

Halcon Rojo Business Park
Temecula, California

Business Campus
with
Professional Offices

STUDY OF INVESTMENT RETURNS
3 buildings sold at end of construction

INVESTMENT
&
LOAN REQUEST

INVESTMENT
\$4,460,000

CONSTRUCTION LOAN
\$12,939,000

A Project By
Covenant Development, Inc.

29995 Technology Drive
Murrieta, CA 92563
951 839-9040

Halcon Rojo Business Park Business Campus

Investor Returns for Added Equity

For Discussion Only

January 17, 2008

What follows is an outline of the Added Equity and the returns directly associated with and for the investment and for the investment:

A.	Investment Request for Added Equity	\$ 4,459,000
	Investor Participation: 50%	
	Use of Added Equity:	
	Payoff Land Loan	\$ 3,500,000
	Pay down Interim (Gap Loan) Line of Credit	\$ 300,000
	Continue with Engineering and Project Costs	\$ 659,000
B.	Total Equity Provided:	
	Diki	\$ 3,500,000
	Invited Investor	<u>\$ 4,459,000</u>
	Total Equity	\$ 7,959,000
	Less Required Equity	<u>\$ 6,967,000</u>
	Surplus Equity at time of Construction Loan Funding	<u>\$ 992,000</u>
C.	Equity at start of Construction:	\$ 3,467,000
D.	Preferred Return	
	8% for 12 months	\$ 4,459,000 \$ 356,720
	8% for 12 months	\$ 3,467,408 <u>\$ 277,393</u>
		<u>\$ 634,000</u>
E.	Pay Off at Permanent Loan	\$ 4,101,000
F.	Earnings Recap:	
	Preferred Return	\$ 634,000
	Sale Proceeds after Pref Return	<u>\$ 1,003,230</u>
	Net Return	\$ 1,637,230
	Return on Total Investment	36.7%
	Return on Net Investment	47.2%

G. IRR Study: Assume Sale Towards end of Year 3 based on stabilized operations:

	Year	<u>1</u>	<u>2</u>	<u>3</u>
Investment		\$ (4,459,000)		
Construction Loan Pay Down			\$ 992,000	
Preferred Return				\$ 634,000
Remaining Investment				\$ 3,467,000
Sale Proceeds		<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,003,230</u>
Total Returns:		\$ (4,459,000)	\$ 992,000	\$ 5,104,230
Internal Rate of Return			36.7%	18.7%

Halcon Rojo Business Park Business Campus

Loans & Use of Funds

For Discussion Only

January 17, 2008

A. An Interim (Gap) Loan and Added Equity are used for this project:

Gap Loan: To bridge the costs between today and funding of Investment Request.
Created by the original investor as a Line of Credit
Exit strategy is to pay this off from the proceeds of the Added Equity

Investment Request (Added Equity) \$4.46 Million
Proceeds will be used to payoff the balance of the Land Loan and to continue with the engineering and planning and permitting work of the project.
Exit Strategy is to pay a portion the investment from proceeds of the Construction Loan and the balance from proceeds of a Permanent Loan.

Investor Participation 50% (Covenant is replaced by this Investor and continues as Development Project Manager for appropriate fees)

B. Construction Loan and Equity:

Source of Funds

Equity 1	Diki, Inc	17.6%	\$ 3,500,000
Equity 2	Invited Investor	22.4%	\$ 4,459,000
	Partial Pay Down of Investment	-5.0%	\$ (992,000)
	Total Equity to Construction Loan	35.0%	\$ 6,967,000
Construction Loan		<u>65.0%</u>	<u>\$ 12,939,000</u>
Total Project Cost		100.0%	\$ 19,906,000
Less Tenant Improvements not spent			<u>\$ (1,641,000)</u>
Corrected Total Project Cost in event of Sell all buildings			\$ 18,265,000

Exit for Construction Loan and Invited Investor:

Proceeds of Sale:	\$ 21,333,000
Less Commission	\$ (426,660)
Payoff of Construction Loan:	\$ (12,939,000)
Adjust for Tenant Improvement - no cost	\$ 1,641,000
Payoff of Invited Investor:	\$ (3,467,000)
Preferred Return	\$ (634,113)
Payoff Diki Investment	<u>\$ (3,500,000)</u>
Net Sale Proceeds Before Split	\$ 2,007,227

C. End Position for Diki, Inc.:

Payoff of Investment	\$ 3,500,000
Profit from sale	<u>\$ 1,003,614</u>
Total Investment & Return	\$ 4,503,614

HALCON ROJO
Project Analysis

January 17, 2008

75/25

			Acquisition & Preconstruction			Construction
		Budget	Paid	Incurred / Planned	Total before Construction	Balance
	Gross Land Aquare Footage	233,917				
	Percentage of Gross Sq. Ft.	100.00%				
	Building Area	65,640				
Land Costs	Land	\$ 5,670,000	5,670,000		5,670,000	\$ -
	Buyout Fee	\$ 100,000	100,000		100,000	\$ -
	Brokerage Fee	\$ 157,500	157,500		157,500	\$ -
	Pre-Development Costs	\$ 250,000	250,000		250,000	\$ -
	COE Costs (Taxes & Closing)	\$ 33,552	33,552		33,552	\$ -
	Subtotal Land:	\$ 6,211,052	6,211,052	-	6,211,052	\$ -
Hard Costs						
	Site Improvement					
	Off-Site & On-Site	\$ 1,643,212		-	-	\$ 1,643,212
	Construction Supervision	\$ 48,000		-	-	\$ 48,000
	Monument Signs	\$ 25,000		-	-	\$ 25,000
	Parking Lot, Monument & Landscape Lights	\$ 75,000		-	-	\$ 75,000
	Contingency/Misc. 70%	\$ 125,385		5,000	5,000	\$ 120,385
	Total Site Work	\$ 1,916,596	-	5,000	5,000	\$ 1,911,596
Construction						
	Building Shell (Warm) \$ /sf	\$ 75.25 \$ 4,939,410				\$ 4,939,410
	Tenant Improvements \$	\$ 25.00 \$ 1,641,000				\$ 1,641,000
	Executive Suites Tenant Improvements \$	\$ 15.00 147,690				\$ 147,690
	Contingency 7%	\$ 460,629				\$ 460,629
	Total Building & Tenant Improvement	\$ 7,188,729	-	-	-	\$ 7,188,729
Soft Costs	Architect & Engineering	\$ 134,300	18,434	72,000	90,434	\$ 43,866
	Fire Sprinklers	\$ 12,000		12,000	12,000	\$ -
	Soils + Phase I	\$ 57,700		2,367	2,367	\$ 55,333
	Malkoff	\$ 6,000		5,026	5,026	\$ 974
	Traffic & EIR	\$ 80,000		77,500	77,500	\$ 2,500
	Civil Engineering	\$ 110,000	50,940	59,060	110,000	\$ -
	Condo Map/ Engineering & Legal	\$ 65,000		15,000	15,000	\$ 50,000
	Landscape Design Fee	\$ 20,000		9,332	9,332	\$ 10,668
	Permits and Fees	\$ 677,000	17,720	100,000	117,720	\$ 559,280
	Legal & Accounting	\$ 45,000		15,995	15,995	\$ 29,005
	Property Taxes (pending reassessment)	\$ 97,500		40,660	40,660	\$ 56,840
	Insurance	\$ 90,000				\$ 90,000
	Marketing/Advertising	\$ 45,000				\$ 45,000
	Printing & Reproduction	\$ 30,000		13,062	13,062	\$ 16,938
	Construction Supervision	\$ 160,000				\$ 160,000
	CDI G&A 4%	\$ 710,203	284,167	198,000	482,167	\$ 228,036
	Indirects Contingency 10%	\$ 257,470	22,159	42,200	64,359	\$ 193,111
	Equity Fee 4%	\$ 178,360		178,360	178,360	\$ -
	Leasing Commission: 5% for 5 yrs. 5%	\$ 373,360				\$ 373,360
	Total Soft Costs	\$ 3,148,893	393,420	840,562	1,233,982	\$ 1,914,911
Subtotal Land, Hard & Soft Costs:		\$ 18,465,270	6,604,472	845,562	7,450,034	11,015,236
Finance Costs						
	Land Loan (Original Mission Oaks Land Loan with 6 month Extension)					
	Land Loan Interest	\$ 320,532	320,532	-	320,532	\$ -
	Land Loan - Fee 1.25%	\$ 43,750	43,750	-	43,750	\$ -
	Loan Extension Fee 0.50%	\$ 17,500		17,500	17,500	\$ -
	Loan Extension Interest Payments 3 months	\$ 80,133		80,133	80,133	\$ -
Gap Loan 1						
	Interest reserve	\$ 7,116		7,116	7,116	\$ -
	Points	\$ 8,539		8,539	8,539	\$ -
Construction Loan						
	Interest reserve Const	\$ 614,166				\$ 614,166
	Interest reserve Lease-Up	\$ -				\$ -
	Loan Fees	\$ 329,874				\$ 329,874
	Legal, Title, Misc Documents	\$ 20,000				\$ 20,000
	Subtotal Finance Costs:	\$ 1,441,610	364,282	113,288	477,570	\$ 964,040
	Total Cost	\$ 19,906,881	6,968,754	958,850	7,927,604	11,979,277
	Equity		3,468,754			
	Interim Loan		3,500,000	958,850	4,458,850	

