



Inaugural Sustainability Report June 2007



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Introduction

Sustainable development, as defined by the United Nations' Brundtland Commission, is "Meeting the needs of the present generation without sacrificing the ability of future generations to meet their own needs." Simply put, sustainable development encompasses three primary areas: economic, social and ecological. Economic sustainability means that the development creates jobs and economic opportunities and is itself economically viable. Social sustainability requires that a development improves the health and welfare of a region, while at the same respecting and embracing its unique culture. And ecological sustainability means preserving and enhancing the ecosystem locally and globally. It is where these objectives overlap and reinforce each other that true sustainability exists. We are determined to build Loreto Bay as a conscious and positive part of the global ecosystem and the local community.

In 2002 the Trust for Sustainable Development was approached by the National Tourism Development Foundation (FONATUR) of Mexico to redevelop the Loreto Bay property in a sustainable way. Most important to the Mexican government is that Loreto Bay becomes the economic engine to bring prosperity to and alleviate poverty in the central Baja region. While we take that responsibility seriously, we believe that will best be achieved by balancing economic development with ecological and social responsibility; a truly sustainable approach which has the full support of the federal, state and local governments.

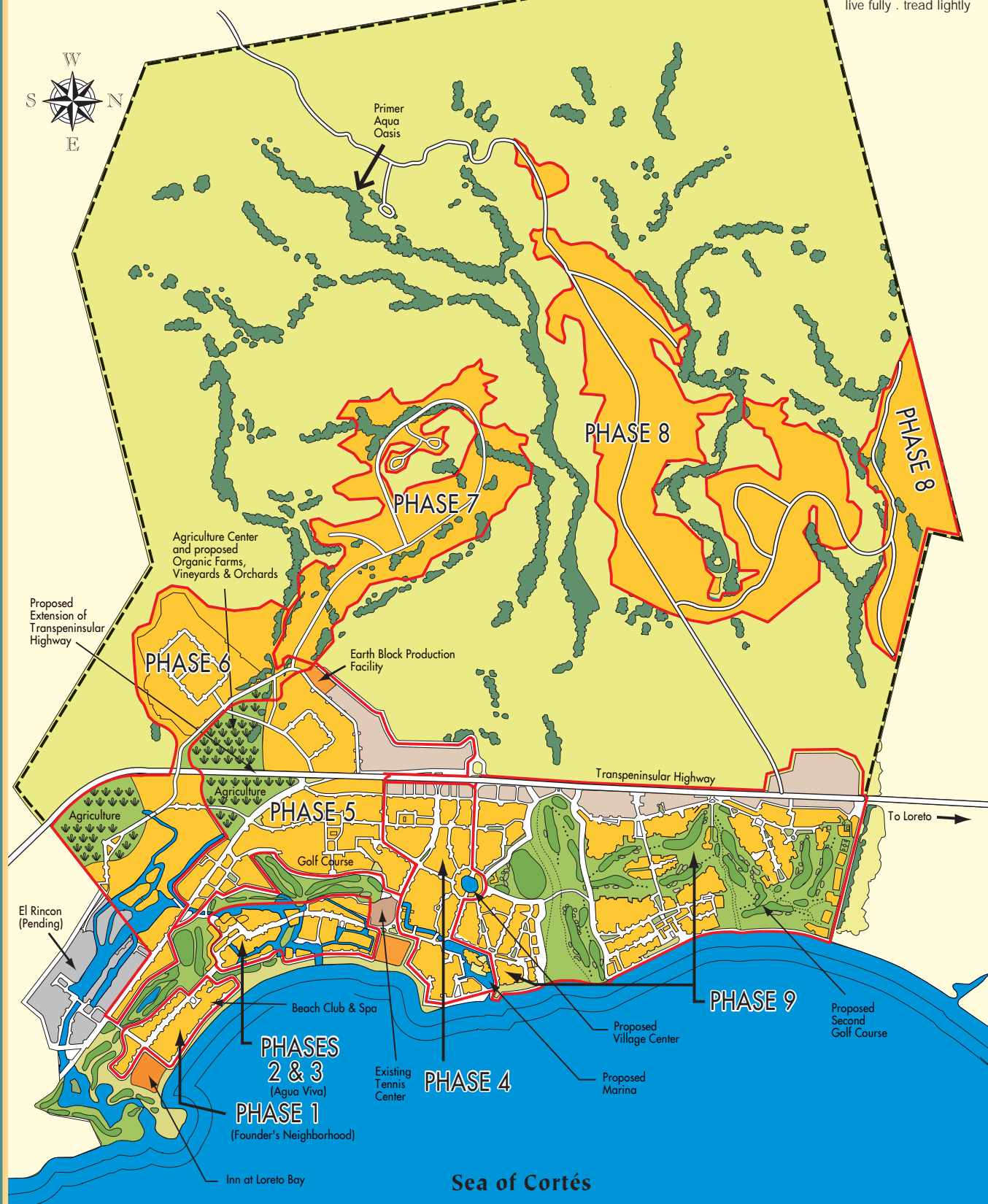
Sustainability priorities are energy and water conservation, habitat protection and enhancement, reduction of solid waste materials and prevention of air pollution. Economic opportunities and development are addressed through housing, planning and training as well as the creation of new jobs and local business enterprises. Social sustainability occurs as we help fund the local medical facility and support education, recreation, culture, health and wellness and business enterprise capacity building in Loreto. We provide 1% of gross real estate sales in perpetuity to an independent foundation which supports community social services and NGOs (those who know the local conditions best) in their social and ecological missions.

In January 2004, when our pioneer team set up our first small office on site in Nopolo, the sustainability vision for Loreto Bay was a distant dream. We have come a long way, as this report shows. We have faced challenges and experienced remarkable successes, and we still have a long way to go. But the start-up years are over. We are a tri-national company with offices in Canada, USA and Mexico. We have sold over \$300 million worth of homes and dedicated several million dollars to our sustainability program. Most important, we have local and international support for the dream of seeing humans become positive contributors to the local ecosystem. We welcome your suggestions and your assistance.

David Butterfield - Chairman



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Loreto Bay Master Plan



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Vision

At Loreto Bay we imagine a place where day by day:

- The air is cleaner
- The water is purer
- The people are healthier
- Life is more abundant
- We are enriched by the culture



We see ourselves on a journey, seeking to learn, working with partners, sharing our learning through dialogue, and growing the place we all imagine.

Mission

To demonstrate that humans can play a regenerative role in the eco-system, while creating positive social change and bringing economic prosperity to Central Baja California.

Commitments

To protect and enhance the environment, we will:

- Produce more energy from renewable resources than we consume.
- Harvest or produce more potable water than we use.
- Facilitate the creation of more biodiversity, more biomass and more habitat than existed when we started.

To improve social welfare, we will:

- Implement a Regional Affordable Housing Strategy to ensure that people who work at Loreto Bay are able to afford to live in the area.
- Support the development of a full service medical center in Loreto.
- Dedicate one percent of the gross proceeds of all sales and re-sales, in perpetuity, to the Loreto Bay Foundation to assist with local social and community issues.

To ensure economic growth, we will:

- Create significant new jobs in Loreto.
- Enhance the local economy through responsible tourism and new business development.
- Build a successful community that delivers a healthy rate of return to our investors, home owners, and partners.

Executive Summary

The Inaugural Sustainability Report is the first official report summarizing our progress on sustainability initiatives. It was prepared by David Veniot, Vice President for Sustainability. The report puts into perspective the importance and effect of the Loreto Bay development with respect to global warming and climate change. In a world where residential and commercial development contributes immensely to greenhouse gas emissions, our project is estimated to offset a minimum of 140,000 tons of emissions annually by the time it is completed, with an additional 43,000 tons in prevented CO2 emissions due to reduced use of cement. Based on the US Environmental Protection Agency's calculations, this is equivalent to removing 25,000 cars from the planet every year, with an additional one time elimination of 7500 cars.

The following are highlights of our program's achievements.



Energy Efficient Construction – Our homes and buildings are constructed using a combination of compressed earth block for interior and garden walls and a new technology called Perform Wall for exterior walls. Earth blocks (www.earthblockinc.com) are made on site from local clay and sand, and due to their thermal mass, rooms stay cooler in summer and warmer in winter. Perform Wall (www.performwall.com) is a highly energy-efficient molded panel made from cement mixed with recycled Styrofoam beads which has an R-40 insulation rating. This hybrid construction system uses significantly less concrete than conventional building methods in Mexico. In terms of embodied energy for cement production, the estimated average savings is 7.2 tons of CO2 per home, or approximately 43,000 tons of CO2 by build out.

Energy Efficient Design – Our master plan is designed as a series of new urbanist villages, where gas powered vehicles are prohibited. This “no car” policy will save 11,400 tons of CO2 emissions per year. Our courtyard homes are designed for natural cooling using plant shading, fountains and dome vented cupolas. The energy efficient appliances which we are installing in the homes will save a total of 11.4 gigawatt hours per year compared to standard appliances, which is the equivalent of 7200 tons of CO2 emissions. And using compact fluorescent lights instead of incandescent bulbs throughout the development will save over 20,000 tons of CO2 per year.

Wind Energy – All preliminary research, planning and development has been done in preparation for the construction of a first-phase 20 Megawatt wind farm. By build-out we will have a 60 Megawatt utility which will offset 66,000 tons of CO2 per year.

