
**SUMMARY REPORT TO THE CITY OF VANCOUVER
SOUTHEAST FALSE CREEK DEVELOPMENT**

Based Upon Information Available Up To January 19, 2009

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City of Vancouver
#401 – 515 West 10th Ave.
Vancouver, BC
V5Z 4A8

Attention: Ms. Francie Connell, Director of Legal Services

January 19, 2009

Dear Sirs/Mesdames:

Re: Southeast False Creek Development

INTRODUCTION AND RESTRICTIONS

KPMG LLP (“KPMG”) has been engaged by the City of Vancouver (the “City”) to provide comments on the status of the Southeast False Creek Development project which will form the basis for the Vancouver Olympic Village for the 2010 Olympic and Paralympic Winter Games (the “Olympics”), the City’s guarantees related to this development and associated financial exposure. This report is primarily focused on the construction of the market development (“Millennium Water”) and the City’s Non-market Housing (as subsequently defined) and Civic Centre (as subsequently defined), (collectively, the “City Project”), albeit by necessity certain other matters are addressed within the body of this report.

This report has been prepared in accordance with the terms of our engagement letter, dated December 15, 2008, (the “Engagement Letter”). As contemplated in the Engagement Letter, KPMG prepared an extensive privileged and confidential report (the “Confidential Report”) for the City on this matter but has also undertaken to prepare this summary document (the “Public Report”) which is intended to be made generally available.

In preparing the Public Report, we have necessarily relied upon unaudited financial information and other information supplied and representations made to us by the Management, employees and advisors of the City. Although the information supplied has been reviewed for reasonableness, we have not independently verified the accuracy or completeness of the information nor have we conducted an audit, and, as a result, we are not

providing any form of assurance on the information subject to our review. The procedures we performed are limited in nature to those outlined in our report. As such, our work may not necessarily disclose all the significant matters about Millennium Water and the City Project, or any errors, misstatements, irregularities, or illegal acts, if such exist, with respect to Millennium Water and the City Project, or in the underlying information.

We have not compiled, examined, or applied other procedures in accordance with Statements on Standards for Attestation Engagements issued by the Canadian Institute of Chartered Accountants to prospective or future oriented financial information contained in this document and, accordingly, express no opinion or any other form of assurance or representations concerning the accuracy, completeness or presentation format of such prospective information. There will usually be differences between projected and actual results, and, because events and circumstances frequently do not occur as expected, those differences may be material.

Further to the restrictions set out in the Engagement Letter, KPMG does not accept any liability or responsibility to any third party who may use or place reliance on our report.

SCOPE OF OUR REVIEW

This report has been prepared to address the City's requirements as detailed in the Engagement Letter.

As at January 19, 2009, the City was still evaluating various available options. However, in order to bring some finality to our engagement and present our findings, we have based our report on information made available to KPMG up to that date. Accordingly, this report does not address events that may have occurred or information that may become available after January 19, 2009.

This document includes financial and business information of Millennium Southeast False Creek Properties Ltd. ("MSEFC") and its affiliated parties. This information was supplied to the City and is being disclosed with the prior consent of MSEFC, its affiliates and the City Manager.

In undertaking this engagement, we have not carried out an audit, nor have we verified any of the information provided to us by the City or its advisors except where expressly stated. We have relied upon the representations of the City as to the completeness and accuracy of the information provided. The findings contained herein are based primarily on discussions and communications with the following individuals:

- Dr. Penny Ballem, City Manager;
- Mr. Bill Aujla, Barrister & Solicitor, Legal Services;
- Mr. Ken Bayne, General Manager of Business Planning and Services;
- Mr. Jody Andrews, Former Deputy City Manager and Project Manager for the SEFC Development and Olympic Village;
- Ms. Robin Petri, Manager of Engineering, Southeast False Creek Development and Olympic Village;
- Mr. Ian Smith, Manager of Development, Southeast False Creek Development and Olympic Village;
- Mr. Michael Flanigan, Director of Real Estate Services;
- Mr. John Eastman, SNC Lavalin Inc.;

- Mr. Joe Rekab, BTY Group;
- Mr. Neill McGowan, BTY Group;
- Ms. Stephanie Bax, BTY Group; and
- Mr. Bob Rennie, Rennie Marketing Systems.

as well as our review of certain information and documentation made available by these individuals.

A copy of this report was provided in draft to the City in order to ensure the accuracy of the information contained herein. The City provided a draft copy of this report to, and discussed its contents with, representatives of MSEFC. As a result of that process, the City requested that KPMG make a number of suggested changes to this report, certain of which have been reflected in the final version. MSEFC has also requested that it be noted that, while it consents to the release of this report, it does not necessarily agree with its contents.

In accordance with our firm's policy, we advise that neither KPMG nor any member or employee of the firm undertakes responsibility in any way whatsoever to any person or organization other than to the City in respect of the information set out in this report.

All figures reported herein are in Canadian dollars except where noted otherwise.

