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Brookdale Realty Corporation – A City of Toronto Development by Fortress and Mady Development

Sector/Industry: Bond Offering / Real Estate **www.fortressrealdevelopments.com**

Summary of Proposed Offering	
Issuer	Brookdale Realty Corporation
Offer Min/Max	$0.1 million min / $10.8 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	April 30, 2018, management has prepayment option
Sales & commissions	10.35% of gross amount
Auditor	Rice & Company LLP

Based on Offering Memorandum ("OM") dated December 4, 2013.

FRC Rating	
IRR (base-case)	8% p.a.
Rating	4
Risk	5

*see back of report for rating definitions

Investment Highlights

- Brookdale Realty Corporation is offering 8% p.a. bonds to investors, which are intended to be secured to their Brookdale residential and commercial development, 20 minutes north of Downtown Toronto, Ontario.
- The development is a partnership between Fortress Real Developments and Mady Development Corporation. This is the fourth project between the two firms.
- 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 developers are currently permitting a full city block (1.065 acres) of land for the development; located approximately 20 minutes north of Downtown Toronto.
- Development plans are for a 7 story building with 115 residential units, and 20,215 sf of commercial space on the ground level. Management notes the development has just received zoning approval from the North York city council, and is awaiting development approval from the Toronto city council.
- Management has estimated the total cost to complete the development, including land, will be $67 million (excluding financing costs).
- Investors are expected to receive interest quarterly for a term of 4 years. Investors may also receive additional returns based on the profitability of the project.

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, which may negatively impact returns.
- 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.
- Returns are sensitive to any factors that may decrease revenues (costs, time horizon, sales price etc.)

Background

Brookdale Realty Corporation (“Corporation”) is seeking to raise up to $10.8 million to fund the initial costs for their residential and commercial development in Toronto. The development will be co-managed by Fortress Real Developments and Mady Development Corporation. **This is Fortress and Mady’s fourth project as partners.** Fortress specializes in financing and partnering in real estate development projects. Mady is an established development and contracting company that has managed numerous large scale developments.

The corporation plans to loan funds to Mady Avenue Road (“MAR”), who currently owns a 1.065 acre piece of land located approximately 20 minutes north of downtown Toronto. The property is located just north of Lawrence Avenue on Avenue Rd. This area is quickly becoming a popular neighborhood for young professionals, due it its access to transportation, amenities, proximity to downtown, and community feel. Development plans are for a seven story building with 115 residential units, consisting of 93 residential condos, 18 rental apartments and 4 townhomes. There is also 20,215 sq. ft. of commercial space on the ground level. Management noted that on January 15, 2014, the North York Community Council approved the zoning permit. The Toronto City Council is scheduled to review the project for development approval on March 20, 2014.

The property consists of multiple lots including small residential buildings, and single story commercial buildings. The total purchase price for all the lots was $18.3 million, and closed in May of 2012. The land has been independently appraised at $18 million. Management has spent an additional $4 million in financing costs, permitting and consultants. They financed this with equity from Mady (according to management), and two mortgages. MCAP has provided a $14 million mortgage, and Wendelyn Financial provided a $6.25 million mortgage. We have reviewed the mortgage documentations for the property. Management plans to replace the current mortgages on the property, with funds from this offering, and the construction financing.

Following the close of this offering, management anticipates they will have the necessary funds to finalize planning, begin pre-selling the building, and seek construction financing. Management anticipates zoning and development approvals to be completed by the end of Q1-2014. Following approvals, Mady will begin preselling the units, which they anticipate to be completed by Q1-2015. Management estimates construction will begin in Q1-2016, and be completed in Q1-2018. The bonds will be secured to the project land on or before October 31, 2015, and may be subordinated to other financings.

Management

Fortress will handle the financing and marketing, while Mady will manage the construction and unit sales. Fortress and Mady’s previous projects, as partners, include the Colliers Centre, Burlington on the Water and LiveWorkPlay (SkyCity). The 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. LiveWorkPlay (re-named SkyCity Centre) is a high-rise development located in Downtown Winnipeg. This project is in the approval and permitting process.

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 whereby, 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. The marketing fees are discussed later in the report.

Background

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 who those projects were funded by. 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 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, as of December 31, 2013. 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 offering.

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 keep interest reserves, we do not believe the timely payment of the interest reflects the status of the projects under management.**

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

Project details, status updates and location for each project can be found on Fortress's website under past projects. Source: Management/ Lawyers

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

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 extention 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. **We feel that the delay in construction is a major risk to this offering, as shown by the number of delays in previous Fortress projects.**

The below shows new projects Fortress initiated in 2013. Note that it does not show the more recent offerings initiated in 2014.

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.

Strategy

The initial funds from this offering are intended to be used to complete site work for the property and soft costs, including architecture, engineering fees, and attainment of necessary development approvals. Following planning completion (approved development & pre-sales), management will need to secure construction financing for the project. The total development costs are estimated by management at $67 million (including land, and excluding financing costs).

Management may subordinate this offer to subsequent financings (construction financing) giving investors less security. In addition to this offering, Fortress is raising funds in Ontario (through a separate offering to accredited investors). Although management stated that terms of the Ontario financing are identical to this offering, management has not provided us the term sheet of the Ontario offering. According to management, the funds from this offering and the Ontario offering will be closed once the combined total reaches $10.8 million.

