

LiveWorkPlay Winnipeg Developments Ltd. – High rise development by Fortress Real Developments and Mady Development Corporation

Sector/Industry: Bond Offering / Real Estate

www.fortressrealdevelopments.com

Investment Highlights

- LiveWorkPlay Winnipeg Developments Ltd. is offering 8% p.a. bonds to investors, which are intended to be secured by their LiveWorkPlay property in downtown Winnipeg, once construction financing is in place.
- The development is a partnership between Fortress Real Developments and Mady Development Corporation.
- Fortress Real Developments specializes in partnering with established builders to finance, and assist in developing real estate projects. Mady Developments is a large real estate developer, and contractor, based in Markham, Ontario.
- The building plans for the LiveWorkPlay project have not yet been finalized. Currently, the plan is for two towers, with a combined 516 residential units, 98,506 sq.ft. of office and retail space. The taller tower is planned for 46 stories, making it the tallest building in Winnipeg.
- An independent cost consultant firm has reviewed the development budget, and the total budget is \$188 million.
- Investors are expected to receive interest quarterly for a term of 5 years. Investors may also receive additional returns based on the profitability of the project.
- The City of Winnipeg has planned to revitalize Downtown Winnipeg to increase the population of the area. This includes new developments that will offer entertainment, retail, and commercial amenities. LiveWorkPlay is located within this revitalization location.

Risks

- There is no secondary market, and no early redemption options.
- Management will need to secure additional financing for construction.
- Bond security will be subordinate to other financings (construction financing).
- The development of the property may be subject to delays, and not completed on time.
- Management can repay principal prior to maturity.
- The development costs incurred could exceed current estimates.
- A downturn in the real estate market could negatively affect investors' returns.
- The plans for the development have not been finalized; permits and approvals will be required.

Summary of Proposed Offering

Issuer	LiveWorkPlay Winnipeg Developments Ltd.
Offer Min/Max	\$0.1 million min / \$30 million max
Minimum Investment	\$25,000 (25 bonds)
Securities Offered	Bonds
Price	\$1,000 per Bond
Returns	8% p.a. bonds paid quarterly + additional return based on profitability.
Maturity of Bonds	August 31, 2018, management has prepayment option
Sales & commissions	10.35% of gross amount
Auditor	Rice & Company LLP

Based on Offering Memorandum ("OM") dated July 10, 2013.

FRC Rating

Base-Case
Return 4.94% p.a.

Rating 5+

Risk 5

*see back of report for rating definitions

Background

LiveWorkPlay Winnipeg Developments Ltd. (“company”) is seeking to raise up to \$30 million to fund the initial costs to begin development of their LiveWorkPlay building (“development”) in downtown Winnipeg, Manitoba. Management is currently finalizing planning, and attaining approvals for the development. Investors are being offered 8% per annum on the bonds, that will initially be unsecured, and mature on August 31, 2018. Once construction financing is in place, the bonds will be secured by the property. Investors may also be entitled to additional returns based on the development’s profitability. The development will be co-managed by Fortress Real Developments and Mady Development Corporation. **This is Fortress and Mady’s third project as partners.** Fortress specializes in financing and partnering in real estate development projects. They typically raise equity for developments by offering bonds and syndicated mortgages. Mady is an established development and contracting company, that has managed numerous large scale development projects in the greater Toronto area. The land is currently owned by Fortress Developments and Mady Developments.

The initial funds from this offering are intended to be used to complete the planning stages for development, which management estimates will cost \$10 million. This budget, which was confirmed by an independent cost consulting firm, includes finalizing development building plans, attaining the required municipal approvals, marketing and pre-selling units. Currently, the development will be two towers with residential, office and commercial space.

The property is located in the downtown Winnipeg core, which the City of Winnipeg is trying to revitalize by offering businesses various incentives. Their goal is to create a Sports, Hospitality and Entertainment District (SHED) to increase the attractiveness of downtown Winnipeg living. The property is located in this planned district. Following planning completion, management will need to secure construction financing for the project. Total development costs are estimated at \$188 million. Management may subordinate this offering to subsequent financings (construction financing) giving investors less security. In addition to this offering, Fortress is also raising funds in Ontario (through a separate offering to accredited investors). **Management anticipates that funds from this offering, and the Ontario offering, will provide the equity needed (approximately \$45 - \$50 million) to attain construction financing.** Management states that they have raised \$8 million so far from Ontario. We have seen the term sheet of the Ontario offering. The bonds issued have similar features as the current offering (8% p.a. + profit share). The main differences are that – a) the Ontario offering matures in 4 years, compared to just under 5 years for this offering, and b) the Ontario offering will have priority over this offering until construction financing is secured. When construction financing is in place, the bonds (issued by both offerings) will be subordinate to construction financing, but equal in rank.

We have reviewed the title for the property, which management acquired in September of 2013 (the Ontario offering provided the required equity to acquire the property). **The property was acquired for \$9.5 million, and is owned by a numbered Manitoba company controlled by**

Fortress and Mady. The land is 1.1 acres located along Graham Avenue and Smith Street. The current plans for the development are for 516 residential units with 824,352 sq.ft. of residential living area across two towers. In one tower, on the lower nine floors, there will be 98,506 sq.ft. of office and retail space. **Management estimates the total revenues generated from sale of all units (residential, office and commercial) will total \$239 million, and the project will be completed within 4-5 years.**

Following the close of this offering, management anticipates they will have the necessary funds to finalize planning, begin pre-selling units, and seek construction financing. Currently, the property is in the final stages of building planning, and municipal approvals, with completion expected by the end of the year. Following planning and approvals, Mady will lead presales of the building, which they anticipate to start in 2014, and are estimated to be completed by year end. Management plans to use the presale of units to assist them in securing construction financing. To attain construction financing, developers are usually required to maintain approximately 25% equity on a project. Depending on the number of units presold, the amount of equity required for financing may be decreased. The terms of the financing will likely be better as well (interest rate, fees etc.). Management estimates they will need to secure approximately \$47 million in equity (25% of the total budget) from the current offering and the Ontario offering. Construction of the buildings on the property is projected to start in 2015, and be completed in 3 years.

