	**Opportunities** • High profile development for Daedalus • Relatively close to Vancouver	**Threats** • May not be able to rezone • Construction costs increasing • May not be able to find a hotel operator • Challenging sales • May not achieve revenue target • High land cost • Long build out • Poor financial projections

One of the weaknesses that Daedalus would encounter in this project is the need to find a partner that could provide its portion of the equity required. Although all of the projects Daedalus is looking at would require an equity investor, it may be more difficult to find one for the Penticton Project. Two reasons prevail. First, the equity requirement at around $36 million is significantly higher than the other two projects Daedalus is considering. Daedalus' share of $18 million dollars is almost certainly beyond the scope of a private investor that Daedalus would prefer to partner with and Chuck started Daedalus to have control and get away from such situations. Second, the fact that Daedalus would be entering into a Joint Venture structure would probably deter some investors simply for the fact that Daedalus would not be completely in charge.

The Penticton Project is much larger in scope and scale when compared to the Gibsons or Calgary Projects. To carry out the development management for a project this size would almost certainly draw on all the resources, both in terms of working capital and human resources that Daedalus has. This would be fine if the project turned out to be a great success, but having everything tied up in one project for 4 to 5 years is extremely risky.

Finally, Daedalus starts out in this project in a weaker position when compared to the other projects because it was not the one that sourced out the opportunity. ConstructionCo brought the development opportunity to Daedalus, which hinders Daedalus' ability to negotiate with an equity investor from a strong position. If Daedalus found the project there would only be two variables for an investor to deal with, Daedalus and the project. Adding another joint venture partner to the mix complicates the deal and adds another layer of uncertainty. It also means that Daedalus has no chance of using a finder's fee as a negotiating tool.

On the positive side, the project fits well with the strengths and expertise that Daedalus has. The project involves the construction of residential condominiums and a hotel. The entire Daedalus team has years of experience building residential condominiums and hotel style projects. Daedalus would also be able to tap into existing relationships with consultants and engineers its team has used in the past.

Daedalus is also well suited to manage the rezoning process. Chuck has all the experience needed to manage the rezoning process, as well as having unfettered access to Brook + Associates resources.

The opportunities for Daedalus lie in the fact that the project would be a high profile development for Daedalus and it is relatively close to Vancouver. The exposure gained from successfully managing the development could lead to future opportunities. With the project located close to Vancouver, supervision would not be difficult or overly expensive from travel costs.

5.1.2 Gibsons Project SWOT Analysis

The Gibsons Project on the other hand is more heavily weighted on the positive side of the matrix (see Figure 25). Unlike the Penticton Project, which would drain all of Daedalus' resources and required a large amount of equity, the sole weakness of the Gibsons Project is that an equity investor must be located.

In addition to having all the same strengths as the Penticton Project, the Gibsons Project is a smaller project, which means that Daedalus could probably take on another small project at the same time. Having another project in the works would reduce the downside exposure to Daedalus in case one of the projects does not work out. A smaller project also means that a smaller amount of equity would be required. The smaller equity requirement would make it easier to find an equity partner, but also means that Daedalus' share of the profits would be bigger. And since Daedalus found the project, there may be an opportunity to include a finder's fee.

Figure 25 Gibsons Project – SWOT Analysis

	Positive	Negative
Internal	**Strengths** • Daedalus has rezoning expertise • Daedalus has construction and development management expertise • Daedalus has contacts with many BC consultants • Daedalus has residential condo and hotel experience • Low equity requirement • Would not use up all of Daedalus' resources • Daedalus found the project	**Weaknesses** • Daedalus would need to bring in an equity partner
External	**Opportunities** • High profile development for Daedalus • Relatively close to Vancouver • No other boutique/lodge hotels in Gibsons • Oceanfront lot • Boat moorage • Charm of Lower Gibsons	**Threats** • May not be able to rezone • Site may be contaminated • Hotel demand may not support development • Construction costs at risk because of isolated area

The Gibsons Project shares the same high profile. It, like the Penticton Project, is close to Vancouver. It draws people away from a heated property market. The project also benefits from the fact that there are no other boutique lodge-style hotels in Gibsons, it is an oceanfront lot, has boat moorage, and can play off the 'old fishing village' charm of Lower Gibsons. The boat set can be drawn from a geographic distance and are willing to pay high fees for moorage. The project would still have to contend with competition outside the Gibsons area, but Daedalus is unaware of any hotels currently being proposed in Gibsons. The oceanfront location adds significantly to the opportunity since waterfront in the lower mainland is scarce and expensive.

And having a dock with boat moorage will not only add to the appeal of the hotel, it could present a great marketing opportunity to potential purchasers in the lower mainland with boats who would be able to avoid the ferry line ups or use the hotel as a stop-over place.

5.1.3 Calgary Foothills Project SWOT Analysis

The Calgary Foothills Project SWOT Analysis lies somewhere in the middle between the Penticton and Gibsons deals. The matrix illustrated in Figure 26 shows that the negative and positive aspects of the project are almost evenly distributed.

The project has the same weakness as the other projects in that an equity investor would be needed. The difference with the Calgary Foothills Project is that an investor has already been identified and is interested in the project. The other strengths such as having a low equity requirement and Daedalus having found the project provide the same benefit as in the Gibsons Project.

With the project being located in Alberta, Daedalus will not be able to rely on Chuck's expertise with rezoning. Daedalus will still have the advantage of having a good understanding of the general process, but it would likely have to hire a third-party consultant to manage the entitlement process. Having to hire a consultant not only means higher costs, but it also diminishes the control that Daedalus has over the process. The Alberta location also means that Daedalus may not be able to use the existing network of consultants and engineers that it has in British Columbia.

Figure 26 Calgary Foothills Project – SWOT Analysis

	Positive	Negative
Internal	**Strengths** • Daedalus has construction and development management expertise • Equity partner already identified and preliminary discussions started • Low equity requirement • Daedalus found the project	**Weaknesses** • Daedalus would need to bring in an equity partner • No contacts in Alberta • No experience rezoning in Alberta
External	**Opportunities** • Highly desirable area • Horizontal construction is less risky than vertical	**Threats** • May not be able to rezone • Site may not have adequate water • Receiving title to the property may be an issue • Price of the property is too high

Like the Gibsons Project, the Calgary Project is also in an area that would be considered highly desirable. The rural setting and vicinity to Calgary are attracting many wealthy purchasers. The striking difference between the Calgary Foothills Project and the other two projects is that it does not involve any vertical construction. Horizontal construction, which would involve grading, road building, and installing services such as water and sewer, is a lot less complicated than vertical construction. The less complicated the project, the less risk is involved in the construction process, and the less time is required to manage the development.

5.2 Recommendation

The SWOT Analysis clearly shows the differing pros and cons of each project. The Gibsons Project is more heavily weighted on the positive site of the matrix; the Calgary Project is almost evenly weighted between the positive and negative sides of the matrix; and the Penticton

Project is most heavily weighted on the negative side of the matrix. The analysis allows the projects to be ranked in a logical order of preference as follows:

1. Gibsons Project
2. Calgary Project
3. Penticton Project

At this stage Daedalus would not be able to take on all three projects even if it did think that they were all worth pursuing. Daedalus has a limited amount of working capital and management resources. The Penticton Project alone would most likely tap out the management resources. Working capital might also be exhausted by the three projects due to the cost of travelling to all the sites, as well as the long build-out the Penticton Project would require. The Penticton Project could only be pursued if Daedalus gave up on the Calgary Foothills and Gibsons Projects, but the risks and negative aspects of the Penticton Project make this an undesirable option.

Daedalus would also be stretched thin if it were to choose to do both the Calgary Foothills Project and the Gibsons Project. Daedalus has the management resources necessary to carry out the development of both projects, but may not have enough working capital to last until completion of both projects. In the Calgary Foothills Project, Daedalus was proposing to forego payment of development management fees in order to contribute the projected fees as equity that it would receive as a return of equity, plus a 30% share of the remaining profits, at the completion of the project. In order to obtain an equity stake in the Gibsons Project, Daedalus would have to enter into a similar arrangement. This means that for roughly two years Daedalus would have to cover all the costs related to the management of both projects, including salaries, general overhead, and travel costs. Salaries and overhead costs would be roughly the same regardless of if

Daedalus were doing one or two projects. Travel costs, such as airfare, hotel, and meals, are variable costs that would add to the burn rate of working capital. It would be wise for Daedalus to hold off a little while on doing a second project so that it can monitor its working capital.

