

**G. P. Rollo & Associates Ltd.
Land Economists**

September 11, 2006

Re: Summerland Hills Golf Resort

The following is a summary of the valuation analyses I have completed for the District regarding the sale of their 302 acre site to accommodate the development of the Summerland Hills Golf Resort.

- 1) I have employed two approaches to valuing the land:
 - a) A comparable sales approach. This involves using the information from the 2005 Kent McPherson appraisal and adjusting it for time and to ensure that the valuation is based on the most relevant or comparable sales information.
 - b) A development approach. This involves examining the economics of the overall Summerland Hills Golf Resort and determining what a developer could be expected to pay for the land given forecasts of land sales, servicing costs, financing and required or reasonable development profit.

A detailed discussion of my valuation conclusions is contained in my letter of April 6, 2006. The following is an overview of the conclusions presented in that letter.

- 2) With regards to valuation by the comparable land sales approach:
 - a) The Kent McPherson 2005 appraisal estimated the value of the land at \$2.27 million. I have adjusted their value to today by increasing land value by 20% (this being the increase in land values that BC Assessment states has occurred over the past year) to produce a current value estimate of \$2.7 million.
 - b) However, I believe that the comparable sales used in the appraisal need to be adjusted to reflect the influence of combined residential and golf course land sales. Accordingly, I have adjusted the average value of land to \$13,200 per acre, up from the \$7,500 per acre value from the 2005 Kent McPherson appraisal.
 - c) With these adjustments for time and type of comparable land sales, the indicated value for the lands is approximately \$4 million.

3) With regards to valuation by the development or economic approach to valuation:

a) Two valuation scenarios with variations based on how water and sewer servicing are developed have been investigated:

- i) Scenario #1: connect to District's existing waste water treatment plant and combined water delivery (one pipe to deliver water to residential and golf course).
- ii) Scenario #2: build new on-site waste water treatment plant plus use combined water delivery as per scenario #1.

As a result of discussions with you, we have focused primarily on Scenario #1. However, the valuation summary we have produced in the accompanying Table 1 shows our views of land value based on both servicing scenarios.

b) It is assumed that the developer will sell the land only, i.e. will develop any of the single family, multiple family or resort housing.

c) Analyses have been completed assuming a 15 or 20 year development period and constant versus current dollar analyses (i.e. analyses without or with inflation of costs and revenues).

- i) My base case land valuation is based on scenario #2, 20 year development period, using the existing waste water treatment plant and combined water. Land value is estimated at \$4 million.
- ii) While I have based my valuation on constant dollar analyses, I believe that value under a 15 year period should also be considered and that the final value estimate should be an average of the value under a 15 versus 20 year development period. On that basis, the indicated value is \$4.3 million.

4) Final valuation for the lands

The estimate of land value by the two approaches ranges between \$4 million (comparable land sales approach) and \$4.3 million (development approach).

5) With regards to whether a higher land value is justified, I offer the following comments:

- a) In light of the large number of destination golf and housing projects being developed throughout the Okanagan, the danger of the market being over-supplied and emerging concerns that the economy and housing demand could slow, I do not believe that a prudent developer would offer more than \$4.3 million for the lands.
- b) There still remains a great deal of uncertainty and risk associated with the project's servicing costs. This will cause developers to be very thoughtful and hesitate to pay more for the lands.
- c) The value of \$4.3 million I have ascribed to the land is 60% greater than the time adjusted Kent McPherson Appraisals value ($\$4.3 \text{ million} - \$2.7 \text{ million} = \$1.6 \text{ million}$ and $\$1.6 / \$2.7 = 60\%$).

Accordingly, I believe that my estimate of \$4.3 million, produced from both comparable land sales and development economic approaches, results in a value that will reflect how the market will view the site's development potential and what a developer could reasonably be expected to pay to acquire the District's 302 acres.

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Please call me if you have any questions of this valuation summary or my more detailed April 4th valuation memorandum.

Yours truly,

G. P. Rollo & Associates Ltd.
Land Economists

A handwritten signature in dark ink that reads "G. Paul Rollo". The signature is written in a cursive style and is underlined with a single horizontal line.

G. Paul Rollo

GPR/ms