

9th October 2008

Twin Towns Services Club
P O BOX 369
TWEED HEADS 2485

10 OCT 2008

Attention: Mr Rob Smith

Dear Sir

Re: **PROPOSED EXTENSIONS / REBURBISHMENT OF CLUB**

We initially were involved in the proposed project in August 2006, at which time an indicative construction budget was prepared.

The budget of \$25.0m excluded GST, fitout costs, professional fees, disruption and loss of income. Since that time, there has been a number of issues that have impacted significantly on the project.

1. ESCALATION

Through 2006/2007 the building market (in particular, SE Queensland and Northern NSW) has experienced one of the most prolonged building booms. Extreme shortages of skilled tradesmen, combined with a market place unable to satisfy the demand on materials and labour, has produced an increase in building costs of approximately 10% to 12% in 2006 and 8% to 10% in 2007. In 2008 construction costs have continued to escalate, especially due to the resource boom. Increase in steel supply has been more than 100% in the last 12 months. Escalation rates for 2008 are tracking at approximately 9%.

2. RESOURCE BOOM

The boom in resources has led to an unprecedented demand for labour in areas such as Queensland and WA. The wages offered to attract construction labour to these areas are well above the norm. This has further fuelled a shortage of labour locally as workers have sought higher salaries in significant numbers in mining areas.

This is also combined with government expenditure on infrastructure projects (roads, water etc) which has further caused escalating construction prices.

3. ESD

As ecologically sustainable development becomes more accepted (i.e. water saving, green rated buildings), this adds costs to construction to include for these initiatives. To comply with the latest Building Code of Australia and Section J in particular, building costs have increased.

4. DETAILED DESIGN

As the design has become more detailed, we have identified some issues with regard to building services and some structural changes to the existing structure that we were unaware of in 2006. This again has added cost to the original budget.

Unfortunately the consequence of these influences on construction costs has resulted in a significant increase in budget from that originally contemplated in 2006. The increase in cost is in the order of 33%, which equates to a current budget for Construction only of \$33.0million.

Should you have any queries regarding the above, please do not hesitate to call the writer.

Yours faithfully

GMP MANAGEMENT



IAN W. PERT
Director