Based on the fact that Daedalus cannot do all three project, shouldn't do two projects, and that the Gibsons Project received the highest ranking, it would appear that the Gibsons Project is the best one to pursue. The Gibsons Project had the least amount of threats and weaknesses and the most strengths and opportunities. The project is located near Vancouver so travel costs and times are kept down, Chuck can manage the entitlement process, and Daedalus can utilize its network of consultants and engineers. Taking on just the Gibsons Project would also leave enough working capital so that Daedalus could continue to source out other development opportunities in the near future. The project is also a good size for Daedalus to start out on. It's small enough that the equity requirement is not too high, yet large enough to yield a significant profit that could be used for equity and working capital on future Daedalus projects.

Before Daedalus passes on Calgary, further due diligence should be completed on Gibsons to confirm that Daedalus' estimates and projections are reasonably accurate. The main issue Daedalus needs to resolve is whether demand exists to support the size and type of hotel it is looking to build.

5.3 Action Plan

If Daedalus chooses to pursue the Gibsons Project, the following is a rough outline of an action plan the company could follow:

1. **Complete due diligence.** Daedalus should try to moderate the risks associated with the project. The company should talk to the City of Gibsons about the possibility of rezoning part of the land. Discussions with planning staff should

give Daedalus a good idea of whether a rezoning and development permit for a hotel would be achievable. It would also be fairly easy to talk to local contractors about the availability of labour and materials. An architect has already been retained to do preliminary sketches to determine what a hotel would look like under the two scenarios. A hotel consultant should be hired to ascertain how much demand exists for a boutique hotel as well as an engineer to test for soil contamination. Depending on the outcome of the hotel study, Daedalus may need to talk to the seller about buying only a portion of the land. Finally, an updated proforma that incorporates all the information known to date should be created to make sure the project would still be a profitable venture.

2. **Find an equity investor**. Once the due diligence is nearly complete Chuck could start preliminary discussions with potential equity investors. An obvious choice would be the same equity investor that was interested in the Calgary Foothills Project. A financing package will need to be completed, describing all aspects of the development and the deal terms that Daedalus is proposing. A commitment will be needed before proceeding to get debt financing and purchasing the property.

3. **Obtain debt financing**. Once the necessary equity is in place, Daedalus can take their financing package around to debt lenders in order to obtain financing.

4. **Purchase the property**. Once financing has been obtained, Daedalus can proceed with the acquisition of the property. If possible, Daedalus may want to try to time the acquisition such that the completion of construction drawings, rezoning of the land, and obtaining the necessary permits would complete around early spring so construction could start right away.

5. **Hire a consulting team, rezone the land, and obtain permits**. Now that the property has been purchased and the interest on the equity and loan is accruing, Daedalus cannot waste any time. The rezoning of the land and hiring a consulting team to start designing the hotel must proceed right away. As soon as the property has been rezoned and the drawings are nearly complete, Daedalus should start the building permit process.

6. **Start marketing and selling**. This step will depend on whether Daedalus is looking to sell the entire project to a single purchaser who wants to own and operate the hotel, or if the hotel will be strata titled and sold to multiple purchasers. Either way, the marketing and sales process should start as soon as possible.

7. **Hire a contractor and start construction**. There are several ways to engage a general contractor. Typically projects are tendered and the contract awarded to the lowest bidder. Daedalus could also choose to interview contractors and then negotiate a contract with one of them. Alternatively, Daedalus could engage a contractor during the design process so the contractor could assist with costing and provide advice to the design team and Daedalus. Bringing a contractor into the team early is also beneficial since they become extremely knowledgeable about the project when it comes time to build it. All three scenarios should be examined and discussed to determine which is the best option for the project.

8. **Complete the sale of the project and move on to the next development**.

As mentioned at the beginning of this paper, the purpose of this report was to closely examine Daedalus and the three projects in order to provide a starting point for further discussions. Before any of the eight action items should be started, or the decision of pursuing the Gibsons Project being made, the Daedalus team should carefully consider all its options.

APPENDICES

Appendix A: Excerpts from an interview with Chuck Brook

May 3, 2007

1. *When was Daedalus formed?*

   Spring 2005

2. *Summarize what it is that Brook + Associates does.*

   Brook + Associates specializes in real-estate consultancy. It focuses on complex, generally large scale, and controversial entitlement processes. It also conducts studies, performs due diligence, and provides expert testimony for litigation.

3. *What is your experience before starting B+A?*

   I started out as a graduate architect for Jack Ross Architect in Winnipeg and then moved on to become partner in an architectural firm called Hancock, Nicholson, Brook. I was with HNB for about a year and then I took a job as the urban design coordinator and historical projects coordinator for the City of Winnipeg. I was with the City of Winnipeg for about eleven years and then I moved out to Vancouver to take a job as the senior development planner at City of Vancouver. I started Brook + Associates on November 1, 1988 after about a year and a half with the City of Vancouver.

4. *How long have you and Doug Regelous been business associates?*

   Doug and I first met in 1992 when I worked on a Development Permit for his company Campion. I've worked with him off and on ever since.

5. *What was your vision when starting Daedalus?*

   To do projects related to developments with municipalities, principally in the Okanagan.

6. *What does Daedalus look like to you in five years from now?*

Daedalus will have a number of resort mixed-use development projects, predominantly in Western Canada and will have about three to five employees. Consultants will be used for the rest.

7. *What kind of projects or areas do you think Daedalus should engage in?*

   I think Daedalus will focus on joint venture deals with passive financial partners. Daedalus will contribute its development expertise in the form of sweat equity and then start to contribute hard cash as funds become available. The projects will probably be small to medium in size to start out with and will primarily be land deals with an opportunity for vertical development.

8. *Where did the working capital for Daedalus come from?*

   Daedalus was capitalized from the commission for brokering the sale of development land in Mammoth Lakes, California.

Appendix B: Excerpts from an interview with Mike Hobbs

May 3, 2007

1. *What is your background in development & construction?*

   I first started out as a Quantity Surveyor in England for 6 years. Then I moved on to become a Project Manager and then CEO of large construction company based in Johannesburg for 13 years. In 1979 I moved to Canada and became partner in large architectural firm for 10 years and simultaneously opened and operated a project management company specializing in commercial real-estate development and construction. I've continued on as an independent project manager ever since.

Appendix C: Penticton Prospectus Excerpts

Development Pro-Forma

Project:	El Rancho Hotel
Location:	Westminster Avenue/Power Street, Penticton
Description:	110 Room Strata Hotel with a GFA of 115,000 SF including Restaurant/Bar at Ground Floor with Ground Level parking & above grade Pool/Health Club (note: 4 Storey Wood Frame Construction with concrete at Main & Second Floor slabs)
Date:	March 21, 2007
Revision:	Nil

1.

Development Summary

Project:	El Rancho Hotel
Date:	March 21, 2007
Revision:	Nil

Revenue (As per Sheet No: 3)		$ 40,350,000.00
Cost (As per Sheet No: 7)		$ 31,600,000.00
Gross Profit		$ 8,750,000.00
Return on Cost	28 %	

2.

Development Revenue

Project: El Rancho Hotel

Date: March 21, 2007

Revision: Nil

1. Revenue

110 units @ average 750 s.f.	=82,500 sf @ 500.00	=	41,250,000.00	
Restaurant	= 5,000 sf @ 250.00	=	1,250,000.00	
Retail	= 5,000 sf @ 200.00	=	1,000,000.00	43,500,000.00

2. Marketing

Salaries/Commissions	4 1/2% X 43,500,000.00	2,000,000.00	
Marketing Budget		1,000,000.00	
Pre-opening Budget		150,000.00	(3,150,000.00)

Net Revenue	=	40,350,000.00

3.

Development Cost

Project:	El Rancho Hotel
Date:	March 21, 2007
Revision:	Nil

1. Land:

Land Acquisition Cost		=	3,000,000.00	
Property Purchase Tax	2% X 3,000,000.00	=	60,000.00	
Legal & other transaction costs		=	15,000.00	3,075,000.00

2. Hard Construction Costs:

Hard Costs (as attached)		=	20,125,000.00	
Contingency	3% X 20,125,000.00	=	603,750.00	20,750,000.00

3. Furnishings, Fixtures, & Equipment

Unit Furnishings	110 rooms @ 25,000.00	=	2,750,000.00	
Restaurant & Bar		=	200,000.00	
Convention Facility		=	N/A	
Food Service Equipment		=	NIC	
Public Area Furnishings		=	150,000.00	
Miscellaneous		=	50,000.00	
Contingency	3% x 3,150,000.00	=	100,000.00	3,250,000.00
			CIF	27,075,000.00

4.

