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Investment Analysis for Intelligent Investors

May 11, 2011

Prestigious Properties - Kings Castle Limited Partnership – Focus on Multi-Family Apartments Buildings in Western Canada – Risk / Return analysis

Sector/Industry: Real Estate / Multifamily units **www.prestprop.com**

Issuer	Kings Castle Limited Partnership
Offering	Up to $15.0 million
Securities Offered	Class A limited partnership units
Unit Price	$5,000 per LP Unit (Minimum of 5 LP units per individual investor)
Expected Time Horizon	5-7 years
Management Equity	Receives equity via class B units discussed below in deal structure section.
Management Fees	0.5% annual asset management fee 6-8% selling commission fee 1% acquisition fee of purchased property 0.7% refinancing fee (if any) one time 1% administration fee

Investment Highlights

- Kings Castle Limited Partnership (the partnership) was formed to acquire undervalued and poorly managed real estate properties throughout Western Canada and possibly Texas.
- **The partnership's portfolio will consist primarily of multi-family real estate** with potential exposure to other types of real estate or mortgage securities.
- The real estate market has experienced significant increases in the last decade. We are not expecting property values to increase at the same pace as was experienced in the last decade. However, Prestigious Properties is **focusing on undervalued and poorly managed properties they believe will increase in value through renovations, marketing and better property management.**
- **The objective of this investment opportunity is to generate long-term capital appreciation** from the potential increase in the values of primarily multi-family apartment building through aggressive management and repositioning of properties. There is also the potential for annual yields from the income producing properties.
- The partnership is proposing to raise $15 million from the offering. They then plan to **acquire approximately $35 million to $45 million in real estate assets.** (60%-80% loan to value)
- We have a positive outlook on the rental market in Western Canada due to the expected growth in population, strong GDP growth and low average vacancies. **Historically, apartments have offered one of the best risk adjusted returns compared to other real estate investments.**
- **Expected return: 10.42% annualized return (6 year horizon)**

Risks

- Investors are not guaranteed minimum distributions, or return of capital.
- Units should only be considered by investors who do not require immediate liquidity, as there are penalties for early redemption.
- Expected returns will drop, or rise, if any of the inputs used in our base case scenario move unfavourably, or more favourably, respectively.

Background and Terms of the Offering

Kings Castle Limited Partnership (formed by Prestigious Properties) intends to raise up to $15 million for the primary purpose of investing in real estate rental properties within Western Canada. The primary focus will be on multi-family apartment buildings within Alberta and Saskatchewan, with secondary focus on British Columbia, Manitoba or Texas (if appropriate market conditions warrant). The fund may also invest outside multi-family residential properties, including but not limited to, commercial/office buildings, 1st or 2nd mortgage lending and undeveloped land, for the purpose of diversification of assets.

The following table shows a summary of the proposed investment.

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Purpose

The purpose of this report is to analyze the potential risk/reward profile of the units offered by Kings Castle LP.

Company Overview

The Prestigious Properties Group, **founded in 2000** by Thomas Beyer, was established to provide investors the opportunity to invest in real estate properties without having to deal with the day to day management of the assets. The company has **many years of experience in acquiring and managing multi-family apartment buildings**. In Western Canada Prestigious Properties typically uses Fireside Property Group, an associated firm by way of common director (Thomas Beyer). Fireside utilizes industry standard property management fees, as low as 3.5%. Prestigious Properties may also use arms-length 3rd party firms in Western Canada or elsewhere if the expected performance is insufficient or if more focused firms would do a better job, possibly in SK or BC where Fireside's presence is not as strong. Fireside is based in Calgary, AB. The primary focus of Prestigious Properties has been on purchasing underperforming and poorly managed rental properties in Western Canada. The company's strategy is to prudently manage and perform capital improvements to the properties and then resell or hold the properties as cash flow investments (depending on the investors' objectives).

Management Team

The senior management team has many years of experience in acquiring and managing multi-family apartment buildings. Below are brief biographies of the senior management team, as provided by the company:

Thomas Beyer, President:
Mr. Beyer has been in the real estate industry since 1997, including experience in two rental pool boards (where he acted as president) and has been on several condominium boards over the years. He founded Prestigious Properties in 2000 and over the years has grown the company into a successful multifamily property investment company with over $90 million in current assets under management. Prior to his career in the real estate industry Mr. Beyer worked as a software project manager, including 8 years working at IBM. He has an MBA from the University of Alberta (1988) and a B.Sc from the Technical University of Munich (1986). Mr. Beyer is a co-owner of Prestigious Properties Kings Castle GP Inc.

Scotty Grubb, Senior VP:
Mr. Grubb has over 30 years of experience as a business development professional with key involvement in the financing and operations of numerous public and private companies. He has completed his engineering education in Scotland before immigrating to Canada in 1968. Mr. Grubb has raised over $55 million as a successful manager and financier, including well over $30 million since joining Prestigious Properties Group in the fall of 2006. Mr Grubb is a co-owner of Prestigious Properties Kings Castle GP Inc.

Mike Hammerlindl, VP Asset Acquisitions:
Mr. Hammerlindl joined Prestigious Properties in 2007 where his focus is on property acquisitions. He graduated from the University of Alberta with a degree in Civil Engineering, focusing on structural design. He is also a CCIM (Certified Commercial Investment Member), which is a recognized expert designation in the commercial and investment real estate industry. Mr. Hammerlindl has experience working as a municipal consultant, architect and gas utility as well as been involved in several entrepreneurial ventures. Mr. Hammerlindl is a co-owner of Prestigious Properties Kings Castle GP Inc.

Keith McMullen, President Property Management Division:
Mr. McMullen has held positions with Gateway, Canada`s largest property management firm in Canada, as well as Transglobe which is Canada's 3rd largest apartment building owner. He is a co-owner of Fireside Property Group Inc. and his focus at Prestigious Properties is on revenue maximization and value growth.

Rick Linklater, CPM, VP Asset Management:
Mr. Linklater has had a successful career with large insurance firms, private property

managers and a publicly traded real estate firm for over 30 years. Mr. Linklater joined Prestigious Properties in 2006 where he oversees in-house property management and external property managers with a focus on value creation through revenue and NOI growth. He has graduated from the University of Alberta with a B.Com.

Why Invest in Real Estate?

Below is a list of some of the benefits to owning real estate and specifically multifamily real estate in an investment portfolio.

Diversification: Real estate offers significant diversification benefits to an investment portfolio. A look at US stocks/bonds and direct real estate investments over the period 1990-2004 illustrates the potential diversification benefits. **Over this period the S&P 500 had a correlation with the NCREIF index (unsmoothed) of -0.01 and the Lehman Aggregate Bond Index had a -0.27 correlation with the NCREIF index (unsmoothed),** which shows the significant diversification benefits that would have been achieved over that period. The NCREIF index is a collection of apartments, hotels, industrial, office and retail properties across the USA that are owned by institutional investors (returns are non-leveraged), Source (CISDM (2005a), CFA curriculum).

Cross Diversification: Not all real estate investments perform the same way. **Multifamily real estate offers some diversification benefits to other real estate investments** as well, as the chart below shows.

Cross Correlation Among Different Real Estate Asset Classes (1980 – 2006)

	Multifamily	Industrial	Office	Retail
Multifamily	1.00			
Industrial	.76	1.00		
Office	.76	.91	1.00	
Retail	.51	.59	.55	1.00

Source: Torto Wheaton Research

Source: report from Berkshire Property Advisors

High risk-adjusted returns: Returns and standard deviations calculated are sensitive to the time period chosen, however **we have found multi-family apartments offer one of the best risk adjusted returns** (compared to other direct real estate investments). Below is a chart illustrating the risk adjusted returns on different real estate options over a large and, relatively, up to date interval. Over the same period the S&P 500 had an average return of 11.4%, standard deviation of 17.8% and a return per unit of risk of 0.64; which is far below the risk adjusted return of multi-family real estate investments.