BACKGROUND – LIST OF KEY AGREEMENTS AND CONSULTANTS

Included in the table below is a list of certain agreements related to this matter:

| Summary of Agreements | | |
|---|--|-----------------------|
| Agreement name | Parties to the agreement | Agreement date |
| Vancouver Athletes Village Agreement | City and BidCorp | 14-Nov-02 |
| Olympic Village Project Definition Report | City and VANOC (f.k.a. BidCorp) | 01-Feb-07 |
| Lease Agreement including amendments 1 - 4 | City and MSEFC | 31-Aug-06 |
| MSEFC Development Agreement | City and MSEFC | 31-Aug-06 |
| Marketing Agreement | MSEFC and Rennie | 12-Nov-06 |
| Fortress Loan Agreement | MSEFC and Fortress | 28-Sep-07 |
| Subordination and Step In Rights Agreement | City, Fortress and MSEFC | 28-Sep-07 |
| Payment Guarantee by City | Fortress and City | 28-Sep-07 |
| Completion Guarantee by City | Fortress and City | 28-Sep-07 |
| Payment Guarantee by MDC and Millennium Principals | MDC, Millennium Principals and City | 28-Sep-07 |
| Completion Guarantee by MDC and Millennium Principals | MDC, Millennium Principals and City | 28-Sep-07 |
| Balancing Agreement | MSEFC, MDC, Millennium Principals, the City and Fortress | 03-Jul-08 |
| Accommodation Pledge Agreement | MDC and Fortress | 03-Jul-08 |
| Funding and Settlement Agreement | City and MSEFC | 14-Oct-08 |
| Oversight Agreement | City and MSEFC | 14-Oct-08 |
| Amendment #5 to the Lease Agreement | City and MSEFC | 14-Oct-08 |
| Joint and Several Demand Debenture | City and MSEFC | 14-Oct-08 |
| GST Agreement | City and MSEFC | 14-Oct-08 |
| Second Funding Agreement | City and MSEFC | 14-Nov-08 |
| Third Funding Agreement | City and MSEFC | 25-Nov-08 |
| Draft Outline of Principal Terms And Conditions For Forbearance and Loan Modification Agreement For A Modified Facility of C\$665 Million | MSEFC, Fortress and City | na |

Included in the table below is a list of certain consultants involved in this matter:

| Summary of Consultants | | | | |
|------------------------|-----------------------|---|--------------------------------|---|
| Consultant name | Services requested by | Service type | Approximate service start date | Date of last report(s) |
| Altus | Fortress | ~ Monthly draw and status reports | September-07 | December 19, 2008 |
| BTY | City | ~ Monthly status report re: City Project ~ Peer review of Altus draw requests ~ Site inspections, schedule estimates | September-07 | ~ December 12 and 17, 2008 ~ Draft October 21, 2008 ~ July 31, 2008 and November 20, 2008 |
| KPMG | City | ~ Engagement letter discussed above | December-08 | na |
| PWC | MSEFC | ~ Assist MSEFC with Millennium Water budget ~ Review consultant claims, cleared cheques and construction contract status | Summer-08 | November 21, 2008 |
| Quoin | MSEFC | ~ Weekly status report and schedule review | September-07 | December 19, 2008 |
| Rennie | MSEFC | ~ Sales and marketing | November-06 | December 9, 2008 |
| SNC Lavalin | City | ~ Oversee development of the Village | October-08 | December 31, 2008 |

SUMMARY COMMENTS

Introduction

- The issues and agreements relating to the City's involvement in the Southeast False Creek Development and construction of the Village (as subsequently defined) to house athletes during the Olympics are both extensive and complex. Accordingly, while these matters are addressed in some detail in the body of the Confidential Report, the Public Report provides a summary of our observations and related comments.