				B/F	27,075,000.00

4. City Charges:

Connection Fees : Storm Sewer		=	200,000.00	
Connection Fees : Sanitary Sewer		=		
Connection Fees : Domestic Water		=		
Connection Fees : Hydro		=		
Connection Fees : Telephone		=		
Connection Fees : Cable TV		=		
Development Cost Charges	115,000 sf @ 2.25	=	260,000.00	
Building Permit Charges	11.76 X 21,000 Ths.	=	250,000.00	
Plumbing Permit Charges		=	See Hard Costs	
Electrical Permit Charges		=		
Demolition Permit Charges		=	1,000.00	
Special Levies		=	n/a	
Miscellaneous Permits		=	20,000.00	
Contingency Sum	3% X 531,000	=	16,000.00	747,000.00
			C/F	27,822,000.00

5.

					B/F	27,822,000.00
5. Design Fees:						
Architect			=	550,000.00		
Structural Engineer			=	100,000.00		
Mechanical Engineer			=	105,000.00		
Electrical Engineer			=	70,000.00		
Landscape Architect			=	40,000.00		
Interior Designer			=	150,000.00		
Building Envelope Consultant			=	30,000.00		
Code Consultant			=	20,000.00		
Geotechnical Engineer			=	30,000.00		
Civil Engineer			=	10,000.00		
Acoustical Engineer			=	5,000.00		
Environmental Consultant			=	5,000.00		
Traffic Consultant			=	2,000.00		
Elevator Consultant			=	5,000.00		
Pool Consultant			=	10,000.00		
Miscellaneous			=	10,000.00		
Contingency	3 %	X 1,142,000.00	=	35,000.00		1,200,000.00
6. Soft Construction Costs:						
Appraisal Fee			=	10,000.00		
Legal Survey			=	15,000.00		
Materials Testing			=	30,000.00		
Homeowner Protection Office			=	125,000.00		
Construction Bonding			=	200,000.00		
Construction Insurance			=	300,000.00		
Legal Fees, Accounting & Audit			=	50,000.00		
Development Management Fee			=	200,000.00		
Contingency	3 %	X 930,000.00	=	30,000.00		960,000.00
					C/F	29,982,000.00

6.

								B/F	29,982,000.00
7. Financing Costs:									
Land	1,500,000.00	X	6.5%	X	30 mos.	=	250,000.00		
Construction	10,000,000.00 (average)	X	6.5%	X	20 mos.	=	1,100,000.00		
Commitment Fee						=	150,000.00		1,500,000.00
8. Miscellaneous Costs:									
Off-Site Work							50,000.00		
Tenant Improvement							N/A		
Miscellaneous							50,000.00		100,000.00
									31,600,000.00

7.

Development Pro-Forma

Project:	El Rancho Apartments
Location:	Westminster Avenue & Power Street Penticton, BC
Description:	200 unit concrete apartment buildings comprising 2 no. 15 storey towers with at grade (ground level parking) GFA = 273,000 sf
Date:	March 21, 2007
Revision:	Nil

1.

Development Summary

Project: El Rancho Apartments

Date: March 21, 2007

Revision: Nil

Revenue (As per Sheet No: 3)	$	103,620,000.00
Cost (As per Sheet No: 7)	$	85,830,000.00
Gross Profit	$	17,790,000.00

Return on Cost 21 %

2.

Development Revenue

Project:	El Rancho Apartments
Date:	March 21, 2007
Revision:	Nil

1. Revenue

Net Floor Area 238,000 sf 238,000 @ 460.00 =	109,500,000.00	
		109,500,000.00

2. Marketing

Salaries/Commissions 4% x 109,500,000.00	4,380,000.00	
Marketing Budget	1,500,000.00	
Pre-opening Budget	N/A	(5,880,000.00)
Net Revenue	=	103,620,000.00

3.

Development Cost

Project: El Rancho Apartments

Date: March 21, 2007

Revision: Nil

1. Land:

Land Acquisition Cost			= 7,500,000.00	
Property Purchase Tax	2 % X 7,500,000.00	=	= 150,000.00	
Legal & other transaction costs			= 50,000.00	7,700,000.00

2. Hard Construction Costs:

Hard Costs (as attached)			= 54,500,000.00	
Contingency	3 % X 64,500,000.00	=	= 2,000,000.00	66,500,000.00

3. Furnishings, Fixtures, & Equipment

Unit Furnishings			= N/A	
Restaurant & Bar			= N/A	
Convention Facility			= N/A	
Food Service Equipment			= N/A	
Public Area Furnishings			= N/A	
Miscellaneous			= N/A	
Contingency	% X	=	= N/A	N/A
			CIF	74,200,000.00

4.

B/F 74,200,000.00

4. City Charges:

Connection Fees : Storm Sewer		=	150,000.00
Connection Fees : Sanitary Sewer		=	
Connection Fees : Domestic Water		=	
Connection Fees : Hydro		=	
Connection Fees : Telephone		=	
Connection Fees : Cable TV		=	
Development Cost Charges	200 units @ 5,600.00	=	1,120,000.00
Building Permit Charges	11.76 X 66,500 Ths	=	800,000.00
Plumbing Permit Charges		=	See Hard Costs
Electrical Permit Charges		=	See Hard Costs
Demolition Permit Charges		=	1,000.00
Special Levies		=	N/A
Miscellaneous Permits		=	20,000.00
Contingency Sum	3% X 2,091,000.00	=	60,000.00	2,150,000.00

C/F 76,350,000.00

5.

				B/F	76,350,000.00
5. Design Fees:					
Architect		=	1,400,000.00		
Structural Engineer		=	275,000.00		
Mechanical Engineer		=	285,000.00		
Electrical Engineer		=	200,000.00		
Landscape Architect		=	75,000.00		
Interior Designer		=	300,000.00		
Building Envelope Consultant		=	50,000.00		
Code Consultant		=	30,000.00		
Geotechnical Engineer		=	50,000.00		
Civil Engineer		=	20,000.00		
Acoustical Engineer		=	10,000.00		
Environmental Consultant		=	10,000.00		
Traffic Consultant		=	5,000.00		
Elevator Consultant		=	10,000.00		
Pool Consultant		=	10,000.00		
Miscellaneous		=	25,000.00		
Contingency	3 % X 2,755,000.00	=	80,000.00		
					2,850,000.00
6. Soft Construction Costs:					
Appraisal Fee		=	15,000.00		
Legal Survey		=	25,000.00		
Materials Testing		=	See Hard Costs		
Homeowner Protection Office		=	220,000.00		
Construction Bonding		=	600,000.00		
Construction Insurance		=	400,000.00		
Legal Fees, Accounting & Audit		=	20,000.00		
Development Management Fee		=	300,000.00		
Contingency	3 % X 1,580,000.00	=	50,000.00		1,630,000.00
				C/F	80,830,000.00

6.

				B/F	80,830,000.00
7. Financing Costs:					
Land (50 %)	4,000.000.00	X 6.5 % X 24 mos.	= 525,000.00		
Construction - PH 1	18,000,000.00	X 6.5% X 24 mos.	= 2,350,000.00		
Construction - PH 2	15,000,000.00	X 6.5% X 20 mos.	= 1,625,000.00		
Commitment Fee			= 300,000.00		4,800,000.00
8. Miscellaneous Costs:					
Off-Site Work			200,000.00		
Tenant Improvement			N/A		
Miscellaneous			N/A		200,000.00
					85,830,000.00

• Construction Financing calculated at average 50% for project duration
i.e. Phase 1 $36 Million X 50% = $18 Million
i.e. Phase 2 $30 Million X 50% = $15 Million

7.