Property Type Characteristics (1Q1978-1Q2010)

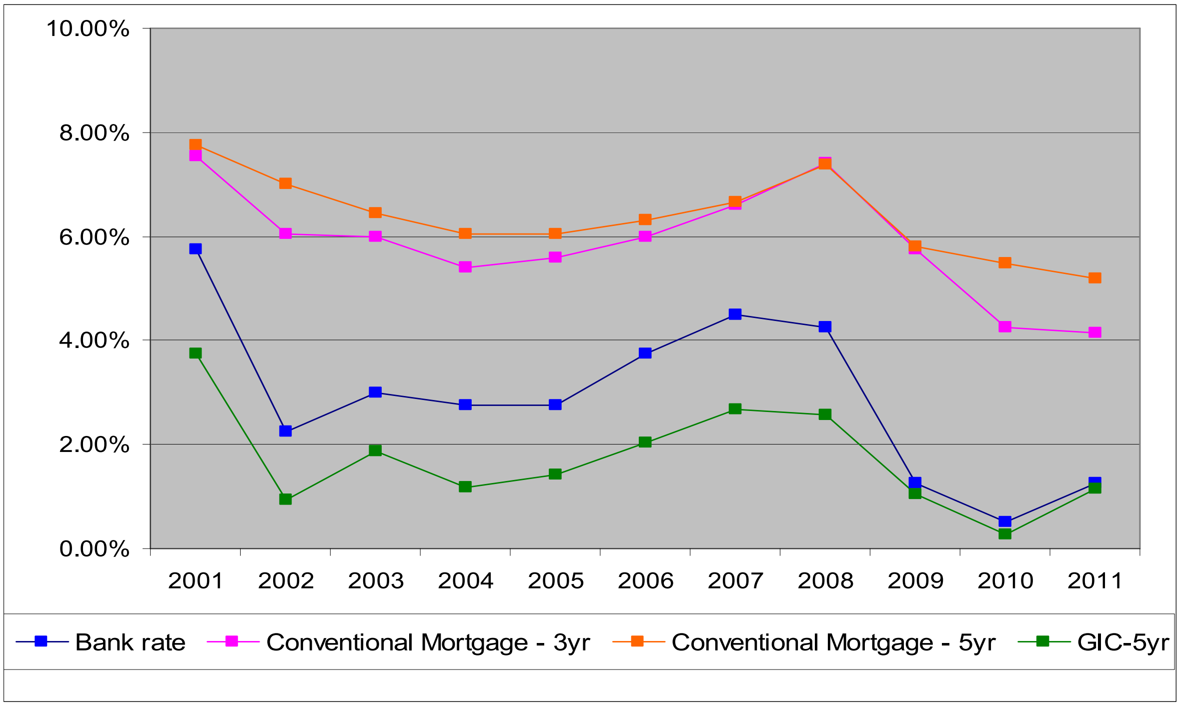
	Lease Term	Return	Risk (Std. Dev.)	Return per Unit of Risk
Multi-Family	1 year	10.14%	5.02%	2.02
Industrial	3 - 10 years, 5 year average	9.02%	4.84%	1.86
Office	4 - 10 years, Term linked to tenant size	8.01%	6.39%	1.25
Retail	Side-shops 3 - 5 years Anchors 10 - 20 years	9.20%	4.31%	2.13

Source: NCREIF, LaSalle Investment Management, "Inflation and Real Estate," August 2009
Source: Marquette Associates Oct 2010, prepared by Peter J. Rogers, CFA

Inflation hedging: If inflation is moderate, we believe real estate provides a good hedge to inflation. Also, **multifamily units (which are the focus of this investment) typically have short lease terms compared to other real estate rental/leasing investments allowing owners to increase the rental rates** on the units more frequently, providing a higher degree of inflation protection on the cash flows.

Tax benefits: Real estate investments offer tax benefits similar to investments in stocks within Canada but also offer tax deductions, through property depreciation, potentially offsetting the tax implications of the income received (deferring the tax until the asset is sold). The total return is a combination of property cash-flow, asset value appreciation (through inflation, asset improvements and rent increases) and mortgage pay down over a 5+ year time horizon. **The capital appreciation is deferred until the property is sold then it is taxed at 50% of the investors marginal tax rate.** This is increasingly beneficial to investors who are in high tax brackets. RRSP investments, which also grow tax deferred, are taxed at 100% of the investors' marginal tax rate once the investment is withdrawn from the plan, no matter what the investment was in.

Interest rates: Interest rates are still at historically low levels. The major banks (in Canada) have recently started to increase the long term mortgage rates and the Bank of Canada is expected to continue increasing the overnight rate to curb inflationary pressures. As a result of this, we believe that the LP should be able to acquire relatively cheap rates in the near term, allowing for better leveraged returns. **Also, as the mortgage rates start to increase, housing becomes less affordable for people, increasing rental property demand.** Most multifamily rental properties in Canada can use CMHC insured mortgages (Prestigious Properties frequently uses CMHC financing). This offers significant advantages for a couple of reasons. First, lenders are more willing to provide financing for CMHC insured mortgages since there is essentially no risk to the lender (CMHC accepts the risk). Second, **CMHC mortgages are typically 0.7%-1.0% below the 5-year mortgage rates** allowing for increased returns due to lower financing costs. For example, the CMHC mortgage rates in Spring 2011 are around 3.5% for a 5-year term, while bank rates are about 4.5% (TD and RBC 5-year rates). The graph below shows some key historical bank rates.



Leverage: Real estate investments typically offer high leverage whereby a property can be purchased with an outlay of around 20% of the value. **The benefit of leverage to investors is the magnification of returns (including losses).** Most investments do not offer the ability to leverage as much, as easily or as cheaply as with real estate investments.

Past performance

The following is a brief overview of the historical performance of Prestigious Properties.

Prestigious Properties has been involved with five joint ventures and six limited partnerships (including Kings Castle LP) that were primarily invested in multifamily real estate. Four of the five joint ventures are dissolved (all properties sold) and one limited partnership is dissolved (all properties sold). The company also has been involved in a number of co-investments with individual investors. **As of Winter 2010/2011, more than 500 individual investors have invested over $43 million through Prestigious Properties. Current portfolio is valued at over $90 million**. (Source: company).

The company's strategy is to identify and acquire undervalued or poorly managed income producing properties and reposition them (through repairs, enhancements, effective management strategies and marketing programs) at higher valuations and if not immediately then to refinance and return the funds to the partnership. Management's experience in real estate investments and property management, along with the economies of scale they can realize, enables the company to effectively implement these repositioning strategies and add further value to the properties. Currently a number of investments are still active (not sold) and some of the return data is unavailable. Below we have included a chart of the purchase and sale/approximate sale price for properties purchased through Prestigious Properties. **The data does not include any fees, costs, equity sharing, leverage effects or time value and should only be used to give an idea of the**

company's ability to purchase undervalued properties (also note improvements have been done on some of these buildings, and the costs are not included). The values in blue include estimated values of the properties.

The chart below displays the historical purchase and sale/estimated sale prices.

Location	# of units	Purchase Price	Selling Price	Approximate Value (April 2011) - Properties Owned	Unleveraged Building Returns
Edmonton, AB	15	$ 570,000	$ 750,000	$ -	31.58%
Edmonton, AB	20	$ 712,000	$ 1,000,000	$ -	40.45%
Edmonton, AB	24	$ 1,233,600	$ 1,480,000	$ -	19.97%
Edmonton, AB	24	$ 1,080,000	$ 1,488,000	$ -	37.78%
Red Deer, AB	21	$ 900,000	$ 1,597,500	$ -	77.50%
Edmonton, AB	12	$ 492,500	$ 585,000	$ -	18.78%
Stony Plain, AB	47	$ 2,140,000	$ 4,394,500	$ -	105.35%
Edmonton, AB	39	$ 1,900,000	$ 3,900,000	$ -	105.26%
Edmonton, AB	120	$ 5,050,000	$ -	$ 10,500,000	107.92%
Edmonton, AB	101	$ 4,160,000	$ 9,929,000	$ -	
Fox Creek, AB	38	$ 1,300,000	$ 1,564,000	$ -	
Fox Creek, AB	20	$ 730,000	$ 1,350,000	$ -	
Powell River, BC	64	$ 3,300,000	$ 2,856,960	$ -	
Powell River, BC	41	$ 1,600,000	$ 1,607,040	$ -	56.06%
Fox Creek, AB	21	$ 600,000	$ 1,546,000	$ -	157.67%
Camrose, AB	42	$ 2,150,000	$ 2,841,930	$ 1,900,000	120.55%
Camrose, AB	84	$ 6,700,000	$ -	$ 6,720,000	
Wetaskiwin, AB	104	$ 8,125,000	$ -	$ 9,880,000	
Powell River, BC	19	$ 1,000,000	$ 1,090,000	$ -	
Yorkton, SK	45	$ 1,050,000	$ -	$ 1,999,000	18.43%
Detroit, MI	45	$ 599,436	$ 100,000	$ -	
Denton, TX	308	$ 13,320,000	$ -	$ 13,800,000	
Sudbury, ONT.	93	$ 3,950,000	$ -	$ 4,650,000	3.81%
Yorkton, SK	25	$ 875,000	$ -	$ 1,500,000	
Yorkton, SK	8	$ 338,000	$ -	$ 500,000	
Yorkton, SK	48	$ 2,256,000	$ -	$ 2,640,000	
Campbell River, BC	65	$ 4,290,000	$ -	$ 4,457,245	
Stony Plain, AB	47	$ 4,394,500	$ -	$ 4,500,000	
Abbotsford, BC	108	$ 8,500,000	$ -	$ 9,936,000	
Calgary, AB	90	$ 10,987,500	$ -	$ 11,325,000	
Yorkton, SK	10 acres	$ 365,000	$ -	$ 600,000	
Cold Lake, AB	1st Mortgage	$ 1,000,000	$ -	$ 1,112,500	10.80%
Calgary, AB	30	$ 3,662,500	$ -	$ 3,775,000	
TOTAL	**1768**	**$99,331,036**	**$38,079,930**	**$ 89,794,745**	