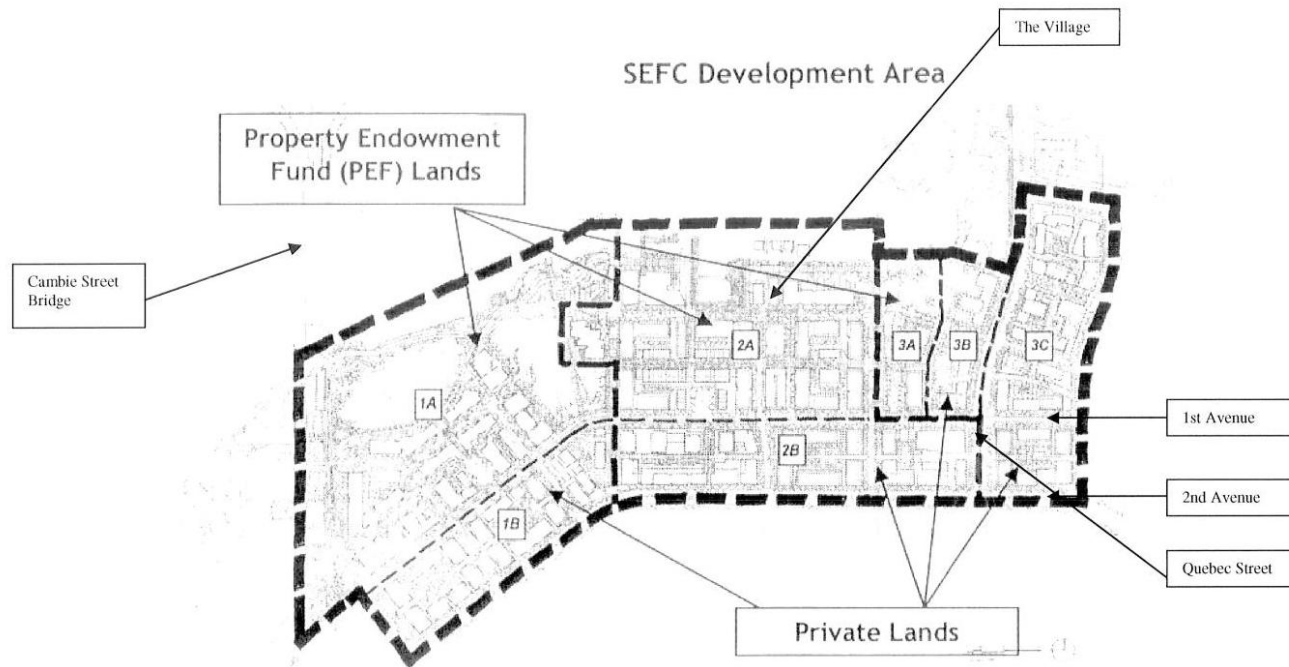
Background

VANOC / Bid-Corp

- In 2002, the Vancouver 2010 Bid Corporation ("BidCorp", subsequently the Vancouver Organizing Committee for the 2010 Olympic and Paralympic Winter Games ("VANOC")) entered into an agreement with the City pursuant to which:
 - the City would make facilities available for the Olympics for the period from November 1, 2009 to April 7, 2010 (the "Exclusive Use Period");
 - BidCorp would pay \$30 million in trust to be released subject to certain milestones; and
 - BidCorp was to be responsible for leaving the Village in reasonable condition at the expiration of the Exclusive Use Period.

Southeast False Creek Redevelopment

- The site chosen for the Village was sub area 2A within an area of approximately 50 acres held by the Property Endowment Fund ("PEF") noted on the map below:



- The City's longer term plans contemplated the development of sub areas 1A and 3A, also held by the PEF, as well as sub areas 1B, 2B, 3B and 3C, which are privately owned.
- The City planned to provide fully serviced lots to developers which required remediation and the addition of certain amenities, including parks, plaza areas, three childcare facilities, streets, a community centre and restoration of three heritage buildings.
- In 2006, a budget for the development of the City's 50 acres was prepared, as tabled below. However, this budget is now severely dated and it is not possible to meaningfully compare currently available partial costs-to-complete estimates, which total \$175 million, to the original analysis.

| Table A - SEFC Redevelopment | | |
|--------------------------------|-----------------------|--------------|
| \$000,000's | Present Values (2006) | Gross Values |
| Development revenues | 218 | 346 |
| Site serving and amenity costs | (153) | (204) |
| Net income | 65 | 142 |
| Target return | 50 | |

Source: City's SEFC Pro Forma Report

- Development of the Village in sub area 2A owned by the City generally contemplated:
 - Developer funded market housing and commercial space with a goal that modest market housing (rentals) would also be included on the site (Millennium Water); and
 - City funded construction of approximately 250 units of social housing (the “Non-market Housing”) and a community centre and child care facility (collectively, the “Civic Centre”) - the City Project.
- The City envisaged selling or leasing certain real property in sub area 2A to the developer selected to undertake construction of both the market space (Millennium Water) and the City Project (collectively, the “Village”).

Selection of the Developer

- During August 2005, in order to initiate the public procurement process to select a developer for the Village, expressions of interest were solicited and responses were received from five developers.
- Later, in December 2005, a formal Request for Proposal was issued and responses were received from three developers.
- To assess the proposals, an evaluation committee was created comprising eight senior City staff with voting rights, and three non-voting staff and one representative from VANOC. The committee adopted an evaluation matrix (the “Matrix”) with 57 individual criteria (including developer team, Official Development Plan criteria and developer choices (housing mix, building performance, etc.)) against which proposals were ranked on a 200 point scale. No points were allocated to the offer price in the Matrix. However, the scores developed using the Matrix were then reevaluated by undertaking a sensitivity analysis and allocating between 0% and 90% to the purchase price. This indicated that once the price was

allocated at least 14.5% (i.e. 14.5% * the price bid + 85.5% * the Matrix results), Millennium Development Corp. (“MDC”), which had the lowest score in the Matrix, would be the winning bidder.