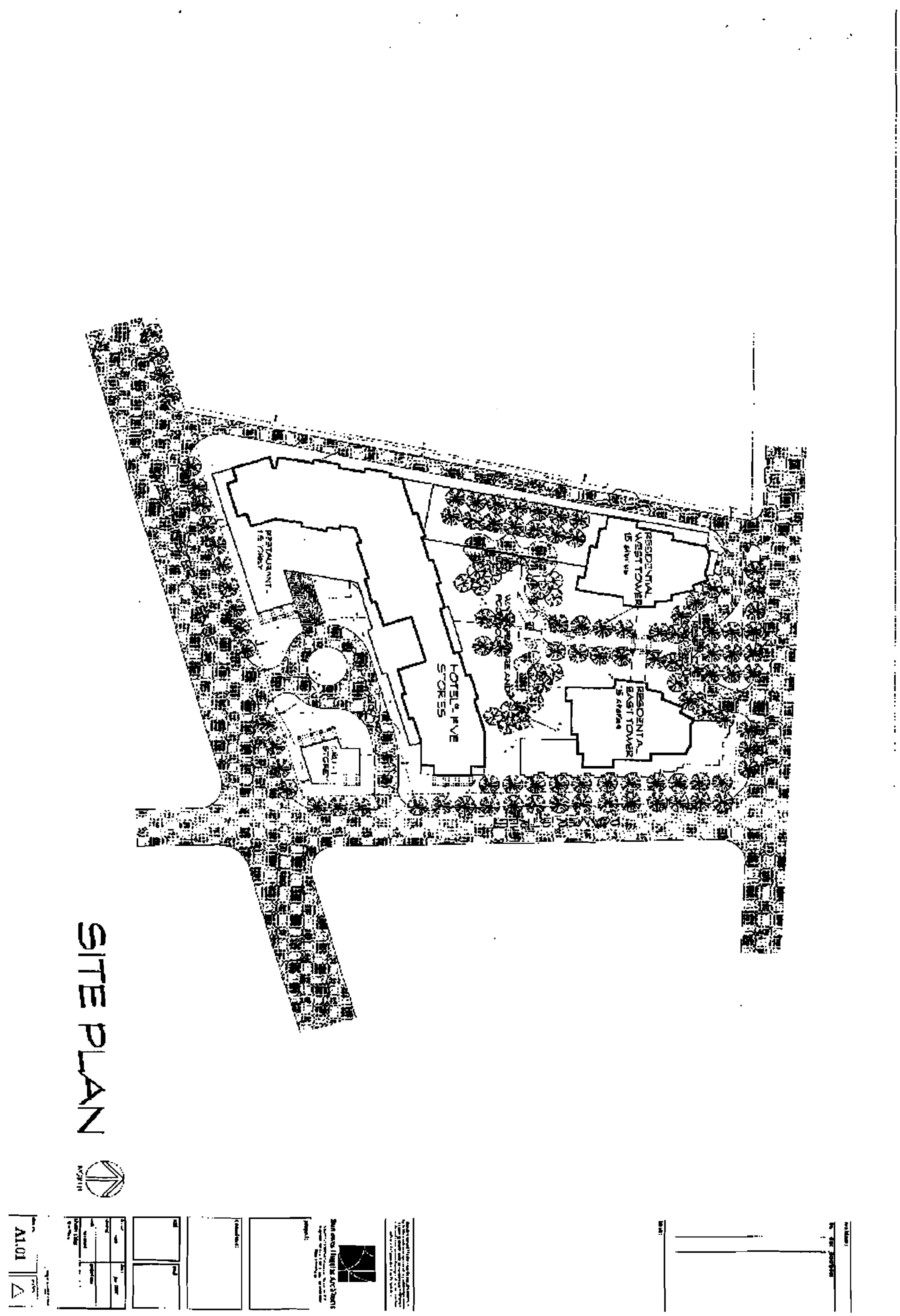
Appendix D: Penticton Project Concept Drawings

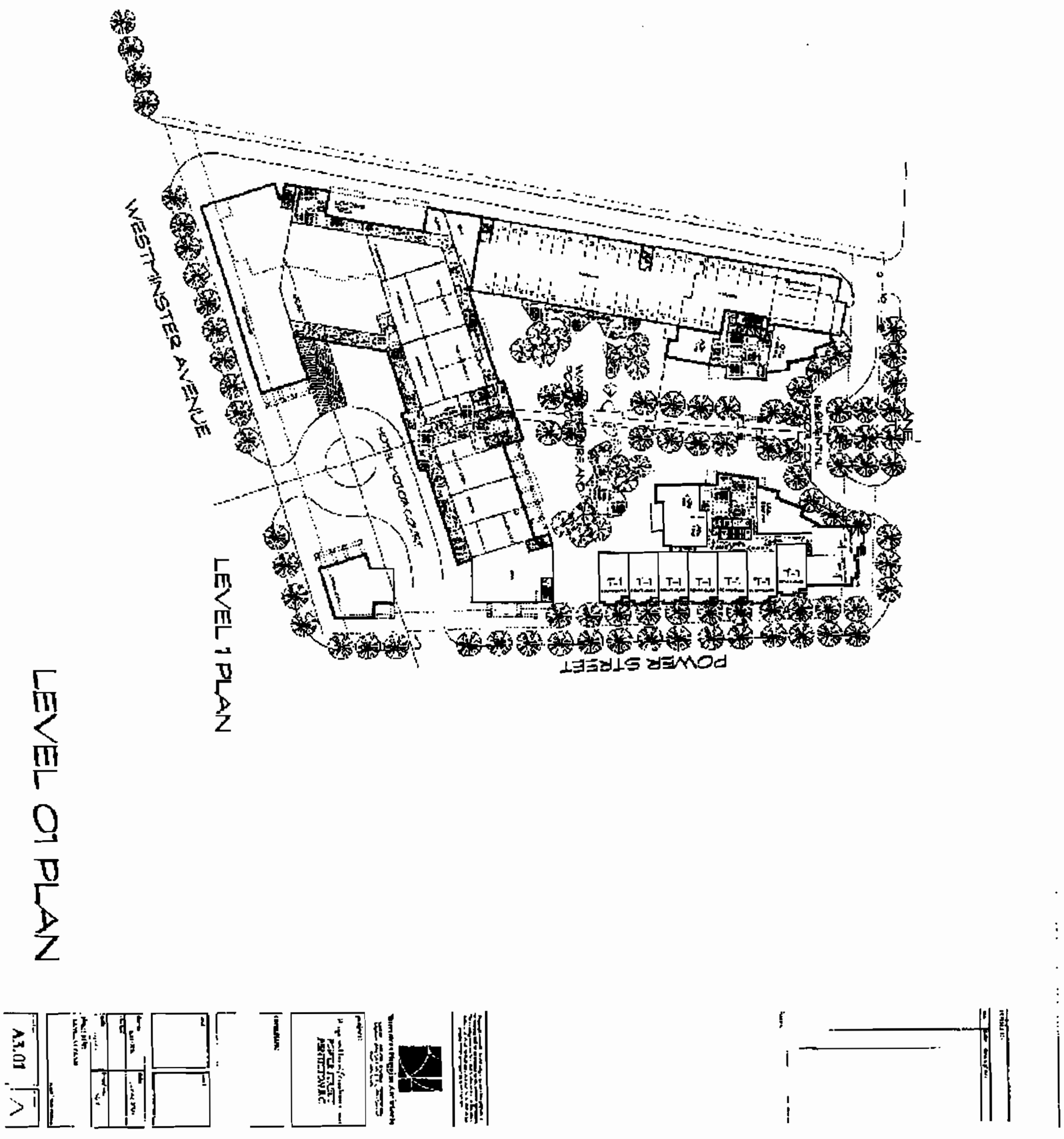
PROPOSED HOTEL/RESIDENTIAL

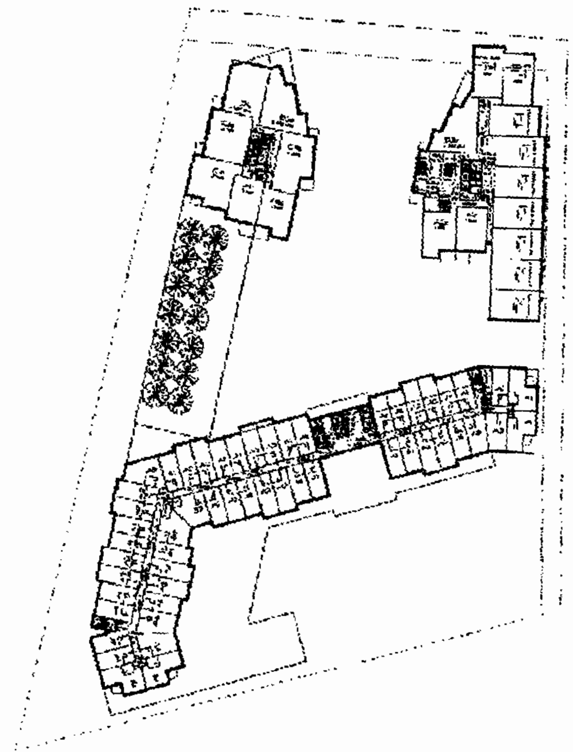
Westminster and Power
Penticton B.C.