Solar Energy – Solar Hot Water is provided as an option in the Founders Village, and is standard in all other development phases. This will save 10 Gigawatts of electricity and 6300 tons of carbon emissions annually.

Water Conservation – It is our intent to conserve as much of the regional ground water as possible. Therefore we are moving forward with plans to build an eco benign desalination utility, which will in the long term save approximately 400 million gallons of potable ground water per year in reserve for the local region. We are also using saline tolerant plants in our village and golf course landscaping and on the organic farm, and using reclaimed waste water and brackish water for irrigation. It is estimated that by irrigating in this way we will save an additional 446 million gallons of potable water per year.



Habitat Preservation and Enhancement – In order to facilitate the creation of more biodiversity, more biomass and more habitat, we are active in the following areas:



- *Estuary restoration* – We have begun digging the canals for 5 miles of restored wetlands and have 7,500 mangrove plants in our nursery, making it one of the largest in North America. Our new estuary will not only provide habitat for a variety of native species, it will contribute substantially to the marine food chain and serve to sequester approximately 1100 tons of carbon annually.

- *Watershed restoration* – All preliminary hydrology investigation has been done to determine strategic locations to slow down rainfall runoff in the hills, which will improve soil health and increase water table levels. A restored watershed means more abundant flora and fauna.
- *Waste management* – In a country where construction waste recycling is not common, we have established an aggressive waste management program, and to date have managed to recycle 74% of all construction waste by volume, including toxic materials. Our household waste is separated and all recyclables join the waste management stream. Regarding organic waste and composting, we have contracted International Composting Corporation to deliver and set up by 2008 a state-of-the-art in-vessel system with capacity for 30-tons per day, which would prevent landfill methane production equivalent to 30,000 tons of CO2 per year.
- *Marine Conservation* – We are building on the shores of the Loreto Bay National Marine Park. We have dedicated significant time, manpower and funds to the understanding and protection of this critical ecosystem. This includes direct participation in the preparation of a best practices study for Baja California entitled “Sustainable Coastal Development Standards”, the donation of over \$230,000 in grants by the Loreto Bay Foundation, ongoing sponsorship of an international sea turtle conference, and the adoption of eco-safe products and materials that might otherwise pollute the soil, ground water and marine environment. As well, and separate from the Foundation grants, our company has donated \$25,000 to the Laguna San Ignacio Conservation Program to protect coastal wetlands in an area vital to the birthing and nursing of grey whales.



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- **Eco safe products & materials** – We are using organic fertilizers and insecticides, and low-toxicity pesticides. Our industrial cleaning products are non-toxic and biodegradable, and guest soaps, shampoos and lotions at the Inn at Loreto Bay are in the process of being converted as the Inn gets a “green” makeover. Paints are low-VOC LEED compliant latex, and stains are natural oil, low-VOC oil and all-natural Shellac. Plywood is urea-formaldehyde free and wood glue is low-VOC. Cedar is Forest Stewardship Council certified.

Agriculture & Landscaping – We are producing 3 acres of organic food, with a long-term plan for 100 acres. Our landscape nursery is abundant with saline, tropical, native and turf plants. 25% of the plants used in village landscaping are rescued from the site prior to land clearing and then replanted in the village courtyards or along pedestrian streets.

Air Travel Carbon Offsets – In 2006 we offset over 200 tons of CO2 emissions, 165 tons of which was for all employee air travel, via calculated donations to the Climate Trust.



Community Support – To support and fund local projects in the community of Loreto and in the Loreto Bay National Marine Park, our company donates 1% of all sales and re-sales in perpetuity to the Loreto Bay Foundation. To date, sales are in excess of \$315 million, equating to over \$3 million that the Foundation will receive incrementally as home payments are received by the company. The total amount received thus far is \$995,119.30. Grants awarded in 2006 exceeded \$600,000. As well, we have committed to raise \$800,000 to support the development of a public full service medical center in Loreto. To date we have donated \$360,000, raised through special events and campaigns in the USA and Mexico.



Economy – To date we have created 400 permanent full-time jobs in Loreto, many of which have included skills development and on-the-job training. We also employ over 900 construction workers. By the end of the project we anticipate creating 6000 permanent jobs. As well, we have significantly enhanced local business development by spending over \$4 million on local restaurants, transportation and hotels during sales events, and by promoting tourism in Loreto through \$12 million spent in marketing. We have also been pivotal in facilitating increased airline flights to Loreto through our relations with Alaska Air, Continental and Delta. In terms of revenue to the region, Loreto Bay spends a minimum of \$25 million annually in Baja California Sur, \$10 million of which stays in Loreto.

Environmental Sustainability

Energy Conservation

New Urbanist Villages – Our master plan is designed in the “new urbanist” style, in which the narrow streets are free of gas-powered air polluting vehicles and where the villages are more conducive to human interaction and wellness. The normal modes of transportation are foot traffic, bicycles and electric vehicles. Using the Environmental Protection Agency’s average of 5.7 tons of CO₂ per car per year, it is estimated that when completed, the Villages of Loreto Bay’s no-car design will save 11,400 tons of carbon emissions per year.



Our Founders Village is about 65% complete, with 120 homes now occupied and 200 homes under construction. The two Posada condominium buildings have just been started and each has close to 20,000 square feet of commercial retail space. The Hacienda del Porton, which is a little further along, has about 28,000 square feet of retail space.

Construction Materials – Until late in 2006 we had been building our Village Home wall system with a combination of earth block, concrete castillos (structural columns) and concrete block. Given that concrete’s production is responsible for up to 7% of the earth’s greenhouse gas emissions, we sought a more effective method.

Perform Wall – In December we adopted a new hybrid system which provides for the reduction or elimination of concrete block by using a product called “Perform Wall” as the exterior wall material. Earth block is still being used for interior and garden walls, which serves to preserve artistic integrity, but more importantly takes advantage of the thermal efficiency of earth block, maintaining warm or cool temperatures indoors as seasonally desired.

Perform Wall consists of 100% post-consumer recycled Styrofoam, ground and mixed with cement, which is then formed into a mould. The moulds are laid up like giant Lego blocks and steel rods are placed in the moulds, both horizontally and vertically.

The moulds are then filled with concrete. The result is a 14-inch thick wall with an internal grid of reinforced concrete which has superior structural strength and over six inches of insulation.

Due to its thickness and plaster

exterior, its appearance is indistinguishable from earth block in the completed building.



The benefits of Perform Wall are substantial.

- The R-40 value of Perform Wall means that exceptional insulation quality will reduce air conditioning loads and corresponding electrical costs by approximately 50% on an annual basis compared to conventional buildings.
- Since Perform Wall carries the structural loads of the building, we can continue to use earth block in some places where we previously used concrete block.
- By moving earth block to interior walls we keep the thermal mass effect substantially intact. (It should be noted that the magic of adobe's ability to "breathe" will be diminished in this sense, which is why we also have elected to go with a new "holey" adobe -- blocks with internal holes, like clay bricks. This will provide the option of exposing some adobe as a feature wall for those who may want it).
- Perform Wall requires significantly less plaster than adobe walls. Because Perform Wall is lighter, and because we will eliminate the heavy adobe on the second floor, the overall structure will be lighter, thus saving us additional concrete in the structure while improving earthquake resistance. Weight is an issue, especially above the first floor in earthquake zones.
- While Perform Wall is transported from further away, the overall embodied energy in the buildings will be reduced as a result of using less concrete and plaster. Transporting of concrete block also will be reduced.
- All perform wall waste is returned to the plant in Mexicali and recycled.
- There is no off-gassing during installation, use and maintenance.
- It is structurally strong, sound-proof, resistant to fire, wind, mildew and fungus including black mold.
- Shifting to Perform Wall has allowed us to step up production significantly, without having to increase the number of workers brought in from outside the Baja region, a substantial social sustainability benefit.

Earth Blocks – Approximately 30% of the construction material in our homes and buildings (interior and garden walls) is compressed earth block, made on-site using local sand, clay and water, with small amounts of lime or cement as a binder. The earth block walls are thermally efficient, reducing the energy required for air conditioners and heaters to maintain comfortable individual room temperatures. We have established our own compressed earth block manufacturing plant on site with a production capacity of 9,000 blocks per day, making it the largest of its kind in North America.



The estimated average savings per home is 20.74 cubic meters or 114,070 lbs of concrete, 14% of which is cement. That's about 16,000 lbs or 8 tons of cement. The industry standard in terms of greenhouse gas emissions for cement production is 1 ton of cement = 0.9 tons of CO₂. Therefore we are saving 7.2 tons of CO₂ on average per home in embodied energy for cement production. Over the lifetime of the project, that's roughly 43,000 tons of CO₂ emissions. (At the EPA's standard of 1 car = 5.7 tons of CO₂ per year, that's about 7500 cars removed from the planet).

Home Design – The design of the homes, with inner courtyards, ventilating light wells, fountains, and dome vented kitchen cupolas, contributes to natural cooling, thereby reducing the need for excessive air conditioning. Warm air passes over the exterior walls, is cooled by the courtyard fountain and plant life,

and then is drawn through the house and out the cupola in a continuous flow. Homes are shaded by cissus vines on outside walls and Palo Blanca, Mesquite, citrus and Palm trees in the courtyards.

Appliances and Fixtures – Until recently not all appliances and fixtures installed in the homes were energy efficient. This was due primarily to procurement challenges in Mexico. However, in 2006 significant progress has been made, as evidenced by the energy use comparison of our appliances versus standard issue.