- Detailed financial information was not included in the submissions from the three developers and, accordingly, there was a limited basis to assess financial ability. The City noted that this may have been due, in part, to the developers’ concerns that financial information provided to the City might be accessible to the public under freedom of information legislation.
- MDC (subsequently MSEFC) was determined by the City to have tabled the most attractive proposal in comparison to the competing bids. MDC’s bid envisaged a price of \$193 million, the highest price offered by the three developers, for the freehold interest in the underlying real property related to Millennium Water and rent free occupation during the Exclusive Use Period. MSEFC undertook to manage construction and design of the City Project on a cost plus basis.
- MSEFC commenced planning of the market development to include 735 market units, 119 rental units and 63,276 square feet of commercial space.
- In September 2006, MSEFC provided a deposit of \$29 million which would be forfeitable to the City in the event of certain defaults reflected in the lease between the City and MSEFC signed August 31, 2006 (the “Lease”).
- The price for the real estate of \$193 million referred to above was subsequently increased to \$200 million to allow for the acquisition of a small parcel of property owned by a third party located in sub area 2A.
- Initial arrangements between MSEFC and the City were reflected in the Lease, which included the MSEFC Development Agreement. These agreements provided for a number of terms, including:
 - preliminary budgets of approximately \$82 million for the City Project;
 - transfer of the real property title to MSEFC after the expiration of the Exclusive Use Period;
 - preliminary construction milestones;
 - assignability of MSEFC’s contracts to the City;

- completion of infrastructure services by the City at least 60 days prior to the Exclusive Use Period;
- soil remediation as required to be funded by the City; and
- provision for a construction lender to have a first position ahead of the City calculated as the lower of 90% of the:
 - amount of the loan
 - cost of the buildings
 - fair market value of MSEFC’s buildings
- The City leased the land for Millennium Water, in part, to ensure that it maintained title to the Village before and during the Exclusive Use Period and was, hence, able to have a greater degree of control in fulfilling its obligations to VANOC.
- MSEFC retained various parties to assist with the construction of the Village, including ITC Construction Inc. (“ITC”) and MetroCan Construction Inc. (“MetroCan”), the general contractors, as well as a number of architectural firms. Rennie Marketing Systems (“Rennie”) was engaged to undertake marketing of the units within Millennium Water.

Financing Millennium Water

- MSEFC required financing to fund the construction of Millennium Water. The first \$80 million was provided by a Canadian Chartered Bank and a private investment fund, to which the City subordinated its position in accordance with the Lease terms noted above. However, these parties did not advance further monies beyond the initial pre-development loan of \$80 million.
- It became apparent to the City in May 2007 after MSEFC’s discussions with other Canadian lenders that additional financing would require guarantees from the City due to the size and complexity of the transaction and the fact that the underlying land was to be leased until after the Olympics rather than transferred to MSEFC.
- MSEFC made arrangements with Fortress Credit Corporation (“Fortress”) in September 2007 pursuant to which an agreement between MSEFC and Fortress dated September 28, 2007 (the “Fortress Loan Agreement”) was finalized.

- The Fortress Loan Agreement contained various terms, including:
 - a loan facility of \$750 million (the “Loan”);
 - interest at LIBOR plus 4.5% with a floor on LIBOR of 4.88%;
 - a maturity date of January 3, 2011;
 - various security and guarantees, including:
 - mortgage on the Lease
 - share pledge from MDC in respect of MSEFC
 - a payment guarantee of \$190 million and a completion guarantee from the City
 - subordination of the outstanding land purchase price of \$171 million due to the City
 - contract assignment rights
 - potential additional financing expenses, including those related to possible pre-payment, repayment and foreign exchange hedging;
 - submission of a budget by MSEFC to Fortress;
 - a requirement that at least 300 units at 95% of budgeted price be subject to presale by April 30, 2010;
 - a requirement that any increase in projected costs (over the \$950 million original budget) be funded by MSEFC – the Balancing Amounts; and
 - a requirement that various construction milestones be met.
- As consideration, in part, for its guarantees, the City negotiated the Subordination and Step In Rights Agreement in September 2007.
- The Subordination and Step In Rights Agreement included the following terms:
 - subordination of the City’s claim for the balance of the real property purchase price (\$171 million - \$200 million less the \$29 million deposit paid) to the Loan from Fortress; and
 - Step In Rights being made available to the City and including the ability to:

- cure MSEFC’s defaults
 - undertake performance of the Loan at reduced interest rates
 - appoint a receiver
 - purchase the Loan
- As consideration, in part, for the guarantees and subordination provided by the City to Fortress, the City obtained:
 - payment and completion guarantees from MDC and its principals;
 - various contract assignments; and
 - share pledges from MDC in respect of MSEFC.

2008 Developments

- The original budget for Millennium Water was \$950 million including land for \$200 million and financing charges of \$190 million, as tabled below.

| Table B - Original Millennium Water Budget | |
|---|--------------------|
| Expense | \$000,000's |
| Land | 200 |
| Construction, professionals and marketing | 560 |
| Financing | 190 |
| Total | 950 |

Source: MSEFC budget September 25, 2007

- In May 2008, cost overruns of \$35 million were identified requiring Balancing Amounts. These were addressed through downward adjustment to other budgeted amounts (comprising interest and withholding tax - \$10 million), proceeds from a letter of credit (“LOC” - \$5 million) and a cash contribution (\$20 million) from MSEFC. Pending reinstatement of the LOC for \$5 million (which never occurred), Fortress required additional consideration including:
 - additional security over two other projects owned by MDC’s subsidiaries based on a minimum pledge value of \$40 million; and