Reissued for conceptual Design - January [illegible]

Burrowes Huggins Architects

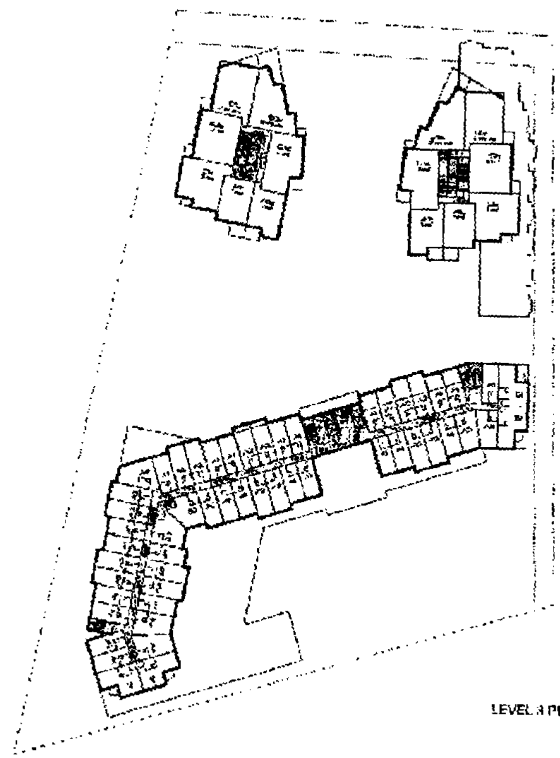

SITE PLAN
A1.01


LEVEL 01 PLAN
LEVEL 1 PLAN
WESTMINSTER AVENUE
POWER STREET
A3.01



LEVEL 02 PLAN

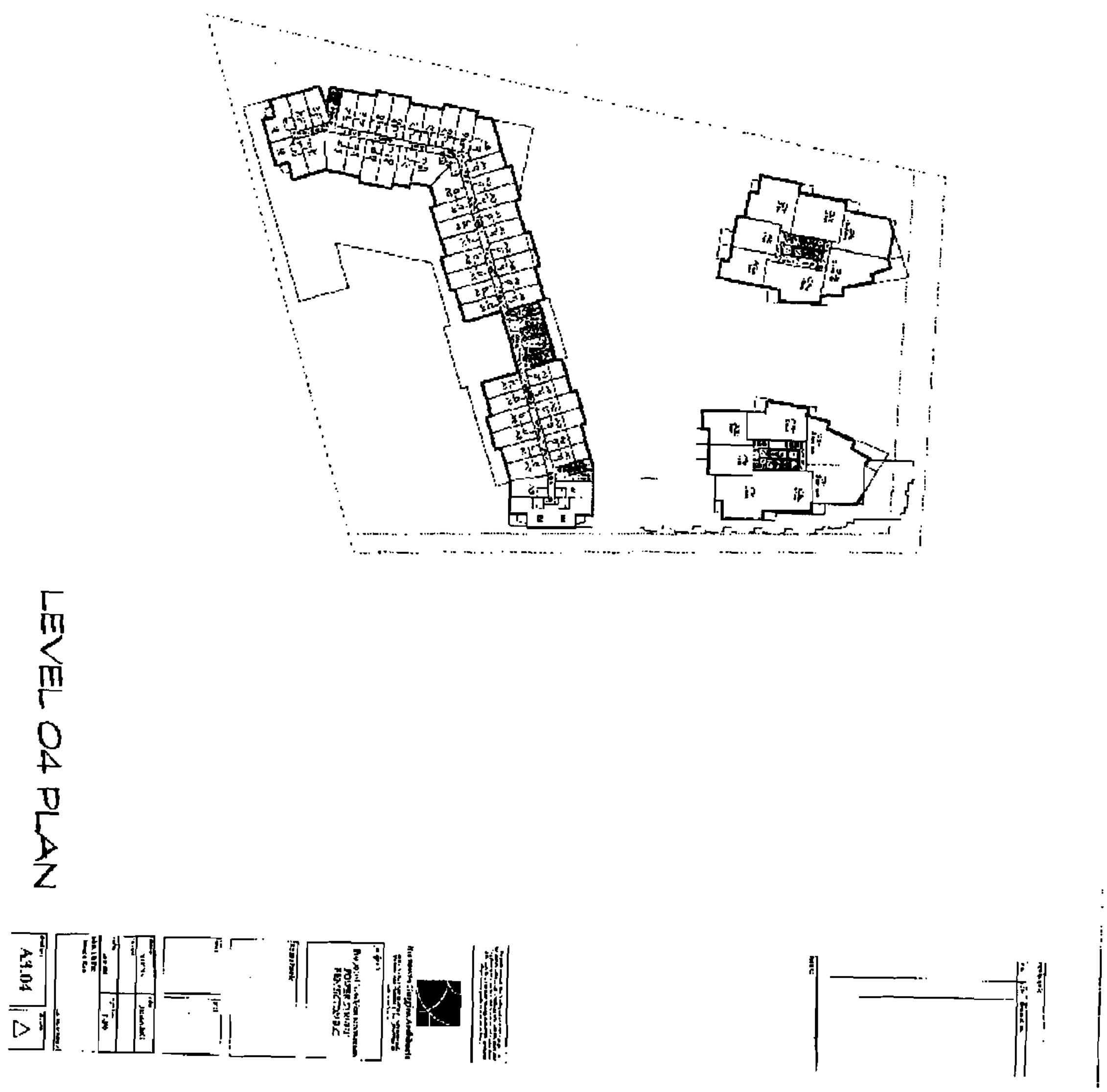
A3.02

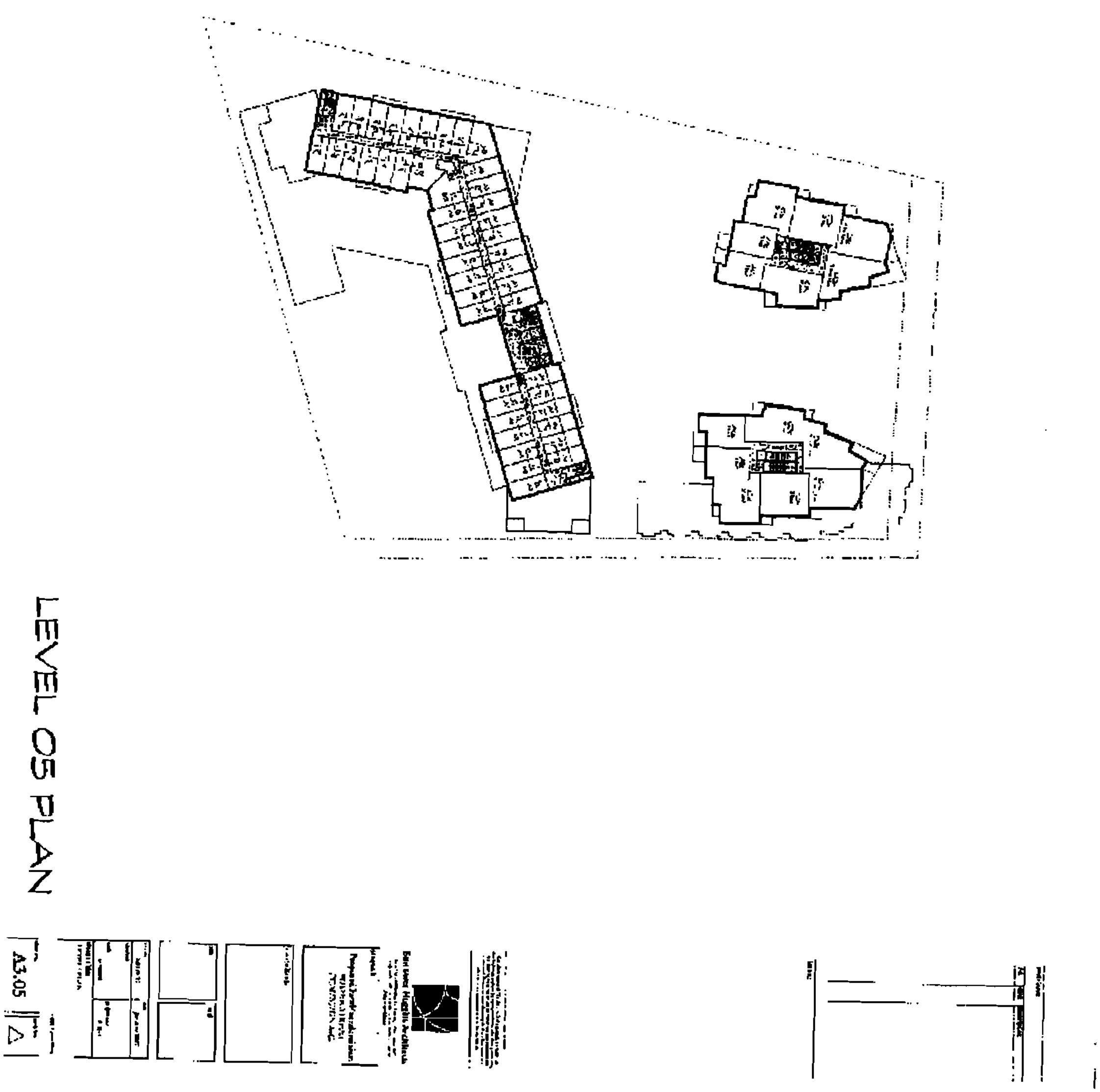


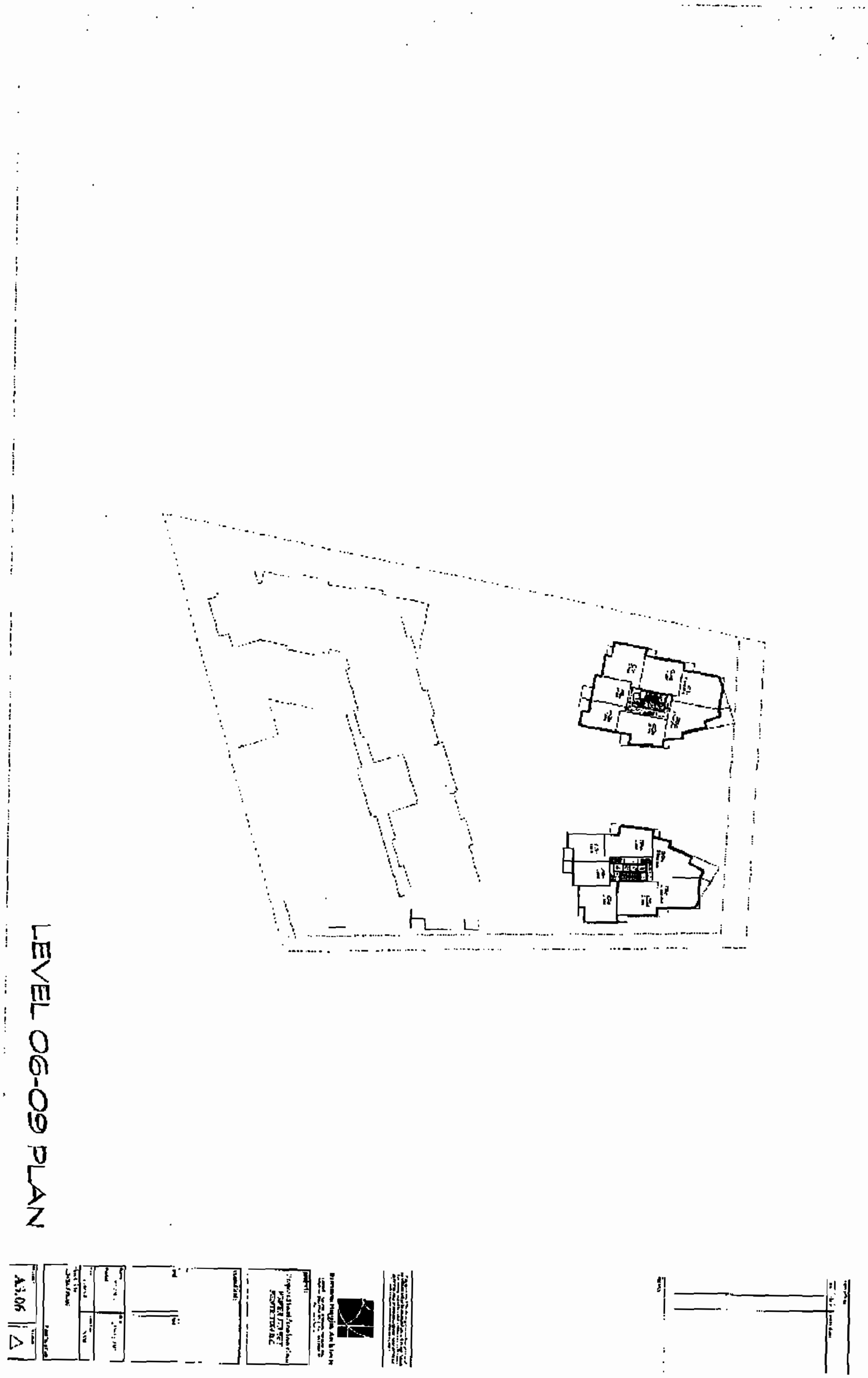
LEVEL 3 PLAN

LEVEL 03 PLAN

A3.03


LEVEL 04 PLAN
A1.04


LEVEL 05 PLAN
A3.05


LEVEL 06-09 PLAN
A3.06

Appendix E: Penticton Financial Analysis

El Rancho Hotel

	Prospectus Estimate	Daedalus Estimate	Variance	Comments
Development Revenue				
Revenue				
Unit revenue	41,250,000	41,250,000	0	
Restaurant	1,250,000	1,250,000	0	
Retail	1,000,000	1,000,000	0	
GROSS REVENUE	**43,500,000**	**43,500,000**	**0**	
Selling Costs				
Salaries / Commissions	2,000,000	2,392,500	392,500	Daedalus estimate at 8% for Total Selling Costs
Marketing Budget	1,000,000	1,000,000	0	
Pre-opening Budget	150,000	150,000	0	
TOTAL SELLING COSTS	**3,150,000**	**3,542,500**	**392,500**	
NET REVENUE	40,350,000	39,957,500	(392,500)	
Development Costs				
Land				
Land Acquisition	3,000,000	3,000,000	0	
Property Purchase Tax	60,000	60,000	0	
Legal & other transaction costs	15,000	50,000	35,000	
Entitlement	0	35,000	35,000	Estimate for rezoning
Property Taxes	0	50,000	50,000	Estimate of property taxes for 2.5 years holding
Miscellaneous	0	50,000	50,000	
Construction				
Construction - Superstructure	20,125,000	20,125,000	0	
Construction - Parking	0	0	0	???
Construction Contingency @ 3%	603,750	2,012,500	1,408,750	Daedalus contingency estimate 10%
FF&E				
Unit Furnishings	2,750,000	2,750,000	0	
Restaurant & Bar	200,000	400,000	200,000	
Public Area Furnishings	150,000	150,000	0	
Phone & Technology	0	200,000	200,000	Estimate for PBX, wiring, phone sets, & programming
Miscellaneous	50,000	50,000	0	
Contingency @ 3%	100,000	177,500	77,500	Daedalus contingency estimate 5%
City Charges				