Appliance	Standard	Loreto Bay
Range	750 kWh/year	444 kWh/year (saves 40%)
Refrigerator	527 kWh/year	407 kWh/year (saves 23%)
Dishwasher	623 kWh/year	315 kWh/year (saves 50%)
Clothes Washer	876 kWh/year	392 kWh/year (saves 55%)
Clothes Dryer	909 kWh/year	225kWh/year *(in transition) (saves 75%)

The energy conserved by 6000 homes will be 11,406,000 kWh/year, which translates to a savings of approximately 7200 tons of CO2 every year once Loreto Bay is fully built out.

All existing light bulbs will be changed to compact fluorescent lights, and all new homes will have CFL's installed. CFL's use about 66% less energy than incandescent bulbs, last 10 times longer and produce 70% less heat, which contributes to lower cooling costs. Replacing one incandescent bulb with a compact fluorescent light saves about 1/2 ton of CO2 emissions over the life of the product, which is an average of 5 years. Our project with 6000 homes plus commercial buildings and exterior lights is estimated to require over 200,000 CFL's. This will save a minimum 100,000 tons of harmful CO2 emissions every 5 years, or 20,000 tons per year.



LEED – Designing and planning is underway for the Beach Club to become a LEED Platinum building, exemplifying the highest standard of energy and water efficiency, indoor air quality and environmental responsibility. BuildGreen Developments Inc., one of North America's most respected LEED consulting firms, has been contracted as the commissioning agent for the LEED auditing process.



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The Beach Club has been registered for certification with the US Green Building Council. Peter Clark, the Sustainability Technical Director, is a LEED accredited architect and is closely involved in management of this project.

To further the development of a LEED standard for Mexico, Loreto Bay was a founding sponsor of the Mexican Green Building Council and continues to work closely with them on sustainable guidelines for affordable housing.



Loreto Bay Beach Club - Rendering by Ayrie Cunliff

Renewable Energy Production

Wind Energy – All of the electricity used at Loreto Bay will be generated by wind. Planning, research and development for an initial 20 megawatt wind farm (10 turbines, each with 2 MW capacity) has been underway for the past two years, and provisions have been made to expand to 60 MW over time as required. A 20 MW facility, operating at an average 20% wind factor, will generate approximately 35 GWh per year. By the end of 2008 Loreto Bay's load requirement will be about 21 GWh/yr. By build-out it will be over 80 GWh/yr. To satisfy our energy requirements, and to provide the main municipalities in Baja California Sur with our surplus electricity as is planned, means that a 60 MW facility, estimated to generate 105 GWh/yr at 20% wind factor, will be necessary by 2018. To put this in perspective relative to greenhouse gases and global warming, our wind utility will offset about 66,000 tons of carbon emissions annually, the equivalent produced by approximately 11,600 cars.



Econergy International and Sustainable Resources Inc. have been selected by Loreto Bay Company to develop, finance, build and operate the wind utility. Econergy is a world leader in Carbon Credit generation and the General Manager of a \$20 million clean energy investment fund in Latin America. Econergy is currently developing over 200 MW of clean energy projects including two 20 MW wind farms in Mexico, a 50 MW wind farm in Costa Rica, and a 15 MW wind farm in Brazil.

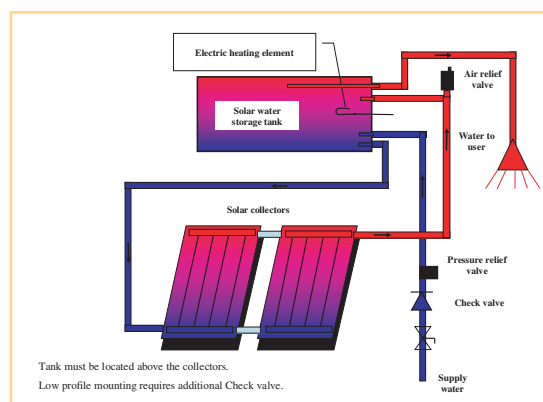
Highlights of the wind project thus far are:

- A location was determined near Puerto San Carlos on the Pacific Coast of Baja California Sur (approx. 120 miles from Loreto), and a data collection tower has been in place and operating since fall 2005. The wind resources study has been completed and indications are that the wind factor, at an average 20% capacity, is sufficient for a commercial wind farm. There is an existing diesel generating power station in Puerto San Carlos, so uploading electricity to the grid is convenient.
- A 20-year renewable land lease agreement has been signed with the Ejido Mantancitas for 500 hectares (approx. 1200 acres), with a 3-year option to lease an additional 350 hectares if desired.



- Surplus electricity will be sold to the main municipalities in Baja California Sur. Letters of Intent to purchase wind power are signed with Loreto, La Paz, Los Cabos and Comondu (Constitucion and Insurgentes).
- Econergy and Loreto Bay are now proceeding with the formation of a special purpose company for the wind utility.
- Final project design and environmental permitting is underway. The environmental impact assessment indicates that no significant environmental concerns exist. One issue to be addressed will be plant rescue and transplanting prior to land clearing. The environmental impact permit (MIA) was applied for in April 2007. The generations permit from CRE will be applied for in May.
- Econergy has executed a turbine reservation agreement and placed a preliminary order for 10 turbines, each rated for 2 MW. Each turbine will stand approximately 100 meters high and the rotors will be 90 meters across.
- Construction of roads and foundations is expected to begin in January 2008.
- The anticipated date of wind farm operation is fall 2008

Solar Hot Water (SHW) – Domestic hot water will be supplied by solar hot water units. This is provided as an optional upgrade in the Founders Village, and will be standard in all Village Homes in Agua Viva and future phases. The design is such that solar power accounts for 50% to 80% of the energy required to heat the water. On average, domestic hot water accounts for 20 to 30% of a home's electrical load, so it is estimated that, by the time our project is completed, our SHW will save 10 gigawatt hours of electricity per year. In relation to climate change, this offsets 6,300 tons of carbon emissions annually (equivalent to 1100 cars).



As well, all private pools will derive 80% of their heat source from solar energy.

Solar Photo Voltaics – We are often asked why we are not using solar electricity for the entire project. In 2005 we commissioned a feasibility study for a solar photo voltaic utility. The result was that a “solar farm” would be too costly, and would result in unreasonably high electricity rates for home- owners. We therefore chose to proceed with the wind farm. We are however using solar PV to power fountain water pumps. We also have a 2 KW system donated by First Solar in Phoenix to be used for a demonstration project, which is to be determined.

Currently in Mexico the electrical authority CFE does not allow residents to “reverse meter” on the grid, to get credit for unused electrical energy generated by solar PV at the home. Since we are establishing a significant wind utility and developing close relations with CFE, we are hopeful that we can influence change in this area so that homeowners can benefit from installing their own PV units without the additional high cost of storage batteries.

Water

According to Loreto Bay's contractual agreement with the federal government of Mexico, we have the right to supply all of our water needs by accessing the regional water supply in the San Juan Well Basin.



However, in the spirit of our sustainability mandate, it is our plan to be a water independent development and, in essence, to return that water to the local community to ensure that its needs are met as it grows over the next decades. This means that, by the time our project is completed, we will have saved the region hundreds of millions of gallons of water, and will save in perpetuity approximately 400 million gallons of water every year. Our plan includes water harvesting, production and conservation.

Harvesting – This involves restoring two existing watersheds (El Tular and El Zacatel) in the area by building small check dams to slow down flow in strategic rainwater channels, which allows more of the rainfall that occurs during late summer and early autumn to be captured, absorbed into the ground and to recharge aquifers rather than be lost as run-off to the sea. This is a long-term project that will be undertaken in concert with our plans for a 5000 acre nature preserve. We anticipate it will take many years, perhaps generations, to effectively produce significant water results. Our intergenerational goal is to see year round water flow in the Premier Agua Arroyo.

Our progress to date includes:

- All preliminary geo-hydrology investigation has been done to isolate 17 strategic check dam locations.
- The first dams to be built will be in the south section of the development lands, near the agriculture center, and will serve to a) reinforce the existing 2km dike built by FONATUR, which deviates storm water runoff from 2 arroyos, b) aid in recharging current wells and prevent further saline intrusion, c) slow down silt accumulation in the Nopolo Estuary and thereby contribute to healthier mangroves.
- This dike area is ideal for first check dams also because water table levels can easily be measured at existing wells.
- We are waiting on approval from FONATUR to proceed, as this is on land not yet owned by Loreto Bay.



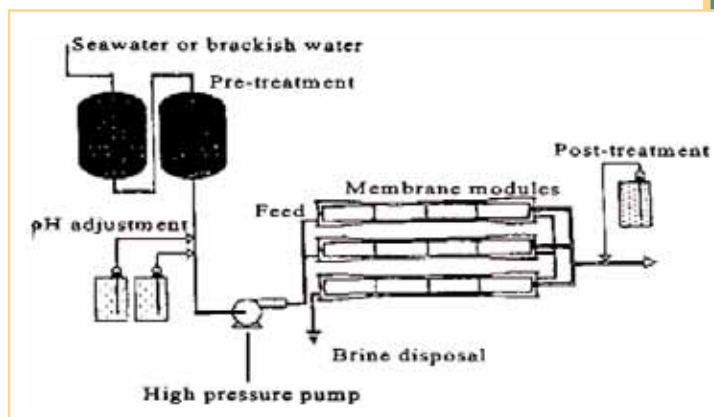
Production – Since watershed restoration will take many years to yield significant results, an environmentally benign desalination facility will supply most of Loreto Bay's potable water.