- suspension of monthly fees paid to MSEFC.
- In August and September 2008, further cost overruns of \$89 million were identified, again requiring Balancing Amounts to be funded. MSEFC did not provide further funding and no other offsetting downward adjustments to the original budget were available. Accordingly, MSEFC then approached the City and in October 2008, Vancouver City Council (“Council”) authorized three protective advances (the “Protective Advances”) aggregating up to \$100 million (as at the date of this Report, protective advances actually total \$104 million, including the fourth advance of approximately \$25 million made on January 14, 2009, with requisite authority obtained from Council in December 2008). In consideration for these advances, the City required:
 - execution of a \$1 billion debenture providing security over MDC and certain of its development subsidiaries;
 - settlement of a soil remediation cost claim from MSEFC and finalization of the Infrastructure Coordination Agreement;
 - execution of a GST agreement pursuant to which a GST trust account was established to which the City contributed \$1.8 million; and
 - execution of an oversight agreement allowing the City to monitor Millennium Water more closely and to have its own representative, SNC Lavalin Inc. (“SNC”), actively involved and onsite.
- In early December 2008, the City undertook an initial review of the possible value of the additional security granted pursuant to the \$1 billion debenture noted above and other guarantees previously provided. This initial review has not been exhaustive and remains preliminary in nature.
- During this period, the City engaged certain additional consultants (SNC, Farris Vaughan Wills & Murphy LLP and Koffman Kalef LLP) to assist with matters related to the construction of Millennium Water and negotiations with Fortress.
- Consultants involved include:

| Table C - Consultants | | |
|-----------------------|--------------|-----------------------|
| Consultant | Reporting to | Roles |
| Altus | Fortress | Cost |
| BTY | City | Cost and schedule |
| PWC | MSEFC | Accounting assistance |
| Quoin | MSEFC | Schedule |
| SNC Lavalin | City | Project oversight |

Current Millennium Water Status

Budget

- As noted above, the original budget tabled by MSEFC totaled \$950 million. Since then, there have been various revisions to this budget with the latest being provided on January 12, 2009, and reflecting an amount of \$1.055 billion. Budgeted costs provided up to November 30, 2008, by the BTY Group (“BTY”) and the Altus Group Ltd. (“Altus”) reflect amounts of \$1.082 billion and \$1.081 billion, respectively. MSEFC’s original, current and BTY’s budget including cost to complete are tabled below:

| Table D - Millennium Water Budgets | | | | | |
|---|------------|--------------|---------------|-------------------|--------------|
| \$000,000's | MSEFC | | BTY Draw # 16 | | |
| | Original | Current | Costs to date | Costs to complete | Total |
| Land | 200 | 200 | 29 | 171 | 200 |
| Construction, professionals and marketing | 560 | 667 | 372 | 341 | 713 |
| Financing | 190 | 188 | 49 | 120 | 169 |
| Total | 950 | 1,055 | 450 | 632 | 1,082 |

Source: BTY Schedule Report for the period ending November 30, 2008, and MSEFC budget January 12, 2009.

- None of the budgets presented above reflect possible expenses associated with:
 - certain professional advisors retained by the City;
 - amounts for hedging, pre-payment, repayment and/or fees payable under the Draft Modified Loan Agreement (subsequently defined) that may become exigible depending upon the strategy ultimately chosen by MSEFC and the City to deal with the Loan from Fortress; and
 - additional costs related to holding Millennium Water beyond 2010.
- MSEFC recently added \$20 million to its budget for additional interest and fees but no details have been provided to support this estimate. BTY’s budget above does not reflect a change in the source of financing from the Loan provided by Fortress.

- Altus has identified several concerns, including the risk of cost increases due to possible acceleration and delay claims, the unusual circumstances by which MSEFC is not releasing an updated budget on a monthly basis and the apparent low rate of contractually committed costs.
- SNC, engaged by the City in October 2008, is working to develop a hard cost budget (which excludes land, consultants, marketing and financing) and expects it to be between the ranges estimated by MSEFC and BTY.

Timing

- Various consultants have provided analysis and commentary on the current scheduling of Millennium Water with reference to the commencement of the Exclusive Use Period. Recent comments include:

| | |
|------------------------------------|--|
| Millennium Water working group | <ul style="list-style-type: none"> • Construction 1-2 months behind schedule • Attributed to unresolved change orders, delayed window deliveries and other factors |
| Quoin Inspection December 19, 2008 | <ul style="list-style-type: none"> • All Village parcel completion dates are approximately within timelines required for the Exclusive Use Period |
| BTY Inspection October 31, 2008 | <ul style="list-style-type: none"> • Five of eight parcel completion dates were forecasted not to meet the Exclusive Use Period deadlines |
| SNC | <ul style="list-style-type: none"> • Working with MetroCan to develop completion schedules indicating catch-ups. ITC has prepared such schedules • Views largest construction related issue as sourcing sufficient labour resources that are properly supervised |

- Apparent differences between expected completion dates prepared by Quoin Project and Cost Management Ltd. and BTY may be due to BTY’s limited access to MSEFC information.

