Fundamental Research Corp.
Investment Analysis for Intelligent Investors

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Auctus Real Estate Trust - Multi-family rental property fund in Regina, Saskatchewan

Sector/Industry: Real Estate **www.auctuspropertyfund.ca**

Offering Summary	
Issuer	Auctus Real Estate Trust
Securities Offered	Trust Units
Min / Max Subscription	no min (at least 150 investors) / $8.85 million max
Unit Price	$9 until December 31, 2013; $9.50 until March 31, 2014; $10 thereafter
Redemption	Restricted - at management's discretion
Management Fees	Asset management fee of 1.5% per annum of NAV / Profit sharing over 8% p.a.
Sales fee	6% selling and commission fee + 1% EMD fee
Auditor	KPMG LLP

• Based on Offering Memorandum ("OM") dated October 30, 2013

Investment Highlights

- Auctus Real Estate Trust ("trust") is offering investors the opportunity to participate in the development of multi-family residential properties in Regina, Saskatchewan.
- Management has experience in land acquisitions, development of buildings and property management.
- Management of the trust also manages Auctus LP, which has 539 apartment units (four properties) under management in the Regina region. 389 of those units were developed by management using modular building construction. The appraised value of the properties is $81.8 million.
- For this offering, management intends to invest in three development projects in Regina.
- After the properties are constructed and rented, management plans to review exit opportunities to provide investors' liquidity.
- Occupancy at the Auctus LP properties for the last 9 months was over 99%, according to management.

Risks

- Construction costs may exceed current estimates.
- The timeline for construction may exceed management's estimates, which would negatively affect returns.
- The real estate market may soften and property prices may decline.
- Financing (equity / debt) for the construction of the properties has not yet been secured.
- Interest rate risks (associated with debt).
- The trust intends to have a 50% interest in the three projects. Additional equity will be needed to develop the projects.
- Returns to investors are dependent on price appreciation of the developments.
- Investors' funds may be returned if there are less than 150 investors (in order to qualify as a mutual fund trust).

FRC Rating	
Base-Case IRR	13.3% p.a.
Rating	2-
Risk	4

*see back of report for rating and risk definitions

Overview

Auctus Real Estate Trust intends to invest in the development of three multi-family residential properties in Regina. Denis Jones is the co-owner and manager of a group of companies that will oversee the development and management of the properties. Mr. Jones owns and manages Knysna Asset Management ("KAM"), which will manage the trust. KAM also manages Auctus LP. Auctus LP acquires, develops, and manages multi-family income producing properties in the Regina region. The LP currently holds 539 apartment units with an appraised value of $81.8 million.

Funds from this offering are intended to be used to purchase a 50% interest in three developments. Management has acquired one property, and placed a deposit on another property; the trust intends to invest in these two properties. Land has been identified, but not yet acquired for the third investment. Management states that in addition to the trust's 50% investment, Auctus LP and PFM Capital, an unrelated Saskatchewan based asset management company, have an interest in acquiring the other 50%. In addition to funds raised in this offering, management will seek construction financing for the development. Debt is likely to account for approximately 75% of construction costs (including land). The properties have an anticipated combined construction cost (including land) of $64.4 million.

After all of the properties are completed, and 90% occupancy is achieved, management (the trustees) will begin reviewing strategies to liquidate the properties. Investors are expected to benefit from the property price appreciation, and the value added through developing the properties.

Why Real Estate

The following factors describe the benefits of adding real-estate investments to an investment portfolio. Although majority of the data is from the U.S., we feel that the results are comparable to the Canadian market:

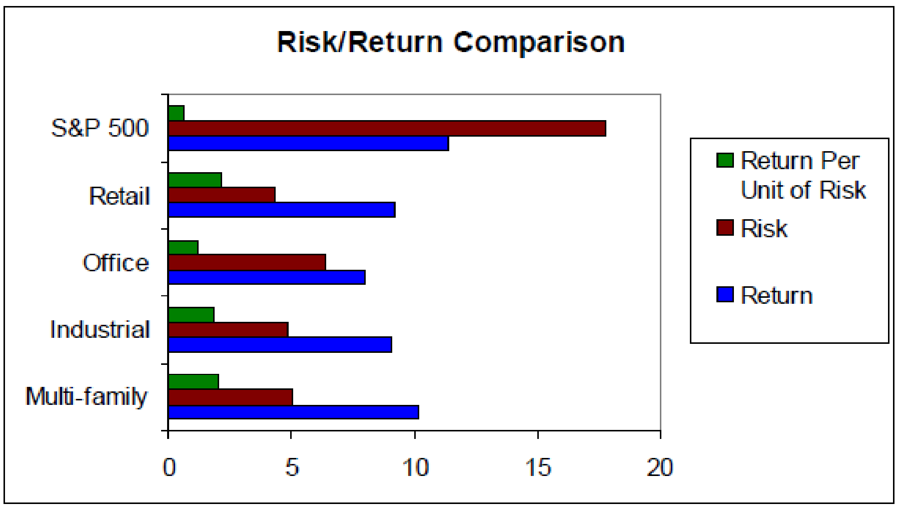
Diversification: Real estate offers significant diversification benefits to an investment portfolio. A look at U.S. stocks/bonds, and real estate investments over the period of 2001-2010, illustrate the potential diversification benefits. **Over this period, the S&P 500 had a correlation with the NCREIF NPI index (private real estate) of 0.23.** The NAREIT Equity index, a broad index of publicly traded REITS (Real Estate Investment Trusts), had a correlation with the S&P 500 of 0.71. The lower the correlation, the higher the diversification benefits – implying that private real estate investments have historically been better for diversification compared to publicly traded REITS.