Some highlights of the returns achieved **(provided by the company and not verified by us)**

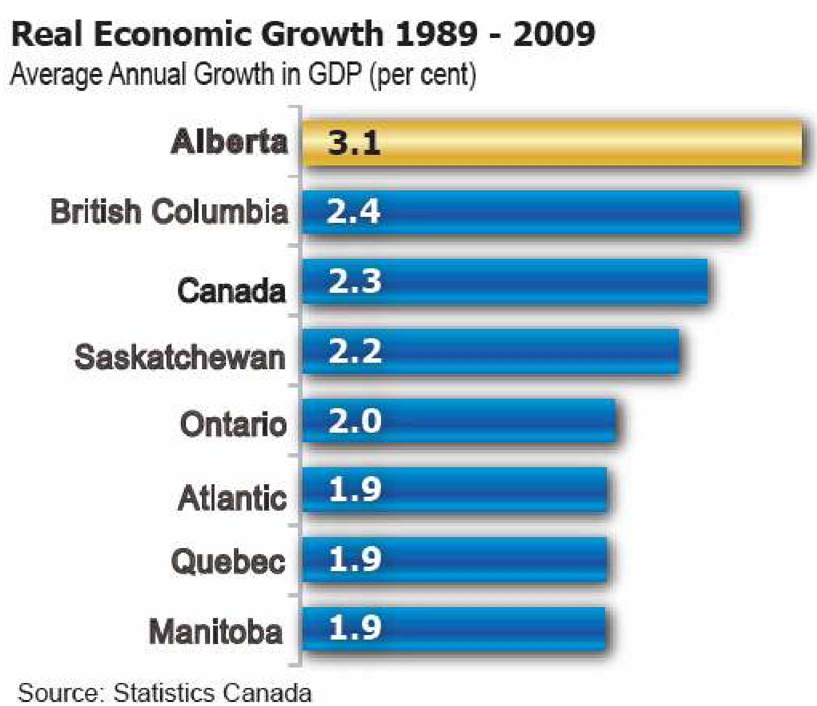
- No previous investor has ever lost money
- Minimum ROI 25% (4 years), approximately 5.7% annualized (after all costs and fees but before tax)
- Over 30 transactions valued at well over $110 million since 2000.

Details on planned investment locations.

There are a number of factors that affect the returns of multi-family real estate investments. Some of the key factors are: **house affordability, gross domestic product, population growth, employment, vacancy rates, rental rates and capitalization rates.** We discuss these factors further below.

Housing affordability in Canada has improved slightly in the recent months but is expected to decrease, at least in the next few years, according to the RBC housing affordability index. Recent mortgage rules have made it harder for people to get approved for a mortgage with increased regulations on Canada's already tight mortgage rules (amortization maximum decreased to 30 years, a few years ago the maximum was 40 years). In addition to the decreased maximum amortization (which causes payments to be higher) interest rates are expected to increase as they still remain at historical low levels, which will increase mortgage payments even more. For residents of British Columbia the new Harmonized Sales Tax also has added in the decreased affordability. **Based on these factors we believe the rental market will be able to capitalize on the reduced affordability of home ownership since individuals will not be able to purchase property as easily as was done in the past.**

Below is an overview of the growth in GDP of Canadian provinces. **Three of the four Canadian provinces the LP is focusing on had the highest average annual GDP growth over the 21-year period. This is a good indication of the high growth potential and strong economies these provinces have compared to other Canadian provinces.**



Source: Government of Alberta, Alberta Economic quickfacts

Western Canadian Provinces

The Kings Castle Limited Partnership was formed to primarily purchase multi-family apartment buildings in Alberta and Saskatchewan and possibly in British Columbia, Manitoba and Texas. Below we take a closer look at the opportunities in each of these locations.

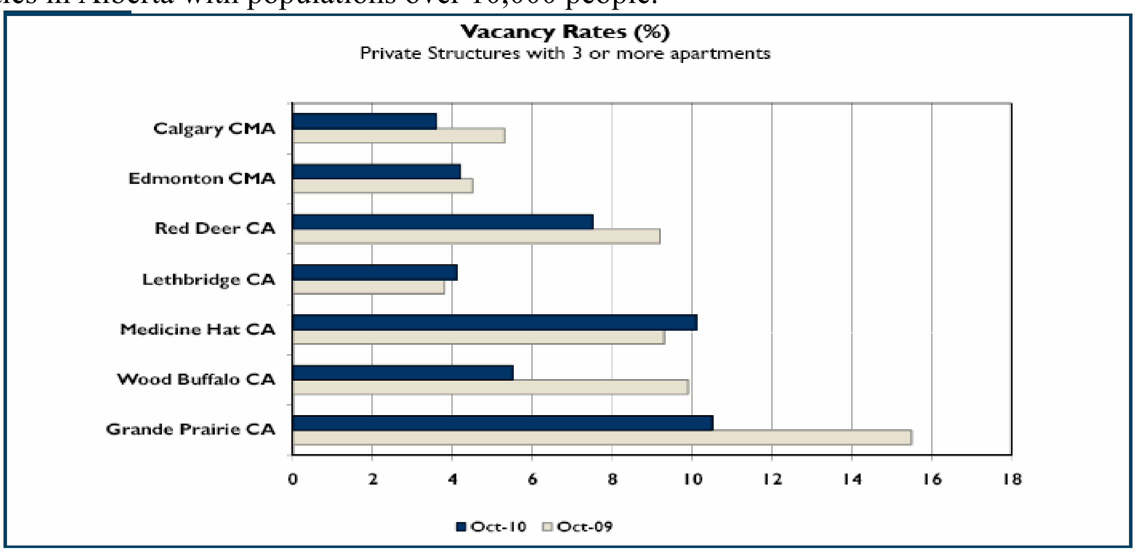
Alberta:

The consensus estimates for 2011 and 2012 percent change in Real GDP in Alberta is approximately 4.35% and 3.55%, respective**. This is well above Canada's expected GDP as a whole for 2011 (consensus forecast of 3.15%) as well as for 2012 (2.85%).**

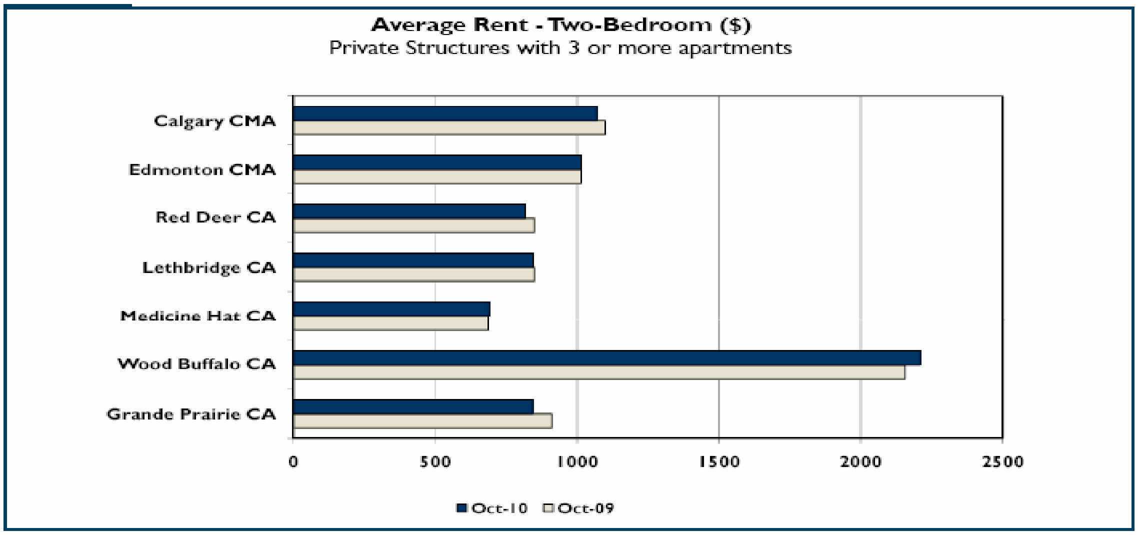
The population in Alberta is growing very strong with a compound annual growth rate (CAGR) over the last 10 years (2001-2010) at about 1.98%, and a current population of about 3.72 million people. Canada over the same period had a CAGR of 0.95% (Source, BCStats). In 2010, Alberta had a net migration of approx. 30,974 people with over 78% from international migration**. Over the past 5 years (longest available information), Alberta has had a positive net migration.**

