PRIVATE AND CONFIDENTIAL

PRK HOLDINGS LTD.

Report To

THE GOVERNMENT OF THE BAHAMAS

RIGHT-SIZING PROGRAM

For

SOUTH OCEAN GOLF & BEACH RESORT

Nassau, Bahamas

September 30, 2003

RIGHT-SIZING PROGRAM
South Ocean Golf and Beach Resort

I BACKGROUND AND HISTORY

A South Ocean Resort

South Ocean Golf and Beach Resort ("SOGB") has been a 2-star, 279 room full service resort, (223 rooms available commercially plus 30 timeshare units and 26 rooms used as office space) situated on 187 acres of land (35 owned, and 152 leased from New Providence Development Company Limited ["NPDC"]) with 1030 feet of ocean frontage and a 6700 yard, championship-layout golf course. The resort and golf course were first developed during the 1970's. However since the late 1980's, the resort has experienced continuing financial difficulty under various owners and has endured a succession of bankruptcies. The current ownership group plans to break from this dubious tradition.

Purchased out of bankruptcy for approximately $18 million by RHK Holdings Ltd. ("RHK") in 1998 (including an initial $12.0 million BNS mortgage, now $14.0 million plus a $1.0 million operating loan), the resort is owned within the Bahamian corporate entity, South Ocean Development Company Limited, ("SODC"), a wholly-owned subsidiary of PRK Holdings Ltd. ("PRK").

PRK was established as at December 31, 2000 to resolve various financial defaults of RHK involving RHK's major lender. At that time, RHK was in serious financial difficulty and unable to support SODC without the financial support of its major lender, the Toronto, Canada-based company, Propco 39 Ltd. ("Propco"), which is a wholly-owned subsidiary of a major, Canadian Pension Fund with assets in excess of US $1.0 billion.

Propco, which controls PRK, has, since the outset of its involvement with RHK and SODC, advanced in excess of $30 million to SODC through PRK. These advances include approximately $10 million for capital improvements to SOGB and $20 million cash to subsidize operating losses of SODC during the five years since the resort's 1998 acquisition. Accordingly, Propco has provided, or is responsible for, the total invested capital in SODC of approximately $50 million, including the BNS loans.

SODC's accumulated deficit as at December 31, 2002, as per its audited financial statement, was $26.0 million. This deficit includes losses of $4.7 and $3.5 million for the 2002 and 2001 fiscal years, respectively. The anticipated loss for fiscal 2003 is $7.0 million of which $5.0 million will be cash provided by Propco, the balance of $2.0 million being non-cash expenses.

In fact, the anticipated loss *for* the 2003 fiscal year will exceed forecasted revenues. Notwithstanding this exceedingly bleak expectation and financial history, Propco has funded all losses to date and will continue to underwrite and pay all creditors' claims.

To put another perspective on the extent *of* the loss situation, the $5.0 million cash subsidy required of Propco for 2003, will exceed the total annual payroll (including all payroll benefits and gratuities collected from guests and paid over to employees) of the entire resort operation.

B British Colonial Hilton

Propco's financial involvement in Nassau resort investments is not limited to its $50.0 million position in South Ocean Resort. Similar, albeit larger, capital investments have been made by Propco in the British Colonial Hilton hotel. This property was acquired by RHK, circa 1997, and was established with an ownership and financing structure not unlike that of SODC. The BC Hilton asset ownership is within British Colonial Development Company Limited ("BCDC"). The current ownership structure of BCDC parallels that of SODC.

Accordingly, Propco, in the absence of RHK's financial capability, is responsible for 100% of the debt of BCDC Which, as at December 31, 2002, amounted to approximately, $105.0 million. This sum includes bank loans totaling approximately $31.0 million plus direct advances from Propco, through PRK, of $74.0 million.

BCDC's audited balance sheet for the fiscal year ended December 31, 2002 shows that since re-opening to the public as the BC Hilton, the hotel has an accumulated deficit from annual operating losses of $34.0 million. For example, the losses incurred during each of the past two fiscal years by BCDC were $6.7 and $4.0 million respectively.

C Conclusions from Background and History

Propco's initial involvement with the RHK acquisitions, and in the redevelopment of SOGB and the BC Hilton, was as a lender. Upon the onset of RHK's financial difficulties, which pre-dated the completion of the construction of the BC Hilton and the full renovation of SOGB, Propco commenced to provide, and has continued to provide, full loss subsidization as well as the cash necessary for asset replacement and renewal at each hotel.

It should be remembered that the reconstruction of the British Colonial complex constituted the restoration of a failing, landmark hotel of major historical importance to The Bahamas. The structure sits as a symbol of national pride at the gateway to Nassau. It 'welcomes and constitutes Nassau's first impression for, upwards of 2.5 million cruise ship passengers entering the city's harbour annually. When RHK faltered financially under Ron Kelly, long before the completion of construction of the hotel, Propco, notwithstanding its position as a lender, assumed full financial responsibility for completion of the hotel to a 4 to 5 star level in keeping with the aspirations of the Government of the day. Since completion, Propco has maintained the physical quality of the building to the intended luxury standards despite the significant losses.

