InvestPropertyBrazil

Proposal To Develop 36.75 Hectares of Beach Front Land nr Fortaleza, NE Brazil

The Proposal

We are seeking a JV partner to buy or fund the development of a site of 36.75 hectares, with 1.8km of beachfront, in Brazil.

The site is priced at US$7m.

This would then be developed with two 40 room boutique hotels plus 50 hotel villas, and 416 apartments and penthouses, and 27 villas.

Current development layout consents are based on planning report and may be able to be altered without contriving the report.

Included in a sale of the whole 36.75 hectares will be a further parcel of land of 7 hectares.

Pre-funding of the construction of the hotel element can be obtained from the State Development bank as the hotel layout conforms to their lending criteria.

A boutique hotel group have issued a letter of intent confirming that they wish to manage the hotel and resort, and will take a long-term lease or similar of the hotel accommodation.

The buyer would then have the option of finalising finance for the hotels with the State Development Bank, and could then build and sell the hotels and the residue of the land at a profit, at a time of their choice, having regard to occupancy and cash flow.

Alternatively, they could draw down funds from the State Development Bank and build the hotels, and also inject say US$20m to commence the development of phase 1 comprising apartments and villas.

Alternatively they could market the apartments and villas off-plan and use deposit payments to fund the construction in whole or in part of phase 1.

We anticipate a potential profit of around US$28.9m on “day one” following the development of the 36.75 hectares, increasing significantly once the hotel has a proven trading record, proven occupancy and proven cash-flow. We anticipate potential development profits of up to approx US$9m on the 7 hectare site

The Facts

- 36,75ha (367.500m2) site with 1,800 metres of beachfront in North East Brazil, Ceara State
- Distances from main cities: 165 km from Fortaleza-CE; 55 km from Mossoro-RN; 22 km from Aracati-CE; 12 km from Canoa Quebrada by the coast line and 25 km by the road. Main road being dualled from Fortaleza to Natal
- Distance to Airports: 29 km from new national airport of Aracati-CE, 55 km from the airport of Mossoro-RN; 165 km from the international airport of Fortaleza-CE.
- All legal and technical reports in place

Proposed Development

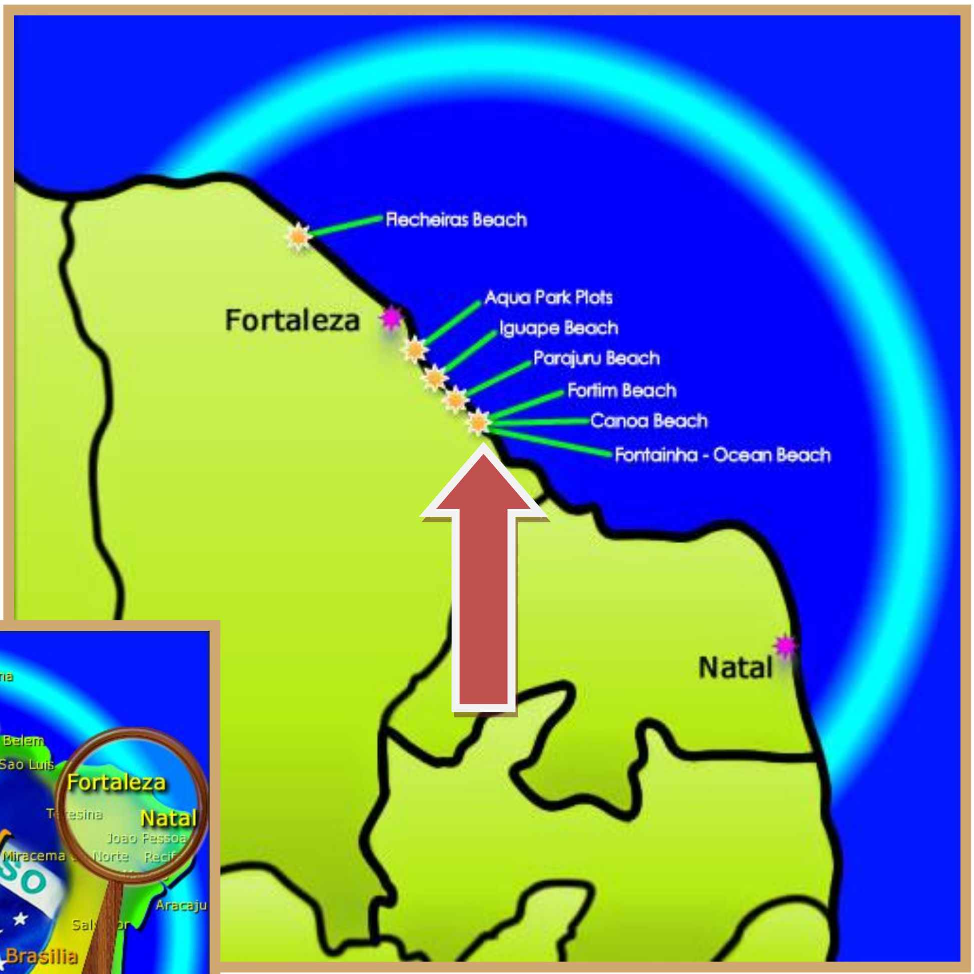
- Beach resort with two boutique hotels each with 40 rooms, plus a further 50 hotel villas, 416 condos, and 27 luxury villas on 36.75ha, with consent for further development on additional 7 ha site
- Boutique hotel chain have issued a letter of intent to take the 4/5* hotels on a long lease, and will act as a sales centre for the condos/villas and will manage and rent the 573 units