Progress to date includes:

- Research and planning for a 1 to 1.5 million gal/day reverse osmosis (RO) system has been underway since fall 05.
- Research shows that RO systems using intake wells for feed water and injection wells for brine discharge are safe for the environment (supported by the Monterey Bay Marine Sanctuary, the California Coastal Commission, and the 2006 Pacific Institute Desalination Study), as long as no chemicals used in membrane and pipe cleaning are discharged with the brine, which we will monitor and ensure. A recent study (December 2006) released by the International Community Foundation also recommends this RO system, contingent upon a comprehensive environmental impact assessment and extensive hydro-geologic testing, all of which we are doing.
- The proposed location of intake and discharge wells is on Phase 2/3 land.
- In order to confirm the exact location for these wells, and to be certain that the subterranean composition is appropriate for efficient intake and discharge filtering, test wells must be drilled

and hydro-geologic analysis done. When this is completed, we can proceed with permit applications to the National Water Commission (CNA) and the environmental protection agency (SEMARNAT).

- This data will also be applied to the environmental impact assessment (MIA) application. LBC will use an existing intake-injection well system in Puerto Penasco (on the Sea of Cortez) as a model for biological and salinity testing during the preparation of the MIA application.
- Loreto Bay has recently hired Lorenzo Arrillaga, former State Manager of the National Water Commission (CNA) as Director General of Loreto Operations.
- Loreto Bay has contracted Libra Ingenieria, one of the largest and most reputable desalination engineering firms in Mexico, to manage the project.



Conservation

- Fresh water irrigation is minimized through the use of saline tolerant plants such as paspalum on the golf course and native desert plants such as Palo Blanca, Mesquite and Palm trees in the village landscaping. The golf course redesign is underway, and the Bermuda grass turf is being removed completely and composted to make way for the paspalum. This use of brackish or sea water accounts for a savings in fresh potable water of an estimated 68.6 million gallons per year by the time the project is completed.
- Storm Water Management
 - Village streets and golf course contours with bio-swales have been designed in such a way as to capture the maximum amount of rainwater and re-route it for irrigation and estuary flushing. An Area Drainage Master Plan (ADMP) executive summary has been prepared by Tri-Core Engineering.
- Reclaimed Waste Water
 - Reclaimed water from the Nopolo and Loreto waste water treatment facilities will be used for irrigation and landscaping. The sewage treatment plant in Nopolo is an activated sludge system which is currently under construction by FONATUR, and is expected to be operational in 2008. By irrigating with treated waste water, we estimate a savings of 377 million gallons of potable water per year by build out.
- Appliances and Fixtures
 - Until recently we faced problems securing water efficient appliances and fixtures for the homes. This was due primarily to procurement challenges in Mexico. Significant progress is being made, and with each new inventory order products are being upgraded, starting in clusters 6 and 7 of the Founders Village. We are installing Lamosa dual flush toilets, which use 6 liters per flush for solids and 3 liters for non-solids, compared to 20 liters per flush in a standard toilet. Based on an average 5 flushes, this saves about 80 liters per day per person. This means that by the time Loreto Bay is fully occupied with a transient population of about 15,000 people, this is a water savings of 1.2 million liters or 264,000 gallons per day.

Habitat

To protect and enhance the living environment, Loreto Bay is undertaking several initiatives:



Nature Preserve – A 5000 acre nature preserve will be created which, when fenced, will prevent further overgrazing by cattle and goats, and allow the natural flora and fauna to flourish. This project is at least 5 years away, and the designated land has not yet been transferred from FONATUR to Loreto Bay. As we approach a start date in the next few years, we will plan the preserve in collaboration with local ranchers, NGO's and educational institutions.

Watershed Restoration –

The two watersheds of El Tular and El Zacatel will gradually be restored through a long-term program to increase ground water levels and enrich the soil, thereby facilitating the growth of more flora which in turn will provide habitat for more fauna. Our progress is explained in the section on water harvesting above.



Estuary Restoration – We are creating approximately 5 miles of restored wetlands estuary channels involving 25 hectares (62 acres) of mangroves and companion saline plants.

Mangroves are critical sources of nutrients for marine life, and by build-out it is estimated that these estuaries will produce 25 tonnes of commercial fish per year. Wetland mangroves are also among the most effective carbon sinks on the planet, producing on average 100 lbs. of carbon per acre per day (National Geographic). At build-out, our estuary restoration project will sequester over 1100 tons of carbon annually and provide habitat for birds, reptiles, amphibians, insects, crustaceans and fish.

The following summarizes our progress to date:

- 7,500 mangroves are thriving in a temporary transition nursery. They were moved from our agriculture center nursery recently to provide irrigation with sea water. We now have the largest mangrove nursery in Mexico, and one of the largest in North America.



- Thousands of sweet mangroves currently growing on Agua Viva land have been identified and will be rescued, boxed and replanted later as required.
- It is estimated that 15,000 mangroves will be required in total. The mangrove nursery and planting program is managed by Loreto Bay Ecoscapes.
- Design documentation has been prepared for canal cross sections, slopes, edge conditions, and geotechnical info has been obtained for the site.
- Hydrological studies have been done to ensure adequate tidal flush of the estuary and related canals, based on achieving a maximum of 0.6 m/sec flow velocity of the narrowest sections.
- Our Sustainability department, in close collaboration with Ecoscapes, is providing project management, to ensure the collaboration of engineers, academic researchers/microbiologists and practical landscapers.
- Estuary performance indicators have been researched, with help from the San Francisco Estuary Institute.
- Ecoscapes has regular meetings with Marine Park staff to keep them apprised of the mangrove program.
- Ecoscapes is preparing a baseline on physical factors such as salinity in the water table and canals, oxygen, PH and water table levels, erosion indicators, sediment movement, etc. They are also exploring a cooperative relationship with the Marine Park Authority for a biological baseline study to inventory and monitor marine biodiversity.
- Canal excavation has begun, and it is anticipated that 40,000 cubic meters of earth will be relocated to Founders Village to be used as compacting for house platforms.

Eco Golf Course – Loreto Bay acquired the 18-hole golf course from FONATUR in late 2006 and TSD re-conceptualized this as a golf course in a park.



Plans for a full redesign of the golf course, in collaboration with Troon Golf, include, but are not limited to:

- Conservation of water through the use of saline tolerant plants. For example, all of the Bermuda grass on the fairways is being removed, composted and replaced by paspalum grass which can be nourished with brackish water. Also, over-watering will be prevented

through the use of irrigation system software, sensors and controls. Additional measures which will determine irrigation adjustments are regular soil probes to inspect root zone moisture in conjunction with weather station reports that monitor evapo-transpiration rates.

- No potable water used for irrigation. Only reclaimed treated waste water and brackish water will be used.
- Keeping maintainable turf to a minimum, which reduces the need for water, mowing (fuel), fertilizers and pesticides.
- Experimenting with environmental grasses such as sporobolus for natural areas, which requires very little water and maintenance, and can tolerate high saline conditions.
- The controlled use of low-toxicity or non-toxic biodegradable fertilizers and pesticides which ensure the health of soil, aquifers, the estuary and marine ecosystems.
 - This includes slow release granular fertilizing products, most of which are a foliar application in very small amounts, to reduce the possibility of leaching.
 - Biological pesticides are beneficial nematodes for the control of insects and beneficial bacteria for the control of diseases.
 - Weeds are spot sprayed instead of wall to wall application, reducing the quantity of herbicide by 90%.
 - 95% of pesticides are used on 5% of the golf course.
 - Buffer zones requiring zero fertilizers and pesticides are planted around and sloping away from all bodies of water to further protect sensitive areas.
 - The application of strategic cultural practices such as aeration, verticutting (de-thatching) and sand top-dressing will ensure the minimal requirement of chemicals.
- An integrated pest management program, starting with the knowledge that weak unhealthy turf is often the leading cause of pest damage or invasion of weedy species. To ensure healthy turf, we will reduce plant moisture stress by controlling over-irrigation (as mentioned above), plant grasses best adapted to the climate, and provide a soil system that will minimize the stress caused by golfers and daily maintenance.
- The preservation and enhancement of habitat corridors, nesting areas, ponds, native plants, etc. such that the golf course actually doubles as a nature park, with over 40% of the area being non-playable natural flora.
- The development of a citrus grove and other edible landscaping in non-playable areas.
- The construction of walking trails with rest areas and look-out points for non-golfers.
- The installation of bat houses and raptor perches.
- The rescue and relocation of reptiles prior to land clearing and contouring.
- The installation of signage to educate both golfers and hikers on sustainability initiatives.
- A storm water management plan that directs rainwater to natural bio-swales for cleansing and estuary flushing.
- Energy efficient buildings, equipment and fixtures.
- A recycling and composting waste management program.

Waste Management – We will ensure that all waste is separated into three streams, organics, recyclables and non-recyclables, and managed such that organics are composted, recyclables are reclaimed and non-recyclables, which go to the landfill, represent no more than 10% of our total waste. Because we are building in a region of Baja California, Mexico where organized community recycling is basically non-existent, this has been a considerable challenge.