Connection Fees: Sewer, Water, Power, Phone, Cable	200,000	200,000	0	
DCC's	250,000	250,000	0	
Building Permit	250,000	250,000	0	
Demolition Permit	1,000	1,000	0	
Miscellaneous	20,000	20,000	0	
Contingency @ 3%	16,000	36,550	20,550	Daedalus contingency estimate 5%
Design Fees				
Architect	550,000	550,000	0	
Structural	100,000	100,000	0	
Mechanical	105,000	105,000	0	
Electrical	70,000	70,000	0	
Landscape	40,000	40,000	0	
Interiors	150,000	150,000	0	
Building Envelope	30,000	30,000	0	
Code	20,000	20,000	0	
Geotechnical	30,000	30,000	0	
Civil	10,000	10,000	0	
Acoustical	5,000	5,000	0	
Environmental	5,000	5,000	0	
Traffic	2,000	2,000	0	
Elevator	5,000	5,000	0	
Pool	10,000	10,000	0	
Miscellaneous	10,000	10,000	0	
Consultant Disbursements	0	100,000	100,000	Estimate for disbursements
Contingency @ 3%	35,000	62,100	27,100	Daedalus contingency estimate 5%
Soft Construction Costs				
Appraisal Fee	10,000	10,000	0	
Legal Survey	15,000	15,000	0	
Materials Testing	30,000	30,000	0	
Homeowner Protection Office	125,000	125,000	0	
Construction Bonding	200,000	200,000	0	
Construction Insurance	300,000	1,106,875	806,875	Daedalus estimate based on 5% of construction
Legal Fees, Accounting & Audit	50,000	50,000	0	
Development Management Fee - Darwin	200,000	200,000	0	
Development Management Fee - Daedalus	0	750,000	750,000	$25k per mo x 30 mos
Contingency @ 3%	30,000	124,344	94,344	Daedalus contingency estimate 5%
Financing Costs				
Interest on Land	250,000	250,000	0	
Interest on Construction PH1	1,100,000	1,100,000	0	
Interest on Construction PH2	0	0	0	
Legal for Financing	0	50,000	50,000	Estimate
Commitment Fee	150,000	150,000	0	
Contingency	0	77,500	77,500	Daedalus contingency estimate 5%
Miscellaneous Costs				
Off-Site Work	50,000	50,000	0	
Miscellaneous	50,000	50,000	0	
TOTAL DEVELOPMENT COSTS	**31,537,750**	**35,510,369**	**3,972,619**	
GROSS PROFIT	**8,812,250**	**4,447,131**		
PROFIT %	**22%**	**11%**		
RETURN ON COST	**28%**	**13%**		