Units & Areas	Beachfront Luxury Villas	Apartments Ground floor	Apartments Penthouses	Apartments Hotel	Hotel Villas
Area	195m2	84m2 e 87m2	151m2 e 157m2	41,19m2	46,8m2
Number of Units	27	208	208	80	50
Total area	5.265m2	17.858,96m2	32.151,12m2	3.295,20m2	2.340m2
Total of <u>573</u> units.					

Financials

- The Project has a potential Gross Development Value (GDV) of approx US$100m for the condominiums & villas assuming sales at R$ 3.100,00 (US$1,800) sq m for phase 1 which is conservative Plus approx US$23.7m GDV for the Hotel.
- Funding for the construction of the hotels up to R$14m approx US$ 8.2m available from State Development bank on favourable terms
- Potential Gross Development Profit in excess of US$35m
- Price of land US$7m **PLUS** a further 7 hectares of beachfront land will be included with a purchase of the entire 36.75 hectares

Site Location



The Opportunity

This is a prime resort site of 36.75 hectares, with 1,800 meters of beachfront land, comprising potentially the premier beachfront development site currently available in North East Brazil.

Outline consents and permits are in place for comprehensive development to include two 40 room boutique hotels, along with 50 hotel villas, plus a further 416 apartments and penthouses ranging in size from 84 sq to 157 sq m, and 27 luxury villas of 195 sq m each.

All legal and technical consents need to be progressed in line with the planning report. The existing plan concurs with the report but the plan can be altered providing it still adheres to the guidelines of the report.

Funding for the construction of the hotel accommodation is available from the State Development Bank on favourable terms.

A letter of intent has been issued by Desires Hotels (www.desireshotels.com), who currently operate on the eastern seaboard of the US, the Caribbean, and South America, to manage the hotels and the resort. A copy is attached.

The resort is within short distance of the chic resort of Canoa Quebrada, approximately 30 minutes drive from the new airport at Aracati, and approx 90 minutes drive from Fortaleza, population 3 million. The road from Fortaleza to Natal, and which passes close to this site, is currently being upgraded to dual carriageway standard.

As part of the package the additional 7 hectare site, which is also beachfront, will be included in any deal to purchase the 36.75 hectare site in its entirety.

We consider that the profit potential of the 36.75 hectare site could be in the region of US$ 28.9 million and that the 7 hectare site could provide in the region of US$ 8.8 million in additional profits.

We stress that we consider these figures to be conservative as the profit attributable to the hotel element is based upon value derived against a day one EBITDA, and which equates to approx US$182,000 per room.

HOWEVER, we have attached a document, including a spreadsheet detailing anticipated cash flow, prepared by Desires Hotels in which they opine the value of the hotel will be 9 times EBITDA.

At year five they estimate that EBITDA will be almost US$3.8m (R$6.5m) rising to almost US$6 (R$10,127,540).

This suggests a value for the hotel, based on occupancy and cash flow, of around US$ 34.2 m at year five and around US$ 54m by year ten and the prospect of a significant annual cash flow for the developer.

We have attached spreadsheets detailing anticipated receipts and expenditures in the development of the site.