Management has not yet secured construction financing. They note that their relationships with lenders is one of their strengths, with previous projects attaining construction financing at prime plus 1% to 3% p.a. **Management states that, to date, they have secured in excess of \$250 million in construction financing.** We have reviewed samples of financings they have secured in the past, including Mady and Fortress' Colliers Centre, which is a residential development in Ontario.

For development projects, developers typically raise capital from investors in return for an equity interest in the project. Fortress uses a slightly different structure than the conventional development offerings. Instead of offering equity, Fortress typically offers bonds, with a profit share component. This requires Fortress to pay interest to investors, from a non-cash flowing project (the development). In order to do this, Fortress maintains an interest reserve from the total capital raised. The impact of this is that a lower percentage of the gross funds raised goes into project development. Fortress notes that for a few of their past projects, the interest payments were made by their builder partners – we were, however, not provided any details.

Management

Fortress will handle the financing and marketing, while Mady will manage the construction and

unit sales. **This will be the third project between Fortress and Mady.** Previous projects include Colliers Centre and Burlington on the Water. Colliers Centre is a condominium development in Barrie, Ontario; the project is currently under construction. Burlington on the Water is in pre-development planning stages, located in Burlington, Ontario. It consists of a mixed use waterfront community with condos, a hotel, and retail space.

Biographies of the key management for Mady Developments and Fortress are presented below.

Charles Mady - CEO of Mady Development Corporation

Charles Mady is the founder and CEO of Mady Developments. Charles started in the real estate business in 1974 through the establishment of a small home building company based in Windsor. By 1988, the company had established itself as one of Windsor's largest home builders, and by 2002, Mady opened a new Canadian head office in Toronto. Charles is active in all Mady operations, including both the general contracting and development businesses. Charles is a member of the Urban Land Institute, the International Council of Shopping Centers, and the Associate of Ontario Land Economics.

Greg Puklicz - Senior VP, CFO of Mady Development Corporation

Greg has been a Senior VP and CFO of Mady since 1990. He has actively participated in conducting financial analyses on existing and potential real estate projects, managed project budgets and project financing for all Mady projects, negotiated JV partnership agreements and managed accounting, finance, construction and property management departments in both the Canadian and US offices of Mady. Greg has taken an active role in the development process of a multitude of projects including commercial/retail centers, conventional and tax credit financed multifamily housing, single family lot development, midrise and high rise condo development, mixed use development, condo conversions and commercial/residential construction. Greg holds a BA from the University of Toronto with majors in Commerce and Economics, and is a Certified Management Accountant.

David Mady – Director / VP of Mady Development Corporation

David has over 20 years of experience in real estate development. He began his career with Mady in 1992 and first worked as an Asset Manager overseeing Mady's income producing portfolio. David's responsibilities then expanded to include all aspects of the commercial development side of the company. He has overseen, and continues to oversee, the development of numerous commercial, retail and residential projects. David holds a BA from the University of Windsor.

Jawad Rathore – CEO of Fortress Real Developments

Mr. Rathore began his career in the financial services industry. Mr. Rathore started his own firm in 2001, and in 2002, was joined by Vince Petrozza, and that has evolved into Fortress

Real Developments. Mr. Rathore has been involved in real estate projects with a combined build out of \$1.6 billion. Currently, they have risen over \$136 million for real estate projects (they do not always raise the full equity requirement). The company is based out of Toronto, but has expanded to include projects in Ottawa, Regina, Calgary, Winnipeg and British Columbia. Mr. Rathore is a graduate of York University.

Vince Petrozza – COO Fortress Real Developments

Mr. Petrozza leads the mortgage operations and syndicated investment side of Fortress. He is in charge of the due diligence and the adjudication process for evaluating possible Fortress developments. Mr. Petrozza is a sub mortgage broker and has been in the financial services sector for over 10 years.

In 2011, Mr. Rathore and Mr. Petrozza agreed to an OSC settlement, restricting them from participating in the securities markets. The OSC settlement notes that Mr. Rathore and Mr. Petrozza did not disclose compensation they received from recommending certain securities. As a result of the settlement with the OSC, Mr. Rathore and Petrozza agreed to pay \$3 million in the settlement (including administrative costs). **The settlement places no restrictions on their mortgage lending practice. Mr. Rathore has also been subject to disciplinary action by the Mutual Fund Dealers Association in 2005.**

Fortress will hire third party marketers to assist in the sales and marketing of this offering. Among those that may be hired is Blueprint Global Partners. The marketing fees are discussed later in the report.

Background

Mady History

Mady was founded over 40 years ago by Charles Mady in Windsor, Ontario. The company started off as a small home building company that has grown into a multi-service developer and contractor. **Mady has completed 7 high-rise developments, 4 commercial developments, and 3 retirement community developments.** We did not receive information regarding how those projects were funded. Current development projects for Mady include 6 residential developments, 6 commercial projects, and 2 retirement developments. In addition to development, Mady has managed the construction for residential, mixed use commercial, commercial and retirement buildings. We had requested for track record details of Mady, but did not receive any.

Fortress History

Fortress is in the business of financing, and partners with developers and builders. The company was formally founded in 2009, but management states they have been operating previous businesses that developed into Fortress.

For the below discussion, all the information was provided by management, unless otherwise specified.