The employment rate in Alberta is 69.0% and unemployment rate is 5.7% as of March 2011. **Going forward the consensus forecast of the unemployment levels are at 5.65% for 2011 and 5.35% for 2012.**

The latest rental vacancy rates provided by CMHC throughout Alberta was 4.6% in October 2010 compared to the average in Canada of 2.9%. **The ten year arithmetic average vacancy rate in Alberta (2000-2009) is 2.7% compared to Canada at 2.5%. The current vacancy rate is over 50% more than the average for Alberta (4.6% compared to average of 2.7%) which we believe shows significant potential for acquiring rental properties at a discount.** Below is a chart of the vacancy rates and rental rates for select cities in Alberta with populations over 10,000 people.



Source(CMHC)



Source(CMHC)

The average rental rates have decreased for most areas or have stayed flat. This has helped the vacancy rates to edge lower YOY. **The CAGR for rental rates has been 4.8% over the 10 year period of 2000-2009.** We believe as the economy starts to pick up in the next year or two, and as the vacancy rates decrease to more normal levels the rental rates will start to increase close to the historical CAGR.

We believe Alberta has attractive growth rates and opportunities for acquiring properties in the rental market at discounts due to the higher than average vacancy rates.

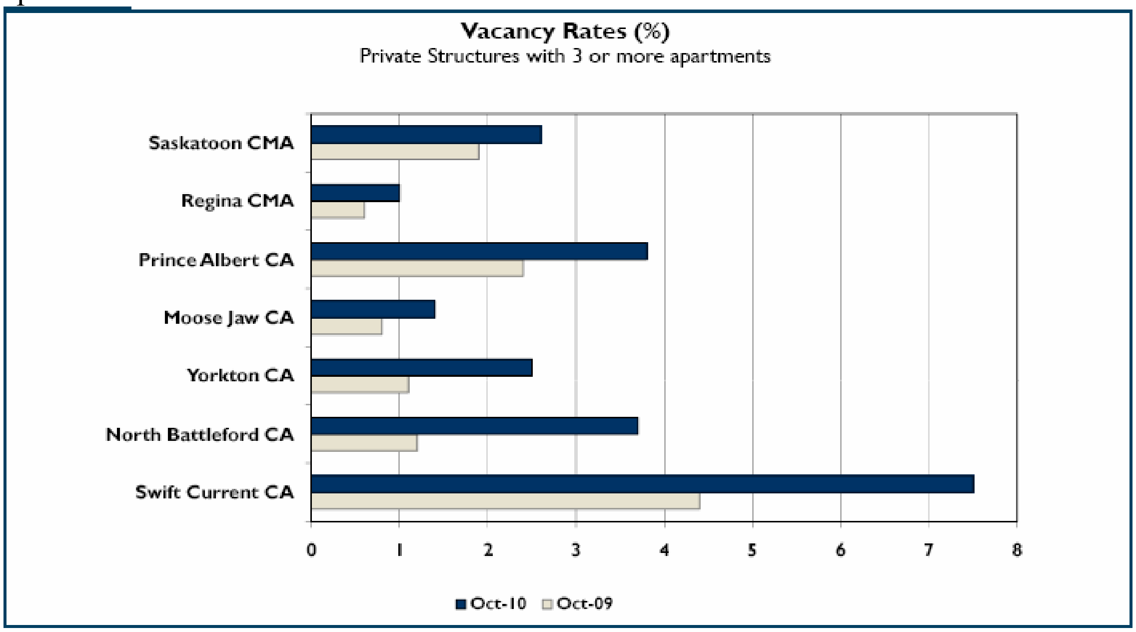
Saskatchewan:

The consensus estimate for Saskatchewan change in real GDP in 2011 and 2012 is approximately 4.75% and 3.55%, respectively. **This is the highest forecast GDP out of all the provinces and clearly above the Canadian GDP forecasts.**

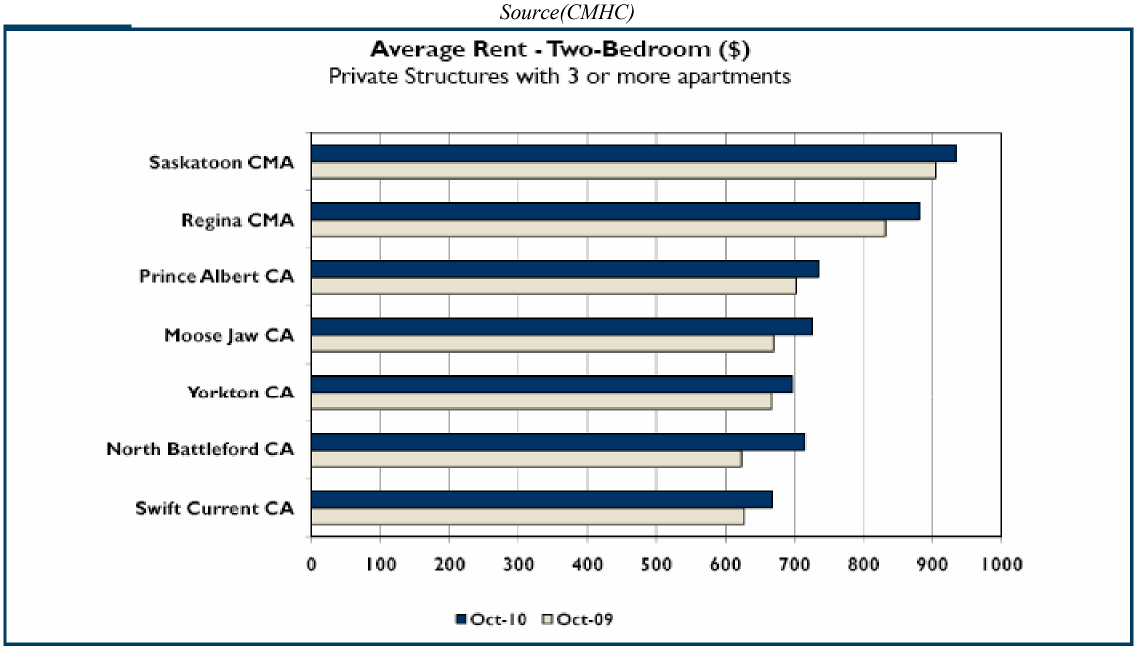
The population in Saskatchewan has not grown very strong in the past ten years (2001-2010) with the CAGR at about 0.44%, and a current population of about 1.04 million people. This is well behind the CAGR for Canada of 0.95% over the same period, (Source, BCStats). In 2009, Saskatchewan had a net migration of approx. 10,188 people with over 73% from international migration. **Historically Saskatchewan has done poorly in population growth with 4 out of the last 10 years having declining population and another 2 out of 10 years with growth rates under 0.2%. The positive side of this story is in the last 4 years Saskatchewan has experienced a growth rate around 1.4% and with the expected high GDP rates we are expecting this trend to continue (Source, government of Saskatchewan).**

The employment rate in Saskatchewan is 65.8% and unemployment rate is 5.2% as at March 2011. **Going forward the consensus unemployment levels are estimated to be at 5.0% for 2011 and 4.75% for 2012.**

The latest rental vacancy rates provided by CMHC throughout Saskatchewan was 2.5% in October 2010 compared to the average in Canada of 2.9%. The ten year arithmetic average vacancy rate in Saskatchewan (2000-2009) is 3.1% compared to Canada at 2.5%. From 2007-2009 Saskatchewan had some of the lowest vacancy rates in Canada around 1.3%. **Based on this information, we believe, a reduction in vacancy rates may not be as easily achieved in some parts of Saskatchewan due to the already low rates. However, as can be seen in the graph below there was a relatively large increase in vacancy rates from Oct. 09 to Oct. 10, which may allow properties to be purchased at discounts in some areas. The CAGR (2000-2009) in rental rates has been 4.6% .** Below is a chart of the vacancy rates and rental rates for select cities in Saskatchewan with populations over 10,000 people.