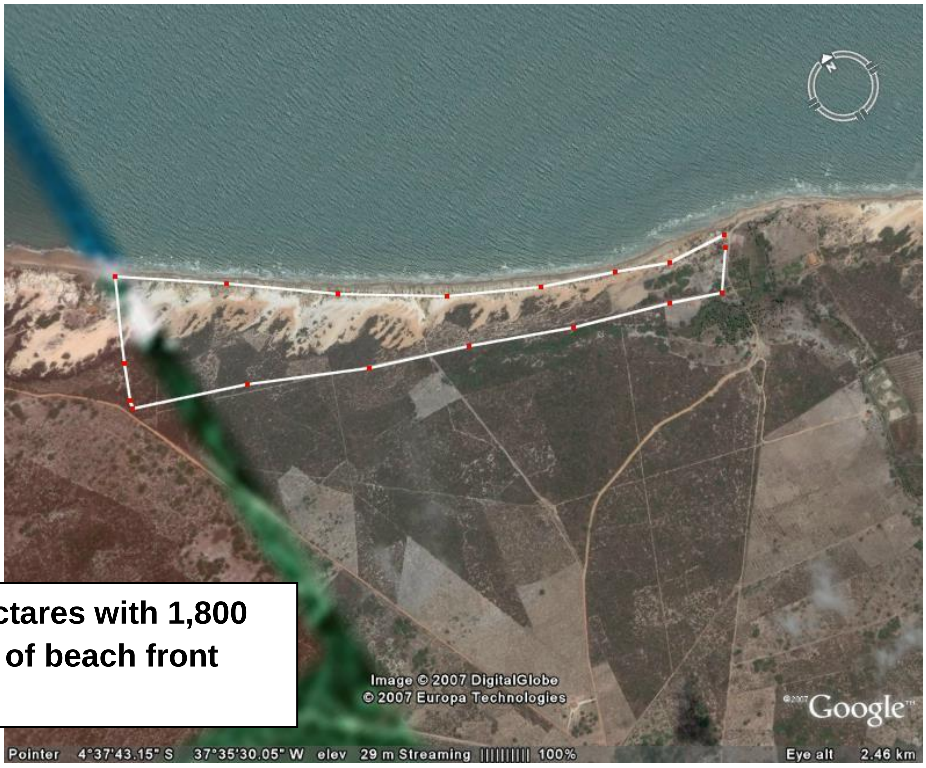
We suggest this be considered over 4 phases between 2011 and 2017.

We have allowed for notional interest on the land and construction at 8% which reflects the currently relatively high level of interest rates in Brazil. However, it is likely that funding from the State Development bank, if required, will be at more favourable rates.

In reality a developer would also fund construction from pre sales (off-plan sales) of the various residential units which would increase profitability.

Property prices have been increasing consistently over the last few years and we do not see that changing given the growth of the economy. We have therefore increased the prices between phases, taking into account we have allowed 2 years for each phase.

However, as a worst case scenario only, we have recalculated the figures assuming prices do not increase over the project period and the resulting profit is still US$16m for the apartments and villas only.



36.75 Hectares with 1,800 metres of beach front

Additional plot of 7 hectares

Spreadsheets – all figures are in US Dollars

Development of apartments

Stage 1 Purchase price of land for entire project 37HA + 7HA	**$7,000,000**	**2011 -**				
Stage 2 Build hotel and market phase 1 of the development	$21,000,000	2012-2013				
Stage 3 Phase 2 of development sales		2013-2015				
Stage 4 Phase 3 of sales development		**2015-2017**				
Stage 5 Phase 4 of sales development		**2017-2019**				
GROSS DEVELOPMENT VALUE			**Phase 1**	**Phase 2**	**Phase 3**	**Phase 4**
Mixed Development 443 Units, 27 195m2 villas Total area 5,265m2 , 208 84m2 apartments 17,858m2, 208 151m2 apartments total 32,151m2			14,000m2	14,000m2	14,000m2	13,274m2
100% of area sold as single units @ $1850m2 P1, $2220m2 P2, $2664m2 P3, $3196m2 P4			25,900,000	31,080,000	37,296,000	42,423,704
TOTAL			**25,900,000**	**31,080,000**	**37,296,000**	**42,423,704**
Less						
EXPENDITURE						
Land Purchase	US$ 4,529,412		1,147,300	1,147,300	1,147,300	1,087,511
Mixed development construction costs x $850m2 P1, $1020 P2, $1224 P3, $1468 P4			11,900,000	14,280,000	17,136,000	19,486,232
Interest on land @8%			1,120,000	1,120,000	1,120,000	1,120,000
interest on construction @ 8% for 50% of build period			952,000	1,142,400	1,370,880	1,558,898
Site Infrastucture, site preparation			700,000	200,000	150,000	180,000
Site transport system			500,000			
Architect & Engineer			300,000	220,000	220,000	220,000
Project Management			200,000	240,000	280,000	350,000
Flights & Travel			50,000	75,000	80,000	80,000
Landscaping, Car Parks, Roads			600,000	720,000	864,000	1,036,800
Management Fees			250,000	300,000	350,000	400,000
Legal Fees, Planning, etc			300,000	360,000	432,000	518,400
Additonal Leisure Facilities			800,000	960,000	1,152,000	1,382,400
Sales Budget & Commisions @15%			3,885,000	4,662,000	5,594,400	6,363,556
TOTAL			**22,704,300**	**25,426,700**	**29,896,580**	**33,783,797**
PROFIT FROM DEVELOPMENT			**3,195,700**	**5,653,300**	**7,399,420**	**8,639,907**
		Total Profit				24,888,327