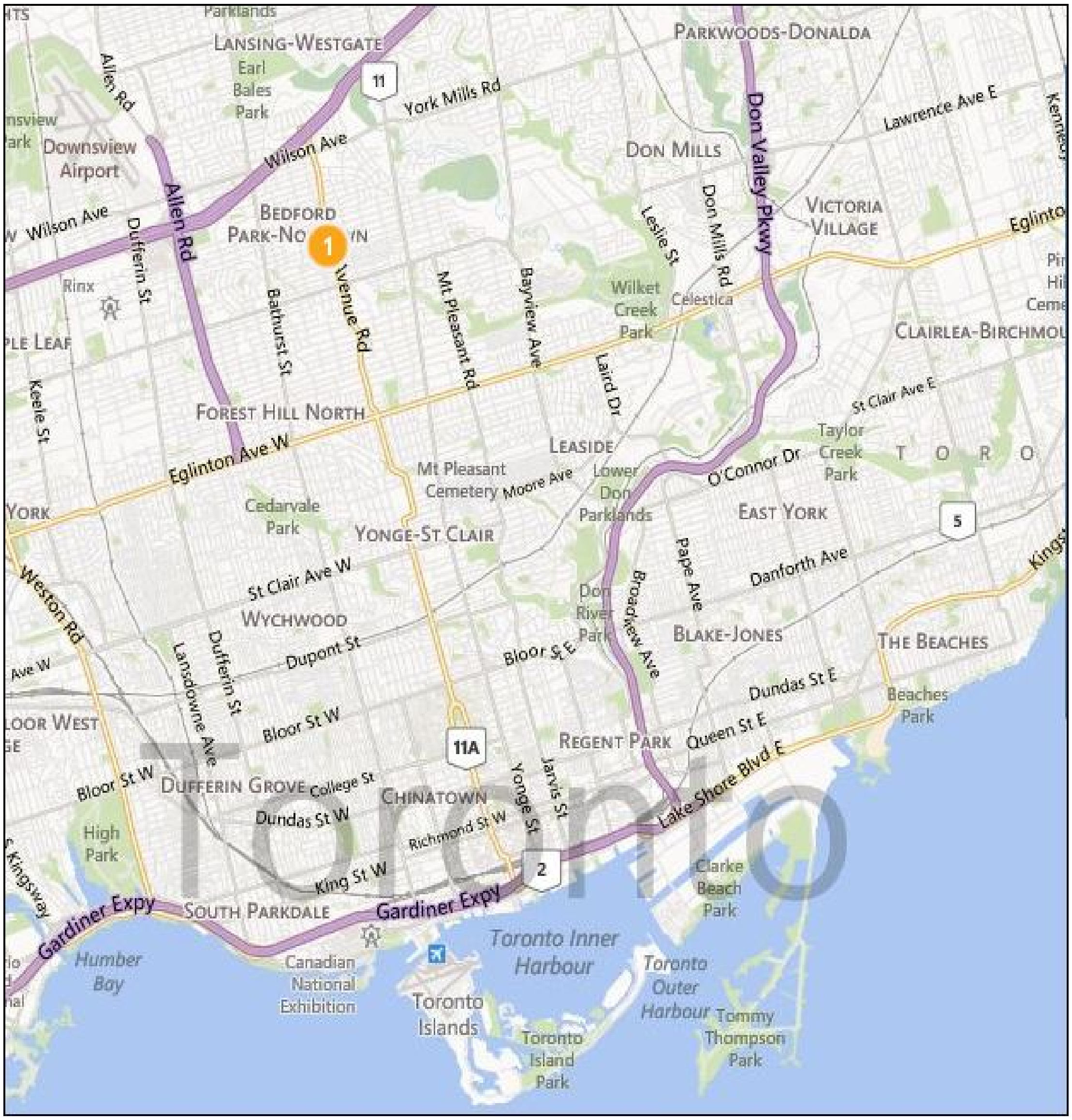
To attain construction financing, developers are usually required to maintain approximately 15% - 25% equity on a project, based on pre-sales completed. **Management anticipates that Mady's track record, strong pre-sales, strength of the project, and funds from this offering, will allow them to finance up to 90% of the project (10% equity).** According to management, Mady has so far invested approximately $1 million in the project. Including Mady's investment, and the net funds from this offering (combined with Ontario), management intends to have $7.8 million in equity. We feel this would give them the 10% equity to develop the project.

Management has not yet secured construction financing. They note that their relationships with lenders are 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 condo development.

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 conventional offerings. Instead of offering equity, Fortress typically offers bonds, with a profit share component. For this offering, Fortress notes that the developer (MAR) will cover the interest payments to investors. We feel this is an advantage over previous Fortress projects that have taken an interest reserve to pay investors (decreasing capital invested into the projects). This structure allows more of investors' capital to go towards the development of the project. However, this requires the developer to attain additional financing to pay investors through the life of the project. We also feel that the bond structure compared to equity, limits the upside to investors, while exposing investors to the same downside.

Location

The location of the Brookdale property (1) is shown below.