As an entity controlled by a pension fund, Propco maintains a long-term view of its investments. The company has not abandoned its vision to complete the development of the British Colonial site which still stands as an intended, although very lonely, catalyst to downtown development and renewal.

Propco has unwaveringly funded the payment of all debts of both BCDC arid SODC as required. It has paid all taxes and government levies, all utility bills of the publicly-owned utility companies amounting to millions of dollars (unlike, apparently, some other, directly competitive resorts in Nassau), and all payrolls, payroll benefits and license fees. In addition, it has made available to the general public the opportunity for local residents, individually or through organizations, to play golf at South Ocean Golf Club, at prices subsidized by the company.

Propco maintains a growing investment in the Nassau resort industry currently amounting to $155.0 million and expects this investment to Increase in the coming year through additional asset purchases and loss subsidies. It should be noted that no interest has been charged by Propco, nor capitalized into the losses of SODC and BCDC, since the formation of PRK.

The company's executives are not unaware of the competitive difficulty faced in operating resorts in the comparatively high-cost economy of The Bahamas. They are constantly seeking opportunities to implement improvements to overcome these competitive disadvantages with a view toward establishing reasonable levels of profitability at each hotel in order to give an appropriate economic value to these assets.

To properly characterize the implications of Propco's $155.0 million investment exposure in Nassau, this amount of sunk capital represents an average investment of $302,000 per-available guest room ($361,000 in BCDC and $247,000 in SODC). The hotel industry's economic rule-of-thumb indicates that at a 70% occupancy level, and without the support of extraordinary revenues such as from large scale beach activities or a casino, a hotel would have to capture an average daily room rate "'ADR") of $1 per each $1,000 of sunk or invested capital in order to earn a reasonable return on investment. This translates to a required ADR of $361 at BC Hilton and $247 at SOGB, respectively.

The year-to-date, August 31, 2003, ADR's of BC Hilton and SOGB were $129.39 and $69.10 at occupancies of 71.9% and 39.5%, respectively. Economically acceptable ADR's, based on the occupancy levels realized, would be $351 at BC Hilton and $438 at *the* SOGB. Based on actual performance, BC Hilton is 63% under the ADR required for a reasonable return on investment, while SOGB's ADR is 84% below the required average room rate.

These economic basics of hotel operations relative to investment explain why each of BC Hilton and SOGB are significantly far-removed, not only from producing annual profits (each is enduring chronic, annual losses), but also from producing any return on invested capital.

The forgoing statistics show the extent of the gulf between current financial performance and that which is required, not only to achieve a return on capital invested, but also to give the assets an economic market value which is consistent with the $155.0 million invested.

It can be readily seen that Propco faces a daunting challenge to cause the profitability of these hotels to escalate to acceptable levels.

Another factor worthy of note is that the annual losses at SOGB are not simply a function of debt service and non-cash depreciation expense. At BC Hilton, accumulated depreciation and interest expense are roughly equal to the accumulated deficit which means that BCDC is experiencing a zero return on invested capital. SOGB, on the other hand, is encountering a negative ROI on an annual basis.

It is perhaps of concern to the Government of The Bahamas that the British Colonial Hilton which, qualitatively, is arguably the second or third best hotel in New Providence, (and being operated by one of the word's most experienced hotel chains), has been unable to generate any return on investment since its inception. If this hotel's performance is a proxy for that of virtually the entire hotel industry in The Bahamas, (excluding Atlantis), then one might conclude that the recent pleas of many hotel executives in Nassau for the creation of a national tourism strategy, may not be unwarranted.

II SOGB SITUATION ANALYSIS

Within the past 18 months, the operating losses at SOGB have accelerated dramatically. As a result, Propco has been forced to become more proactive in terms of direct communications with on-site management at SOGB which has failed completely to meet budgets or to stem the tide of rising losses. Propco's owner has mandated a complete review of available options vis a vis the company's investment in SODC through PRK. As a matter of principle, Propco's directors have indicated that an endless subsidization of SOGB's operating losses is not an option and that alternatives must be considered.

The alternatives, which have been reviewed, include, at one extreme, the complete closure of the resort and abandonment of the investment, to the other extreme of injecting a mass of capital sufficient to build out the resort's physical potential including 500+ hotel rooms, a casino, spa and marina. The latter option is outside Propco's investment mandate.

Accordingly, the firm of PriceWaterhouseCoopers (PWC),has been engaged to conduct a search, on behalf of Propco, for an outright purchaser of SODC (and BCDC) or a joint venture partner which would introduce new development capital thereby allowing Propco to resume its intended role as a lender with a carried equity interest,

PWC has compiled an extensive list of prospective worldwide hotel industry investors and is presently progressing through the interview and sales processes. Even upon successful completion of this process, the ultimate growth scenario at SOGB will require several years.