	NCREIF NPI	NAREIT Equity Index	S&P 500	Russell 2000	Barclays Agg Bond Index	Morgan Stanley EAFE Int'l Stock
NCREIF NPI	1					
NAREIT Equity Index	0.29	1				
S&P 500	0.23	0.71	1			
Russell 2000	0.21	0.77	0.94	1		
Barclays Agg Bond Index	-0.17	-0.02	-0.36	-0.39	1	
Morgan Stanley EAFE Int'l Stock	0.21	0.69	0.92	0.86	-0.24	1

Sources: NCREIF, NAREIT, S&P, Russell, Barclays Capital, and MSCI. Clarion Partners Research & Investment Strategy. Note: correlation coefficient among quarterly returns.

High risk-adjusted returns: Returns and standard deviations calculated are sensitive to the time period chosen, however, the chart below shows that **multifamily developments have offered one of the best risk adjusted returns (compared to other real estate investments).**

Property Type Characteristics (Q1 – 1978: Q1 – 2010)



Source: NCREIF, LaSalle Investment Management, August 2009, Marquette Associates Oct 2010

Tax benefits: Real estate investments may offer tax deductions, through property depreciation, potentially offsetting the tax implications of the income received.

Leverage: Real estate investments typically offer high leverage potential whereby a property can be purchased or built with a cash outlay much less than 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, or as easily, as real estate investments.

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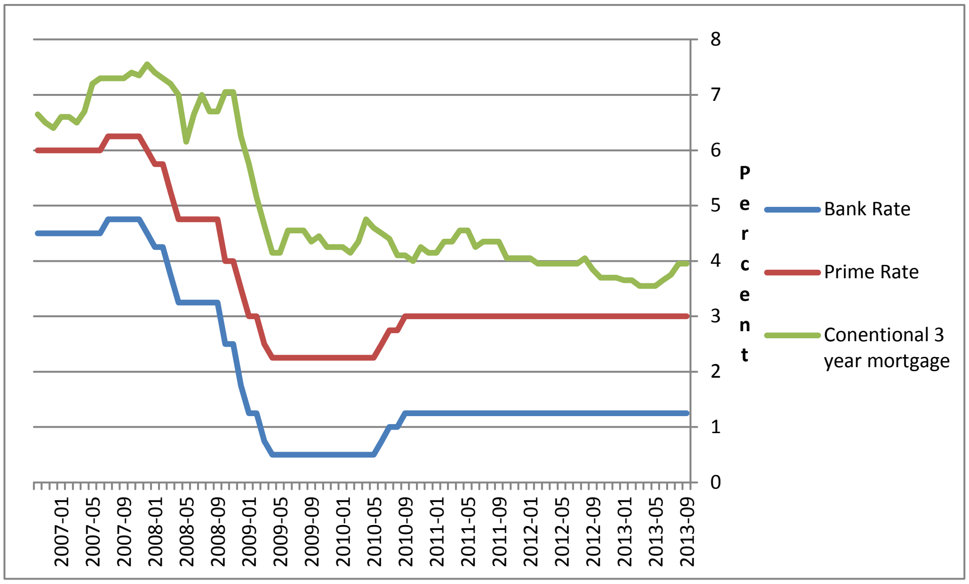
Interest rates: Interest rates are still at historically low levels. As a result of this, developers/investors are able to secure relatively cheap rates in the near term, allowing for better leveraged returns. The graph below shows some key historical bank rates and illustrates the currently low rates.



Source: Bank of Canada

Auctus Management and Trustees

Denis Jones is the principal manager of Knysna Asset Management ("KAM"), which will manage the Auctus Trust. Mr. Jones began investing in multi-family residential properties in Regina as personal investments in 2004. In 2008, Mr. Jones partnered with Kevin Gelsinger, who owned a local construction company, and founded Deveraux Developments. Through Deveraux, Mr. Jones and Mr. Gelsinger invested in and managed the construction of large multi-family buildings and single family homes in Regina. Deveraux has previously managed the construction of 7 multi-family apartment buildings, and 2 multi-family condo buildings. They currently have 1 condo construction project, and 2 apartment projects under development. In 2011, Mr. Jones founded Auctus LP, which acquired properties developed by Deveraux. KAM is also the general partner of Auctus LP.

In addition to Deveraux, the trust may use the following services from related parties / entities:

- Mr. Jones and Mr. Gelsinger own and manage Altern Properties (formed in 2010), which provides property management services to properties.
- An equipment rental company (formed in 2009) controlled by Denis Jones.
- Legal services and plumbing services by trustees of Auctus.

We feel that the trust's use of related parties has advantages and disadvantages. Using related party companies allows management to maintain control of the quality and services provided. However, some fees are based on management's estimates (construction budget) and others are unknown (plumbing, equipment rental, legal, etc). The OM states market rates will be charged for related services. In order to avoid conflict of interests, management notes that there are two trustees who have no related business interests. The primary fees for related companies are shown below – which, we believe, are in line with market rates.

	KAM	Deveraux	Altern
Principals	Denis Jones	Mr. Jones & Mr. Gelsinger	Mr. Jones and Mr. Gelsinger
Role	Management of the trust	Construction management	Property management
Fees	1.5% of NAV	5% of budgeted construction cost	5% of rental income

For previous development projects, management partnered with local investors and PFM Capital for equity investment. PFM has over $405 million in capital under management, and manages funds for large institutions, including SaskWorks Venture Fund.

We feel that Auctus has a strong management team in place. They have experience in developing, managing and selling multi-family properties. The following biographies have been provided by management.

Denis Jones - President, Chief Executive Officer, and Trustee
Mr. Jones is the President, Acting Chief Executive Officer, and a Trustee of the Trust. Mr. Jones has extensive experience in both the construction and management of multi-family developments, and is actively involved in the day-to-day management of both home divisions and larger developments. Mr. Jones has been involved in multi-family property development in Saskatchewan since 2004, when he purchased his first multi-family apartment complex.