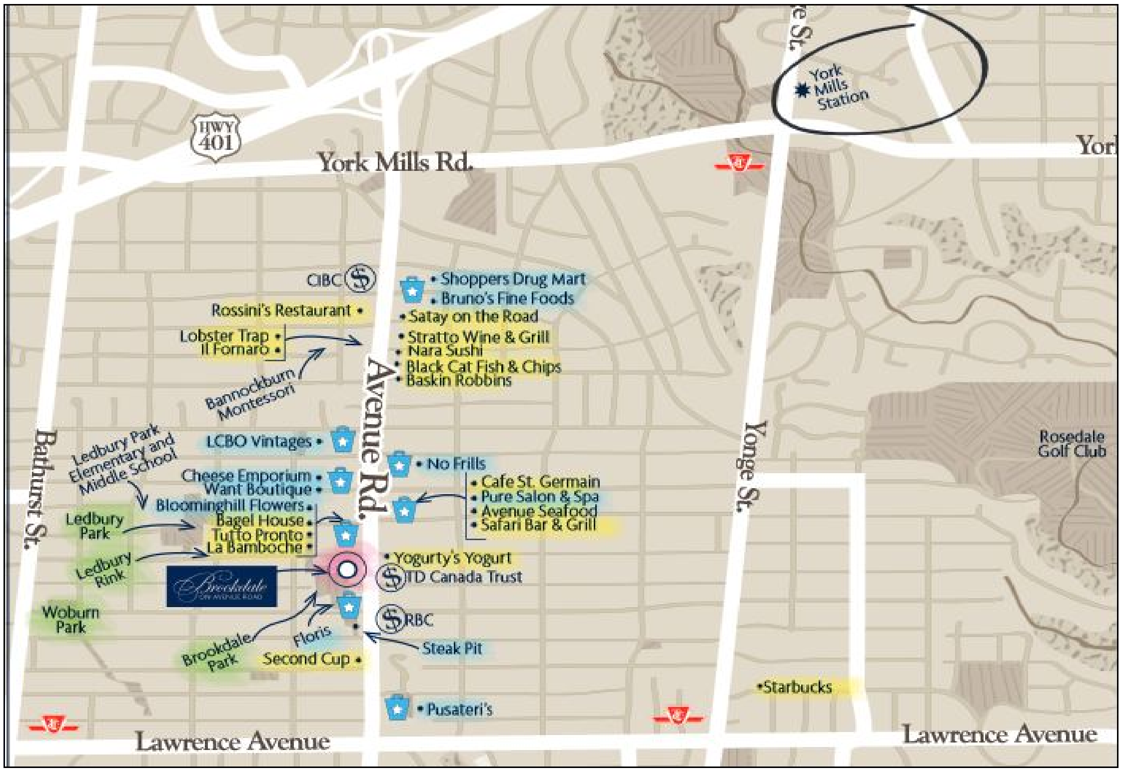


Source: Bing maps

A closer view of the property is displayed below. As shown, the property consists of multiple buildings (residential and commercial) that were all acquired by MAR. The property has 270 ft. of frontage along Avenue Road. Avenue Road is a popular street for residents, with several restaurants, shopping and amenities.

Source: Mady

The property is located in the Ledbury Neighborhood, a popular neighborhood due to its easy access to transportation, proximity to downtown, and local amenities. **Avenue rd. provides easy access to downtown; there is also a subway station located nearby the property.** Just north of the property is highway 401 that provides east and west access to greater Toronto. There are many shops and restaurants located along Avenue road, as well as premier shopping strips such as Lawrence Plaza located nearby. Parks and community centers also surround the property. A community amenities map is shown below.



Source: Mady

The neighborhood is a very affluent area, with many of the older homes being replaced by larger custom built homes. **We have reviewed various sources, and in the immediate area, the average detached homes sell for between $1.5 million to $2.5 million.** The Condo Store, a real estate marketing company, notes that they estimate detached homes sell for $700 - $800 per square foot. They see a growing market for young professionals that want to be in a premier neighborhood at a more affordable price point. They also see demand from older buyers trading down from detached homes in the same neighborhood.

Management is still in the process of suite planning and interior finishes. The current plans are for a luxury building with higher-end finishes. Management plans to have a concierge desk, fitness facility, and rooftop terraces for residents. A rendering of the building is shown below.

Source: Mady

Building Plans / Construction Budget

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

Description of intended use of available funds listed in order of priority	Assuming Minimum Offering	Assuming Maximum Offering
The available funds of this Offering shall be loaned by the Corporation to MAR. MAR will use these funds to develop the Project as follows:(1)		
(i) to pay project costs, including demolition, sitework, and building costs; and	$50,000	$5,400,000
(ii) to pay soft costs, including architectural and engineering costs, municipal approval costs and fees, professional fees, financing costs, marketing expenses, and other costs.	$50,000	$5,400,000
Total	**$100,000**	**$10,800,000**

Source: Offering Memorandum

The table below shows management's anticipated costs to complete the project, which were based on Mady's long construction history. They plan to engage third party cost analysis prior to seeking construction financing. We feel that the potential cost differences from the preliminary budget and completed project are a major risk. Management's building and soft cost estimates, along with our estimates of financing costs (excluding interest on construction financing) are shown below.