Source(CMHC)



Source(CMHC)

We believe the forecasted GDP numbers along with the recent population increases are good indicator of the potential in the Saskatchewan real estate market. The latest YOY increase in vacancies may offer opportunities for finding undervalued properties as well as the high CAGR in rental rates provides good opportunities to increase the value of multi-family apartments.

British Columbia:

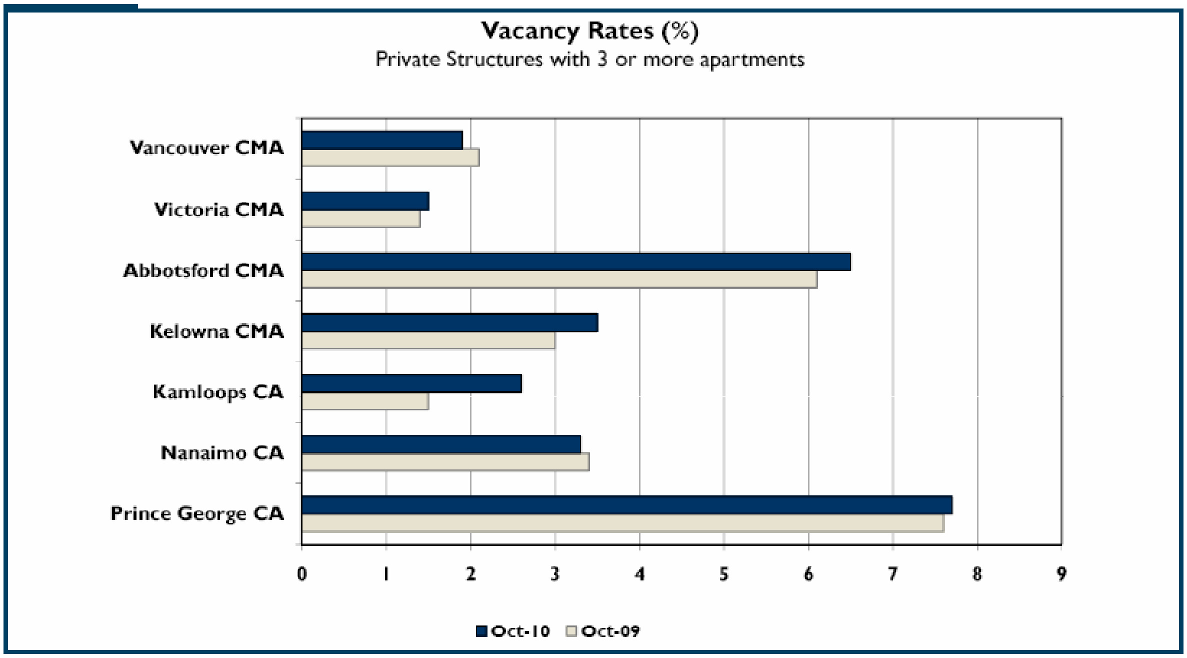
Based on the consensus estimates, the 2011 and 2012 percent change in Real GDP for British Columbia is approximately 2.95% and 3.15%, respectively. **This is a little below Canada's expected GDP as a whole for 2011 (consensus 3.15%) and above the consensus for 2012 (2.85%).**

The population in BC grew at a CAGR over the last 10 years (2001-2010) of 1.06%. The current population in BC is about 4.53 million people. This compares to a CAGR for Canada of 0.95% over the same period (Source, BCStats). In 2010, British Columbia had a net migration of approximately 58,500 people with over 87% from international migration. **Since 2003 BC has had a net migration from other provinces. These are good indicators of the attractiveness and growth potential of the population in BC.**

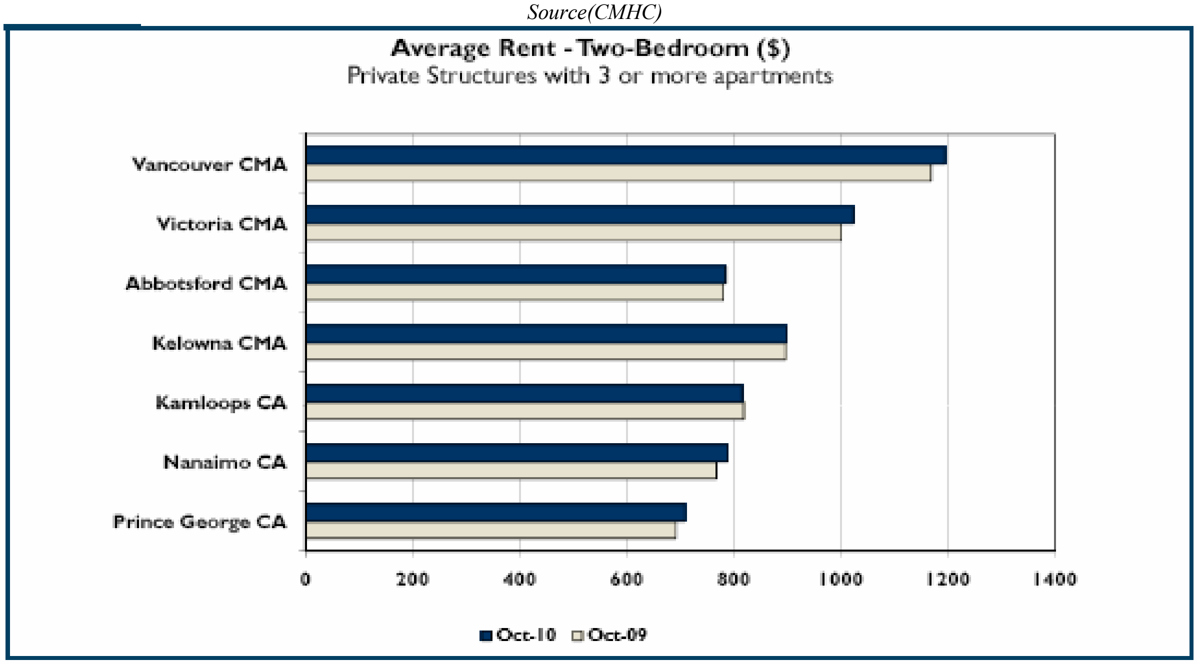
The employment rate in British Columbia is 60.1% and unemployment rate is 8.1% as of March 2011. **Going forward the consensus unemployment levels are estimated to be at 7.4% for 2011 and 7.05% for 2012. The unemployment rates are relatively high but are expected to decrease by more than 1% by 2012.**

The latest rental vacancy rates provided by CMHC throughout British Columbia was 2.7% in October 2010 compared to the average in Canada of 2.9% (includes all areas with populations of 10,000 or more). **The ten year arithmetic average vacancy rate in British Columbia (2000-2009) is 2.3% compared to Canada at 2.5%**. We believe the higher current vacancy rate in BC compared to the ten year average indicates there is potential for acquiring rental properties at a discount due to higher vacancies than the average.

Below is a chart of the vacancy rates and rental rates for select cities in BC with populations over 10,000 people.



Source(CMHC)



Source(CMHC)

Rental and vacancy rates usually move together, as rents increase less people will want to rent. However, as the above graphs illustrate the vacancy rates were quite variable with no apparent trend. **There are a number of factors that affect these rates and we believe if the area is chosen with strong growth than improvements in the property and prudent management can force vacancies down and rents up.**

The average rents have increased for all areas except Kamloops and Kelowna. Most apartments have relatively short leases, as previously mentioned, thus allowing for rate increases to be taken advantage of more frequently. British Columbia however has strict rental restrictions compared to Alberta and Saskatchewan which is why it is not a primary focus for the partnership. **The average rental rate for a two bedroom apartment in BC has increased by 2.9% (2000-2009 CAGR)** compared to inflation over the same period of 1.7% (Source, Bank of Canada).

Based on the above information we believe British Columbia has slight growth potential and current opportunities in the rental market.