Our progress is summarized as follows:

Construction Waste

- All waste is separated, stored temporarily and then recycled:
- Plastic (PVC, bags, wraps, containers etc.) is shipped to La Paz for recycling.
- Wood is reused by contractors or saved as fuel for the future kiln at the clay pit.
- Styrofoam is being reused locally to make roof panels for a hotel project, as well as being sent to FANOSA (Styrofoam supplier) in La Paz for recycling.
- 95% of our waste steel goes to a buyer in Ciudad Constitucion where it is compacted and sent to Tijuana for melting. The other 5% is sold to a buyer in Loreto.
- Card board & paper is recycled into cellulose in La Paz, but will eventually, where possible, be composted.
- Cement and Lime sacks are being stockpiled for eventual use as fuel for the earth brick kiln.
- Rubble (cement, concrete, adobe blocks etc) is cleaned and crushed, and then used for fill on local roads by the municipality.
- Aluminum cans are recycled in Loreto.
- Perform Wall waste (concrete mixed with recycled Styrofoam beads) is shipped back to the manufacturer in Mexicali and reused to make more construction panels.
- As of May 2007, 74% of construction waste by volume was being recycled.
- Toxic waste (oils, lubricants, etc.) is stored in closed containers in a designated area and then removed periodically and properly disposed of by the designated authority Servicios Ambientales Mexicanos S.A. de C.V. (SAMEX).



Community Recycling/Composting Program

- Separated waste is being collected from those houses that are currently inhabited in the Founders Village and from the Inn.
- Recyclables join the construction waste recycle stream.

- Organic waste is combined with plant and grass trimmings and composted using a temporary wind-row facility at the agricultural center.

- A state-of-the-art in-vessel composting system with a 30-ton per day capacity has been contracted from International Composting Corporation and is expected to be operational at Loreto Bay in 2008. By diverting this much organic waste from the landfill and preventing methane production, the annual greenhouse gas reduction in CO2 equivalent will be approximately 30,000 tons per year, or the same as that emitted by approximately 5300 cars.



International Composting Corporation's in-vessel system

- Large scale earth worm and wind row composting have been investigated as an interim measure, and we have determined that they would be ineffective in temperatures over 85 degrees F., which occurs at least 4 months of the year in Loreto. They would also be labor intensive, odorous and would attract vectors such as rodents and roaches. Therefore we have decided to wait for the in-vessel system.

Marine Conservation – Loreto Bay is a planned community on the shores of a pristine marine park. We consider ourselves one of the stewards of this incredible marine environment, and as such we are taking many steps to ensure its conservation:

- Research has been conducted regarding best sustainability practices for development on the Loreto Bay Marine Park and for the development and operation of an eco-marina. Resources include the Mexican National Commission for Protected Areas, UNESCO, US Environmental Protection Agency, Loreto Bay National Park Authority, California Coastal Commission and National Service of Ocean & Coastal Resource Management, to name a few.



- Loreto Bay has been closely involved in the development of Sustainable Coastal Development Standards, a research report commissioned by the Loreto Bay Foundation which defines best practices for development in Baja California coastal areas. The standards have been developed in collaboration with the state department of Urban Planning and Ecology. The purpose of the report is to provide sustainability guidelines for all developers, and to influence future legislation with respect to development regulations in the state of Baja California Sur.
- The above report, now in third draft, has a comprehensive section on eco-marina best practices. Loreto Bay's marina is planned for phase 4, with construction to start sometime in 2009. It will service small water craft only, such as sailboats, kayaks and canoes and

will meet strict criteria comparable to that defined by the international Blue Flag eco-label for over 3,600 marinas and beaches in 36 countries.

- In 2006 over \$230,000 in grants has been awarded by the Loreto Bay Foundation for the purpose of supporting the health of the Marine Park through protection, policing, education and research.
- Both Loreto Bay Company and the Loreto Bay Foundation have supported the annual sea turtle conference of Grupo Tortuguero de las Californias for the past few years, and will be sponsoring their largest international conference to date in January 2008, where over 1500 participants are expected in Loreto.
- We are working with marine biologists from UCLA San Diego and the University of La Paz to support a study for mapping sea turtle foraging and nursing hotspots, so that a viable sea turtle watching eco-tourism program can eventually be implemented in the marine park.
- In addition to our support for the Loreto Bay National Marine Park, we have donated \$25,000 to the Laguna San Ignacio Conservation Alliance to help in their efforts to secure and protect coastal wetlands which are critical to the preservation of the grey whale.



Non-Toxic Soaps and Cleaning Products – We will ensure that personal hygiene products and industrial cleaning products used by the company in the Inn, commercial buildings and rental homes are safe for soil and marine life. To date, our progress is:

- Green Operations guidelines have been developed for the hospitality department
- All industrial cleaners are non-toxic and biodegradable
- Earth-friendly personal hygiene products have been sourced and will be supplied by Osea.

Eco-Safe Pesticides and Fertilizers – We ensure that all pesticides and fertilizers are non-toxic to soil and marine life. Currently, our usage includes:

- Tierra Fertil and guano, organic fertilizers, are used in the organic garden.
- Thurinsect (Bacillus thuringiensis), an organic worm deterrent, is added once to fresh water plants.
- Phyta-oil garlic, Cinna-mix (extract of cinnamon and garlic), Agroneem (neem tree extract) and citronella are organic insecticides used in the organic garden.
- Responsar sc125 is a low-tox pesticide used at the Inn for ants and cockroaches.

The Inn and the hospitality program will move to an integrated pest management

program in 2007, which will focus more on prevention, monitoring and control using cultural, biological and structural methods in order to eliminate or drastically reduce the use of low-tox pesticides.

- Bat houses have been constructed at the agriculture center to encourage an ample population of these effective insect predators.
- Perches for raptor birds, effective in controlling rat populations, are placed at the agriculture center, and will be integrated into the design of the golf course.
- Reptiles are protected and respected as insect and rodent predators. Our pre-construction reptile rescue program has captured and safely released hundreds of animals, representing 20 species to date.

Plant Rescue – To date hundreds of large indigenous plants and trees have been rescued prior to land clearing for development. These are carefully root trimmed,



boxed, cared for in our nursery, and eventually replanted in the streets and courtyards as part of our village landscaping. The plant rescue template includes palo verde, mesquite, mangroves, lomboy, choya, pitahaya agria and frutilla, to name just a few.

Sewage Treatment – We will ensure that sewage is properly managed and treated. Loreto Bay does not directly control the sewage utility, as this service is provided by the Municipality, which recently took over from FONATUR, as per the contractual obligation in our master plan agreement. However, we are working closely with these authorities and progress to date includes:



- An analysis of the current sewage infrastructure was done, and key recommendations included the repair and installation of a second pump, introduction of a standby generator, and installation of a new pump control panel.
- The Municipality is currently building a new activated sludge system to be operational in 2008. This treatment plant will handle a capacity of 60 liters per second, sufficient for a population of 37,000 people.
- Loreto Bay proposed the development of an all-natural, low-energy, constructed wetlands waste water treatment system of equal capacity, which required 6 hectares of land. However FONATUR elected to build a standard, yet effective, mechanical system which required a smaller land footprint.
- We will be using treated waste water from the new utility for irrigation and landscaping. To ensure quality control we will require in the waste water contract that contamination levels remain below the allowable limits under Mexican environmental protection law NOM-003-SEMARNAT-1996.

Materials

Paints – For interiors and exteriors we use low-VOC latex paint with a VOC level of 56 grams/liter, which is far below the LEED maximum of 150 g/l.

Sealants – Wood coatings are primarily natural oil stain or low-VOC oil stain for dark woods, and all-natural shellac covered with wax on lighter wood.

Adhesives – Low-VOC wood glue is used in conservative quantities.

Wood – The wood products used in the homes are:

- Forest Stewardship Council (FSC) certified Bolivian Cedar and Tornillo for doors and window frames. FSC woods are harvested as a renewable resource, ensuring support and employment for the local community and the maintenance of forested areas as important carbon sequesters.
- A pre-finished birch ply, which is urea-formaldehyde free.
- Fast growing Alder for cabinets.

Furniture – Loreto Bay purchases furniture for Village Homes from Casa Mesquite, based in Agua Prieta, Sonora, Mexico. This company uses low VOC wood finishes, FSC certified woods, locally acquired hardware materials, and hires local women to work in their shop.



Agriculture and Landscaping



Organic Farm - Organic food is produced currently on 3 acres of land at the agriculture center, 2 of which grow pumpkins, radishes, tomatoes, spinach, beets, chard, cabbage, beans, peas and several types of lettuce. An additional 1 acre experimental plot has been prepared for perennial crops (fruits, herbs, asparagus, artichokes, etc) and thus far asparagus and pear cactus have been planted, and herbs are planned for 2007. The farm will expand over time to a 100-acre facility to meet the needs of the Loreto Bay community.

It is our goal to grow as much healthy food as possible on site, and to significantly reduce the need to transport food products from afar.

We have also been researching permaculture techniques such as multi-layer plant clustering and forest gardening to optimize land use. We anticipate beginning a permaculture program in fall 2007, by which time we hope to have begun our watershed restoration initiative with FONATUR approval for the first check dams and to have drilled two new production wells to provide water solely for the agriculture center.