Construction costs	
Land	$ 18,331,507
Building costs	$ 38,738,100
Soft costs	
Architecture	$ 1,627,000
Permits, bonds and city fees	$ 4,603,787
Professional fees	$ 481,000
Marketing expenses	$ 2,892,214
Financing costs	
Financing costs on existing mortgages	$ 3,742,000
Interest on the current bond offering	$ 3,456,000
	$ 16,802,001
Total funds required to complete construction	$ 73,871,608

Our funding projections for the project are shown below.

Total funds required to complete construction	$ 73,871,608
Equity (Mady's $1 million + net proceeds from this offering)	$ 8,280,983
Construction financing needed	$ 65,590,625
Interest on construction financing (assuming 6% p.a.)	$ 7,870,875
Total Funds Required (incl. construction financing cost)	$ 81,742,483

We anticipate total building funds required will be approximately $81.7 million.

Revenue Estimate

The table below shows the revenue estimate by management for the project.

Revenue	
Sale of commercial property	$ 16,486,489
Sale of parking	$ 2,772,800
Residential - Condos/townhomes	$ 64,599,950
Residential - Rental apartments	$ 4,050,360
Residential - Options & upgrades	$ 453,750
Recoveries from condo purchasers	$ 629,200
	$ 88,992,549

Commercial

Management expects sales from the commercial space to generate $16.5 million. According to management, they are currently in lease negotiations with a major pet food retailer, and a major bank, to lease the majority of the space. The current rental rates for retail space are between $40 -$50 per sq. ft. (net). Based on the 20,215 sq.ft. of commercial space, they are estimating a sales price of $815.56 per sq. ft. Given the current cap rates in the market of 4.5% - 5.5% for premier commercial properties, we feel that management's revenue estimate for the space is reasonable ($45 net with a cap rate of 5% generates a sales price of $900 per sq. ft.).

Residential

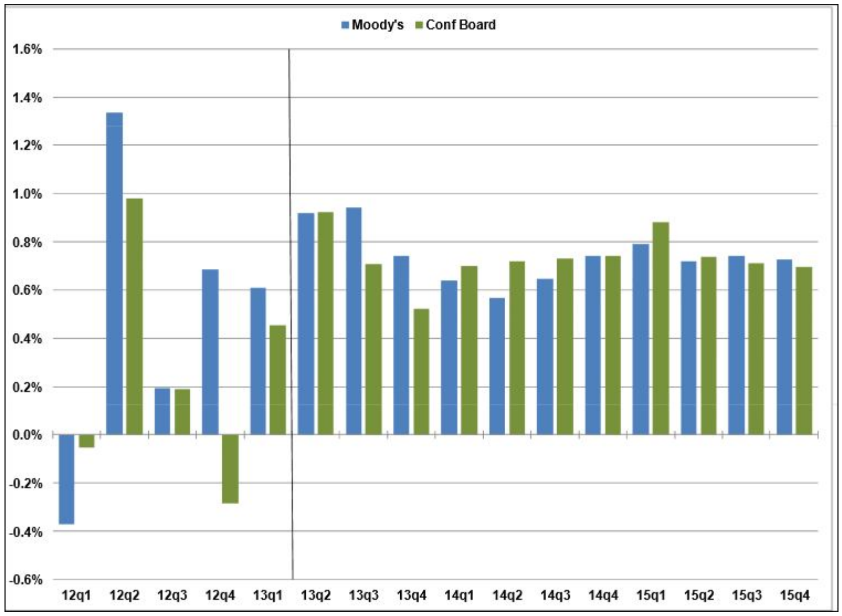
We have reviewed various new development buildings in the immediate area and feel that Brookdale is competitively priced in the market. Comparable buildings generally start in the $300's per sq.ft., and rise based on amenities, finishes, etc. The price of units in buildings such as Allure, Blythewood at Huntington, and 3018 Yonge St., range from the low to mid $300's, rising to $700 - $900 sq.ft. 1717 Avenue road, a building that recently completed construction (and sold out), was priced in the $600 - $950 per sq. ft. range. This was a luxury development and consisted of many building amenities and high end finishes.

The current development plan is for 163,300 residential sq.ft. Based on management's projections, they are forecasting an average sale price of $427 per sqft. We feel that this estimate is reasonable and attainable in the current market.

Economic overview

The following looks at the major economic factors that we anticipate will have an effect on the real estate market.

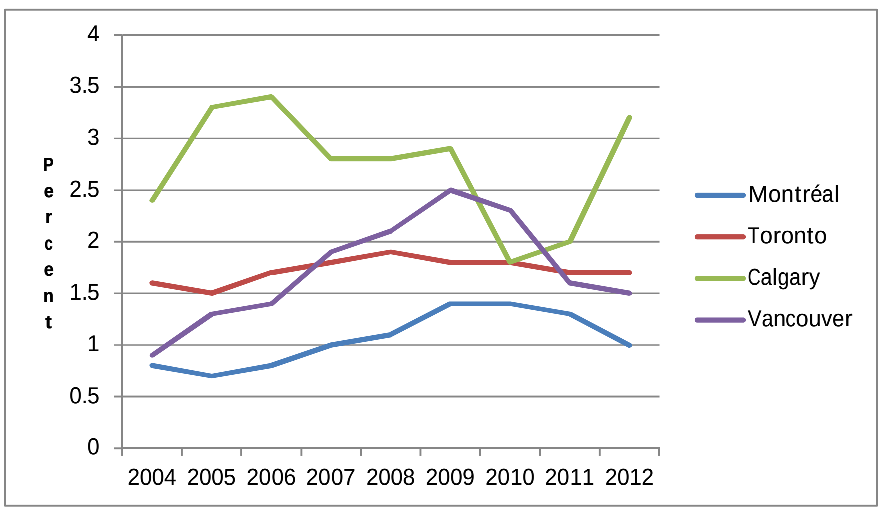
- The Gross Domestic Product of Greater Toronto is forecasted to maintain stable growth over the next two years.