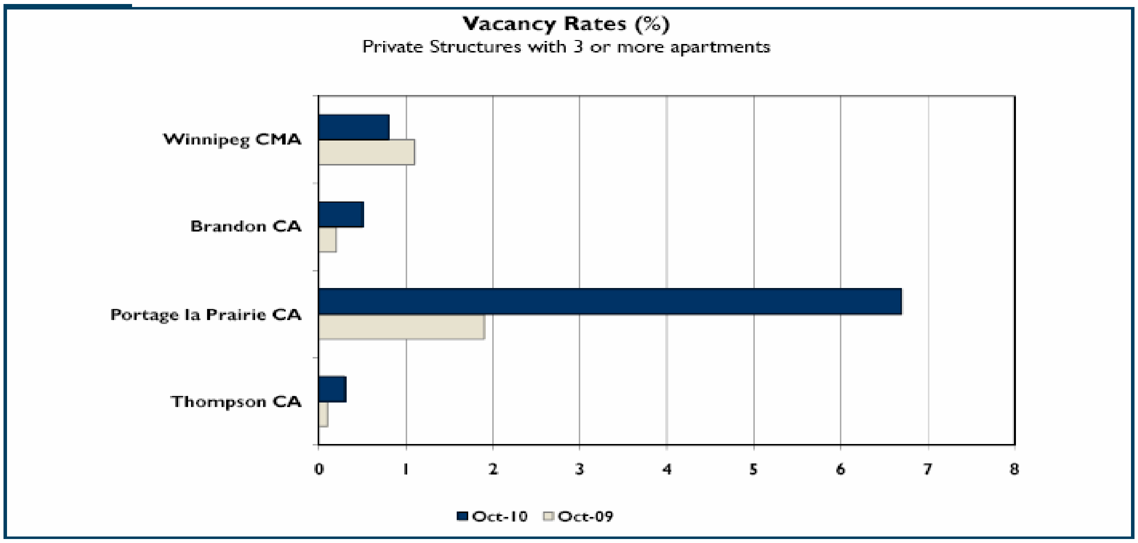
Manitoba:

The consensus estimates for 2011 and 2012 percent change in Real GDP in Manitoba are 3.15% and 2.85%, respectively. **The GDP forecasts put Manitoba roughly in the middle compared to the other provinces and is in line with that for Canada as a whole.**

Manitoba's population has grown at 0.71% CAGR over the last 10 years (2001-2010), with a current population of about 1.24 million people, compared to CAGR for Canada of 0.95% over the same period (Source, BCStats, Manitoba bureau of statistics). **Over the past 15 years Manitoba had a net negative inter-provincial migration. While over the past 5 years, Manitoba has had a positive net migration despite the negative inter-provincial migration.**

As of March 2011, Manitoba had an unemployment rate of 5.5%. Going foreword the consensus unemployment rate for 2011 is expected to be 4.95% and for 2012 at 4.9%. **The consensus unemployment rates are relatively strong putting Manitoba in the top three provinces for 2011 and 2012.**

The latest rental vacancy rate for Manitoba is 0.9% in October 2010 compared to the average in Canada of 2.9%. **The 10-year arithmetic average vacancy rate in Manitoba (2000-2009) is 3.1% compared to Canada at 2.5%. The 10-year CAGR in rental rates has been 3.09% over the 2000-2009 period.** Similar to Saskatchewan, based on this information we believe a reduction in vacancy rates may not be as easily achieved in some parts of Manitoba due to the already low rates. Below is a chart of the vacancy rates and rental rates for select cities in Manitoba with populations over 10,000 people.



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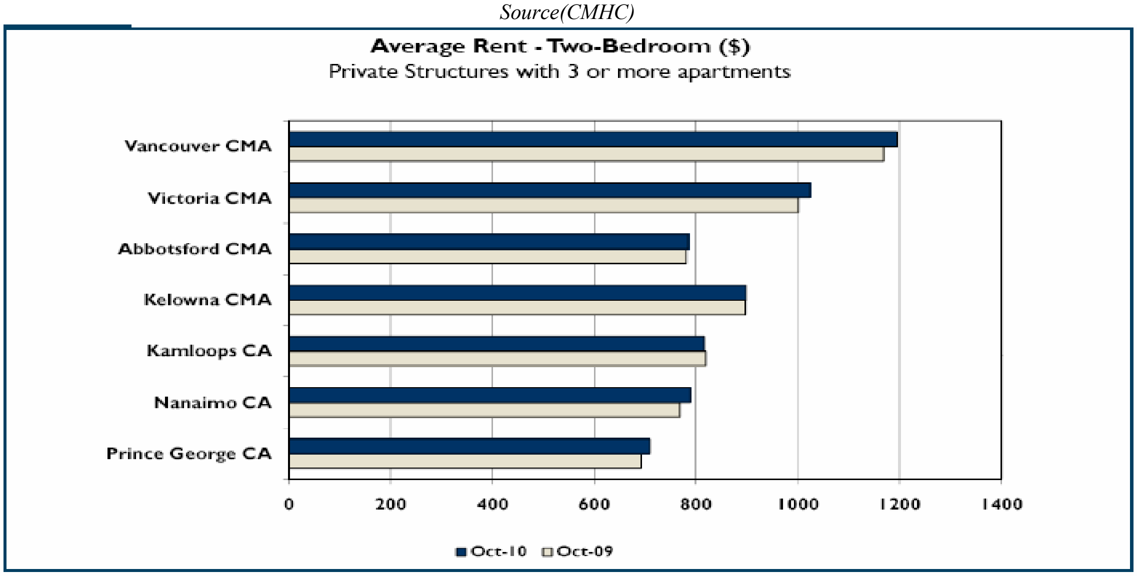


Source(CMHC)

We don't see Manitoba offering too much potential and opportunities in the rental market at the moment. Prestigious Properties, however, is mainly focusing on Alberta and Saskatchewan and will only purchase in the other provinces/state if the opportunities present themselves.

Capitalization Rates and a Summary of Canadian Provinces

Below is a summary of the GDP and unemployment information that was mentioned above. The highlighted numbers are the top three performers in the two categories. As can be seen, the consensus forecast for Saskatchewan and Alberta is strong performance relative to the other provinces (the two provinces that are the partnerships primary focus) and although British Columbia has a high unemployment rate it is forecast to change quite significantly relative to the other provinces. We believe this data along with the population statistics, housing affordability, vacancy rates and historical CAGR in rental rates indicate that there will be increased demand for rental markets in the coming years as well as current opportunities to enter the market.

Summary Forecast GDP (Percent)	2011F	2012F
Newfoundland&Labrador	4.7	2.0
Prince Edward Island	2.2	2.2
Nova Scotia	1.8	2.0
New Brunswick	1.9	2.3
Quebec	2.5	2.7
Ontario	3.0	2.7
Manitoba	3.2	2.9
British Columbia	3.0	3.2
Alberta	4.4	3.6
Saskatchewan	4.8	3.6
Canada	3.2	2.9

Summary Unemployment Rate (Percent)	Mar-11	2011F	2012F
British Columbia	8.1	7.4	7.05
Alberta	5.7	5.65	5.35
Saskatchewan	5.2	5	4.75
Manitoba	5.5	4.95	4.9
Ontario	8.1	8.15	7.85
Quebec	7.7	7.7	7.55
New Brunswick	9.6	9.2	8.7
Nova Scotia	9.0	9.25	8.95
Prince Edward Island	11.2	11.15	10.65
Newfoundland & Labrador	12.4	13.5	12.75
Canada	7.7	7.6	7.3

The next factor we will exam is the capitalization rates (cap rates) for multifamily buildings. The cap rate is the net operating income divided by the market value of the property and gives an idea of the relative prices of rental properties. Ideally, investors want cap rates to shrink as this would imply an increasing market value. Below are two charts showing the cap rates for select major city's in Canada, the first as of Q2 2010 along with the future trend (the partnership focuses on low rise buildings) and the second shows 2008 and 2009 cap rates. The trend for the cap rates for the major cities in the provinces that Prestigious Properties is looking at is expected to stay flat in the near term. Since Prestigious Properties strategy is to improve the properties through active management (renovations, marketing, etc.) we do not see this as a major problem (it does limit the growth potential in value).

However, cap rates play a major role in the valuation. If the cap rates increase and the property is sold at a higher cap rate, losses may result. We believe the cap rates are relatively low implying market values are currently high in most areas making selection of the properties even more important.