Current Options for the City to Finance Millennium Water

- On September 23, 2008, Fortress advised MSEFC that it would not provide any further funding pursuant to the Fortress Loan Agreement. Accordingly, the City is in the process of developing a strategy as well as evaluating the alternatives that currently appear to be available. Albeit reinstatement may be viewed as somewhat academic, those options appear to include:

- Base Case: reinstating the Loan;
 - Option 1: agreeing to the terms of the draft Outline Of Principle Terms and Conditions For Forbearance and Loan Modification Agreement For A Modified Facility Of \$665 Million (the "Draft Modified Loan Agreement") that was being negotiated between the parties;
 - Option 2: leaving the \$317 million currently due to Fortress in place and seeking alternative financing for the balance of the funds required to conclude Millennium Water;
 - Option 3: enforcing the City's rights under the Step In to assume the Loan; and
 - Option 4: purchasing the loan from Fortress and refinancing the entire amount required to conclude Millennium Water.
- Tabled below are preliminary estimates of interest costs for these options based upon limited currently available information which excludes any interest that may be charged by the City to MSEFC under the Lease (prime plus 6%) for the Protective Advances:

| Table E - Refinancing Options Pre Draw # 17 | | | | | | |
|--|-------------------------------|--------------------------------------|------------------------------------|-----------------|----------------------|-----|
| | | Option 1 | Option 2 | Option 3 | Option 4 | |
| \$000,000's | Existing Fortress Loan | Draft Modified Loan Agreement | Standstill on \$317 million | Step In | Loan purchase | |
| Millennium Water budget | 1,081 | 1,081 | 1,081 | 1,081 | 1,081 | |
| Less: | | | | | | |
| Land sale owing by MSEFC | (171) | (171) | (171) | (171) | (171) | |
| Payments by MSEFC | (55) | (55) | (55) | (55) | (55) | |
| Remaining costs | A | 855 | 855 | 855 | 855 | 855 |
| Millennium Water costs and financing: | | | | | | |
| Fortress | 317 | 317 | 317 | 317 | 317 | 317 |
| Protective Advances from City to Dec. 15/08 | 79 | 79 | 79 | 79 | 79 | 79 |
| BTY Draw #16 cost to complete excl. interest | 342 | 342 | 342 | 342 | 342 | 342 |
| Total excl. forecast financing | B | 738 | 738 | 738 | 738 | 738 |
| Forecast incremental financing costs (A - B) | C | 117 | 117 | 117 | 117 | 117 |
| Financing as at Dec 31, 2010 (excluding \$171 million owed for land by MSEFC and closing of \$217 million of pre-sales) | | | | | | |
| Fortress | 750 | 665 | 317 | 740 | - | |
| City | 101 | 208 | 505 | 79 | 789 | |
| Total before under noted costs and fees | 851 | 873 | 822 | 819 | 789 | |
| Interest paid or accrued 2009 and 2010 (excl. interest cost on Protective Advances up to \$100 million or prime +6% lending to MSEFC) | | | | | | |
| Fortress | 113 | 132 | 60 | 81 | 2 | |
| City | - | 3 | 24 | - | 49 | |
| Total | D | 113 | 135 | 81 | 51 | |
| Interest (overages) savings (C-D) | 4 | (18) | 33 | 36 | 66 | |
| Additional financing costs and exit fees | N/A | N/A | N/A | N/A | N/A | |
| Net savings(expense) compared to existing Loan | N/A | N/A | N/A | N/A | N/A | |

Note: "N/A" - Information not available as of January 19, 2009.

Source: Table 23 of Confidential Report

- The above preliminary analysis is based on limited available information and indicates that purchasing the Loan from Fortress and refinancing the entire amount required to complete Millennium Water would be the preferable alternative. However, the analysis is still missing information and

cannot be concluded until at least the following are known:

- confirmed cost of new financing; and
- fees, penalties, etc. that may be payable to Fortress.

Status of Estimated Selling Prices and Pre-Sales of Millennium Water

- Tabled below are recent value estimates based on Rennie’s pricing models (residential units) and the City (retail and rental housing) regarding Millennium Water:

| Table F - Total Millennium Water Value | |
|---|-------------------------------|
| \$000,000's | 2008 Revised Estimates |
| Residential strata units | 1,090 |
| Less: final commissions | (27) |
| Net residential revenue | 1,063 |
| Retail | 33 |
| Rental apartments | 41 |
| Total revenue | 1,137 |

Source: December 2008 Sales Report, Rennie pricing model and summary reconciliation of SEFC project proforma

- Rennie’s pricing model from December 2008 continues to suggest that the residential units will produce \$1.063 billion net of commissions.

- 266 units are subject to presale at a total sale value of \$217 million. Deposits totaling \$33 million have been received and are held in trust with MSEFC’s counsel, Fraser Milner Cagrain LLP.
- Sales since June 2008 have been limited and certain presale deposits remain due.