Source: Toronto Economic Development Committee

- The population growth for Toronto has remained relatively steady over the last 9 years. The Ontario Ministry of Finance is forecasting growth for Ontario to continue over the medium term.

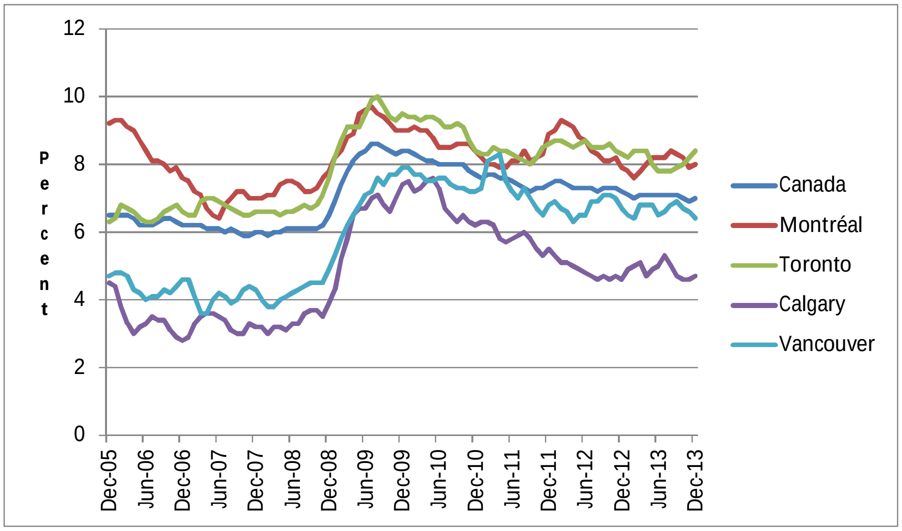
Population growth



Source: Statistics Canada

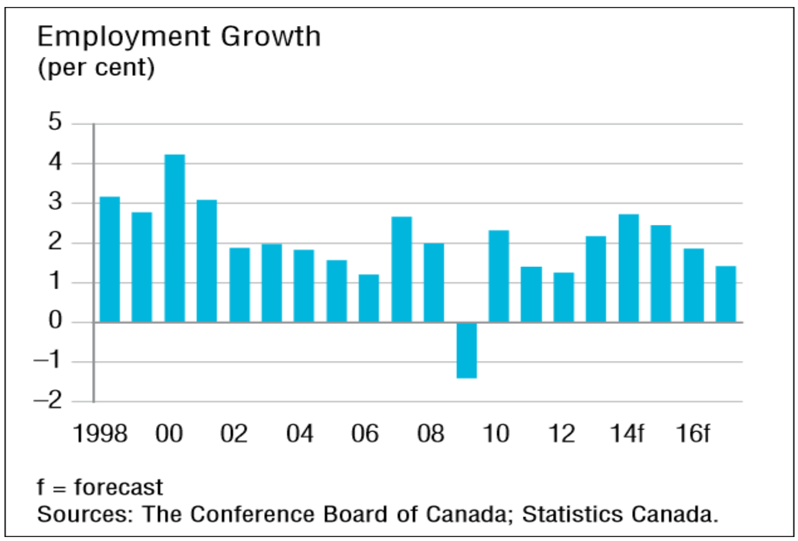
- Toronto's unemployment has consistently remained higher than that of Canada, and most of other metropolitan areas. In the last few months, the unemployment rate has begun to increase slightly in Toronto.

Unemployment



Source: Statistics Canada

- Employment growth in 2014 is expected to improve over previous years, with growth slightly slowing after that.