Development of Hotel

Stage 1 Purchase price of land for entire project 37HA + 7HA			**$7,000,000**	**2011 -**	
Stage 2 Build hotel and market phase 1 of the development			$21,000,000	2012-2013	
Stage 3 Phase 2 of development sales				2013-2015	
Stage 4 Phase 3 of sales development				**2015-2017**	
Stage 5 Phase 4 of sales development				**2017-2019**	
					US$
GROSS DEVELOPMENT VALUE					
130 rooms at	R$310,000	US$ 182,353			**23,705,890**
Less					
EXPENDITURE					
Land Purchase		R$4,200,000	US$ 2,470,588		2,470,588
Development construction costs		R$14,040,000	US$ 8,258,823		8,258,823
Interest on land @8% for two years					395,294
interest on construction @ 8% for 50% of build period					660,705
FF&E,HEOS		R$10,500,000	US$ 6,176,470		6,176,470
Site Infrastucture					300,000
Architect & Engineer					300,000
Project Management					200,000
Landscaping, Car Parks, Roads					300,000
Technical Fees Hotel Company					300,000
Legal Fees, Planning, etc					300,000
TOTAL					**19,661,880**
PROFIT FROM DEVELOPMENT					**4,044,010**

NEW HOTEL INCOME
Income from the hotel on a separate spreadsheet
Management fees not included in the hotel projections are estimated at $20m2 PA = $11,054,800 over 10 years
Plus percentage of unit rental income from retained weeks

Development of 7 Hectare Site

GROSS DEVELOPMENT VALUE	
Mixed Development 16,822 m2	
100% of area sold as single units @ $1850m2	31,120,700
TOTAL	**31,120,700**
Less	
EXPENDITURE	
Land Purchase	0
Mixed development construction costs x $850m2	14,298,700
Interest on land @8%	0
interest on construction @ 8% for 50% of build period for 2 years	1,143,896
Site Infrastucture	400,000
Architect & Engineer	200,000
Project Management	200,000
Flights & Travel	50,000
Landscaping, Car Parks, Roads	400,000
Management Fees	250,000
Legal Fees, Planning, etc	300,000
Additonal Leisure Facilities	400,000
Sales Budget & Commisions @15%	4,668,105
TOTAL	**22,310,701**
PROFIT FROM DEVELOPMENT	**8,809,999**

Canoa Quebrada - Hotel projections

Hotel and Resort Project

The following projections and financial model have been made on the basis of a site visit and superficial market analysis. The projections are done for the hotel project only but can be extended to include the complete resort project including real estate, resort operations and hotel services for the residential units.

Basic parameters:

Location: Ceará, Canoa Quebrada
The location will be within a one and a half hour drive from the Fortaleza airport and city. A new, nearly completed airport, is within 25 minutes from the project. Canoa Quebrada is an upcoming, fashionable destination for the locals from Fortaleza, the tourists from Southern Brazil and foreigners, mainly arriving from Europe.

Competition: Several small pousadas and hotels
There are currently about 1,100 rooms available for tourists in and around Canoa Quebrada. This number is growing fast and the addition of 130 rooms will have a positive effect on the area. The project is planned to be the most luxurious destination in the area, an easy achievable goal. Current top end accommodation would be no better than 3 European stars and the highest ADR is around R$300. Due to the growth of wealth in Fortaleza and Brazil, a luxury product seems very much justified.