El Rancho Residential

	Prospectus Estimate	Daedalus Estimate	Variance	Comments
Development Revenue				
Revenue				
Unit revenue	109,500,000	109,500,000	0	
Restaurant	0	0	0	
Retail	0	0	0	
GROSS REVENUE	109,500,000	109,500,000	0	
Selling Costs				
Salaries / Commissions	4,380,000	7,117,500	2,737,500	Daedalus estimate at 8% for Total Selling Costs
Marketing Budget	1,500,000	1,500,000	0	
Pre-opening Budget	0	0	0	
TOTAL SELLING COSTS	5,880,000	8,617,500	2,737,500	
NET REVENUE	103,620,000	100,882,500	(2,737,500)	
Development Costs				
Land				
Land Acquisition	7,500,000	7,500,000	0	
Property Purchase Tax	150,000	150,000	0	
Legal & other transaction costs	50,000	100,000	50,000	
Entitlement	0	75,000	75,000	Estimate for rezoning
Property Taxes	0	100,000	100,000	Estimate of property taxes for 2.5 years holding
Miscellaneous	0	50,000	50,000	
Construction				
Construction - Superstructure	54,500,000	49,000,000	(5,500,000)	= $160 per sf
Construction - Parking	0	15,500,000	15,500,000	442 parking stalls + lanes @ 350 sf
Construction Contingency @ 5%	2,000,000	4,900,000	2,900,000	Daedalus contingency estimate 10%
FF&E				
Unit Furnishings	0	0	0	
Restaurant & Bar	0	0	0	
Public Area Furnishings	0	50,000	50,000	Estimate for lobbies
Phone & Technology	0	0	0	
Miscellaneous	0	0	0	
Contingency @ 3%	0	2,500	2,500	Daedalus contingency estimate 5%
City Charges				
Connection Fees, Sewer, Water, Power, Phone, Cable	150,000	150,000	0	
DCC's	1,125,000	1,125,000	0	
Building Permit	600,000	600,000	0	
Demolition Permit	1,000	1,000	0	
Miscellaneous	20,000	20,000	0	
Contingency @ 3%	60,000	104,550	44,550	Daedalus contingency estimate 5%
Design Fees				
Architect	1,400,000	1,400,000	0	
Structural	275,000	275,000	0	
Mechanical	235,000	235,000	0	
Electrical	200,000	200,000	0	
Landscape	75,000	75,000	0	
Interiors	300,000	300,000	0	
Building Envelope	50,000	50,000	0	
Code	30,000	30,000	0	
Geotechnical	50,000	50,000	0	
Civil	20,000	20,000	0	
Acoustical	10,000	10,000	0	
Environmental	10,000	10,000	0	
Traffic	5,000	5,000	0	
Elevator	10,000	10,000	0	
Pool	10,000	10,000	0	
Miscellaneous	25,000	25,000	0	
Consultant Disbursements	0	150,000	150,000	Estimate for disbursements
Contingency @ 3%	90,000	145,250	55,250	Daedalus contingency estimate 5%
Soft Construction Costs				
Appraisal Fee	15,000	15,000	0	
Legal Survey	25,000	25,000	0	
Materials Testing	0	0	0	
Homeowner Protection Office	220,000	220,000	0	
Construction Bonding	600,000	600,000	0	
Construction Insurance	400,000	2,000,000	1,600,000	Daedalus estimate based on 3% of construction
Legal Fees, Accounting & Audit	20,000	20,000	0	
Development Management Fee - Darwin	300,000	300,000	0	
Development Management Fee - Daedalus	0	1,350,000	1,350,000	$25k per mo x 54 mos
Contingency @ 3%	50,000	226,500	176,500	Daedalus contingency estimate 5%
Financing Costs				
Interest on Land	525,000	525,000	0	
Interest on Construction PH1	2,350,000	2,350,000	0	
Interest on Construction PH2	1,625,000	1,625,000	0	
Legal for Financing	0	50,000	50,000	
Commitment Fee	300,000	300,000	0	
Contingency	0	242,500	242,500	Daedalus contingency estimate 5%
Miscellaneous Costs				
Off-Site Work	200,000	200,000	0	
Miscellaneous	0	0	0	
TOTAL DEVELOPMENT COSTS	85,816,000	92,722,300	6,906,300	
GROSS PROFIT	17,804,000	8,160,200		
PROFIT %	17%	8%		
RETURN ON COST	21%	9%		

TOTAL

	Prospectus Estimate	Daedalus Estimate	Variance
Development Revenue			
Revenue			
Unit revenue	150,750,000	150,750,000	0
Restaurant	1,250,000	1,250,000	0
Retail	1,000,000	1,000,000	0
GROSS REVENUE	**153,000,000**	**153,000,000**	**0**
Selling Costs			
Salaries / Commissions	6,380,000	9,510,000	3,130,000
Marketing Budget	2,500,000	2,500,000	0
Pre-opening Budget	150,000	150,000	0
TOTAL SELLING COSTS	**9,030,000**	**12,160,000**	**3,130,000**
NET REVENUE	**143,970,000**	**140,840,000**	**(3,130,000)**
Development Costs			
Land			
Land Acquisition	10,500,000	10,500,000	0
Property Purchase Tax	210,000	210,000	0
Legal & other transaction costs	65,000	150,000	85,000
Entitlement	0	100,000	100,000
Property Taxes	0	150,000	150,000
Miscellaneous	0	100,000	100,000
Construction			
Construction - Superstructure	84,625,000	69,125,000	(15,500,000)
Construction - Parking	0	15,500,000	15,500,000
Construction Contingency @ 3%	2,603,750	6,912,500	4,308,750
FF&E			
Unit Furnishings	2,750,000	2,750,000	0
Restaurant & Bar	200,000	400,000	200,000
Public Area Furnishings	150,000	200,000	50,000
Phone & Technology	0	200,000	200,000
Miscellaneous	50,000	50,000	0
Contingency @ 3%	100,000	180,000	80,000
City Charges			
Connection Fees: Sewer, Water, Power, Phone, Cable	350,000	350,000	0
DCC's	1,380,000	1,380,000	0
Building Permit	1,050,000	1,050,000	0
Demolition Permit	2,000	2,000	0
Miscellaneous	40,000	40,000	0
Contingency @ 3%	76,000	141,100	65,100
Design Fees			
Architect	1,950,000	1,950,000	0
Structural	375,000	375,000	0
Mechanical	390,000	390,000	0
Electrical	270,000	270,000	0
Landscape	115,000	115,000	0
Interiors	450,000	450,000	0
Building Envelope	80,000	80,000	0
Code	50,000	50,000	0
Geotechnical	80,000	80,000	0
Civil	30,000	30,000	0
Acoustical	15,000	15,000	0
Environmental	15,000	15,000	0
Traffic	7,000	7,000	0
Elevator	15,000	15,000	0
Pool	20,000	20,000	0
Miscellaneous	35,000	35,000	0
Consultant Disbursements	0	250,000	250,000
Contingency @ 3%	115,000	207,350	92,350
Soft Construction Costs			
Appraisal Fee	25,000	25,000	0
Legal Survey	40,000	40,000	0
Materials Testing	30,000	30,000	0
Homeowner Protection Office	345,000	345,000	0
Construction Bonding	800,000	800,000	0
Construction Insurance	700,000	3,106,875	2,406,875
Legal Fees, Accounting & Audit	70,000	70,000	0
Development Management Fee - Darwin	500,000	500,000	0
Development Management Fee - Daedalus	0	2,100,000	2,100,000
Contingency @ 3%	80,000	350,844	270,844
Financing Costs			
Interest on Land	775,000	775,000	0
Interest on Construction PH1	3,450,000	3,450,000	0
Interest on Construction PH2	1,625,000	1,625,000	0
Legal for Financing	0	100,000	100,000
Commitment Fee	450,000	450,000	0
Contingency	0	320,000	320,000
Miscellaneous Costs			
Off-Site Work	250,000	250,000	0
Miscellaneous	50,000	50,000	0
TOTAL DEVELOPMENT COSTS	**117,353,750**	**128,232,669**	**10,878,919**
GROSS PROFIT	**26,616,250**	**12,607,331**	
PROFIT %	**18%**	**9%**	
RETURN ON COST	**23%**	**10%**	