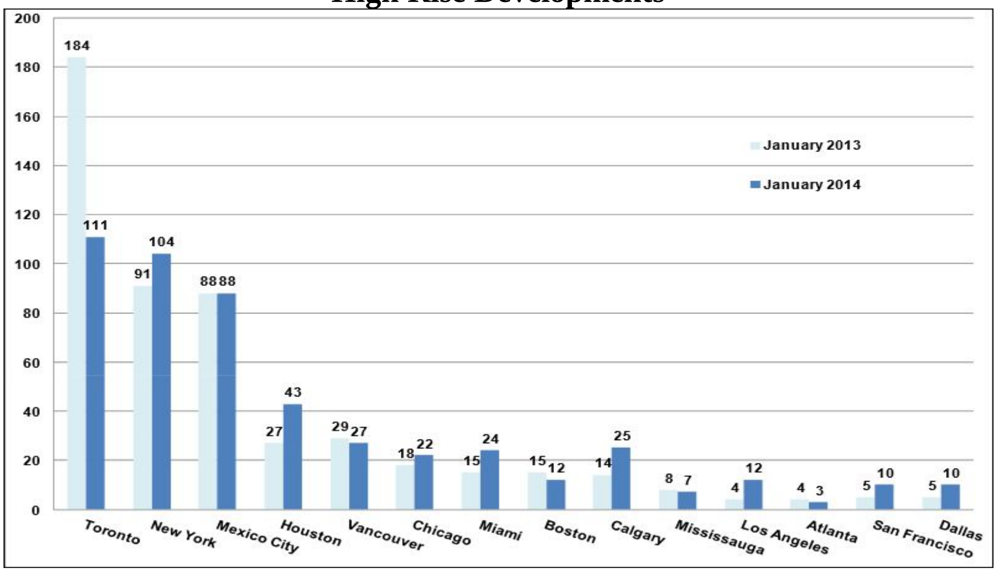
Source: Genworth

Overall, we feel that the Toronto economy will maintain moderate growth over the next few years.

Housing Outlook

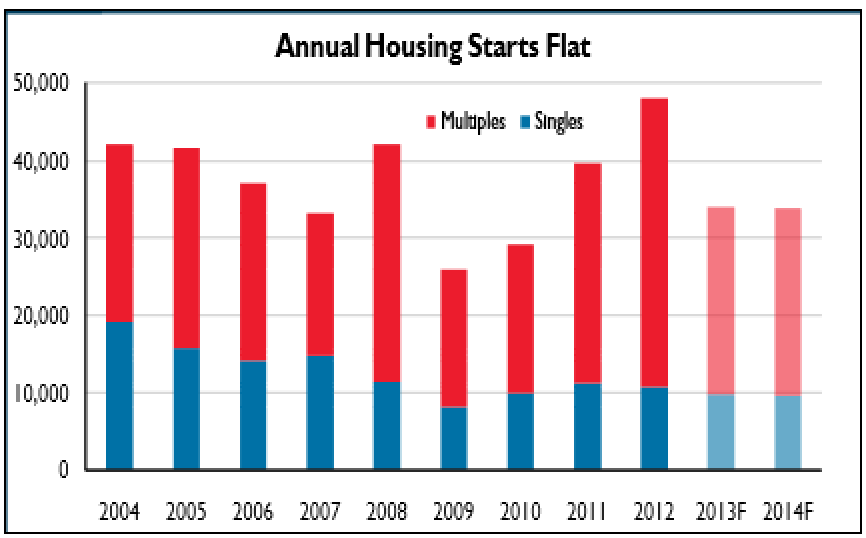
The rapid growth in condominium supply over the last three years has led to concerns in the market that Toronto is oversupplied. In January of 2013 and 2014, Toronto led North America in high-rise developments.

High Rise Developments



Source: Toronto Economic Development

The Canada Mortgage and Housing Corporation ("CMHC") estimates residential housing starts to remain flat in 2014, with levels similar to 2013.



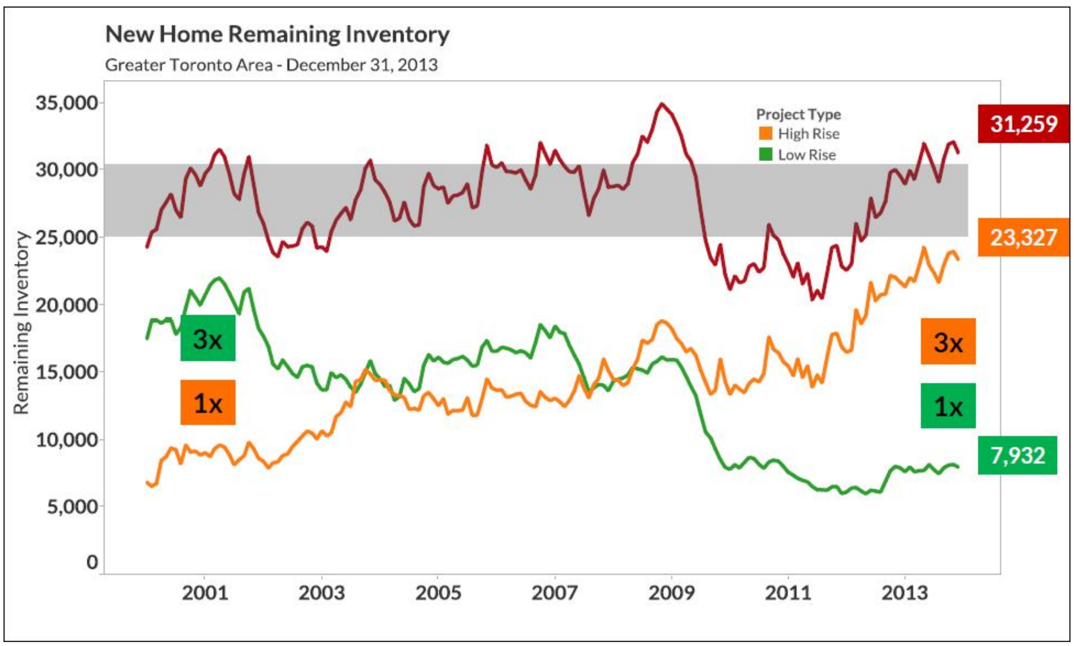
Source: CMHC

We feel that there is a high concentration of multi-family units in the downtown core of Toronto. However, the condo market has been able to absorb the development in the city. Shown below is the absorption of condominiums in Toronto.