In 2008, Mr. Jones co-founded Deveraux, which has become a leader in the management and construction of multi-family developments in Regina. Deveraux has used a modular form of construction to bring over 400 new rental units to market over the past two years with plans to build another 600 units over the next two years. Deveraux has also used this modular form of construction to build condominiums and will complete 48 units in 2013. In addition, Deveraux has quickly become a leader in building quality homes in the Regina and surrounding area.

In 2010, Mr. Jones formed Altern Properties, a full service property management company, in order to provide a higher standard of customer service and building maintenance to tenants and property owners. Altern currently manages over 500 multi-family apartment units.

In 2011/2012, Mr. Jones co-founded Auctus LP, a private real estate limited partnership, which subsequently acquired three limited partnerships. The limited partnerships had been previously founded by Mr. Jones and had owned and managed 515 apartment units in

Regina, including the development and construction of 389 apartment units using a modular form of construction. Auctus LP currently has 539 apartment units having an estimated market value of approximately $81.8 million. Auctus LP is currently developing three Properties (Rochdale Crossing, Deveraux Heights and Sterling Manor) which will add a total of 395 new apartment units to its portfolio.

Colin Woloshyn - Vice President, Chief Financial Officer
Colin Woloshyn received his Chartered Accountant designation in 2002 and previously spent over 13 years in public practice at KPMG LLP managing a number of different client engagements and special projects. In addition, Mr. Woloshyn worked at a large international Canadian public company, headquartered in Regina in a senior accounting and finance role. Mr. Woloshyn joined Deveraux and Altern in October 2012 as Chief Financial Officer and Vice-President of Investments, assuming a strategic role in the overall management of the organization, helping guide key business initiatives and investments and directing the key financial-related activities. Mr. Woloshyn provides leadership in all aspects of accounting and finance, including financial reporting, budgeting and cash flow projections, debt structuring, tax compliance, tax planning and all operational accounting activities. Mr. Woloshyn oversees the accounting, finance and administrative functions including three other Chartered Accountants for Deveraux, Altern, and Auctus LP.

Kevin Gelsinger - Partner in Deveraux and Altern
Kevin Gelsinger has been in the construction business for over 20 years of which the first 15 years were spent in custom homes. In 2008, Kevin and Denis created Deveraux Homes & Developments. Kevin has been responsible for the substantial growth of the homes division and has been the lead on many of their major commercial developments.

Kevin has become an expert in modular construction, overseeing Sky Harbour with a budget of over $42 million. The modular construction process requires a special skill set not readily available in the market place. Kevin has used modular construction not only in apartment units but also in the construction of high end condominium units.

The following lists the trustees.

Colin Hodge - Trustee
Colin Hodge has been involved in the construction industry since 1992 with respect to single and multi-family construction, rental housing and renovations. During this time, Mr. Hodge has developed and invested in many condominium developments and residential rentals in Regina and Calgary. In 1999, Mr. Hodge became Manager of Engineering for Uponor Canada where he assisted and designed many large scale hydronic commercial developments across Canada, including the Toronto subway platforms snow melt, Winnipeg hospital, universities and many other sites across Canada. In 2002, Mr. Hodge founded a mechanical contracting company in Regina, and is currently a shareholder of Sterling Plumbing and Heating Ltd. Mr. Hodge is actively involved in developing commercial land, buildings and commercial rentals and currently serves as a director of Auctus GP.

Randall Smith – Trustee

Randall Smith has a background in both the oil and gas and real estate industries and is the President of two private oil and gas exploration companies. Mr. Smith holds a diploma in Business Management and Petroleum Land Management from Mount Royal University. Mr. Smith has previously served as a member of the Board of Directors of companies involved in the development, construction and management of real estate. In addition, Mr. Smith is a currently a member of the Board of Directors of several private commercial real estate holding companies and currently serves as a director of Auctus GP.

Tim McGauley - Trustee

After majoring in marketing in university, Mr. McGauley left to pursue a business career in the international marketplace. Mr. McGauley joined an American company selling consumer goods in Australia as a sales rep and was thereafter assigned to their international operations team in South Africa, England and Japan to implement company marketing strategies. Mr. McGauley established his own company in Japan, marketing petroleum products throughout the country over a period of 20 years. During that time, he established other businesses in the fields of import and distribution, mail order and publishing there. Upon his return to Canada Mr. McGauley involved himself in real estate investment and development. Mr. McGauley currently oversees and manages a number of income producing properties. Mr. McGauley has also served as a member of the Board of Directors of several private commercial real estate holding companies and currently serves as a director of Auctus GP.

Dion Tchorzewski - Trustee

Dion Tchorzewski has practiced law in Saskatchewan and internationally for over 20 years. He is a partner in the Regina office of McDougall Gauley LLP. Mr. Tchorzewski's practice includes working with local, national and international businesses in the areas of corporate governance, real estate, secured lending and information technology. He has experience providing legal services to several of Saskatchewan's Crown Corporations. Mr. Tchorzewski's international experience includes private practice with the law firm ASAR Al Ruwayeh and Partners, during which he advised local and international business clients operating in the State of Kuwait. He also acted as general counsel to the Kuwaiti based international retailer, Alshaya, for which he oversaw legal matters covering all of Alshaya's Middle Eastern operations. Mr. Tchorzewski served as a commissioner on the Saskatchewan Liquor and Gaming Licensing Commission from 2006 to 2008 and is a member of the Board of Directors of Information Services Corporation. He holds a Bachelor of Arts from the University of Regina and a Bachelor of Laws from the University of Saskatchewan. He is a member of the Law Society of Saskatchewan and the Canadian Bar Association.

