

PRESTIGIOUS PROPERTIES INC.
Financial Statements
Year Ended December 31, 2016
(Unaudited)

PRESTIGIOUS PROPERTIES INC.
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Overview

To the Shareholders of Prestigious Properties Inc.

The management has prepared the balance sheet of Prestigious Properties Inc. as at December 31, 2016 and the statements of income for the year then ended, in accordance with Canadian accounting standards for private enterprises (ASPE). Nothing has come to our attention that causes us to believe that these financial statements are not, in all material respects, in accordance with Canadian ASPE.

Canmore, Alberta

Thomas Beyer, Director

PRESTIGIOUS PROPERTIES INC.
Balance Sheet
December 31, 2016
(Unaudited)

	December 31 2016	December 31 2015
ASSETS		
Cash	\$ 2,151	\$ 226
Accounts receivable	-	-
Land	8,000,000	8,000,000
Development Costs	1,467,348	1,057,583
Interest Capital	<u>360,767</u>	<u>360,767</u>
	\$ 9,830,266	\$ 8,987,551
LIABILITIES		
Accounts Payable	\$ (24,016)	65,921
Short Term Debt <i>(Note 2)</i>	\$ 3,008,424	\$ 1,975,006
Demand notes due to related parties	-	-
First Mortgage due to Cold Lake Estate Inc.	1,340,000	2,000,000
Agreement Charging Land	<u>4,000,000</u>	<u>4,000,000</u>
	8,324,408	6,678,949
SHAREHOLDERS' CAPITAL		
SHAREHOLDERS' CAPITAL	<u>1,505,858</u>	<u>2,037,649</u>
	\$ 9,830,266	\$ 9,418,576

APPROVED ON BEHALF OF MANAGEMENT

_____ *Director*

PRESTIGIOUS PROPERTIES INC.
Statement of Income
Year Ended December 31, 2016
(Unaudited)

	2016	2015
REVENUE		
Hills of Cold Lake (now Heights at English Bay)	-	-
	-	-
OPERATING EXPENSES		
Hills of Cold Lake	-	-
	-	-
GROSS PROFIT		
	-	-
EXPENSES		
Website Development & Maintenance	292	500
Marketing Materials & Advertising	82	3,650
Tradeshows	30	11,137
Travel & Meals	1,995	1,883
Office Rent	2,319	18,429
Legal Fees	510,256	213,084
Interest & Bank Charges	114	232
Property Tax	218	241
Office Expenses	16,241	7,909
Consulting Fees	246	13,889
	(531,793)	(270,954)
GAIN/LOSS FROM OPERATIONS	(531,793)	(270,954)
OTHER INCOME		
Interest	3	-
NET PROFIT (LOSS)	\$ (531,790)	\$ (270,954)

PRESTIGIOUS PROPERTIES INC.
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Year Ended December 31, 2016

(Unaudited)

1. NATURE OF OPERATIONS - COLD LAKE RESIDENTIAL DEVELOPMENT LANDS

PPI acquired the Cold Lake Lands situated in the Municipal District of Bonnyville abutting the northern end of the City of Cold Lake for \$8,000,000 in May 2011 on the following terms:

- (i) payment of \$2,000,000 in cash;
- (ii) \$2,000,000 in a zero interest mortgage payable in June 2015 (the "Vendor Mortgage"); and
- (iii) \$4,000,000 payable in \$40,000 installments per lot sold, for the first 100 lots.

The Area Structure Plan relating to the Cold Lake Lands allows for 300 country-residential half acre lots to be developed upon the Lands.

The Cold Lake Lands were appraised in July 2014 as having a Market Value of \$6,871,000, in January 2016 as having a Market Value of \$5,244,000 and in January 2017 as having a market value of \$5,150,000. Further information on the Cold Lake project, such as the approved Area Structure Plan, appraisals, engineering reports or the draft of the inter-municipal development plan are available on request to Subscribers of PRISM A LP and/or Kings Castle LP. PPI is working with various firms incl an experienced project manager to further all servicing and/or sub-division related issues. We have added an excellent legal team of Field Law in Edmonton since late 2014.

As of December 31, 2015, PPI has adjusted the Phase 1 plan to include 32 lots ranging in size from .50 to .79 acres available for purchase with an estimated retail value of \$219,000 to \$269,000 per lot (\$242,031 per lot average) for a total estimated retail value of \$7,745,000. 6 of the 32 lots were appraised in December 2014 as if serviced, to verify this estimated retail value. A subdivision for 32 lots was conditionally approved by the MD of Bonnyville in fall 2015. Development has been stopped due to low demand and the ongoing litigation.