Year	Completions	Absorptions	Completions minus Absorptions	"Unabsorbed" Percentage
2008	10,058	9,982	76	0.8
2009	9,322	9,371	(49)	-0.5
2010	10,923	10,437	486	4.7
2011	14,568	13,838	730	5.3
2012	9,961	9,831	130	1.3
2013 Jan-June	7,187	7,033	154	
Total	54,832	60,492	(5,660)	-9.4
Rental				

Source: City of Toronto

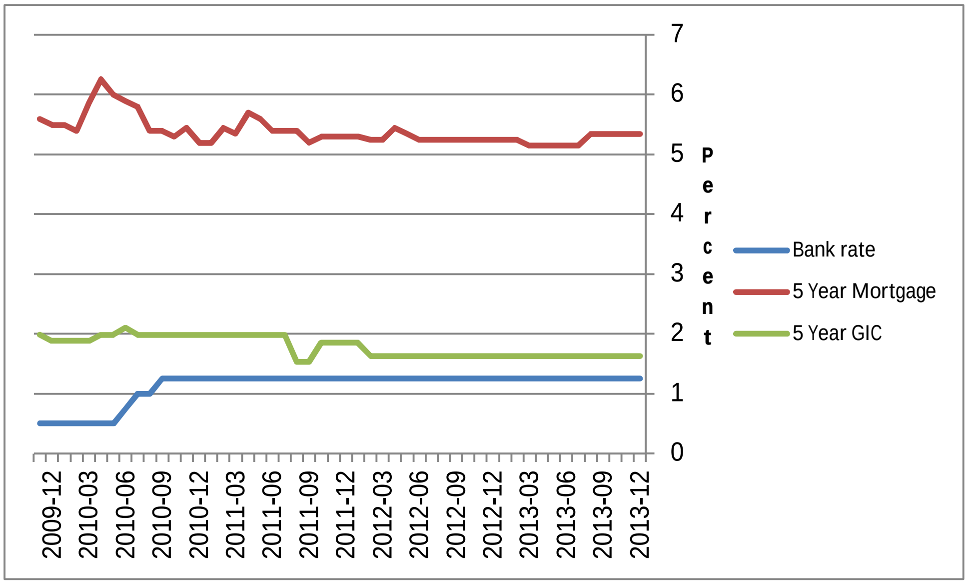
There has also been a decreasing amount of low-rise inventory as shown below, which we feel is positive for the Brookdale project.



Source: Realnet

Interest Rates

The Bank of Canada (BOC) anticipates that it will keep interest rates below 2% until 2015 / 2016. We feel this will add additional stability to the housing market in the short-term. Lower interest allows buyers to afford more, as well as allows the developer to attain lower cost financing. Key interest rates are shown.

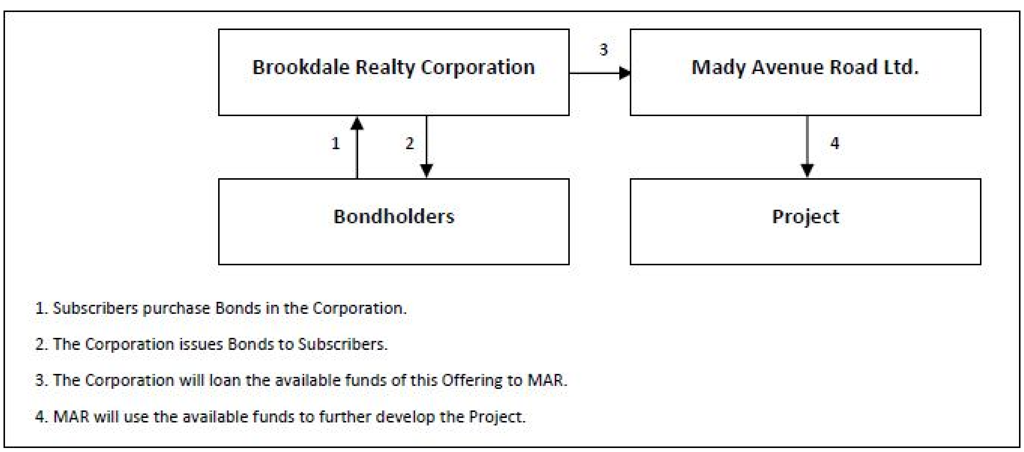


Source: Bank of Canada

We anticipate stable real estate demand for condos in the short term. Since the majority of the units are intended to be pre-sold within the next year, we feel that there will be sufficient demand.