HALCON ROJO

Equity Requirement						
Total Equity required:	35%	\$ 6,967,408	Net Equity to Construction Loan			
Source of Equity						
Diki		\$ 3,500,000				
Invited Investor		\$ 4,459,000	Preferred Interes	8.0%	for 12 months	\$ 356,720
Invited Investor - Net after Construction Loan Pay Down		\$ 3,467,408	Preferred Interes	8.0%	for 12 months	\$ 277,393
Loan Study:						
Gap Loan 1 (Line of Credit)		\$ 300,000	Draw/Paydown Factor			
Interest=	10.0%		Principle	\$ 284,633	100%	
Points=	3.0%		Interest	\$ 7,116		
Term=	3 months		Points	\$ 8,539		
			Total Loan	\$ 300,288		
Investment Request						
		\$ 4,459,000	Principle	\$ 4,459,000	100%	
Construction Loan						
Points=	1.25%		Principle	\$ 11,995,432		
Brokerage=	1.50%		Points	\$ 149,943		
Interest=	8.00%			\$ 179,931		
Const Term=	12 months		Interest - Const	\$ 614,166	64%	
Lease/Sale Period =	- months		Loan Amount =	\$ 12,939,472		
			Interest	-	50%	
			Total Loan	\$ 12,939,472		
Source of Funds:						
			Equity	Added Equity	Cash	
Equity		3,500,000	3,468,754		31,246	3,500,000
Land Loan		3,500,000		3,500,000		3,500,000
Gap Loan 1		300,000		300,000		300,000
Added Equity		4,459,000		4,459,000		4,459,000
Payoff Gap Loan 1		(300,000)		(300,000)		(300,000)
Paydown Land from Gap Loan 2		(3,500,000)		(3,500,000)		(3,500,000)
Construction Loan		12,939,472				-
Pay Off Portion of Added Equity		(991,592)				(991,592)
Interest Income		6,315	-		6,315	6,315
		19,913,196	3,468,754	4,459,000	37,561	6,973,723
Cost		19,906,881				Equity 6,967,408
Over/(Under)		6,315				Over/(Under) 6,315
Sale Proceeds						
		Buildings 1, 2 & 3				
Sale Price: Per SF		\$325.00				
Excludes full T.I. Allowance						
Total Value		\$21,333,000				
Cost Less TI Allowance		\$ (18,265,881)				
Sales Comm & Costs:	2.0%	(426,660)				
Sale Proceeds		2,640,459				
Profit		2,640,459				