Sensitivity Analysis re: Millennium Water

- The City has not yet finalized its strategy and, accordingly, much of the information required for a fulsome evaluation is not available at this stage. However, the preliminary analysis (based on the recent estimate of revenue from Table F) does appear to suggest that if Millennium Water is sold at prices 20% less than current forecasts, the City’s total exposure (Protective Advances, unpaid land purchase price of \$171 million, etc.) may range from \$10 million to \$90 million (before recourse to guarantees and related security provided by MSEFC and its affiliates). This also remains dependent upon the ultimate financing option chosen and related currently unknown costs. Additional declines in real estate values would further increase potential losses to the City, as tabled in the preliminary analysis below:

| Table G - Possible City Exposure Under Reduced Selling Prices^{1, 2, 3} | | | | | | |
|--|---|------------|------------|------------|------------|------------|
| \$000,000's | Assumed reduction in selling prices: | | | | | |
| | Base Case | 10% | 20% | 30% | 40% | 50% |
| Existing Fortress Loan | - | - | 71 | 227 | 340 | 454 |
| Option 1 - Draft Modified Loan Agreement | - | - | 93 | 249 | 362 | 476 |
| Option 2 - Standstill on \$317 million | - | - | 41 | 197 | 311 | 425 |
| Option 3 - Step In | - | - | 39 | 195 | 308 | 422 |
| Option 4 - Loan purchase | - | - | 9 | 165 | 279 | 392 |

Note 1: Assumed that if the value decreases in excess of 20% of the Base Case, pre-sale buyers would default on purchase contracts.

Note 2: Excludes exit fees to Fortress and refinancing costs.

Note 3: Excludes forfeiture of pre-sales deposits being applied to Millennium Water's loans.

Source: Table 29 Confidential Report

The City Project (Non-market Housing and Civic Centre)

Budget

- The original budgets noted below for the City Project were very preliminary and not based on designed buildings but rather on other City construction projects. The budget for the City Project has subsequently increased for various reasons, including changes to the scope of the buildings (addition of a restaurant to the Civic Centre and 26,000 square feet of Non-market Housing), tenders that were sought with incomplete drawings along with the selection of certain high cost exterior materials. The City Project budgets are summarized in the table below:

| Table H - City Project Budgets | | | |
|---------------------------------------|------------------------------|-------------------------------|----------------|
| \$000,000's | MSEFC | | Current |
| | Development Agreement | Construction Agreement | |
| Non-market Housing | 64 | 79 | 93 |
| Civic Centre | 18 | 22 | 31 |
| Construction costs | 82 | 101 | 124 |
| MSEFC management fee | 7 | 9 | 10 |
| Excavation costs | 5 | 5 | 5 |
| Total | 94 | 115 | 139 |

Source: MSEFC Development Agreement, Construction Agreements, BTY Non-market Housing Budget Update dated November 4, 2008, SEFC Community Centre Final Estimated Cost letter dated January 8, 2009

- The VANOC payment of \$30 million will be applied to the Non-market Housing. Also, the City intends to access a mortgage from the British Columbia Housing Management Commission for the remaining costs (after application of approximately \$2 million of development levies) of the Non-market Housing once these facilities are complete.
- City staff will be preparing a report to Council in the next two months regarding cost increases for the City Project.

Timing

- Consistent with Millennium Water, the construction of these buildings has been delayed but BTY has recently estimated that the three Non-market

Housing buildings can be completed within the deadlines set by the Exclusive Use Period. The Civic Centre is required to be ready for VANOC by August 1, 2009, but is currently forecast by BTY to be 9 weeks late in its delivery. As noted above, SNC is currently working with MSEFC and MetroCan (general contractor of the Civic Centre) to update the schedule to meet the Exclusive Use Period requirements and this schedule is expected to be available by the end of January 2009.

Other Matters

- Approximately \$3.1 million apparently remains unpaid by MSEFC with respect to:
 - \$1.2 million claimed by certain consultants retained in this matter; and
 - \$1.9 million claimed by contractors.
- In October 2008, the City agreed to fund a replacement LOC for MSEFC to meet its obligation to Fortress. This transaction was not completed and MSEFC has revived the issue. Accordingly, the City is planning to loan \$5 million to MSEFC to fund:
 - \$3.1 million to deal with the claims of consultants and the two contractors noted above; and
 - \$1.9 million to MSEFC to be used in part to fund outstanding fees.

In the event that MSEFC pays in full all other amounts due to the City, and as part of the resolution of certain other disputed issues, repayment of this loan will be waived.

- The City is evaluating the need for additional collateral security, if available, and oversight provisions with respect to MSEFC depending upon the available options and financing alternatives.

Concluding Comments

The City is committed to VANOC to provide the requisite facilities for the forthcoming Olympics in Vancouver. In addressing that commitment, it undertook a Request for Proposal process to identify an appropriately qualified developer to build the market development and the City Project. This resulted in the selection of MSEFC as the highest qualified bidder for the land. However, to enable MSEFC to obtain financing, it became necessary for

the City to provide initially both a completion guarantee (not inconsistent with that already provided to VANOC) as well as a payment guarantee of \$190 million to Fortress.

Cost overruns in relation to the original budget, in part, resulted in an inability to access ongoing financing from Fortress and required the City to make a series of Protective Advances which, to date, total \$104 million in order to minimize its possible exposure under the various commitments and guarantees it has given to both VANOC and Fortress.