Canoa Quebrada - Hotel projections

Hotel and resort description:

The project is designed to offer a high quality, luxury product for tourists. The combination of hotel and residential units sits on a two kilometre stretch of coast line offering stunning views of the cliffs and the coastal area.

The hotel is designed to be a combination of free standing bungalows and hotel rooms, allowing for a efficient management and a differentiated product to the end client. The projections are based on Desires Hotels running the hotel and the resort

Parameters for the financial projections:

- ADR R$400 at todays values
- Occupancy rate between 25% (1st year) and 50% (3 year and after)
- Inflation 5%
- Construction per square meter R$1,800
- Total FF&E and HEOS R$8,500,000
- Valuation of the property would be 9 times EBITDA, around R$310,000 per room at current values, resulting in a 18% growth in property valuation over a period of 10 years

The projections are considered conservative but show a positive NOI from the first year in operation. Due to operational profits and increase in property value the IRR is expected to be north of 20%. It is expected that the cashflow after financial costs will become positive in year five.

8 Canoa Quebrada		Total	Start	1	2	3	4	5	6	7	8	9	10
Available rooms		130		0	0	130	130	130	130	130	130	130	130
Available roomnights		46,150		0	0	46,150	46,150	46,150	46,150	46,150	46,150	46,150	46,150
Occupied roomnights		27,690		0	0	16,153	19,998	23,844	27,690	27,690	27,690	27,690	27,690
ADR		$450		$0	$0	$496	$521	$547	$574	$603	$633	$665	$698
REVPAR				$0	$0	$174	$226	$283	$345	$362	$380	$399	$419
Occupancy		60%		0%	0%	35%	43%	52%	60%	60%	60%	60%	60%
Revenue													
Rooms	70.00%			$0	$0	$8,013,659	$10,417,757	$13,042,230	$15,903,106	$16,698,262	$17,533,175	$18,409,834	$19,330,325
F&B	15.00%			$0	$0	$1,717,213	$2,232,376	$2,794,764	$3,407,809	$3,578,199	$3,757,109	$3,944,964	$4,142,213
Others	15.00%			$0	$0	$1,717,213	$2,232,376	$2,794,764	$3,407,809	$3,578,199	$3,757,109	$3,944,964	$4,142,213
Total Revenue	100.00%			$0	$0	$11,448,084	$14,882,510	$18,631,757	$22,718,723	$23,854,660	$25,047,393	$26,299,762	$27,614,750
Departamental Expenses													
Rooms	25.00%			$0	$0	$2,003,415	$2,604,439	$3,260,558	$3,975,777	$4,174,565	$4,383,294	$4,602,458	$4,832,581
F&B	65.00%			$0	$0	$1,116,188	$1,451,045	$1,816,596	$2,215,076	$2,325,829	$2,442,121	$2,564,227	$2,692,438
Others	45.00%			$0	$0	$772,746	$1,004,569	$1,257,644	$1,533,514	$1,610,190	$1,690,699	$1,775,234	$1,863,996
Total Departmental Expenses	34.00%			$0	$0	$3,892,349	$5,060,053	$6,334,797	$7,724,366	$8,110,584	$8,516,113	$8,941,919	$9,389,015
Gross Operating Income	66.00%			$0	$0	$7,555,736	$9,822,456	$12,296,960	$14,994,357	$15,744,075	$16,531,279	$17,357,843	$18,225,735
Undistributed Operating Expenses	Fixed	Var											
Administrative & General	3.75%	1.25%		$0	$0	$844,004	$921,980	$1,005,643	$1,095,367	$1,150,135	$1,207,642	$1,268,024	$1,331,425
Sales & Marketing	2.50%	2.50%		$0	$0	$753,471	$862,695	$980,958	$1,108,890	$1,164,335	$1,222,551	$1,283,679	$1,347,863
Utilities	2.40%	1.60%		$0	$0	$631,747	$709,127	$792,665	$882,785	$926,924	$973,270	$1,021,934	$1,073,030
Repairs and Maintenance	2.00%	2.00%		$0	$0	$602,777	$690,156	$784,766	$887,112	$931,468	$978,041	$1,026,943	$1,078,290
Total	17.81%			$0	$0	$2,831,999	$3,183,958	$3,564,032	$3,974,154	$4,172,862	$4,381,505	$4,600,580	$4,830,609
Gross Operating Profit	48.19%			$0	$0	$4,723,737	$6,638,499	$8,732,928	$11,020,204	$11,571,214	$12,149,775	$12,757,263	$13,395,126
Fixed Expenses													
Desires Management Fee	4.00%	10%		$0	$0	$718,658	$1,026,011	$1,362,276	$1,729,576	$1,816,585	$1,907,944	$2,003,871	$2,104,594
Real Estate taxes, Insurance	1.88%	0.63%		$0	$0	$857,173	$894,733	$934,172	$975,583	$1,019,064	$1,064,720	$1,112,658	$1,162,993
Capital reserve	2.00%	0.00%		$0	$0	$801,297	$841,362	$883,430	$927,601	$973,982	$1,022,681	$1,073,815	$1,127,505
Total Fixed Expenses	16.08%			$0	$0	$2,377,127	$2,762,106	$3,179,878	$3,632,760	$3,809,630	$3,995,344	$4,190,343	$4,395,092
NOI	32.10%			$0	$0	$2,346,609	$3,876,393	$5,553,050	$7,387,443	$7,761,583	$8,154,431	$8,566,920	$9,000,034
EBITDA	36.31%			$0	$0	$3,147,906	$4,717,755	$6,436,480	$8,315,045	$8,735,565	$9,177,111	$9,640,735	$10,127,540
Purchase Land & Licenses		$500,000		$500,000	$0	$0	$0	$0	$0	$0	$0	$0	$0
Construction (years)	2	$14,040,000		$7,020,000	$7,020,000	$0	$0	$0	$0	$0	$0	$0	$0
FF&E, HEOS		$10,500,000		$0	$10,500,000	$0	$0	$0	$0	$0	$0	$0	$0
Desires Technical Fee		$300,000		$150,000	$150,000	$0	$0	$0	$0	$0	$0	$0	$0
Return/Purchase Owners		$0		$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
CBIT				-$7,670,000	-$17,670,000	$2,346,609	$3,876,393	$5,553,050	$7,387,443	$7,761,583	$8,154,431	$8,566,920	$9,000,034