All of the trustees, except Dion Tchorzewski, are directors of Auctus LP. Based on Auctus LP's Q3-2013 unaudited statements, there were 3.47 million Auctus LP units outstanding. **Management and trustees own approximately 45.5% of the total LP units outstanding. We feel that this is very good for investors of this offering as the LP intends to invest alongside the trust.**

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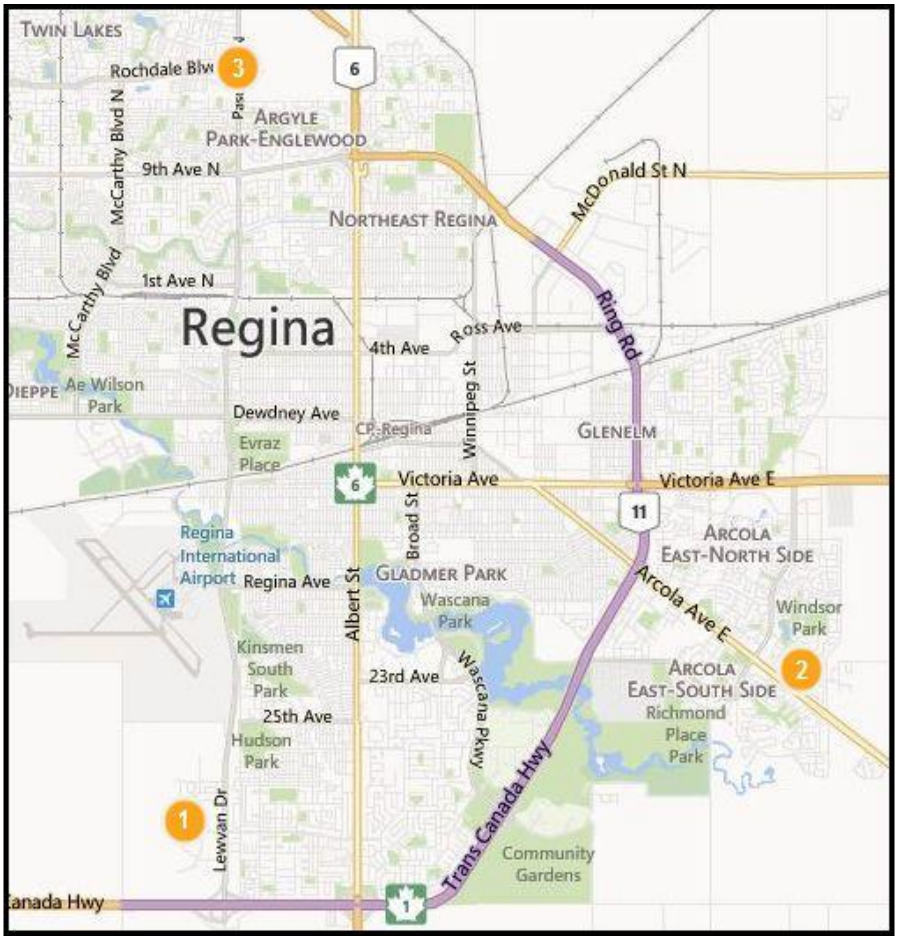
STRATEGY

The trust plans to acquire an interest in the development of Sterling Manor II (2), Hawkstone (3), and Harbour Landing (1). The below map shows the location of the various properties.



Source: Bing Maps

Brief descriptions of each are presented below. Deveraux Heights is being developed by Auctus LP, and has been approved for development. It is located in Harbour Landing, and consists of one 64 unit building, and two 48 unit buildings (160 total units). Management **plans to use the exact same building plans** for Sterling Manor I and II. They will also use the 48 unit building design for Hawkstone. Management feels this will limit design costs, simplify building permits and speed development.

Sterling Manor II

The Sterling Manor property is located in south east Regina, situated just north of Arcola Ave and Chuka Drive. The area consists of new residential and some multi-family residential development. The property is a 15 minute drive from downtown Regina. Auctus LP and PFM Capital have provided equity for the development of Sterling Manor I. The trust intends to acquire an interest in Sterling Manor II, which will be the second phase of Sterling Manor I (adjacent land). The building plans are for 160 units comprised of one and two bedroom suites. The building construction will be modular. Management has placed a deposit on the land for $750,000, of the $3.2 million purchase price. The remaining purchase price has to be paid by June 15, 2014. We have reviewed the land agreement.

Deveraux Heights is just starting initial site work for development, and Sterling Manor I is expected to begin site work in December 1, 2013. Management plans to begin construction of Sterling Manor II in March of 2014, and complete the building by June of 2015. Management states the land is currently zoned for multi-family (we have verified this), and has discretionary use approval. A building permit is still required for construction, but management does not foresee any problems attaining it since it is the same building plan as Deveraux Heights. **The total cost for the development (including land) is estimated by management to be $24.96 million.**

We have reviewed a cost assessment of management's projected budget for Deveraux Heights by BTY Group, a leading Canadian cost consultancy company. As mentioned earlier, Deveraux Heights has the same building design as Sterling Manor and Hawkstone. BTY found that management's estimated costs were accurate and reasonable. In an appraisal of Sterling Manor completed by B.R Gaffney & Associates, a small property appraisal firm based in Regina, the firm appraised the current value of the completed project at $27.5 million. For the appraisal, they used three methods of valuation; the cost method, income method and comparison. They had a cost estimate of $25.3 million, the income method produced a value of $28.3 million and direct comparison value of $28.8 million. We feel that the income and direct comparison methods are more indicative of the project's fair value.

A rendering of the completed building is shown below. This would be the same design (except for color) for Deveraux Heights, Sterling Manor I/II and Hawkstone.