Fortress has raised funds for 31 projects, and is currently raising funds for 16 projects. Management reports the closed offerings have raised a combined value of over \$136 million. The earliest of the projects was started in September 2009, with the majority starting in 2011. The capital raised per project ranged from \$0.35 million to just under \$13 million. To date, they have exited 3 projects, Dufferin Medical, Lakeshore Avalon, and Helen Avenue, with annualized rates of return to investors of 9.66%, 16.26%, and 11%, respectively. The time horizon was under 3 years for all three investments. The total value of the capital raised was \$1.2 million for Dufferin, \$1.5 million for Avalon, and \$1.8 million for Helen. We have verified distributions to Avalon investors by reviewing trustee documents. The lawyer who administered Dufferin Medical, and Helen Avenue, has verified that investors received their principal and interest in accordance with the terms of their offerings. We were not provided with the terms of the offerings.

With regard to the 28 projects, still under management, we have received letters from lawyers (administering those projects), on 22 projects, confirming that investors are receiving their interest payments in accordance with the terms of the offering. Note that since Fortress tends to maintain interest reserves, we do not believe the timely payment of interest necessarily reflects progress on a project.

The terms of most of these offering are generally between 18-48 months, with the majority in the 24-36 month range.

The following shows a list of Fortresses' ongoing projects. The light blue projects indicate that lawyers have confirmed investors are receiving their interest payments. We have not received any verification for the projects highlighted in green.

History of Fortress projects (red notes exits)

	Project	Capital Raised by Fortress	Date started	Term
1	1088 Progress	\$ 5,979,400	2012	36
2	6th and Tenth	\$ 5,702,800	2011	24
3	Bay	\$ 354,400	2009	
4	Brant Park	\$ 7,965,500	2011	36
5	Burlington (Modern)	\$ 1,340,000	2012	24
6	Capital Pointe	\$ 7,500,000	2011	36
7	Collier	\$ 12,924,650	2012	24
8	Countryside Crossing (Gas)	\$ 1,538,000	2012	24
9	Crates Landing	\$ 8,600,000	2011	36
10	Dufferin Medical	\$ 1,196,900		
11	Eldin	\$ 2,791,300	2009	
12	Gotham	\$ 6,595,600	2011	36
13	Harmony Village Lake Simco	\$ 7,171,150	2012	48
14	Harmony Village Sheppard	\$ 9,464,620	2012	48
15	Helen	\$ 1,846,154	2011	24
16	King Charlotte	\$ 6,471,956	2010	24
17	King City	\$ 3,946,950	2012	36
18	Lakeshore Avalon	\$ 1,495,000		
19	Langston Hall 1	\$ 3,300,000	2010	36
20	Langston Hall 2	\$ 4,400,000	2011	36
21	Lloyd	\$ 6,905,300	2012	24
22	Mapleview	\$ 1,936,100	2012	36
23	Mayfield	\$ 1,622,500	2012	24
24	Munir on Duffins Creek	\$ 2,927,000	2011	24
25	Oakville	\$ 2,153,000	2012	
26	Old Market Lane	\$ 3,495,000	2011	36
27	Port Place	\$ 6,982,700	2012	36
28	Soba	\$ 4,669,550	2011	24
29	Sutton	\$ 992,000	2012	36
30	Wellington Street Lofts	\$ 2,798,600	2011	18
31	Wismer 3	\$ 4,000,000	2011	36

Source: Management/ Lawyers

Management indicated to us that a few of the projects that have already reached their maturity dates have been extended. As shown in the above chart, **many of the offerings are due to mature in 2014**. The following gives a brief summary of some of these projects. For projects that receive an extension, investors continue to receive interest payments and have their maturity date pushed back.

Projects nearing maturity	Status
Capital Pointe	Servicing of the land almost complete. Possible extension of the offering
King Charlotte	Investors have approved an extension
Munir on Duffins Creek	Refinancing is underway
Soba	Construction is projected to start in the spring. A extension may be requested.

We have spoken to management about the Wellington Street lofts, a downtown Toronto development project. The term was set to mature in late 2012, and investors have not yet been paid out. Management states that investors have continued to receive interest on their principal. Management states it is currently assisting the developer to refinance in order to return principal to investors.

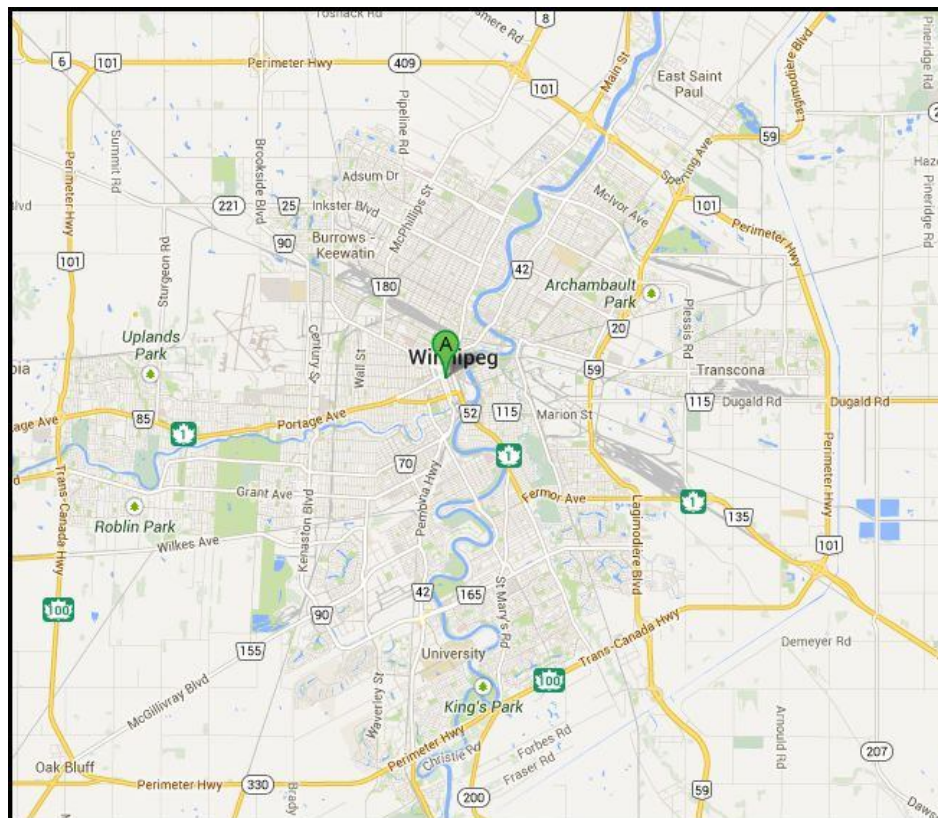
The table below shows the new projects Fortress initiated in 2013.