Nursery – The nursery grows and maintains a variety of plants for landscaping and garden purposes. There are 4 categories: saline, tropical, native, and turf. Our aim is to provide a balance of aesthetic and sustainable plants using an estimated ratio of 1/3 edible (sustainable), 1/3 native (sustainable), and 1/3 tropical plants (aesthetic interior plants). Presently, we are operating at 30% edible, 50% tropical, and 20% native plants.



Due to the plant demands in 2006 we have had to purchase 60% of our nursery plants. The others are salvaged through our on-site plant rescue program (25%) and propagated (15%) from seed.



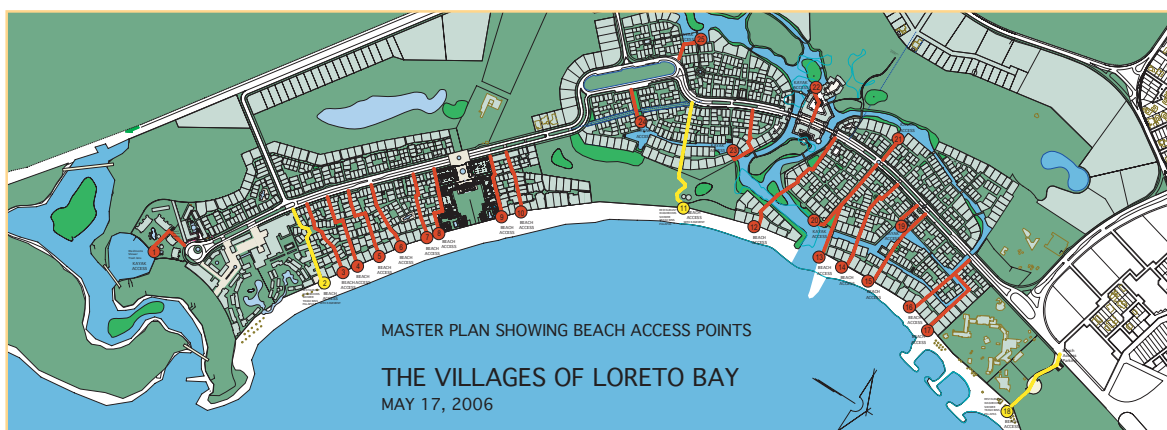
By 2009 we expect that the large majority will be propagated and salvaged plants, reducing our need to purchase substantially.

Landscaping – Many of the plants in our village landscaping are edible, and include guava, spearmint, lime, mango, banana, orange, pineapple, date palms, coconut palms and pomegranate. Homes are shaded by cissus vines on outside walls and Palo Blanca, Mesquite, citrus and palm trees in the courtyards.

Transportation

A Transportation Strategy for the Founder's Village (Phase 1) and Agua Viva (Phases 2 & 3) has been prepared and presented to the city of Loreto. Highlights include:

- An emphasis on no gas-powered vehicles in the villages, and easy access by foot, electric golf cart or bicycle to all amenities.
- A non-gated community and public access to beaches via 25 interconnected routes which include free internal shuttle service.



- An Intermodal Transportation Center at the Gateway to Nopolo where:
 - One can switch from a highway vehicle to electric golf cart, bicycle or internal public shuttle and vice-versa.
 - One can access a public terminal/hub for shuttle and bus service to Loreto and other locations.
 - One can rent a car from a rental agency (Hertz, Tilden, Avis etc.)
 - One can access transportation by being a member of a Vehicle Club (ie. car share coop).
- Vehicles will include:
- Hybrid cars, jeeps, trucks, vans
 - Golf carts, bicycles
 - Kayaks, sailboats, small power boats
- An internal electric shuttle service, vehicles to accommodate up to 8 passengers and supplies
 - On street parking for 350 vehicles along the Paseo Mision de Loreto



Offsetting Air Travel Emissions

The CO2 emissions resulting from our employee air travel is offset through calculated contributions to the Climate Trust. We also provide an easy option for home owners and buyers to offset their air travel emissions by including it in their travel package. In 2006 we offset over 200 tons of CO2 emissions, 165 tons of which was for employee air travel.

Social Sustainability

Affordable Housing



Mexican Wages – To ensure that Mexicans who work at Loreto Bay can afford to live in the area, it is imperative that employees earn a sensible and fair living wage. We commissioned a housing affordability analysis for the region, which concluded that 2000 pesos per month per adult for rent or mortgage was average and acceptable. Loreto Bay's Mexican employees are being paid sufficient wages, in many cases more than double the national average, such that no more than 35% of monthly income is required for housing.

Team Housing – We have been focusing our efforts on facilitating housing for the service workers and permanent employees of Loreto Bay Company and the Inn at Loreto Bay. It is our goal to realize housing for over 1000 employees by the end of 2008, and for approximately 6000 employees by the time the project is completed. Construction has not started yet. The process to date includes:

- Discussions with FONATUR concerning advance purchase of Phase 5 designated land (44 hectares) and amending the Master Plan to allow enough density for a worker village (50 acres). The design parameters for the employee village are:
 - 500 Residential Units
 - 50 4-bedroom units (half apartments, half townhomes)
 - 100 3-bedroom units (half apartments, half townhomes)
 - 350 2-bedroom units (half apartments, half townhomes)
 - 50 1-bedroom units (half apartments, half townhomes)
 - Some Commercial with small market and laundromat
 - 4 Pools with playground
 - Soccer field with night lights
 - Baseball field with night lights
 - Use of the Tennis Center
 - Walking distance from the Town Center when built
 - Walking distance from restaurants at industrial Lots
 - Walking distance from school in Section 4
- Negotiations with FONATUR regarding land behind the new hospital in town for the possible development of 200 affordable homes.
- Collaboration with a major developer in Baja California (DeCope), who is conducting independent due diligence on best options in the Loreto region. DeCope uses a mold system into which concrete is poured, and with which they can construct 25 units per week. We see this as an opportunity to improve their construction system and make it more sustainable by using fly ash instead of cement in the concrete.
- Looking into the possibility of a greenhouse style natural waste water treatment facility for these housing developments, and landscaping with rescued trees from our project site.
- Negotiations with the Ejido land owners regarding two parcels of land, 32 acres and 15 hectares, west of Miramar, just north of Loreto.
- Preparation of a best practices guide for green affordable housing, working with the Mexican Green Building Council.





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Loreto Medical Center

To support the development of a public full service community hospital in Loreto, we have committed to raise \$800,000. To date we have donated \$360,000, raised through special events and campaigns in the USA and Mexico. This money is in addition to Foundation funding.



Loreto Bay Foundation

To support and fund local projects in the community of Loreto and in the Loreto Bay National Marine Park, our company donates 1% of all sales and re-sales in perpetuity to the Loreto Bay Foundation. As of the end of 2006, sales were in excess of \$315 million, equating to over \$3 million that the Foundation will receive incrementally as home payments are received by the company. The total amount received thus far is \$995,119.30. Grants in 2006 exceeded \$600,000.

They were:

Environment

- Arizona State University School of Life Sciences - \$40,000 for the development of a report on the recreational values and benefit transfers of fishery resources in the Loreto Bay Marine Park.
- Grupo Ecologista Antares (GEA) - \$57,630 to support:
 - Two new inspectors for law enforcement in the Loreto Bay Marine Park.
 - Equipment for park service law enforcement
 - Attendance of three representatives at world forum on water in Mexico City
 - GEA will also support park management, educate the surrounding community on illegal and dangerous fishing practices as well as the importance of protecting the marine park's valuable ecosystem.
- Rare Conservation - \$75,000 for a Pride conservation education campaign about the Loreto Bay Marine Park, including the hiring of a local campaign manager. Rare Pride campaigns have been extremely successful around the world in creating awareness and protection of threatened species through grassroots outreach.
- Sociedad de Historia Natural Niparaja - \$35,631 for:
 - A communications campaign to educate the community on the value of the Loreto Bay Marine Park and the need for its protection.
 - Attendance at the world forum on water in Mexico City
- Sustainable Community Advisors - \$24,000 first phase installment for the research and development of a feasibility study on the implementation of a composting facility and program for the greater Loreto region.
- Direccion de Planeacion Urbana y Ecologia - \$124,215 for:
 - Supporting the development of coastal sustainable development guidelines by Sherwood Design Engineers which is being gifted to the BCS state government to guide the transformation of their regulatory standards.
 - To send two staff to a sustainable development planning workshop in Spain.
- Pro Peninsula - \$34,000 for:
 - General operations related to activities in Loreto
 - Grupo Tortuguero's "La Tortuga Movil" project
 - Organizing, facilitating and following up on the 9th annual Conference of the Grupo Tortuguero, Jan 26-28, 2007 in Loreto

- Universidad Autonoma de Baja California Sur, \$24,470 for:
 - Researching sea turtle activity in the Loreto Bay Marine Park
 - Maintenance and renovation of the Loreto campus facilities
 - Marine mammal research program
 - Organismo Operador Municipal del Sistema de Agua Potable - \$2000 for engineer Hugo Maldonado to attend world forum on water in Mexico City.
- Iemanya Oceanica - \$2000 for creation, printing and distribution of a comic book to educate about over-fishing and sharks.
- International Ecotourism Society - \$4,271 for preliminary interviews with Loreto community members to identify needs for ecotourism courses, training and expertise.
- Voluntourism - \$3,920 to support an intern in Loreto.