MULTIFAMILY CAP RATES					
MARKET	HIGH RISE		LOW RISE		TREND
CANADIAN CITY	LOW	HIGH	LOW	HIGH	
Vancouver	4.00%	4.50%	4.50%	5.00%	►
Calgary	5.50%	6.00%	5.75%	6.25%	►
Edmonton	6.00%	6.75%	6.25%	7.25%	►
Toronto	5.75%	6.50%	5.50%	6.25%	L▼/H▲
Ottawa	5.50%	6.25%	6.00%	7.25%	▼
Montreal	6.25%	7.00%	6.75%	7.75%	►
Winnipeg	5.50%	6.25%	5.75%	6.25%	►
Halifax	6.00%	6.50%	6.50%	7.00%	►

Colliers International Canadian Cap Rate Report Q22010

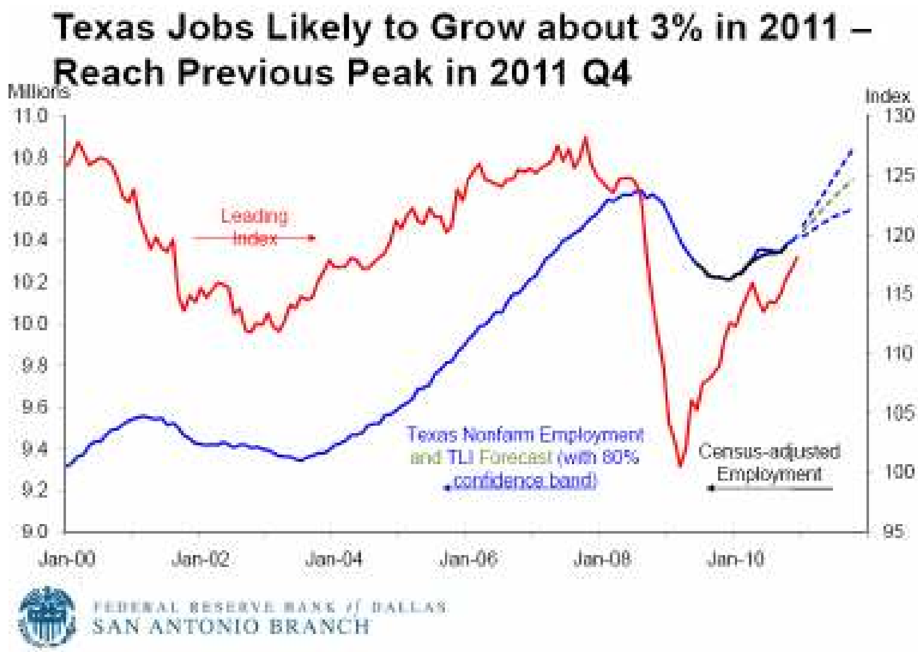
Capitalization Rates, Multi-Family Low Rise (Percent)	Q2/2008	Q2/2009	Q2/2010
Vancouver	4.5-5.0	6.25-7.25	4.5-5.0
Calgary	5.75-6.25	6.25-6.75	5.75-6.25
Edmonton	6.75-7.25	6.75-7.25	6.25-7.25
Saskatoon	6.0-6.50	6.75-7.0	n/a

Texas

The estimated 2011 and 2012 percent change in GDP for the State of Texas is approximately 4.21% and 5.55%, respectively (Source, US Department of Commerce). **The consensus forecast for the GDP of the United States is at 3.25% and 3.35% for 2011 and 2012. Texas is well above these numbers, indicating strong growth in the state.**

The population in Texas is growing strong with the CAGR over the last 11 years (2000-2010) at 1.72%, and a current population of about 25.88 million people, compared to CAGR for the United States of 0.84% over the same period, (Source, Texas State Library and Archives). **In 2010, Texas had a net migration of approx. 1.78 million. Texas had the second largest net migration, just behind Florida with 2.03 million people. The third largest was Arizona at 0.98 million people, far behind Florida and Texas.**

The unemployment rate in Texas is 8.30% as of December 2010**. Texas has had an unemployment rate at or below the national average for the past 4 years.** The graph below is from the federal reserve bank of Dallas and illustrates the expected growth in jobs over the next year, which we believe to be quite positive.



Source (Federal Reserve Bank of Dallas, Economic outlook 2011)

We believe the above data indicates the state of Texas will be experiencing strong growth in the coming years which in our opinion is good for the real estate market as a whole including the multi-family apartment market.

Strategy/Historical Purchases

Prestigious Properties typically uses around 50-85% leverage on their property purchases in order to magnify the returns to investors and allow for a greater number of properties to be purchased. For the current partnership they are planning on using around 60%-80% leverage. The partnerships strategy, as previously mentioned, is to locate undervalued and poorly managed properties in growth areas. **The properties that they focus on are typically significantly below replacement costs. This allows Prestigious Properties to improve the buildings and add value much more economically and with fewer risks than if they had built a new building.** Prestigious Properties then intends to increase the value through renovations, marketing, property management, etc. They typically acquire properties as early as they can to allow ample time for value creation. Once a property is purchased and the improvements are made the partnership will then resell the property or re-mortgage to return the funds to the partnership (no further real estate investments will be made with the funds). Below is a brief description of the investment process on two typical purchases.

A 25 unit low-rise apartment building was purchased in 2008 in the city of Yorkton Saskatchewan within a previous limited partnership (still active). The building is located south and west of the downtown core of Yorkton (population of approximately 17,000 people). The building was purchased shortly after a new roof, exterior windows and doors were replaced. The LP bought the apartments because they saw the potential for rent increases (rents below market rate) as well as long term appreciation. After initial in-suite upgrades and rental increases, the apartment was appraised in May of 2009 at a premium of 53% above the price the partnership paid for it and is currently conditionally sold for summer of 2011 at an even higher valuation (approximately 86% above the purchase price).

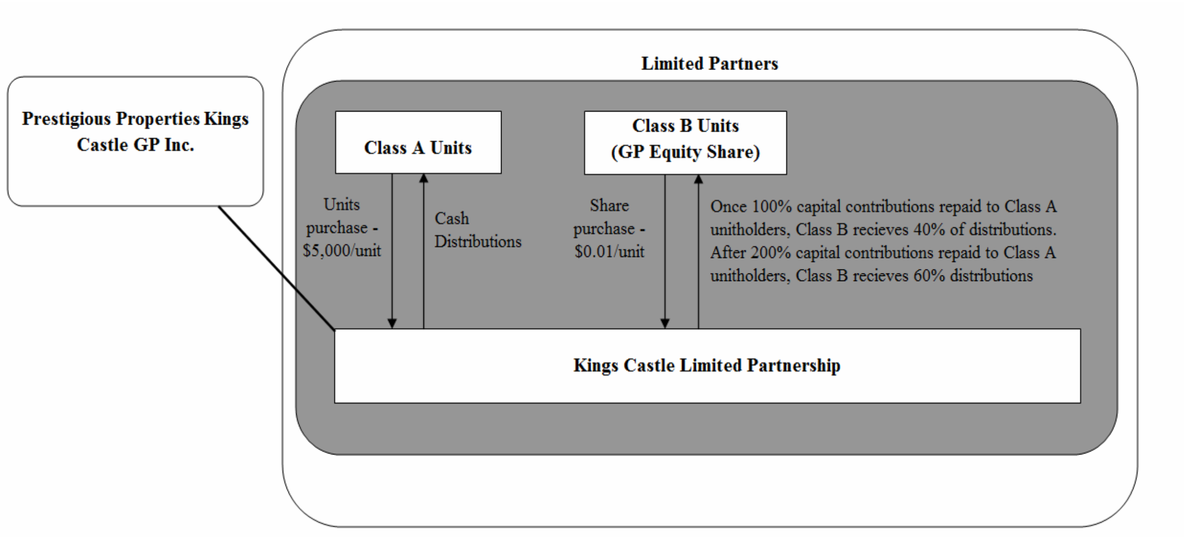
The building was refinanced in fall-2009 allowing for the majority of the funds to be returned to the partnership. The expected ROI is just over 106% in 5 years, which is about a 15.5% compound annual return (company estimates).


Another property purchased under the same limited partnership was a 55-unit low-rise apartment complex (plus 10, 3 bedroom townhouses) in Campbell River, British Columbia. The 55 units are comprised of 10 1-bedroom units and 45 2-bedroom units. Campbell River is located on Vancouver Island; the city has a population of approximately 30,000 people. The property was purchased for upside potential in rents after exterior/interior improvements. The partnership is currently contemplating the future plans for the property. They are contemplating a possible condo conversion, renovation and sale of the 10 townhouse units and a refinance with long term hold of the remaining 55 units. There is also extra land available on the property that is currently being investigated for the benefits of constructing an additional 10 townhouse units. The expected ROI over 5 years is just over 100% which works out to just under 15% compound annual return (company estimates).