Project	Maximum capital to be raised	Date started	Term
White Cedar Estates	\$ 1,700,000	August 14, 2013	36
Mississauga Meadows 1	\$ 3,700,000	September 13, 2013	24
Mississauga Meadows 2	\$ 2,100,000	September 13, 2013	24
Harris Beech	\$ 2,000,000	March 15, 2013	36
Residences of Bayview	\$ 16,030,000	May 31, 2013	36
Burlington on the water	\$ 5,000,000	July 15, 2013	36
Bronson	\$ 6,000,000	October 15, 2013	36
The Harlowe	\$ 7,900,000	September 1, 2013	36
Victoria Park Place	\$ 4,600,000	November 1, 2013	36
Mayfield 2	\$ 3,070,000	August 20, 2012	24
Live Work Play	\$ 10,000,000	August 31, 2013	48
Glens of Halton Hills	\$ 1,800,000	November 15, 2012	36
Kipling Court	\$ 10,500,000	November 23, 2013	48
Speers Commercial	\$ 4,009,600	October 18, 2013	24
Triple Creek		October 15, 2012	60
Mayfield 3	\$ 2,700,000	October 31, 2013	36

The above projects are in various stages of raising capital and development planning. Overall, we are not in a position to comment on management's track record as most of the projects have yet to reach maturity. Although investors' returns on the three exits were attractive, 28 other projects are ongoing, and management has not provided us any update on the progress of those projects.

Location

The location of the LiveWorkPlay property (A) is shown below.



Source: Google maps

A closer view of the property is displayed below. MTS Center is home to the NHL's Winnipeg Jets, and is located a few blocks away.



Source: Bing

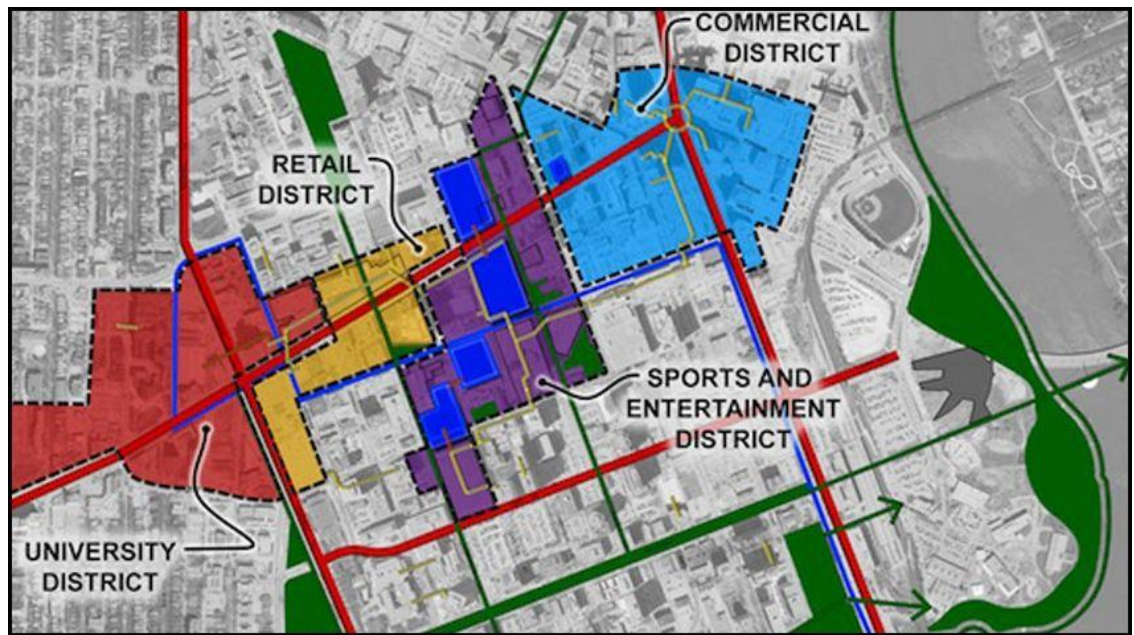
Other key businesses and amenities around the subject are shown below. The property is highlighted red.



Source: City of Winnipeg

SHED

The City of Winnipeg has created a plan to increase the density in the downtown area. They want to revitalize and increase the amenities in the downtown area through the creation of the Sports Hospitality and Entertainment District (“SHED”). SHED is anchored by the MTS Centre, and is a 11-block area planned to create an urban mixed-use district downtown. The area expands from the University of Manitoba along Portage street, ending at Main street. LiveWorkPlay would be in the middle of SHED. The City of Winnipeg has offered tax incentives to increase investment in the SHED district, and has committed to directly invest up to \$25 million in the area. Management is reviewing possible incentives available to them from the government. The current budget for the LiveWorkPlay development does not include any incentives. The planned SHED area is shown below.