Structure

Investors will invest funds in Brookdale Realty Corporation, which will issue bonds to investors. The corporation will loan the funds received to Mady Avenue Road (MAR), which will make the funds available to the project. There is limited recourse for investors in the event of default. The bonds bear interest at 8% per annum, which is paid quarterly and mature April 30, 2018. The structure is summarized below:



Deferred lender fee

Based on the profitability of the project, investors may also receive an additional return. Profit is based on the total revenues received by MAR, less all costs. Management refers to this as the 'deferred lender fee', and is calculated as follow:

If the project produces a profit of $12.5 - $13.25 million, investors receive an additional one-time payment of 6% of their invested capital. If profit exceeds $13.25 million, investors receive a payment of 12% of the amount invested. Investors do not receive any deferred lender fee if profits are below $12.5 million.

Security provided by the property

Throughout the development process, investors in this offering will have minimal claim on the property. The two mortgages will have priority over this offering and if replaced by construction financing, the construction financing will have priority.

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. Fortress will receive 15% of the operating reserves, and Mady will receive 4% of all development costs. Operating reserves are the net funds remaining after sales commissions and marketing fees. Our estimates of fees are shown below.

Offering	**$**	**100.00**
Less sales & commissions (10.35%)	$	(10.35)
Less marketing fee (4.65%)	$	(4.65)
Operating reserve	**$**	**85.00**
Fortress management fee (15%)	$	(12.75)
Capital available after fees	**$**	**72.25**

**The above does not include Mady's 4% of project costs. Management states that Mady's 4% is included in their buildings cost estimates, which we mentioned earlier in the report.*

We estimate that of the funds raised in this offering, approximately 72.25% will be available for use in the development.

Mady will receive 4% of total project costs, which we feel is in line with typical construction management fees. Fortress does not receive an annual management fee, and if we look at the fee over the total investment time horizon, the annual management fee would be approximately

3.2% annually (assuming a 4 year time horizon). This annual fee is well above the industry average of 2%. **We feel for this offering, there are a high amount of fees taken up front, which is a negative for investors.**

According to management, Mady has contributed $1.06 million to the development. They note that Mady will leave their equity in the project until completion, aligning their interests with investors. Bonds will also have priority over management's equity in the case of liquidation.

Early Redemption

Investors are not able to redeem the bonds. The corporation has the ability to redeem the bonds early at principal plus accrued and unpaid interest. The bonds are intended to be qualified for registered plans.

Expected Return

We used the revenue, finance costs, and construction cost estimates for the development as mentioned earlier. The following details our return estimates to investors based on various revenue estimates, which is the biggest variable.

Change in Revenues from Base-Case	-15%	-10%	-5%	0%	5%	10%	15%
Revenues	$75,643,667	$80,093,294	$84,542,922	$88,992,549	$93,442,176	$97,891,804	$102,341,431
Total cost	$81,742,483	$81,742,483	$81,742,483	$81,742,483	$81,742,483	$81,742,483	$81,742,483
Development profit	**($6,098,816)**	**($1,649,189)**	**$2,800,439**	**$7,250,066**	**$11,699,693**	**$16,149,321**	**$20,598,948**
Remaining amount due to bond holders*	$2,997,000	$2,997,000	$2,997,001	$2,997,000	$2,997,000	$2,997,000	$2,997,000
Net Profit	**($9,095,816)**	**($4,646,189)**	**($196,562)**	**$4,253,066**	**$8,702,693**	**$13,152,321**	**$17,601,948**
Returns to investors							
Annual interest for Investors	**8%**	**8%**	**8%**	**8%**	**8%**	**8%**	**8%**
Deferred lender fee (one time)	N/A	N/A	N/A	N/A	N/A	6.0%	12.0%
IRR for investors	**-25.54%**	**-4.41%**	**7.56%**	**8.00%**	**8.00%**	**9.31%**	**10.56%**

- *This is the amount that was not invested into project due to the sales commissions, marketing fees, and Fortress's upfront management fees.*

Our base-case return for investors is 8% p.a. As shown above, investor returns are very sensitive to project revenues. Returns are also sensitive to cost increases (building cost, financing cost, etc.) and time horizon. **By capping the overall return at 10.56% p.a., the structure limits the upside to investors, while the downside remains.**

Risks

- There is no guarantee that principal or interest will be paid.
- The property in liquidation may not be able to cover all obligations.

- The deferred lender fee is based on the profitability of the project.
- 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 higher/longer than management's estimates.
- The real estate market demand for condo units will affect returns.
- The development plans for the project have not yet been finalized. Buildings permits and approvals by the city are still required.

Conclusion

We feel that Fortress and Mady have the combined experience to advance and complete the project. The development is still in the early stages, but progressing. Mady has a long track record in development and construction. Our base-case expected return for investors is 8% p.a. For investors providing early financing to a development, we would have liked to see more upside potential to compensate for the risk. The structure of the offering offers large variations to the downside, with limited upside potential. We think that the revenue estimates for the project are reasonable; however, the development costs are based solely on management's projections, which we feel is a risk.

We assign an overall rating of 4, and a risk rating of 5.

FRC Rating	
IRR (base-case)	8% p.a.
Rating	4
Risk	5

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	22%	Risk - 2	2%
Rating - 3	49%	Risk - 3	30%
Rating - 4	8%	Risk - 4	43%
Rating - 5	6%	Risk - 5	9%
Rating - 6	2%	Suspended	17%
Rating - 7	0%		
Suspended	13%		

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