Source: Management

Hawkstone

Hawkstone is located in north Regina at the intersection of Rochdale Blvd and Pasqua Street. Both of these streets are major roadways and provide good transportation access. The property is located in a new subdivision located close to several strip malls, restaurants and retail outlets. **Management plans to develop a 48 unit building with a total completed cost of $7.69 million (including land of $1.16 million).**

Development of the property is scheduled to start in early 2014, with completion anticipated for Q1-2015. **B.R Gaffney & Associates have completed an appraisal of the Hawkstone development and gave it a value of $8.0 million if completed today.** The appraisal also noted that the land is registered to a company controlled by management. Management states that the building does not need discretionary approval from the city because it is only a single building. The property would still require a building permit. As mentioned earlier, they do not anticipate any challenges to attaining the permit because it is based on the Deveraux Heights building plan.

Harbour Landing

Harbour Landing is a new construction in southwest Regina, in the Harbour Landing area. Deveraux Heights and Sky Harbour are also located in the same area. The area consists of primarily new residential development. Management, and the owners of the property, have not yet entered into a formal agreement on the property. Management states that they have a first right of refusal on the property. They note that they have previously purchased Sky Harbour, Deveraux Heights, and numerous single family lots from the developer. The property is still in the early stages of planning, but management intends to construct four buildings with 200 units. **Construction and land costs are estimated at $31.75 million (land estimate $4.25 million).** Construction is expected to commence in 2015, with completion predicted in 2016. There is no independent appraisal completed on this project.

The planned investment (50% interest) in each property by the trust is shown below.

Description of the Trust's intended use of Available Funds listed in order of priority	Assuming Minimum Offering	Assuming Maximum Offering
To invest in Sterling Manor II LP(1)	-	$3,120,000
To invest in Hawkstone LP(2)	-	$961,300
To invest in Harbour Landing LP(3)	-	$3,968,700
Total	-	**$8,050,000**

Source: OM (refer OM for notes)

The below shows a summary of costs and profit estimated by management and contained in the OM.

	Sterling Manor II LP	Hawkstone LP	Harbour Landing LP
Construction Start	Mar-14	Apr-14	Mar-15
Construction Finish	Jun-15	Jan-15	Aug-16
Months	15	9	17
Cost	$ 24,960,000	$ 7,690,400	$ 31,749,600
Fair Value completed	$ 30,359,057	$ 9,158,306	$ 36,739,429
Profit	$ 5,399,057	$ 1,467,906	$ 4,989,829
Initial equity investment (25% cost)	$ 6,240,000	$ 1,922,600	$ 7,937,400
ROI	86.5%	76.4%	62.9%

Source: OM

For the above estimates, management has used their experience in construction management, current property comparables, and property appraisals. The cost estimates for the developments include land, construction costs and construction financing costs. It does not take into consideration costs of the trust such as the performance fee, asset management fee etc. The fair market value is based on an income valuation approach. Management used their estimate of rental revenue, operating expenses and capitalization rates. The fair value also includes rental income received from the end of construction until sale, less principal repayments on debt. We have reviewed the budget assessment (by a third-party) for Deveraux Heights and they found management's estimates reasonable. The cost of construction from appraisals we have reviewed are also in-line with management's estimated construction costs. We discuss our valuation of the properties later. We feel that management's fair value estimate is in-line with the market and reasonable given their previous experience.

Exit

Upon completion of development and 90% occupancy, management plans to begin reviewing exit opportunities for each building. For previous projects, management has started pre-renting the building 4 months prior to completion. Following completion, they estimate 4 months until 90% occupied.

Management does not plan to have trust investors hold an income producing property and will try to exit and distribute funds to investors as soon as possible. **Possible exits of the property include sale, refinancing, or some other liquidation.** If the property is acquired by a related party, such as Auctus LP, the exit price will be the fair market value as determined by an independent third party appraisal. The principals of the trust might also consider forming a private Real Estate Investment Trust (REIT) to raise capital and purchase projects under development by the trust.

The trust intends to liquidate properties and provide distributions to investors as soon as possible. They will attempt to sell each property once completed to maximize returns to investors.

We feel that an acquisition of the properties by Auctus LP, or a REIT, is the most likely scenario for exit. Auctus LP has previously purchased projects constructed by Deveraux.

We feel that having a natural purchaser improves the exit options for investors in the trust.

Auctus Advantages

Experience
Regina has experienced the highest real estate price appreciation out of major Canadian cities and is forecasted to be one of Canada's top performing economies, which we discuss later. We feel that management's local market experience is a major advantage. Management of Auctus, we feel, has good understanding of the various submarket locations and rental demand in these areas. Management has also highlighted their relationship with land owners. They feel that through their relationships, they often have access to land that is not listed, or first right of refusal for land set to be sold.

We also feel that through Deveraux, management has good experience in construction management. As discussed earlier, they have managed 9 multi-family constructions. Management states that they generally must use a third party cost consultant to verify their budgets in order to attain construction financing.

Premium Quality
Auctus will focus on constructing premium quality modular buildings. The building are located in up and coming neighborhoods. As part of their premium quality, they use high end finishes to make the units more attractive to renters. They also try to foster a long-term relationship with tenants by offering superior customer service. This includes having professionally managed properties (their property management is a related company so they can control service). The properties have on-site management to handle customer inquiries and problems. Management intends to have a repair, update and maintenance programs in each of the buildings in order to maintain the quality of their buildings. Management feels that by offering a premium product, they can achieve above market rents for units, have lower vacancy, longer term and higher quality tenants.