Source: SHED Winnipeg

Plans for this area include:

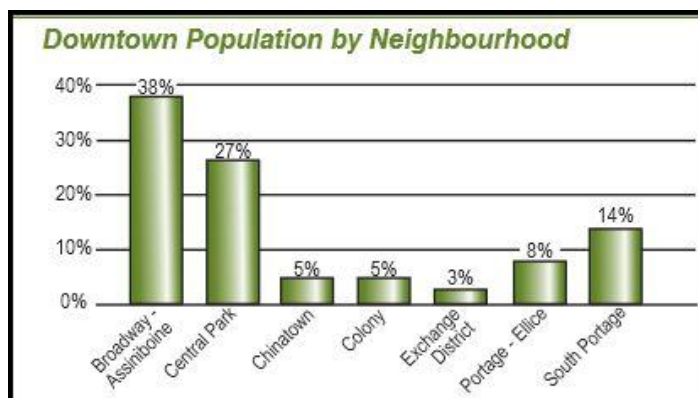
- Re-development of the Metropolitan Theatre
- Expansion of the Winnipeg Convention Center
- Centre Point development – a 200,000 sqft mixed use building, including a ALT Hotel, condos, office and retail space.
- Glasshouse Condominium tower – 21 stories with 200+ loft style condos
- Graham Ave. is expected to be a premier retail street
- The City of Winnipeg is also planning to make the streets more pedestrian friendly. Upgrades include wider sidewalks, updated lighting, improved street furnishings, improved signage and storefronts.

We feel that the planned revitalization of the area will be very appealing to younger adults. The current demographic of those living downtown is young adults. In a report on downtown living by the City of Winnipeg, the major criticisms deterring people from living downtown were that

it is too spread out and unsafe. **We think that centralizing the major entertainment and commercial areas of downtown will increase the attractiveness of living there, especially to younger homeowners.**

Economic overview

The property is located in the South Portage neighborhood of downtown. A population breakdown is shown below.



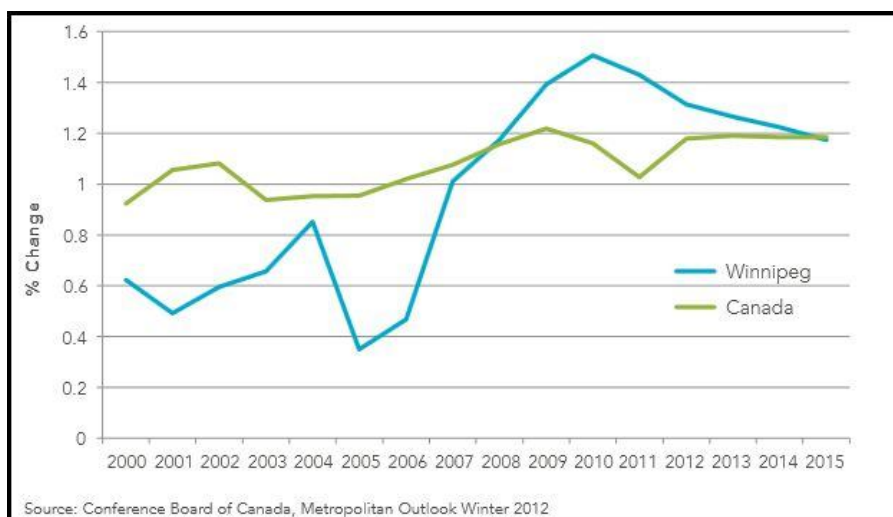
Source: City of Winnipeg

In 2012, the City of Winnipeg had an estimated population of 704,000, and the metropolitan area had a population of 780,000. A very small percentage of this population lives in the downtown area. The City of Winnipeg estimated that in 2011, only 14,000 people resided downtown. This is despite the fact that 16% of Winnipeg's workforce is located downtown, and roughly 16,000 students attend schools in downtown (Source: City of Winnipeg). From 2001-2010, there was a 12.3% increase in the downtown population. **The City of Winnipeg estimates that between 2011-2020, there would be a 4,600 population increase.**

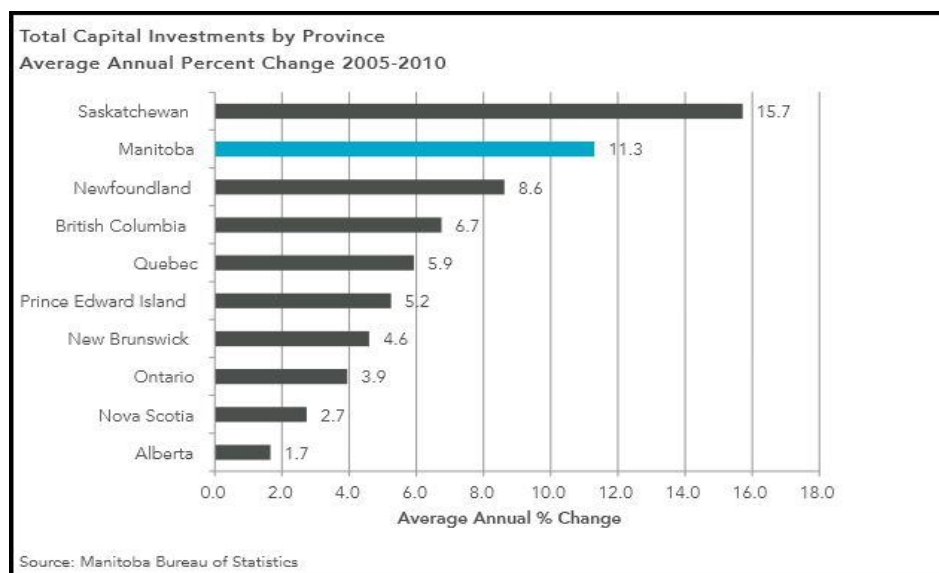
We believe that Winnipeg offers good growth opportunities. Some key factors of growth are discussed below.

- The conference board of Canada estimates the Gross Domestic Product (GDP) of Winnipeg will grow at 2.3% p.a. from 2012-2035.
- The population of Winnipeg is estimated to grow at 1.2% annually from 2012-2035.