Appendix F: Gibsons Project Financial Analysis Scenarios 1 & 2

Gibsons, Gower Point - Development Summary

July 12, 2007

	Scenario #1	Scenario #2
Development Revenue		
Revenue		
Refer to Revenue Summaries	32,125,000	21,000,000
GROSS REVENUE	32,125,000	21,000,000
Selling Costs		
Salaries / Commissions @ 5%	1,606,250	1,050,000
TOTAL SELLING COSTS	1,606,250	1,050,000
NET REVENUE	30,518,750	19,950,000
Development Costs		
Land		
Land Acquisition	4,000,000	4,000,000
Finder's Fee	100,000	100,000
Property Purchase Tax - 1.5%	60,000	60,000
Legal & other transaction costs	25,000	25,000
Planning Consultant	0	100,000
Property Taxes	25,000	25,000
Contingency - 5% (excludes land acquisition cost)	5,500	10,500
Construction		
Construction	14,100,000	11,500,000
Contingency @ 5%	705,000	575,000
FF&E		
FF&E @ $20k per hotel room (includes for operating equipment)	1,200,000	0
Contingency @ 5%	60,000	0
City Charges		
Connection Fees, permits etc	400,000	400,000
Contingency @ 5%	20,000	20,000
Design Fees		
Consulting	1,410,000	1,150,000
Contingency @ 5%	70,500	57,500
Soft Construction Costs		
Legal Survey	50,000	50,000
Legal Fees	50,000	50,000
Development Management Fee	450,000	450,000
Contingency @ 5%	5,000	5,000
Financing Costs		
Interest - 70% debt @ 7%, x 0.5 x 15 mos	955,500	808,500
Placement Fee	100,000	75,000
Commitment Fee	100,000	75,000
Legal for Financing	100,000	75,000
Contingency - 5%	62,775	51,675
Marketing		
Marketing @ 2% of revenue	642,500	420,000
Contingency @ 5%	32,125	21,000
Miscellaneous Costs		
Miscellaneous	100,000	100,000
TOTAL DEVELOPMENT COSTS	24,828,900	20,204,175
GROSS PROFIT	5,689,850	(254,175)
PROFIT %	19%	-1%

Appendix G: Gibsons Project Financial Analysis Scenarios A & B

Gibsons, Gower Point - Development Summary

July 12, 2007

	Scenario #A	Scenario #B
Development Revenue		
Revenue		
Refer to Revenue Summaries	21,145,000	40,265,000
GROSS REVENUE	**21,145,000**	**40,265,000**
Selling Costs		
Salaries / Commissions @ 5%	1,057,250	2,013,250
TOTAL SELLING COSTS	**1,057,250**	**2,013,250**
NET REVENUE	**20,087,750**	**38,251,750**
Development Costs		
Land		
Land Acquisition	2,000,000	4,000,000
Finder's Fee	100,000	100,000
Property Purchase Tax - 1.5%	30,000	60,000
Legal & other transaction costs	25,000	25,000
Planning Consultant	0	100,000
Property Taxes	15,000	25,000
Contingency - 5% (excludes land acquisition cost)	3,500	10,500
Construction		
Construction	8,000,000	14,100,000
Contingency @ 5%	400,000	705,000
FF&E		
FF&E @ $20k per hotel room (includes for operating equipment)	1,120,000	2,240,000
Contingency @ 5%	56,000	112,000
City Charges		
Connection Fees, permits etc	250,000	400,000
Contingency @ 5%	12,500	20,000
Design Fees		
Consulting	800,000	1,410,000
Contingency @ 5%	40,000	70,500
Soft Construction Costs		
Legal Survey	30,000	50,000
Legal Fees	50,000	50,000
Development Management Fee	450,000	450,000
Contingency @ 5%	4,000	5,000
Financing Costs		
Interest - 70% debt @ 7%, x 0.5 x 18 mos	551,250	955,500
Placement Fee	75,000	100,000
Commitment Fee	75,000	100,000
Legal for Financing	75,000	100,000
Contingency - 5%	38,813	62,775
Marketing		
Marketing @ 2% of revenue	422,900	805,300
Contingency @ 5%	21,145	40,265
Miscellaneous Costs		
Miscellaneous	100,000	100,000
TOTAL DEVELOPMENT COSTS	**14,745,108**	**26,196,840**
GROSS PROFIT	**5,342,643**	**12,054,910**
PROFIT %	**27%**	**32%**
RETURN ON COST	**36%**	**46%**

Appendix H: Calgary Foothills Financial Analysis

Foothills Ranch - Development Summary

May 20, 2007

	Lots	Acres	$ per acre	Scenario #1 2 Saleable Lots (Exit)	Scenario #2 11 Saleable Lots	Scenario #3 21 Saleable Lots
Development Revenue						
Revenue						
Main House	1	10		0	3,000,000	3,000,000
Cabin	1	20		1,750,000	1,750,000	0
Cabin on subdivided lot	1	10		0	0	1,500,000
Scenario #2: 5 acre lots	6	30	100,000	0	3,000,000	0
Scenario #2: 7 acre lots	2	14	100,000	0	1,400,000	0
Scenario #3: 5 acre lots	18	90	100,000	0	0	9,000,000
Scenario #3: 10 acre lots	1	10	75,000	0	0	750,000
Scenario #1: large lot with Main House	1	140		5,500,000	0	0
Scenario #2: large lot	1	46	50,000	0	2,300,000	0
Scenario #2 & #3: common land	1	40	0	0	0	0
GROSS REVENUE				**7,250,000**	**11,450,000**	**14,250,000**
Selling Costs						
Salaries / Commissions @ 5%				362,500	572,500	712,500
TOTAL SELLING COSTS				**362,500**	**572500**	**712,500**
NET REVENUE				**6,887,500**	**10,877,500**	**13,537,500**
Development Costs						
Land						
Land Acquisition				5,350,000	5,350,000	5,350,000
Finder's Fee				150,000	150,000	150,000
Property Purchase Tax - 1.5%				80,250	80,250	80,250
Legal & other transaction costs				25,000	25,000	25,000
Re-zoning (payable out of proceeds)				0	0	0
Property Taxes				5,000	10,000	10,000
Contingency - 5% (excludes land acquisition cost)				5,513	5,763	5,763
Construction						
Construction - Main house & cabin renovation				500,000	500,000	500,000
Construction - Roads & Utilities				0	600,000	1,300,000
Contingency @ 5%				25,000	55,000	90,000
City Charges						
Connection Fees, permits etc				0	25,000	55,000

Foothills Ranch - Development Summary

May 20, 2007

	Scenario #1 2 Saleable Lots (Exit)	Scenario #2 11 Saleable Lots	Scenario #3 21 Saleable Lots
Contingency @ 5%	0	1,250	2,750
Design Fees			
Architect, surveyor, hydrology, etc.	50,000	275,000	400,000
Contingency @ 5%	2,500	13,750	20,000
Soft Construction Costs			
Legal Survey - $1,000 per lot	0	11,000	21,000
Legal Fees - $1,000 per lot	2,000	11,000	21,000
Development Management Fee - $25,000 per month (payable out of proceeds)	0	0	0
Contingency @ 5%	100	1,100	2,100
Financing Costs			
Interest - 70% debt @ 7%	166,024	178,278	189,076
Placement Fee	50,000	50,000	50,000
Commitment Fee	75,000	75,000	75,000
Legal for Financing	20,000	20,000	20,000
Contingency - 5%	15,551	16,164	16,704
Miscellaneous Costs			
Miscellaneous	50,000	50,000	50,000
TOTAL DEVELOPMENT COSTS	**6,571,938**	**7,503,554**	**8,433,643**
GROSS PROFIT	**315,562**	**3,373,946**	**5,103,857**
PROFIT %	**5%**	**31%**	**38%**
RETURN ON COST	**5%**	**45%**	**61%**

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