Modular Construction
Management plans to use Guerdon, a leader in modular construction for their developments. Modular construction involves having the building built in pieces in an off-site factory. The pieces are then transported to the site and assembled. **A modular constructed building would be indistinguishable from an onsite constructed building.** Management have previously used modular construction in their developments and found many benefits. Benefits include: cost predictability, quality control, speed and less waste. There are also timing benefits due to the control of production in factories (such as no weather delays). The UK has been using modular construction since the late 1970's, and it has recently become a popular method of construction. **The Steel Construction Institute and Oxford Brookes University, in a study, found that modular construction was, on average, faster to build than traditional construction. In addition, they found better predictability in construction timelines, less waste, and a slightly lower cost.** McGraw-Hill surveyed over 800 architects, engineers and contracting professionals for their construction report on

prefabrication and modularization. They found costs decreased, construction time decreased and there was less waste. Guerdon has constructed modular buildings for multi-family homes, schools, hotels and the U.S. Military.

Photos of the previous modular properties developed by Deveraux are shown below.

Montreal and 15th

Sky Harbour

Source: Management

Financing

Auctus feels their ability to achieve financing for the projects is a big advantage. For previous projects, management has been able to secure low cost (debt) financing for up to 75% of the construction costs. They have previously used major lenders such as Canadian Western Bank and Conexus Credit Union. We have reviewed the financing due diligence package for Deveraux Heights. For the properties currently held in the Auctus LP, management notes they are paying an average interest rate on debt of 3.75% p.a. Management states that their construction financing has averaged 4.25% per annum.

If the maximum for this offering is raised, management will need to attain an additional 50% equity interest in each of the projects. Management states that Auctus LP has put aside funds to invest in Sterling Manor II and Hawkstone. They also note that PFM Capital has expressed interest in Sterling Manor II. Harbour Landing has no planned funding yet. If Auctus LP and PFM Capital are not interested, management may attempt to raise additional capital or reduce the size of the project. Management notes that in addition to the LP's cash on hand, the LP has the ability to either raise additional capital or liquidate assets to fund the new projects.

Management performance history

The below shows the previous projects that management has developed and exited.

	BDG	Montreal and 15	Cathedral Village
Location	Prince Albert	Regina	Regina
Construction start	2007	2011	2009
Construction Cost	$ 10,465,898	$ 3,150,167	$ 5,452,716
Equity	$ 938,600	$ 1,136,518	$ 1,966,250
Construction time (Months)	48	15	27
Profit on sale	$ 2,165,892	$ 551,496	$ 2,189,581
ROI	231%	49%	111%
Annual ROI	58%	39%	49%

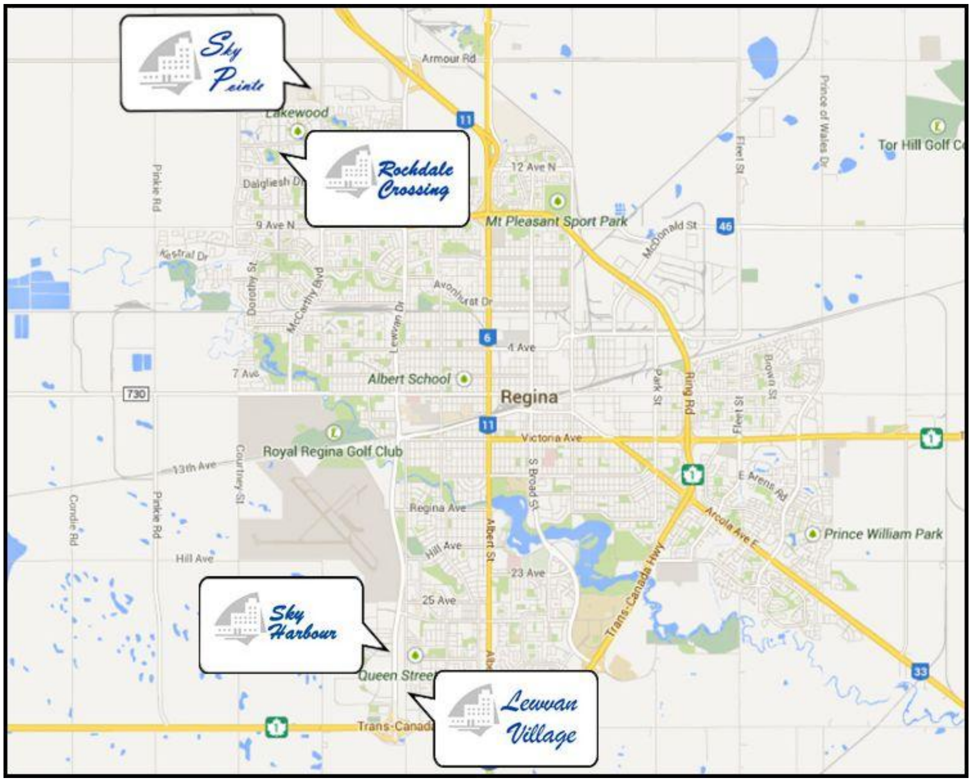
Source: Management

In 2007, Denis Jones invested in BDG with three other investors. BDG was a condo development that was not modular. The project was completed over three phases, and initial equity was rolled into subsequent phases. Mr. Jones, along with local Regina individual investors provided equity for Montreal and 15^{th}, a modular condo development constructed by Deveraux. Cathedral Village was a rental building that was converted to condos, and sold. It included equity investment by Mr. Jones, local investors and PFM Capital on behalf of institutional investors. **We have spoken to PFM Capital, and an individual investor, and they confirm the returns for the Cathedral Village development**. Deveraux has managed the construction of other multi-family buildings aside from exited developments and buildings held by the LP. Management did not provide equity for these projects, and we have not reviewed them.

In addition to the above exited projects, Deveraux constructed Sky Pointe and Sky Harbour, which were both modular developments (discussed below). They also completed a renovation on Lewvan Place. Denis Jones, local investors and PFM Capital were the major investors.

Auctus LP

Auctus LP locations



Note - Rochdale Crossing is under development. The above map does not show all the projects held by the LP.