In November of 2012 the loans from Prestigious Investment and Management (PRISM A) Limited Partnership and Kings Castle Limited Partnership was converted. The loan amounts of \$1,000,000 each, plus further smaller loans advanced to PPI by the Partnerships in 2011 and 2012, plus accrued interest of 8% were converted into 1,236,274 Class B common non-voting shares of PPI for Prestigious Investment and Management (PRISM A). Limited Partnership, and 1,124,493 Class B common non-voting shares of PPI for Kings Castle Limited Partnership.

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PRESTIGIOUS PROPERTIES INC.
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1. NATURE OF OPERATIONS - COLD LAKE RESIDENTIAL DEVELOPEMENT LANDS *(continued)*

PPI has issued 100 Class A common voting shares which are held by Thomas Beyer who is the sole officer and director of PPI.

PPI is authorized to issue 10,000,000 Class B non- voting common shares of which 1,124,493 Class B shares have been issued to the Kings Castle Limited Partnership and 1,236,274 to PRISM A LP.

PPI is authorized to issue 10,000,000 Class C non-voting common shares. No Class C Shares have been issued as of December 31, 2016.

Dividends shall be distributed as follows with respect the shares of PPI:

- a) In pro-rata to Class B and Class C shareholders; and
- b) Class A shareholders shall receive 20% of the distributions to which Class C shareholders are entitled.

PPI may proceed with an offering of Class C shares to investors in order to raise proceeds to allow PPI to payout the financing related to the PPI Lands and to develop the PPI Lands into a residential subdivision, or it may sell a portion of the land, or it may mortgage the lands with third party or related party financing.

The PPI Lands and related capitalized development activities are the only asset owned by PPI. The Vendor Mortgage, Agreement Charging Land and the payables to related company Kings Castle Limited Partnership and Prestigious Investment & Management (PRISM) A Limited Partnership are the only present liabilities of PPI.

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1. NATURE OF OPERATIONS - COLD LAKE RESIDENTIAL DEVELOPEMENT LANDS *(continued)*

PPI believes there was a material misrepresentation, conspiracy and fraud by the Vendor Cold Lake Estates ("CLE") when PPI acquired the Cold Lake Lands, as materially relevant results of meetings between the Vendor and municipalities in 1Q 2011 regarding site servicing requirements of the Cold Lake lands were not disclosed to PPI while the lands were under contract for purchase by PPI, before closing in May 2011. PPI commenced litigation in November 2014 against the Vendor and its principals Charles Ryan ("CR"), Matty Muller ("MM") and Roger Richard ("RR") for damages related to the misrepresentation and later added fraud and conspiracy to this lawsuit. PPI believes that the material misrepresentations by the Vendor have delayed and increased the complexity and cost of the development of the Cold Lake Lands, and may result in damages to PPI in excess of \$ 5,000,000. PPI believes that notwithstanding the misrepresentation of the Vendor, development of the Cold Lake Lands is still economically viable once oilsand development activities in Cold Lake resume, but will result in reduced profit in the development of the Lands.

In 2014, prior to our lawsuit, the Vendor borrowed approx. \$500,000 from a third party (TriCity) using the \$2M mortgage on the lands as collateral. TriCity filed a mortgage of a mortgage ("M2M") on the land and the first mortgage due the Vendor has been assigned to TriCity. The \$2M mortgage was due by June 2015. TriCity sent a demand notice in the summer of 2015 to PPI for \$2M since the Vendor did not repay the \$500,000 plus interest borrowed, and since PPI did not pay the \$2M mortgage to the vendor. TriCity subsequently sued PPI for the \$2M. PPI settled with TriCity for \$660,000 in January 2016.

The vendor also sued PPI, PRISM A LP and Kings Castle LP (the two beneficial shareholders) in the fall of 2015 for the \$2M unpaid mortgage and \$4M due from lot sales (Agreement Charging Land). PPI thinks this lawsuit is frivolous and without merit, and has filed a statement of defence, and countersued alleging fraud and conspiracy.

PPI has also applied for security of cost which would require the vendor to lodge in trust sufficient capital for PPI legal fees should PPI win this lawsuit as PPI alleges the Vendor and Charles Ryan is without funds. We expected this application to be heard in the fall of 2016 but it was delayed and then postponed to 2017 when CR filed a last minute affidavit in early 2016 stating he has considerable assets. In April 2016 PPI was granted a pre-judgement attachment order against Charles Ryan and his wife Barbara Ryan as he transferred 5 assets to her in late 2015 for nominal cash - prior to swearing in his affidavit stating in early 2016 that he actually owns these 5 assets.