Therefore, it has been decided that, in the meantime, the operation must be "right-sized" by reducing the number of guest rooms being maintained and by restructuring resort operations in a variety of ways leading to the reduction of operating costs and an increase of revenues. Although on-site management has attempted to improve operations, the actual outcome of its efforts during the current fiscal year has been quite the opposite of what was required. Although guest volume has been increased by 40% year-to-date, August 31, 2003 as compared to the same period in 2002, the resort's operating losses for the eight months ended August 31, 2003 are 40% higher than during the comparable period of 2002.

III RIGHT-SIZING PROGRAM

It has been recognized that the prime asset of SODC, as a commercial resort operation, is its golf course lease inasmuch as the golf course is regarded as the best and most complete test of golf in Nassau, This attribute differentiates, and potentially elevates, the entire resort complex competitively, subject to the completion of significant golf course modernization and rehabilitation. Propco has commenced the work necessary to improve the conditioning of the course, has allocated and approved in excess of $5.0 million in capital spending for golf course modernization during the next 15 months and will soon be seeking approval of its plans by NPDC, the golf course landlord, for implementation of the capital improvement plan.

In order to eliminate, or reduce significantly, the perennial operating losses at SOGB, it is necessary to "mothball" the 94 guestrooms contained within the resort's main building complex. Historical occupancies indicate that the 129 beach front guest rooms and suites have sufficient capacity to accommodate volumes of guests equal to the highest, recorded monthly occupancies experienced within the past three years. Thus, the 94 lower quality and smaller "Gardenview" rooms situated within the main lodge complex are expendable for the foreseeable future. The plan of closure requires that although these rooms must be taken out of service, they will be maintained physically in a clean and functional (albeit unfurnished) manner conducive to ultimate renovation or conversion into much higher quality suites.

No other guest service facilities are to be eliminated. However, various changes and efficiencies must be introduced including replacement of several senior and middle management personnel as well as staff reductions in all operating departments except golf operations. These staff reductions are estimated at from 65 to 80 persons out of *a* total, current staff complement of 170 employees. The precise staff reduction numbers cannot be known until implementation of the right-sizing plan has commenced

The right-sizing plan is not confined to cost cutting only. In addition to the $5.0 million to be spent on golf course capital improvements, it is also proposed that $3.0 million in capital will be expended to improve the non-golf resort facilities. Also, from $750,000 to $1.2 million will be spent on severance and reorganization fees to improve the quality of operations and guest services.

As noted above, Propco is currently responsible for $50.0 million in sunk capital which has been invested to date in SODC and upon which, no returns are being realized. When the current right-sizing plan has been fully implemented, circa October 2004, Propco's Investment in capital improvements and loss subsidization will have escalated to approximately $64.0 million. Thus, what might be viewed as a retrograde and value-impairing step of reducing the number of personnel and available guest rooms at SOGB is regarded by the investors as a necessary measure for improving profitability and, in turn, the ultimate value of the assets.

It is only through the improvement of the golf course, beach front, tennis club, dining rooms, bars and guest rooms, in tandem with, an elevation of the quality of guest service, that SOGB can be expected to increase its market appeal. Without such improvements, the reopening of the Gardenview guest rooms and the possible restoration of the current levels of employment at SOGB will not occur.

In summary, continuation of SOGB as a 2-star facility is untenable. The perceived market value of the guest experience must be elevated to a 4-star level in order to command the ADR required to generate profitability.

IV PROPCO'S REQUEST OF GOVERNMENT

As noted above, even with the introduction by PWC of a purchaser or JV partner in SOGB, the right-sizing plan must be implemented. Before exercising a considered fallback position involving only golf course improvements and residential development of the real estate owned by SODC, Propco is demonstrating its willingness to invest additional capital in SOGB in a plan designed to improve all facets of resort operations,

The assistance requested by Propco of Government is its moral support of Propco's right-sizing plan and the preservation or reconfirmation of the various "entitlements" currently believed to be held by SODC including:

1. the prospective casino license
2. the willingness to approve the relocation of the public road which currently bisects the resort lands and represents a demonstrated threat to the security of golfers and to the safety of resort guests
3. the availability of duty exemptions on imported assets which must be purchased to effect the planned capital improvements, and
4. the cooperation of the Immigration Department in approving work permit applications required for non-Bahamian resort and golf course operations personnel essential to the right-sizing operation but not otherwise available in The Bahamas.

APPENDICES

For the convenience of readers of this report, several appendices are attached which provide financial information supporting the financial condition of SODC and detailing the assumptions underlying the right-sizing action plan. These include:

1. SODC Audited Financial Statements as at December 31, 2002

2. Cash Flow Projection, September 10 to December 31, 2003
3. Cash Flow Projection, 2004
4. Golf Course Rehabilitation capital Budget
5. Resort Upgrading Capital Budget

Respectfully submitted on behalf of PRK Holdings Ltd. by:

Warren Adamson
President-Caribbean Hotel Division
PRK Holdings Ltd.