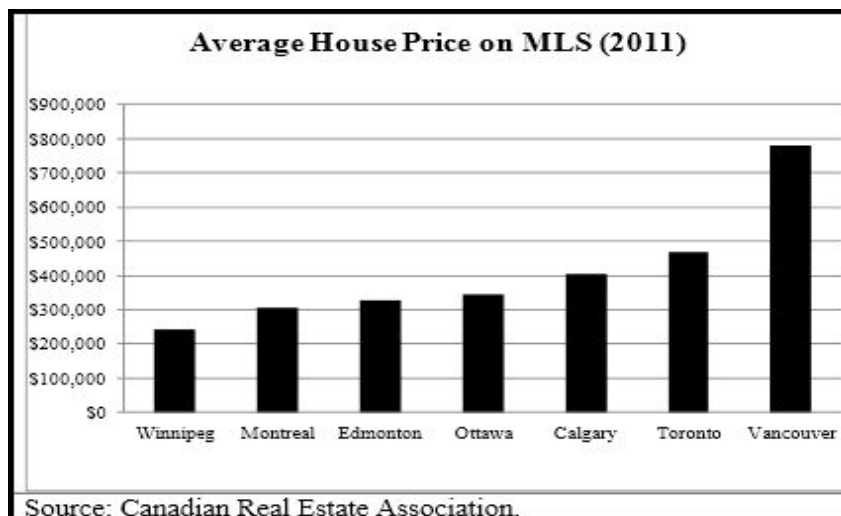
Population growth



- Net migration is estimated to increase by 9,500 per annum in the short term.
- **Manitoba had the second highest growth in capital investment** among the Canadian provinces, which is a good sign of economic growth.



- Winnipeg housing is very affordable compared to the other major cities in Canada (see chart below).

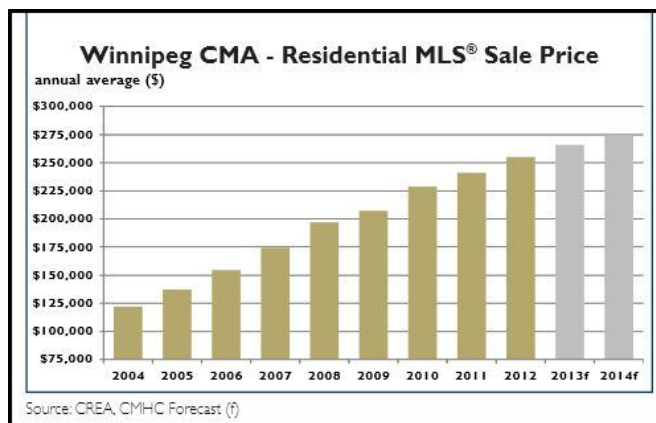


Housing Outlook

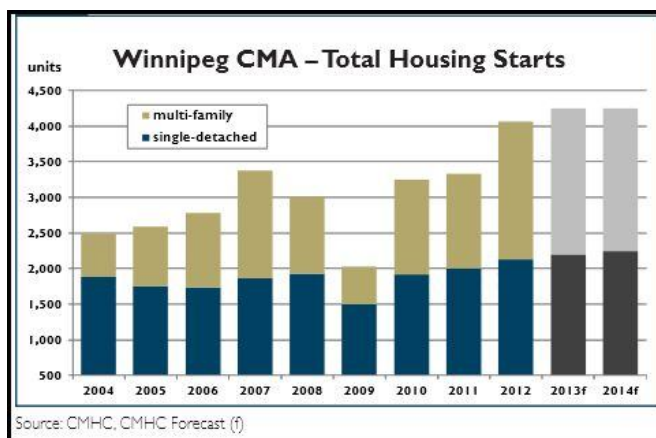
The average home price in Winnipeg has been steadily increasing since 2009.



Prices are expected to continue to increase moderately in 2013 and 2014.

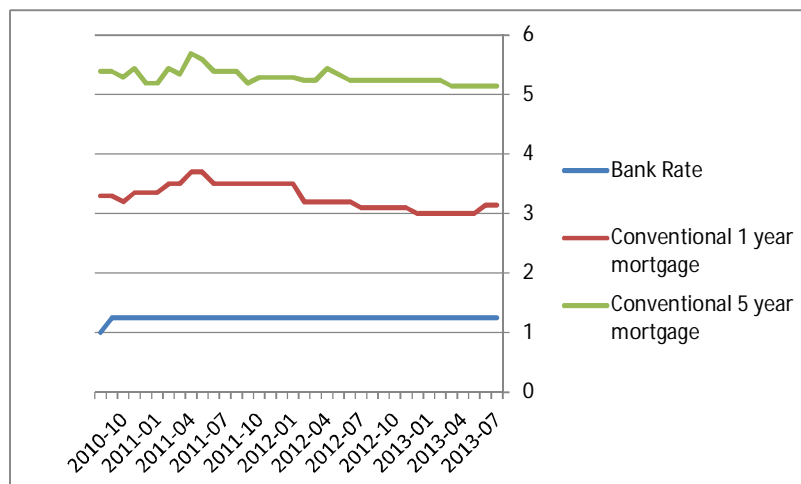


New housing is anticipated to increase over the next two years. A majority of that increase is expected to come from multi-family units, as we believe multi-family is more affordable for new entrants into the real estate market.



Interest Rates

Interest rates have been at historic lows, which is beneficial for the housing market.



Source: Bank of Canada

There is limited comparable housing in the downtown core of Winnipeg. The majority of the available downtown condos are low rise and older buildings. We feel the best direct comparable are the Glasshouse sky lofts that are anticipated to be constructed at Centre Point. **Prices for the smallest unit in Glasshouse are \$167,900 for 435 sqft., to \$308,900 for 822 sqft.** Parking is an additional \$39,500. These prices would put the condo in the \$375-\$385 per sqft. range. Glasshouse is currently pre-selling units, and the development has started construction. Fortress management states that Glasshouse has sold approximately 27.5% of their units. We have not been able to verify this statement.