February 8, 2011

Derek Keith, Director at Gainmaker LLC
Aberdeen, United Kingdom
Tel: +44 1569 740319
Cell: +44 789 4724675

re: Hotel and Resort at Canoa Quebrada, Ceará, Brazil

Dear Derek,

I am writing this letter to confirm our strong interest in managing the Canoa Quebrada Hotel and Resort project for you, should you proceed to realize the project. We consider ourselves highly qualified to operate this hotel and resort and believe that it can perform quite well within the luxury hotel and resort market in the Northeast of Brazil.

Although you have heard our pitch before, let me take this opportunity to review our credentials and experience in the "boutique lifestyle" hotel environment (please see our website www.desireshotels.com). The company has been in business since 1984. Richard Millard is the principal shareholder and has been in the hotel business since 1965. Up until the year 2000, the Company was strictly an operator of branded hotels (e.g., Starwood, Hilton, Marriott, Choice, Wyndham, IHG, etc.).

In 2000, we entered the non-branded boutique hotel business. We are Miami-based, and currently have boutique hotels on Miami's South Beach and in New York City, Milwaukee, St Louis, St. Vincent, Belize, and soon to open in Medellin and Tampa. Obviously, with such diverse locations, we have become quite proficient in management, have learned much about the boutique business, and understand what works today in this genre of hotels.

We currently have an office in Brazil and include firm plans for expansion in South America. In this continent, Columbia and Brazil have our focus at this moment in time, countries where we have a number of existing hotel and project contracts signed. The expansion in Brazil will be focused on the main state capitals and the up-market resort locations.

With regards to your project in Canoa Quebrada, you and I have spent limited time on the concept and I have visited the property and the competition together with Jon and Bruno, the owners of the land. Based upon your view, the site visit, our knowledge of hotel operations and the specifics of the hotel market in the Northeast of Brazil, we are developing a hotel operating pro forma that we believe to be realistic and achievable, of which you will receive a copy once the project gets more detailed.

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During the planning, licensing and construction stages of the project we will have to work closely together. We have seen an outline planning of the resort, drawn up by a renowned architect from Fortaleza. Whereas we believe it shows the potential of the location it needs considerable fine tuning in order to turn it into a successful project. We are looking forward to working together on the planning and development of the project as well as the operational phases afterwards.