Currently available estimates indicate that the financing required to fund the balance of Millennium Water is between \$435 million and \$460 million. These estimates do not include payment to the City for its land of \$171 million and Protective Advances made to date or funds that may be required to retire MSEFC's current indebtedness to Fortress and any associated costs. As noted, the City is currently looking to finalize its strategy to complete Millennium Water.

Since being advised that the necessary funding would not be available to MSEFC, the City has taken various steps to protect its position, including obtaining, most recently, authority from the Province of British Columbia to amend its Charter to enhance its borrowing capability, taking additional security, retaining its own construction consultants and additional external legal counsel and establishing a greater degree of supervision over construction as the Exclusive Use Period quickly approaches.

There seems to be a degree of consensus around the cost to complete Millennium Water and the City Project. Unfortunately, less clear is the timing and quantum of revenues that will ultimately be generated from the sale of Millennium Water. This will likely have the largest potential unknown impact on the City's financial exposure in this matter and while currently available estimates might suggest at this time a relatively neutral outcome for the City, the current state of the real estate market makes forecasting the City's financial exposure with any degree of precision extremely difficult.

Observations for Consideration

- The City continues to work with MSEFC with a view to having this developer conclude Millennium Water and the City Project. This obviously has merit from a practical perspective, but it may be worthwhile undertaking a review of the City's capability to control and conclude the remaining stages of construction should that need arise.
- The City has taken security over the assets of MSEFC and certain related parties, and has undertaken a very preliminary review of the possible value of that security as it relates to real property located in Canada. It may be appropriate to consider undertaking a more in depth analysis, extending it to all of the assets covered by the security and guarantees and ensuring that all available security has in fact been taken.

- As noted above, current up to date estimates, albeit that they are not all identical, are available for the cost to complete construction. However, while estimates of possible revenues from the sale of Millennium Water have been prepared based on information developed by Rennie, the most recent formal appraisal was dated April of 2007. Given the significant impact of the ultimate value of Millennium Water on the City's financial exposure, having an updated appraisal may warrant consideration.
- The development budget for the Southeast False Creek area held by the PEF was prepared in 2006 and has yet to be updated. We understand that representatives of the City intend to do this as a portion of the costs incurred are allocable to the revenues from Millennium Water.
- Various project consultants have been retained in this matter by the parties involved and reports prepared are generally made available to the City. However, these reports:
 - are not always received in a timely manner;
 - reflect apparent inconsistencies with respect to scheduling and the cost of the construction; and
 - raised concerns about various other matters.

By way of example:

- the need for monthly budget updates from MSEFC
- the need for additional information to assess potential delay claim exposure
- status of accounts payable
- expected differences in budgets prepared by SNC and BTY
- discrepancies among the consultants as to the degree of committed contracts in place

These types of issues need to be addressed and resolved in a timely manner as part of an ongoing oversight reporting role to review material from the consultants and address concerns and inconsistencies on their evaluation of construction costs and scheduling.

In addition, efforts should be made to clarify the roles of the cost and project consultants to avoid expense duplication and to ensure all required information is appropriately shared.

MSEFC should also provide a detailed budget updated on a regular basis with supporting assumptions to the City and its advisors.

- The City has incurred significant costs with respect to the retention of its own external advisors in this matter. These costs should be tracked and accumulated and a determination made as to whether they should be added to any claim advanced against MSEFC or pursuant to the other security and guarantees taken by the City.
- Ongoing new sales and completion of pre-sales where deposits are already in place will be critical to facilitating an ongoing evaluation of the City's financial exposure. This should be monitored regularly.
- There are a number of concerns that appear to require further investigation, including:
 - status of accounts payable;
 - status of construction holdbacks;
 - status of the GST account funded by the City; and
 - reconciling items identified in MSEFC's records.
- Given some of the issues identified from the consultants' reports and other matters noted above, as well as the relatively short timeframe left until the Exclusive Use Period, consideration should be given to instituting a frequent reporting mechanism to the City Manager and Council, through a one page report prepared in conjunction with the City's consultants, BTY and SNC, that addresses:
 - updated cost and timing estimates to completion with identification of any critical areas for both Millennium Water and the City Project;
 - status of other issues identified as areas of concern by the consultants including possible liens, consultant and other liabilities, etc.; and
 - status of pre-sales and collection of pre-sale deposits.

It may make sense to have one individual with the requisite financial skills to be charged with this exercise. Also, we understand the SEFC project office is planning to seek additional budget approvals for the City Project in March 2009 due to cost increases. It is worth considering whether this timeline can be moved up given that recent cost increases were discovered in November 2008.

- As the City continues to evaluate its options to finance Millennium Water and new information becomes available regarding exit costs, interest rates and new financing fees, updated detailed and timely financial analysis should be undertaken.
- Due to the status of the real estate market, an analysis should be undertaken to evaluate the financial implications of having to hold Millennium Water beyond 2010.
- Based on its experience with Millennium Water, the City may wish to revisit its approach to an evaluation process to:
 - Assess financial ability and obtain more detailed information regarding same;
 - Ascribe a value to the purchase price within any evaluation matrix;
 - Document the final selection rationale, particularly if the party with the highest point total is not selected; and
 - Review and analyze in more depth the potential exposure to the City related to different proposals.