Management has estimated that residential units in LiveWorkPlay will be sold for \$310 to \$360 per sqft. Given the sale price of Glasshouse units, and the expected increase in the attractiveness of the region, we feel that these rates are reasonable.

Building Plans / Construction Budget

The initial funds from this offering are intended to be used for the following pre-construction costs:

Pre-Construction Budget - LWP	
Acquisition costs	\$ 135,000
Municipal Approvals	\$ 1,970,305
Design costs	\$ 4,075,000
Sales & Marketing	\$ 1,476,025
Leasing Costs	\$ 60,000
Legal Costs	\$ 671,000
Financing Costs	\$ 465,000
Management & Overhead	\$ 1,165,293
Total	\$ 10,017,623

Source: Management

The table below shows management and BTY's estimates for the total development costs. **BTY is one of Canada's largest cost consultancy firms, with offices in many Canadian metropolitan areas.** The report from BTY was completed on October 26, 2012. BTY's cost estimate was based on 544 condo units, 71,053 sq.ft. of office space, 23,369 sq.ft. of commercial / retail space, and a 5 level underground parkade. Since the BTY report, management has slightly amended the building plan (which is yet to be finalized).

The table below shows the expected revenues, and the total cost of the development, including land, planning, permitting, construction, etc.

LIVE WORK PLAY COSTS		
	Management est.	BTY est.
Projected Revenue	239,216,600	
Land Costs	9,435,000	9,375,000
Hard Costs to construct building and suites (\$5.2 million contingency)	133,686,955	133,687,000
Contingency	5,251,478	5,354,000
Permits/Fees	1,842,652	2,314,000
Consultants	5,081,440	4,707,000
Management Fees	156,000	
National home warranty	544,000	544,000
Marketing	4,590,000	4,590,000
Admin/Sales office	410,000	410,000
Commissions	10,154,950	10,894,475
Construction management fees	4,500,000	4,500,000
Financing		11,570,000
Total construction cost	175,652,475	187,945,475
Profit	63,339,125	

Source: Management / BTY Consulting

The major difference between the two costs budgets is the financing costs. BTY estimated \$11.57 million in financing fees (based on 75% debt to capital, and an interest rate of 4% p.a.), which management did not include in their budget. BTY did not have any revenue projections. We anticipate that financing costs for the project will exceed BTY's estimate, as BTY did not include any of the fees associated with this offering (presented later in this report)

BTY also noted that some expenses excluded from the budget may be incurred, such as:

- Design enhancements for LEED
- Removal of hazardous materials
- Unforeseen ground conditions and associated extras
- Extensive off-site servicing works

- Tenant improvements within commercial space

BTY estimated a construction period of 40 months, which is in-line with management's estimate of 3 years (36 months).

We feel that the construction estimates are accurate; however, the financing costs and ability to attain construction financing are significant risks. The building plans also have not yet been finalized.

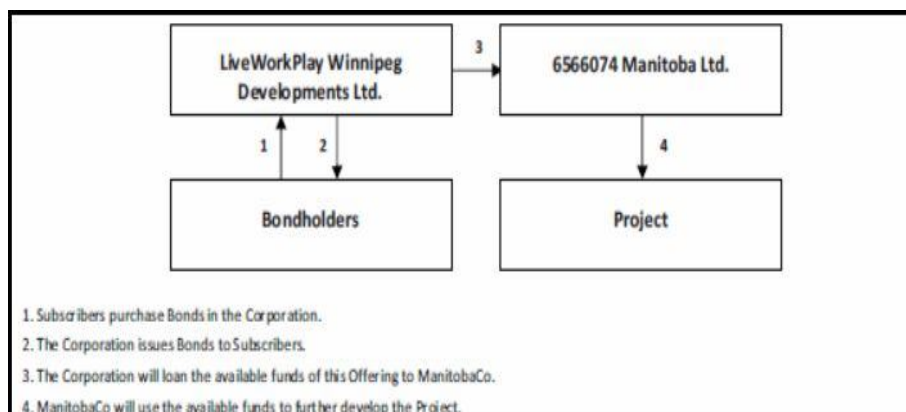
Revenue Estimate

We have reviewed management's preliminary revenue estimates for the buildings. For their estimate, they used \$310-\$360 per sqft for residential, \$450 per sqft for commercial, and \$550 per sqft for office space. In addition, they have assumed parking (650-700 spots) is sold at \$30,000 per spot and storage lockers at \$5,000 - \$15,000 each. Using these estimates, the total revenues from the development are estimated at \$239 million.

As mentioned above, Glass House residential building is selling for \$375-\$385 per sqft, and \$39,500 for parking. Therefore, we feel management's estimates are reasonable.

Structure

Investors will invest funds in LiveWorkPlay Winnipeg Developments Ltd., which will issue bonds to investors. Funds from investors will then be loaned to a numbered Manitoba company, which holds the property. There is limited recourse for investors in the event of default. The bonds bear interest at 8% per annum, which is expected to be paid quarterly, and mature on August 31, 2018. The structure is summarized below:



Deferred lender fee

Based on the profitability of the project, investors may also receive an additional return.

Management refers to this as the ‘deferred lender fee’, and is calculated as follows:

If the project produces a profit of \$30-\$50 million, investors receive an additional one-time payment of 8% of their invested capital. If profit exceeds \$50 million, investors receive 16% of the invested capital. Investors do not receive any deferred lender fee if profits are below \$30 million.

Security provided by the property

Throughout the development process, investors in this offering will have minimal claim on the property. The Ontario offering has priority over investors’ in this offering until construction financing is attained. Once construction financing is attained, investors of this offering will rank equally with the Ontario offering in security, but subordinate to the construction financing.