Community

- Animalandia, \$5000 for construction of a spaying and neutering clinic in Loreto.
- Centro de Integracion de Loreto por Nueva Esperanza - \$8,296 for Loreto Drug Rehabilitation Center rent and facilities support.
- Baja Bush Pilots - \$7,000 for support during Hurricane John relief efforts in Baja California Sur.
- Patronato de Bomberos del Municipio de Loreto A.C. - \$3,000 for ambulance maintenance for the Loreto Fire Department.
- International Community Foundation - \$3,000 to support the annual fundraising gala in recognition of its contributions to the future of Loreto.
- Instituto de Servicios de Salud del Estado de BCS - \$120,000 for the new medical facility in Loreto.

Children

- Caritas Christmas Present Project - \$5,565 for Xmas gifts for children of impoverished Loreto families.
- Formacion Integral Soccer in Clubs A.C. - \$6,000 for the creation of a youth soccer league in Loreto.
- Asistencia Education Superior en Liguí-Ensenada Blanca - \$5,000 to support hostel housing and scholarships for students.
- San Javier Internado - \$6,500 for the purchase of a pick-up truck to transport supplies and students.





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Economic Sustainability

Jobs

To date we have created 400 permanent full time jobs for Mexican nationals, many of whom are from Loreto and have been trained on the job:

- 155 employees are at the Inn at Loreto Bay.
- 50 employees are at the cabinet/woodworking shop in town.
- 53 employees are at the agriculture center/nursery involved in landscaping and/or organic farming.
- 30 employees are at the clay mine/compressed earth block plant.
- 112 employees are in various administration/construction offices in Loreto Bay.
- By the end of the project, we anticipate that we will create 6000 permanent jobs.



We also employ, indirectly through general contractors, approximately 900 construction workers.

Local Economy

To enhance the local economy, we have accomplished the following:



Local Tourism Promotion – We have been promoting Loreto in our marketing campaign as a beautiful, ecologically abundant yet sensitive area, rich in history and culture. Approximately \$12 million USD has been invested in marketing Mexico and Loreto as a tourism and second home destination since the company's inception. Loreto Bay also has received publicity coverage in over 100 U.S., Canadian and Mexican publications, including The Wall Street Journal and USA Today, the value of which is inestimable. As well, we have developed excellent relations with Alaska Air, Continental and Delta, which has resulted in a significant increase in regularly scheduled flights to Loreto.

Eco-Tourism – We have been working to develop Loreto as a world-renowned eco-tourism destination. Local tour outfitters provide such activities as diving, sailing, kayaking, whale watching, and mule treks, all of which have experienced substantial gains in bookings due to our marketing efforts. Highlights of programs offered specifically by our company's Hospitality Tourism department thus far are:

- "Building with Earth Block" learning vacation
- "Desert Medicinal Plant Tour" learning vacation
- "Humbolt Squid School" learning vacation, in association with Sea Wolves Unlimited
- Digital Photography Workshop Weekend

In the works for 2007 are:

- Organic and permaculture farming workshops
- Dolphin educational workshops





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Support Local Businesses - To date, our sales events alone have generated significant income to the community. Total revenue to hotels has exceeded \$3.4 million. Approximately \$367,000 has been spent in Loreto restaurants, and \$288,000 on taxis, airport transportation and other ground transportation. The Loreto Bay Foundation is exploring options for business incubation, micro-lending and capacity building in Loreto through potential funding from the InterAmerican Development Bank and their Multilateral Investment Fund.



Our Business Partners

To ensure true economic sustainability, it is vital that the Loreto Bay Company achieve long-term economic success and profitability. This can only be done through sound business management and productive relations with strategic corporate partners.

These are our business partners:

Trust for Sustainable Development

Loreto Bay's founder and primary business partner is The Trust for Sustainable Development (TSD), an inter-disciplinary group of professionals committed to envisioning, designing and building sustainable communities. Loreto Bay's chairman David Butterfield is the founder and president of this international development company. Mr. Butterfield has guided his team through a cutting-edge process combining in-depth scientific, economic, social and financial analysis with extensive public and government consultation, making him one of the world's prominent experts in "sustainable community" technology.

TSD is a not-for-profit corporation that identifies and researches projects with the potential to implement sustainable strategies and then invests in pre-development project preparation (often valued at more than one million dollars USD) for large-scale developments. As the project nears start-up, the Trust creates a for-profit company to act as Master Developer, as in the case of the Loreto Bay Company.

TSD has completed several highly successful projects ranging from brownfield re-development to sustainable New Towns. TSD oversaw the creation of an urban prototype for sustainable communities, which has been executed in the award-winning Community of Civano in Tucson, Arizona. TSD recently completed an award winning mixed-use, sustainable building called Shoal Point on a brownfield site in Victoria, British Columbia. www.tsd.ca



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FONATUR

FONATUR, the Mexican government's tourism agency, is a valued partner in the Loreto Bay project, sharing our vision of creating an architecturally authentic and environmentally responsible community. FONATUR was created in 1974 to develop resort cities throughout Mexico, including Los Cabos, Ixtapa, Huatalco, Cancun, and now Loreto. FONATUR has committed to maintaining the infrastructure and utilities at Loreto Bay for a minimum of 25 years, and will work with the Loreto Bay Company to ensure the preservation of 5,000 acres of green land in the development.

www.fonatur.gob.mx

Citigroup Property Investors

Loreto Bay Company and Citigroup Property Investors (CPI) are joint venture partners sharing ownership of Loreto Bay Company. Loreto Bay Company's focus on sustainability and commitment to long term financial success were instrumental to Citigroup's decision to participate in the venture. Citigroup's corporate citizenship policy is rooted in the belief that working to promote sustainable development is good business practice. As a global influencer, they are continuously seeking opportunities to make sustainable investments and develop products and services with positive environmental and social impacts. Citigroup has taken a public position on climate change, committing to a 10% reduction in greenhouse gas emissions by 2011 and investing in alternative energy and clean technology. On May 8, 2007, Citigroup announced that it will direct \$50 billion over the next 10 years to address global climate change through investments, financings and related activities to support the commercialization and growth of alternative energy and clean technology among the clients and markets it serves, as well as within its own businesses and operations

Citigroup Property Investors (CPI) is a global investment firm with nearly \$10 billion in assets under management. The association with a financial firm of the caliber and name recognition of Citigroup provides Loreto Bay with enhanced credibility, in addition to strengthening the Company's financial security. Both companies share the vision of establishing Loreto Bay as a premier destination in Baja Sur. www.citigroup.com

Duany Plater-Zyberk & Company

Since its founding in 1980, Duany Plater-Zyberk & Company ("DPZ") has completed designs for over two-hundred and fifty new and existing communities. This work has exerted a major influence on the practice and direction of urban planning in the United States. DPZ's projects have received numerous awards, including two National AIA Awards and two Governor's Urban Design Awards for Excellence. In addition to its design work, the firm is widely recognized as a leader of the international movement against the proliferation of suburban sprawl. The firm's principals were co-founders of the Congress for the New Urbanism, recognized by the New York Times as "the most important collective architectural movement in the United States in the past fifty years."

www.dpz.com

Shubin + Donaldson Architects

Established in 1990, Shubin + Donaldson is an internationally recognized architectural firm with appearances in some of the world's most prestigious publications, including Robb Report, Interior Design and The New York Times. The firm pursues a high level of environmental sustainability, including LEED accreditation and membership in the US Green Building Council. Shubin + Donaldson has been honored with twenty AIA design awards. Loreto Bay is proud to have them designing our custom homes.

www.sandarc.com



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Loreto Bay Design Group

Founded by seasoned architect Doug Campbell in 2006, and joined by senior architects Peter Boddy and Stephan Vedral, the LBDG brings over 60 years of professional knowledge to the design table. With a specific focus on custom homes, this highly creative team is dedicated to delivering wonderfully hand-crafted homes with an attention to detail and artisanship. The principals of LBDG have been intimately involved with the Loreto Bay project before the first home was built. They provide expertise in sustainable design, new urbanism, LEED certification, alternative and environment-friendly building methods, and Pattern Language.

www.loretobaydesigngroup.com

Bayside Mechanical Ltd.

Incorporated in June 2000 under the leadership of senior engineer Tor Hanson, Bayside manages the design-build mechanical requirements for Loreto Bay's Village Homes. This team has the distinction of managing the mechanical installation for Canada's first Gold LEED building six years ago, and Canada's first Platinum LEED building last year. The design-build process encompasses total responsibility for a project. This includes consultation with an owner in the selection process of a mechanical system; engineering design and the production of construction documents; and finally the actual installation of the system. Bayside delivers success by fulfilling multiple parallel objectives, including aesthetic and functional quality, budget, and schedule for completion.

www.baysidemc.com

BuildGreen Developments

The BuildGreen Developments team is dedicated to the creation of ecologically sound, healthy, and economically efficient developments. Each project is approached from the perspective that conception, design and construction must protect and enhance the local community and its ecosystems, delivering a healthy and vibrant model of sustainability.