In 2011, Auctus LP was created with the intention of purchasing properties previously constructed by Deveraux. In 2012, Auctus LP raised funds from investors and acquired Sky Harbour, Sky Pointe and Lewvan Village. In 2013, Auctus LP acquired Proctor Place from a local Regina resident. Auctus LP currently manages these properties as income producing and distributes the income to investors. Management has provided return data for the original equity investors in Sky Pointe, Sky Harbour and Lewvan developments. We have spoken to PFM Capital (one of the original investors), and they confirm returns averaged approximately 30% per annum. They have invested in all of the fully developed LP properties except Proctor Place. PFM did not roll over their investment into the LP.

Below summarizes key information of the properties held by the Auctus LP. Revenue estimates are from appraisal reports.

		Sky Pointe	Sky Harbour
Units		75	314
Construction start date		Nov-11	Sep-10
Construction completion date		Jun-12	Jul-12
Completed construction costs	$	10,790,411	$44,841,707
Gross revenue	$	969,210	$ 4,337,472
Appraised value	$	12,000,000	$51,100,000
		Lewvan	**Proctor Place**
Date Acquired		2008	May-13
Renovation completion		2011	
Acquisition cost (including reno)	$	11,700,000	$ 2,415,366
Gross revenue	$	1,595,000	$ 262,380
Appraised value	$	16,135,000	$ 2,576,000

Source: Appraisals & Management

B.R Gaffney & Associates completed appraisals for all of the Auctus LP properties (prior to the acquisition by the LP), which we have reviewed. The four properties have appraised values of $81.8 million, and consist of 539 units. All of the LP properties showed price appreciation from the development/completed costs – note that the development costs were provided by management.

Management states that the rental rates at the Auctus LP properties have increased from the time of acquisition. The below shows the rental rates contained in the information circular dated June 2012, and the light blue row lists current rental rates provided by management. We have compared the rental rates to the financial statements and feel they are accurate.

Rental rates June 2012 (white)/ current rental rates (blue)

	Sky Pointe	Sky Harbour	Lewvan Village
1 Bedroom	$ 950	$ 950	$ 940
	$ 990	$ 990	$ 1,000
1Bed+Den	$ 1,100	$ 1,125	
	$ 1,170	$ 1,170	
2 Bedroom	$ 1,175	$ 1,200	$ 1,070
	$ 1,230	$ 1,230	$ 1,110

The operating expenses of Sky Harbour and Sky Pointe also decreased from the appraised expenses according management. The appraisals listed a 27% (of gross revenues) operating expense for Sky Harbour, and 23% for Sky Pointe. Management states that the operating expense for these properties was 20-21% in September 2013.

Management has provided internal budgets of actual cost for construction compared to initial budgeted costs. The actual costs exceeded budgeted costs by 4.4% for Sky Pointe and

5.8% for Sky Harbour – which, we believe, is reasonable.

For the Auctus LP, we have reviewed the 2012 audited statements, and Q1, Q2, and Q3, unaudited statements for 2013. There were limited rental revenues in 2012, as the buildings were acquired in late 2012. For the first 9 months of 2013, rental revenues were $5.23 million from properties with a construction value of $70 million (as per management), and appraised value of $81.8 million. After operating expenses of $1.51 million (28.9% of revenues), net operating income was $3.72 million. Management states that distributions for the LP have been $0.25 million in each of the first three quarters. The total distributions year to date ($0.75 million) would equal 2.15% of investors' equity. We have spoken to investors in the Auctus LP, and they confirm they have received their first two distributions (3rd has been announced but not yet paid).

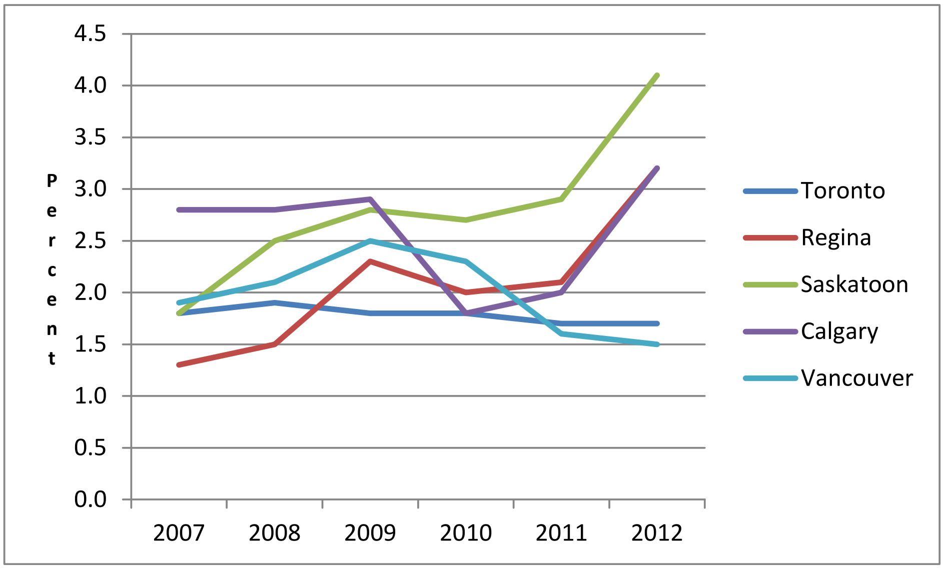
Auctus LP is currently developing 3 properties that total 395 units in Regina. A summary of each is shown below. As mentioned earlier, Deveraux Heights, and Sterling Manor, will utilize the same building designs and construction process. PFM has invested in Sterling Manor and Deveraux Heights. **We feel that the continued investment by PFM Capital is a very strong sign that management has delivered strong returns to investors.**

	Rochdale Crossing	Deveraux Heights	Sterling Manor
Location	Regina	Regina	Regina
Units	75	160	160
Status	Anticipated to be completed in January 2014.	Site construction work has begun	Site construction work planned to begin December 1, 2013.