Sales and commission fees

Sales and commission fees total 10.35% of the gross amount raised.

Management fees

There is a 4.65% marketing fee taken on the total raise that management intends to pay to third party marketing providers (such as Blueprint). Fortress will receive 15% of the operating reserves upfront, and Mady will receive 4%. The OM does not define ‘operating reserves’. Management states that operating reserves are funds remaining after sales and marketing fees (totaling 15% of the gross amount), and interest reserves. Management did not state how much they intend to keep aside as interest reserves. The below example assumes a 5 year interest reserve.

Offering	100%
Less sales & commissions (10.35%)	10.35%
Less marketing fee (4.65%)	4.65%
Interest reserve (present value)	39.40%
Operating reserve	45.60%
Fortress management fee (15%)	6.84%
Mady construction fee (4%)	1.82%
Capital available after fees	36.94%

The above table shows that only 36.9% of the gross amount raised in this offering will be put into the project.

There is no annual management fee for this offering. If we combined Fortress and Mady’s fees (15% of the operating reserves, or 8.66% of total capital raised), the annual management fee would be approximately 1.73% annually (assuming a 5 year time horizon). We feel that the annual fee of 1.73% is in line with comparable offerings. However, the negative aspect for investors is that Fortress/Mady receives this fee upfront.

Management has not invested any of their own funds in the offering.

Early Redemption

Investors are not able to redeem the bonds. The corporation (Fortress/Mady) has the ability to redeem the bonds early if they choose. The bonds are intended to be qualified for registered plans.

Expected Returns

The following discusses our base case valuation based on the \$239 million revenue estimate by management, and BTY's estimated development costs. As mentioned earlier, we believe both estimates are reasonable. Our base case return estimate, over a 5 year term, is 4.94% p.a. We assumed management will keep aside two years of interest as reserves. We assumed management will be able to increase its debt (up to 85%), upon achievement of presales, by year 3, to pay out interest to investors in years 3 – 5. Investors might not receive their interest payments if presales are not achieved.

	10% revenue decrease	Base case	10% revenue increase
Revenues	\$215,294,940	\$239,216,600	\$263,138,260
Development cost	\$187,945,475	\$187,945,475	\$187,945,475
Profits	\$27,349,465	\$51,271,125	\$75,192,785
Profits less tax (27%)	\$19,965,109	\$37,427,921	\$54,890,733
Source of Funds			
Debt (75%)	\$140,959,106	\$140,959,106	\$140,959,106
Net Equity (25%)	\$46,986,369	\$46,986,369	\$46,986,369
Total capital to be raised from Investors(15% sales/marketing + 8.85% to management + 2 year interest reserve)	\$77,663,419	\$77,663,419	\$77,663,419
Total Debt + Equity	\$218,622,526	\$218,622,526	\$218,622,526
Profits remaining after paying debt+equity	(\$10,711,941)	\$6,750,871	\$24,213,683
Interest due to investors (year 3 - 5)	\$18,639,221	\$18,639,221	\$18,639,221
Remaining cash flows	(\$29,351,162)	(\$11,888,350)	\$5,574,462
Annual Return (5 year term)	0.44%	4.94%	9.44%

As shown in the table above, returns are highly sensitive to revenues. **The annual return for investors ranges between 0.44% p.a., and 9.44% p.a., as revenues change by ±10%.**

In our base-case, we expect a profit of \$37 million. In this case, investors would be eligible for

the 8% deferred lender fee. However, the cash flows from the project are not even sufficient enough to make the 8% p.a. interest payment to investors over 5 years.

According to our models, in order for investors to get the 16% deferred lender fee, revenues from the project have to be at least 15% higher than our base-case scenario. Investors' returns would then be 11.2% p.a.

Rating

We feel that the project area presents a good opportunity for development due to the expansion of the downtown area. We feel that Fortress and Mady have the combined experience to advance and complete the project. The land will be secured to the property once construction financing is in place, which we feel will mitigate some risk. However, we feel that for an early stage development project, the structure limits the upside potential to investors. Our base case return estimate is 4.94% p.a, which we feel does not adequately compensate investors for their risk.

FRC Rating	
Base-Case Return	4.94% p.a.
Rating	5+
Risk	5

Risks

- The property in liquidation may not be able to cover all obligations due and investors may not receive 100% of the interest or principal back.
- Deferred lender fee is based on the profitability of the project.
- The bonds may be redeemed by management prior to maturity.
- Investors cannot redeem or sell their bonds prior to maturity.
- Management will need to secure additional financing to complete the project.
- Development costs and time horizon may be longer than management's estimates.
- The demand for condo units may affect returns.
- Investors' returns are capped.
- The development plans for the project have not yet been finalized. Buildings permits and approvals by the city are still required.

Fundamental Research Corp. Rating Scale:

Rating – 1: Excellent Return to Risk Ratio
 Rating – 2: Very Good Return to Risk Ratio
 Rating – 3: Good Return to Risk Ratio
 Rating – 4: Average Return to Risk Ratio
 Rating – 5: Weak Return to Risk Ratio
 Rating – 6: Very Weak Return to Risk Ratio
 Rating – 7: Poor Return to Risk Ratio

A “+” indicates the rating is in the top third of the category, A “-” indicates the lower third and no “+” or “-” indicates the middle third of the category.

Fundamental Research Corp. Risk Rating Scale:

1 (Low Risk)
 2 (Below Average Risk)
 3 (Average Risk)
 4 (Speculative)
 5 (Highly Speculative)

FRC Distribution of Ratings

Rating - 1	0%	Risk - 1	0%
Rating - 2	24%	Risk - 2	0%
Rating - 3	51%	Risk - 3	33%
Rating - 4	5%	Risk - 4	45%
Rating - 5	5%	Risk - 5	3%
Rating - 6	0%	Suspended	20%
Rating - 7	0%		
Suspended	15%		

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