President and founder of BuildGreen, Joe Van Belleghem has over 17 years of development and financing experience and consults to all levels of government on LEED projects and sustainable community design. Joe is on the board of directors for the United States Green Building Council, the Canadian Brownfield Network Board and an Advisory Board Member to the BC Sustainable Energy Association. He is also the Vice Chair and one of the founders of the Canada Green Building Council.

www.buildgreendevelopments.com

Mexico Green Building Council

MGBC is a non-governmental organization of leading firms in the construction industry who have joined efforts to investigate and promote sustainable building technology, policy and best practices in Mexico. MGBC is developing SICES (the Spanish acronym), a National Green Building Rating Tool, a certification system intended to transform the national building market. Loreto Bay was the founding MGBC sponsor, desiring to help accelerate adoption of sustainable development practices in Mexico and to participate in a green building forum to discuss green building challenges and solutions in the Mexico environment. The Council is also an informal source of information on Mexican building systems and products.

www.cmes.org.mx/usa



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Natural Systems International

NSI is a Santa Fe firm founded in 1989 with the goal of applying low cost, energy efficient natural systems to the challenges of water management. Their primary focus is providing engineering and construction management services for small community wastewater treatment systems, storm water treatment systems, and watershed and riparian restoration projects.

NSI has worked on more than 500 projects in over 40 states, Mexico, Canada, Costa Rica, China, Afghanistan, and Australia. Placing extra emphasis on both creativity and economics, NSI specializes in the implementation of natural treatment system designs using native plant species to treat municipal, commercial, residential, industrial, mine tailings, landfill leachate and agricultural wastewater as well as storm run-off. Together with other experts, this leading edge team is quite literally "writing the book" for the foundation of a new environmental remediation industry. Their work has been featured on a PBS documentary, in the New York Times and on ABC World News Tonight's "American Agenda". Two of the founders, Campbell and Ogden have written a textbook, published by John Wiley and Sons entitled "Constructed Wetlands in the Sustainable Landscape".

www.natsys-inc.com

Earth Block Production Facility

Mexican pressed block manufacturer Adobe Block Co. was established with the help of Loreto Bay consultant and pressed block expert Jim Hallock, President of Earth Block, Inc. in the United States. Earth blocks are blocks of compressed soil that are aesthetically pleasing as well as cost and energy efficient, fire and pest resistant, virtually soundproof, durable and structurally sound. They provide complete architectural freedom and are made from a non-toxic, readily available natural raw material dirt. Building with earth blocks is an important part of the sustainability story for Loreto Bay, especially since the building material can be produced on-site. Jim Hallock has been dedicated to the promotion and utilization of compressed earth block around the world for over 10 years, and was instrumental in the development of the only pressed block building code in the United States.

www.earthblockinc.com

First Solar

First Solar is a leader in the development and manufacture of high quality thin film solar modules. First Solar has invested heavily in developing advanced, thin film semiconductor deposition and high volume manufacturing processes essential to achieving the low cost, high product quality and module efficiency required to make solar energy economically viable across a broad range of applications. First Solar is committed to making solar generated electricity an important piece of the 21st century electricity infrastructure.

www.firstsolar.com

EcoScapes

Landscaping around Loreto Bay homes, common areas and the golf club is designed and installed by EcoScapes, a joint venture between Loreto Bay Company and Saline Habitats, a company with expertise in the design and restoration of native saline environments. In particular, the experts of EcoScapes is selecting and installing native plants and developing a sod farm to provide saline-hardy turf for the Loreto Bay Golf Club.



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Aon

Loreto Bay Company's partner for home owners insurance is Aon, which has arranged for many international insurance carriers to provide insurance to Loreto Bay home buyers. When buying in Loreto, it is important to purchase insurance that meets the local requirements. Aon knows that local representation is critical. They ensure Loreto Bay home buyers seamless protection by coordinating with their Mexican colleagues in this process. As the world's premier risk management and insurance brokerage for affluent families, Aon has the experience and resources to advise and execute a single international risk protection strategy.

www.aon.com

Prudential California Realty

With 20 years experience in the real estate industry, Prudential California Realty is dedicated to providing home buyers and sellers unsurpassed service. With 88 offices and nearly 5,000 agents, the company has grown to be one of the top five real estate brokerages in the nation. Prudential California Realty agents in Southern California closed more than \$23 billion in residential real estate transactions in 2004. Prudential is marketing The Villages of Loreto Bay in Southern California.

www.prudentialcal.com

Alaska Airlines

Loreto Bay Company is pleased to have Alaska Airlines as a preferred partner in servicing customers to Loreto. Alaska Airlines, and its sister carrier Horizon Air, serve more than 80 cities in the U.S., Canada and Mexico. Through the years the company has been recognized for providing outstanding service to its customers. Though Alaska Airlines is relatively small compared to other major carries, it is the dominant West Coast carrier. The airline currently services Loreto four times weekly – on Sundays, Tuesdays, Thursdays and Fridays.

www.alaskaair.com

Continental Airlines

Starting June 7, 2007, as part of a special agreement with the Loreto Bay Company, Continental Airlines will fly twice weekly non-stop from Houston to Loreto. Continental is committed to promoting environmental responsibility within its organization, and is reducing greenhouse gas emissions caused by aircraft and airport ground equipment operations by investing in efficient and advance aviation technology, using electric rather than fossil fuel ground vehicles where possible, and constructing airport facilities according to LEED and Energy Star standards. Today, Continental's aircraft are 35% more fuel efficient than in 1997, and by the end of this year will have reduced ground emissions by 75%.

www.continental.com

Eiffel Construction Mexico

Eiffel is one of Mexico's premier construction companies, with a reputation for excellence in design and execution, and a commitment to environmental and social responsibility. Established in 1993, Eiffel has completed over 8.5 million square feet of construction. Their head office facility is the first LEED certified building in Latin America. As Loreto Bay's largest general contractor, they display the highest regard for their employees and operate an exemplary worker accommodation facility, which includes the opportunity for workers to earn certifications from the National Institute for the Education of Adults.



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General Construction Contractors

Loreto Bay works closely with seven other general contractors in construction. The following companies are our daily working partners, putting up the homes and commercial buildings on site:

Arco- Arquitectura Contemporanea, S.A. de C.V.

Acar Constructores, S.A. de C.V.

Blash Internacional, S.A. de C.V.

Cise de Mexico SA de C.V.

Constructora Nuevo Loreto, S de R.L. de C.V.

Constructora Valle de los Cirios, S.A. de C.V.

Ginax SA de C.V.

George W. Girvin & Associates, Inc.

George W. Girvin Associates, Inc. encompasses all aspects of landscape architecture and site planning, locally, regionally and internationally: Urban design, park and recreation planning, college campus planning, hotel and resort planning, golf course site planning, project design coordination and management, executive design consultation, select residential/estate planning and historic landscape renovation. The company, founded in 1986, builds and shapes the landscape for people to experience and enjoy while protecting, preserving and enhancing the beauty and substance of nature as a resource for future generations. Loreto Bay Company has retained the company as the landscape architects for the Beach Club, spa, custom homes, streetscapes and golf course.

www.girvinassoc.net

International Composting Corporation

International Composting Corporation (ICC) was founded to become a world leader in the highly profitable composting industry. Loreto Bay Company has contracted ICC to provide state-of-the-art in vessel technology and expertise. The company's focus allows for the composting of organic materials and the resulting range of clean end products, including topsoil, soil amendments and Grade A compost. ICC is achieving its combined, simple and profitable vision of cost-effective composting of organic materials in an odor-free environment. ICC's technology is demonstrating that it is possible to economically mass produce compost in a clean environment, providing a viable alternative to landfill.

www.internationalcomposting.com

Econergy

Econergy International Corporation, a diversified international energy services company, provides a comprehensive range of clean energy solutions to clients worldwide. Loreto Bay Company is partnering with the company in the development of its 20 megawatt wind farm (to be expanded to 60 MW over the life of the project), which will supply renewable energy to Loreto Bay. Econergy has prepared projects representing more than 20 million tons of carbon dioxide emissions reductions, making it one of the world's leading private sector companies in the market.

www.econergy.com



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Casa Mesquite

Casa Mesquite is a 4-year old custom furniture manufacturing company based in Douglas, Arizona, with its manufacturing facility located across the border in Agua Prieta, Mexico. The company is headed by Luis G. Cordova, master furniture designer, who has been in the business of envisioning, creating and building beautiful furniture in Mexico for 18 years. Mr. Cordova, a dual American and Mexican citizen, comes from a family rich in Mexican culture and has developed an understanding and genuine affection for the Baja and Loreto through several visits to the area over the last year. Mr. Cordova has been working with some of the most prestigious designers in the Scottsdale and Tucson areas to create spectacular furniture with great design and functionality. His custom furniture is showcased in many beautiful homes in the Scottsdale, Carefree and Tucson areas. Furniture for Loreto Bay features FSC certified woods and low VOC finishes. Joining Mr. Cordova in this venture is home owner Joel Sherman, who is in charge of marketing and sales in Loreto Bay for Casa Mesquite. www.casamesquite.com.

Road9Loreto

Road9Loreto, a division of Road 9, is a next generation broadband solutions company delivering a high-capacity infrastructure on which communication and entertainment services are delivered. Loreto Bay Company has selected Road9Loreto to provide communications, entertainment and home technology services and products to The Villages of Loreto Bay. Road9Loreto will ensure that home owners have numerous packages, and service choices such as High Definition TV, Internet Music, DVD/Video on Demand, Broadband Security Monitoring and more. www.road9.net

West Coast Mill Works

West Coast Mill Works is home to Loreto Baja's most skilled woodworkers. A proud team of local artisans work alongside owners Roch Schafers and Geoff Ward formerly of Vancouver Island, British Columbia, Canada. From simple, high quality millwork to hand-carved, creative pieces, West Coast Millworks provides Loreto Bay with beautiful cabinets, doors, window frames and more. www.westcoastmillworks.com