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This order was on the title of the 5 assets and will prevent an easy sale or any re-financing of assets. One of the 5 assets has been sold in 2016 and 3 more are pending, leaving just the personal residence of Barbary Ryan and Charles Ryan. This property is also being foreclosed on by Servus Credit Union as the Ryans are in arrears on this mortgage. All proceed of the 4 sales will go to Servus Credit Unions, the mortgage holder on these (formerly) cross-collateralized assets. Only once there is any left-over money will it go into trust for our claim as Servus Credit Union has a first charge on this cash. Charles Ryan has, of course, applied to have this order removed. This application may be heard at some point in 2017.

Part of our \$660,000 settlement with TriCity was agreeing to stop any legal action against PPI and to assign the M2M back to CLE. CLE then immediately assigned, without PPI's approval, the M2M to 1536466 Alberta Ltd. as Charles Ryan may owe money to 1536466 Alberta Ltd. PPI has since sued this firm, Charles Ryan and CLE for fraudulent conveyance, and as of the writing of this document in mid March 2017 no defence has been filed.

In 2015 PPI has applied to amalgamate the three initial lawsuits and countersuits by us, Charles Ryan, the vendor CLE and TriCity which was approved in early 2016.

We also have applied for a case manager which was also approved in fall of 2016 with various dates sent for examinations and document production throughout 2017 (copy of this schedule, when available, on our investor website).

Various examinations of CR, MM and RR are ongoing and/or have happened in 2016 and a significant amount of documents by both us, Charles Ryan and the vendor were produced and exchanged in 2016 as undertakings as a result of numerous oral discovery sessions. More documents are pending as are more interviews with RR, MM and Charles Ryan.

The lawsuit from 2015 by Charles Ryan and CLE to dismiss our lawsuit was dismissed in 2016.

At least four other lawsuits that we know of have been lodged by other parties against Charles Ryan in matters unrelated to this land but impacting Charles Ryan's financial state so allow us to mention it to provide some meaningful context to these PPI 2016 financials. A judgement in the first lawsuit, the so called Abt trial, regarding substantial loss of money in the CLIP project (Cold Lake Industrial Park) and misrepresentation during fund raising is expected in summer 2017 and we will update you on these results. TriCity has sued the vendor for \$4M+ in mortgages due on the CLIP land worth substantially less, personally secured by Charles Ryan and others. Servus Credit Union owns the mortgage on (now) Barbara Ryan's house has started foreclosure proceedings as it is in arrears. Matty Muller (one of the initial co-owners of the vendor CLE) has sued Charles Ryan also for payments for services rendered.

A trial is at best happening late 2018 and a settlement is an option. So far, we have won all our applications as we have an excellent, albeit somewhat expensive, Edmonton based legal team and good

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arguments and even better already discovered evidence in our opinion. Lawsuit are tedious, expensive and time consuming. We do not take a lawsuit lightly. Yet, we believe it is a useful investment to potentially save up to \$5.3M in payments due the vendor. A win to us is a recovery of some or all legal fees and a substantial reduction or elimination of payables due the vendor. The vendor has little to no cash in our opinion and as such we will not see any, except perhaps from RR and MM. We already paid \$2.66 plus legal fees plus development costs which we deem adequate value given the (alleged) fraud, (alleged) misrep, time delay and anguish caused.

2. RELATED PARTY TRANSACTIONS

(a) Overview

The following entities give rise to related party transactions:

- (i) Prestigious Investment & Management (PRISM) A Limited Partnership, Prestigious Properties
"Kings Castle Limited Partnership"

2. RELATED PARTY TRANSACTIONS (continued)

(b) Related Party Transactions

Prestigious Investment & Management (PRISM A) Limited Partnership

- (i) During the year, PPI received \$356,500 (2015 - \$832,300) in short term loans from PRISM A LP
- (ii) Interest on these loans in 2016 at 15% totaled \$201,200 (2015 - \$94,211)

Prestigious Properties "Kings Castle Limited Partnership"

- (i) During the year, PPI received \$356,500 (2015 - \$330,000) in short term loans from Kings
Castle LP
- (ii) Interest on these loans in 2016 at 15% totaled \$119,218 (2015 - \$48,218)