Deal Structure

The company has used a variety of structures for its syndications including; joint ventures, individually owned (managed by Prestigious Properties) and limited partnerships.

The Kings Castle LP structure is a limited partnership. *Limited Partnerships are commonly used structures for real estate deals because of the tax advantages provided – the LP* *structure eliminates double taxation. Income is passed through to investors and taxed only once, instead of being taxed first at the corporate level then taxed again at the investor level. In addition, the LP structure allows for the flow-through of initial start-up losses to investor to reduce taxes in the early years of the LP where costs for LP start-up (soft costs) as well as property upgrades are the highest.* The following chart shows the structure of the proposed deal.



The assets will be held, in-trust, by Prestigious Properties Kings Castle GP Inc. (the general partner), for the benefit of Kings Castle Limited Partnership (the limited partners). The day to day operations of the partnership will be managed by the general partner. The general partner will have unlimited liability for the debts and obligations of the partnership (including signing of mortgages placing management with person liability to the debts of the partnership).

The investment is offering for sale 3,000 class A units (134 were initially sold to founding limited partners, total maximum class A units 3,134). Eleven founding limited partners **(including all shareholders of the general partnership) have invested over $530,000 of their own funds into the LP, which in our opinion is a good indication of their belief in the ability of the LP to produce positive returns.**

The general partners expect to receive the majority of their pay from class B shares. The general partners will receive 100 class B units for every 1 class A unit sold (totalling 313,400 class B units). The class B units cannot vote on matters involving the removal of the general partners and they have limited share in the profits as described below.

- **Distributions:** Most real estate investments of this type follow a “J” pattern, this means the investment will typically not distribute funds in the beginning (may even experience losses, allowing for tax deductions) due to initial costs and implementation of planned renovations etc. After the initial outlays are complete the investment may distribute the cash flows. The timing and amount of distributions will be determined by the general partner and will be based on the following allocations: Class A units will receive 99.995% of all distributions until the capital contributions of the limited partners holding the class A units are repaid in full. The 0.005% shall be allocated to the limited partners holding the Class B units (to a maximum of $100/year). **Only after 100% of the capital contributions of Class A unit holders are returned the class B unit holders will be able to participate in the profits.** The distributions will then be 60% to class A holders and 40% to class B holders, until Class A unit holders have been allocated an amount equal to 200% of their aggregate capital contributions. After the Class A unit holders have received 200% of the capital contributions the allocations are again changed to 40% class A and 60% to class B. **As the general partners returns are tied to profits, we believe this structure aligns both the Class A unit holders and Class B unit holders with the same overall objectives. This is a good indication of management's beliefs in the performance of the fund.**

The fees paid to the general partners for their services provided to the limited partnership are as listed below.

- **Asset management fee:** An annual fee of 0.5% of the fair market value of the assets of the partnership, paid quarterly in arrears.

- **Sales commission:** A 6% sales commission of the subscription price for the Class A units issued by the partnership will be charged (up to 8% for parties other then the general partners selling the units). In addition, for each class A unit sold 100 class B units will be issued to the general partner and may be given as compensation for the sale of Class A units to parties other than the general partners.

- **Acquisition fee:** A fee of 1% of the purchase price of any real estate asset acquired by the partnership or the principle balance of any mortgagers acquired or granted by the partnership.

- **Refinance fee:** A fee of 0.7% on any amounts refinanced (if any).

- **Administration fee:** A one time fee of 1% of the gross proceeds of the Class A units issued by the partnership.

We believe the above fees are reasonable for the services provided and are slightly below industry standards.

Financial Analysis

The following table shows a summary of the proposed capital structure.

Financial Summary (C$, MM)	
Proceeds	$15.00
Selling + Other Costs	$2.01
Mortgages (30 year amortization, 3.65%)	$27.50
Total Funds	**$40.49**
Acquisitions	$39.75
Cash Reserve	$0.74
Cap Rate (Acquisitions)	6.75%
Net Operating Income (Beginning Year 1)	$2.68

Assumptions Used

As shown in the above table, we are assuming an approximate 70% loan to value in our base case scenario. After fees are deducted and our cash reserve estimate we expect the partnership to use approximately $40 million for acquisitions. We are assuming 100% of the funds will be invested in multi-family properties, (once in the past the company has invested outside multi-family buildings and this amounted to only 4% of the total invested assets). The partnership expects to acquire properties at a Cap rate between 6.0-7.5%, we assume 6.75%. We believe this is a reasonable assumption based on the recent Cap rates for major cities in Alberta and Saskatchewan. We also assume the Cap rate remains flat over the 6-year investment period; this implies that any changes in the market value will be a direct result of Prestigious Properties ability to increase the net operating income of the properties.

In the table below, we give our base case cash flow and return estimates assuming a 6-year investment time horizon (assets are assumed to be sold at the end of year 6). We are assuming a 2% NOI growth for the first two years (while capital improvements are made and initial occupancy/rents are relatively low) for the remaining years we assume a 6% growth in NOI. This is based on achieving higher rents after the improvements, increasing occupancy and the historical CAGR in rents around 4.6% for Alberta and Saskatchewan. We have estimated the improvement costs (we assume $5500/unit) based on management estimates of between $4000-$7000/unit (not all units will be improved or may only need minimal work), we estimate approximately 40% of the units will be renovated at this cost. We are estimating the total number of units based on a previous partnership with approximately the same amount of acquisitions.

Projected Cash Flows From Rental Properties-Base Case (C$, MM)	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
Net Operating Income (NOI) - annual growth of 2% first two years, 6% thereafter.	$2.74	$2.79	$2.96	$3.14	$3.32	$3.52
Debt Payments (Principle and Interest)	$1.50	$1.50	$1.50	$1.50	$1.50	$1.50
Acquisition + Finance Fees	$1.19	$0	$0	$0	$0	$0
Management Fees	$0.20	$0.21	$0.22	$0.23	$0.25	$0.26
Improvement Costs	$0.58	$0.58	$0	$0	$0	$0
Cash Flows	-$0.74	$0.50	$1.24	$1.40	$1.57	$1.76
Distributions	**$0.00**	**$0.51**	**$1.24**	**$1.40**	**$1.57**	**$1.76**
Cash (beginning of the year)	$0.74	$0.00	$0.00	$0.00	$0.00	$0.00
Cash (end of the year)	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00

Asset Valuation (based on NOI in year 6 and capitalization rate of 6.75%)	$52.21
Sale costs (2.25% of sale price)	$1.17
mortgage balance end of 6 years	$24.10
Equity Value	**$26.94**
Class B profit share	$7.36
Net Equity Value	**$19.57**
Class A total distributions	$6.47
Class A profit share	$19.57
Total Class A cash flows (over 6 years)	$26.05
Return to Class A holders ROI (6 years)	**73.64%**
Total Annualized Return	**10.42%**

Sensitivity Analysis

In the sensitivity analysis, we have calculated the return while only adjusting one of the variables, leaving the rest constant at the base case assumptions. However, while performing the interest rate sensitivity we also assumed more cash reserve was put aside to cover the higher expenses (for 5.15% $39.46 million was made in acquisitions, 4.65% $39.55 million and 4.15% $39.65 million was used for acquisitions). The return calculation is most sensitive to the capitalization rate and the growth in NOI as shown in the sensitivity chart below. The worst return in this analysis is when the growth rate is -1% for 2 years and then 3% for the remaining years. **The range of annual returns in the sensitivity analysis is 5.37% to 16.05%.**

Growth in NOI	(1%),3%	0%,4%	1%,5%	2%(yrs 1-2) 6%(yrs 3-6)	3%,7%	4%,8%	5%,9%
Total Annual Return	5.37%	7.09%	8.77%	10.42%	12.04%	13.64%	15.21%

Exit Capitalization Rate	5.25%	5.75%	6.25%	6.75%	7.25%	7.75%	8.25%
Total Annual Return	16.05%	14.02%	12.15%	10.42%	8.81%	7.29%	5.85%

Interest Rate (Mortgage)	2.15	2.65	3.15	3.65	4.15	4.65	5.15
Total Annual Return	12.22%	11.33%	10.88%	10.42%	9.96%	9.49%	9.01%

Risks

- Investors are not guaranteed minimum distributions, or return of capital.
- Units should only be considered by investors who do not require immediate liquidity, as there are penalties for early redemption.
- Expected returns will drop, or rise, if any of the inputs used in our base case scenario move unfavourably, or more favourably, respectively.