I believe that with the natural beauty of the project, the potential of the tourism market in the Northeast of Brazil and the professional input from yourself and Desires Hotels, this could become a very successful operation.

Please let me know if you have any questions or comments.

Best regards,

Egbert Bloemsma, Managing Director Brazil

Advisors to the Scheme

- Geo-environmental study made by Sanebras Ltd., together with the team of Semace (State Environmental Department).
- Architectural Project developed by Nasser Hissa Arquitetos Associados (www.nasserhissa.com.br), one of the most important architectural offices in Brazil.
- Construction company proposed CMM Engenharia. This company is probably number one in Fortaleza for construction services for the projects of third parties because of their reliability and good quality build. They work on time and on budget!

Architects Images

INVEST PROPERTY BRAZIL

Why invest in Brazil?

The number 1 reason to invest in Brazil is the price appreciation that is expected to take place over the next 10 years.

For example, if you had bought a plot in Fortim Beach and had built a 140 sq m (1506 sq ft) house it would have cost you just $33,500 (£21,000 / €24,000).

Add the cost of the land and it would mean that you could have had a detached villa with 3-bedrooms and 2-bathrooms on the beach and still have got change out of $47,800 (£30,000 / €34,300)

It is estimated that a property of this type, even in today's market, would sell for around **$255,250 (£160,000 / €183,100).** That is an increase on capital of over **500%** in just 5 years.

Here are **six reasons why** we are confident that **significant capital appreciation** will continue:

1. New Mortgage Laws will boost demand from buyers

Laws and policies have been modified to encourage mortgage lending, particularly to the domestic market. The inevitable result of this is that, as finance becomes more readily available, demand for property will increase.

We are already seeing the first signs of an expansion of mortgage lending but as this is still at an early stage now there is massive 'up-side' potential for the mortgage market and consequently the property market. This makes the Brazilian property market a real 'ground floor opportunity'.

Mortgages for non-Brazilian citizens are still limited but are expected to become more readily available over the next few years, also boosting demand.

2. New Ownership Laws protect international buyers

Property ownership laws provide buyers of any nationality with security and confidence. Ownership is far more secure in Brazil than many other popular Latin American destinations.

Why invest in Brazil? …continued

3. **Massive amounts of money are being spent to make Brazil more accessible to North America and Europe**

The Government is supporting and encouraging tourism projects and is investing heavily in infrastructure including renovating existing airports, and building new airports, to meet the demand.

Significant Government spending on key projects is set to continue with Brazil hosting the 2014 World Cup and the 2016 Olympics.

4. **Brazil has a large domestic population of almost 200 Million people and they are getting wealthier**

It is not just that the size of the population that is significant but also that disposable incomes are also increasing. It has been estimated that around half of the population can now be classified as 'middle class'. As the middle class expands, demand for higher quality property and significantly, second homes, especially in holiday 'hot-spots' is also increasing. As we have already seen, demand for property in the domestic market is expected to grow significantly, as the Brazilian population embraces easier availability of finance and mortgages.

5. **Currently the 10th Largest Economy in the World, Brazil will be the fifth Largest in 2050 as ranked by Goldman Sachs**

The Brazilian economy is now showing strong fundamentals such as low inflation, a return to strong growth, falling interest rates and declining unemployment and rising salaries. All of these factors are driving up real estate prices just as in the other BRIC economies.

It is expected that beach property will continue to increase in value rapidly until 2050 in line with the overall economy.

…continued

Why invest in Brazil? …continued

6. As Brazil becomes more accessible, many more people are realising the attractions and want to be a part of it

Brazil is recognised as having some of the best beaches in the world. They feature white sand, warm water, warm climate, and beautiful tall palm trees. In fact, Brazil has one of the longest tropical coastlines in the world.

This, in itself is an excellent reason to visit but of course, over the next few years Brazil will be the centre of attention for other reasons. Millions of football fans are expected to visit when Brazil hosts the 2014 FIFA World Cup. Fortaleza, which is the nearest major city to our beach plot locations, has been chosen as one of the twelve cities to host a number of the games.

In addition, just as exciting, after a hard fought battle Rio de Janeiro was awarded the 2016 Olympic Games by the International Olympic Committee. The decision to hold the Olympics in Brazil is especially significant since it will be the first time the Games will be held in South America.

Along with the prestige and excitement of the World Cup and the Olympics, Brazil will also experience an influx of tourists from around the world due to interest generated and the improvement in infrastructure and access.