Economy / Industry

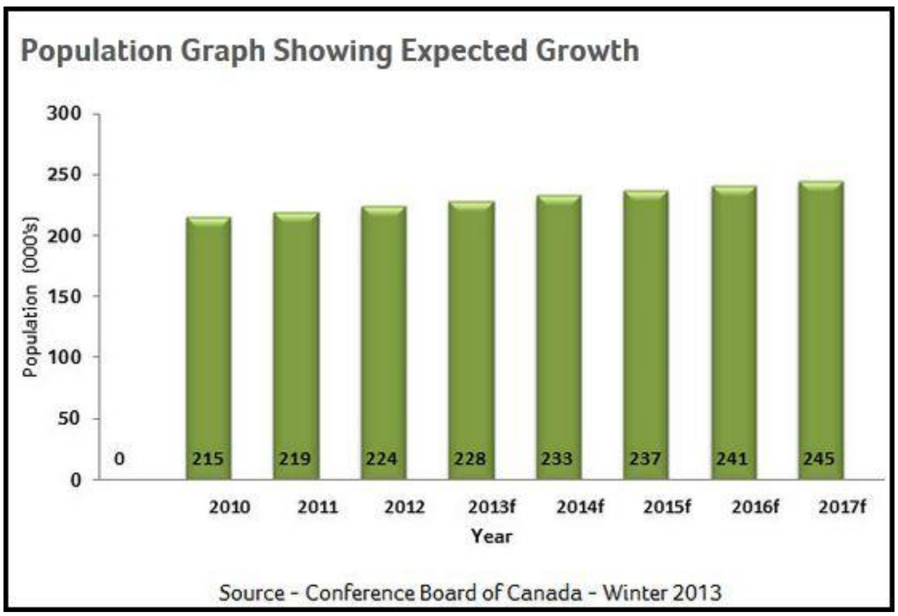
Regina has been ranked as one of the top economies in Canada for economic growth. The Conference Board of Canada forecasts Regina's GDP will grow at 5.0% in 2013, second to only Saskatoon at 5.2%. These growth rates far exceed the expectations for the Canadian economy of 1.7%. The Conference Board of Canada predicts strong growth in the future with a 2.9% p.a growth rate between 2014 - 2017.

The population of the Regina CMA in 2012 was approximately 226,000 according to Statistics Canada. The historic population growth of Regina compared to other major metropolitan areas is shown below.

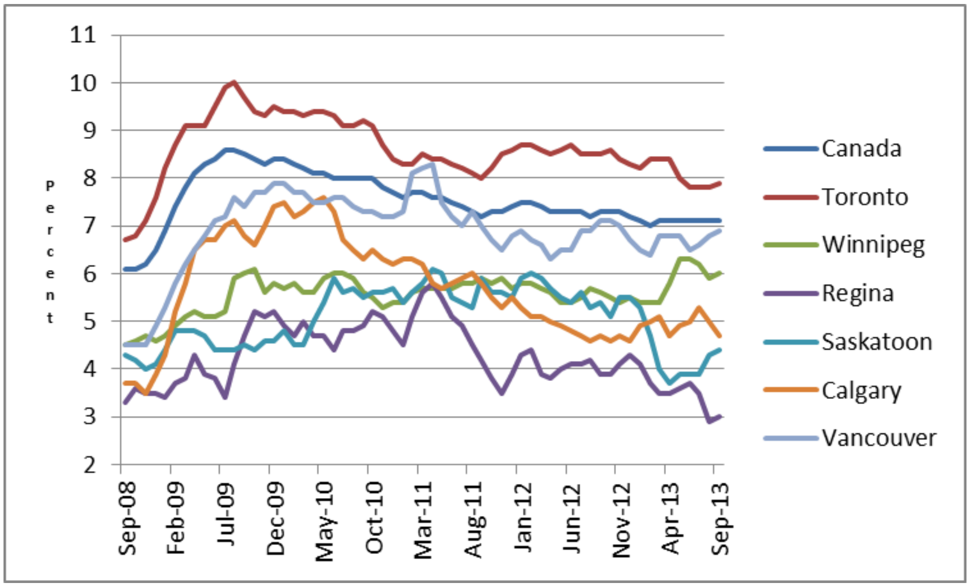


Source: Statistics Canada

The chart below shows the growth expected in the population of the Regina area.

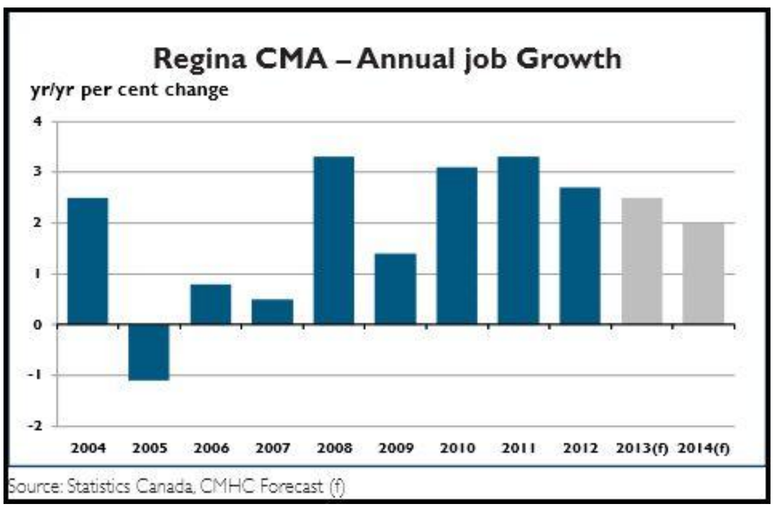


Regina has the lowest unemployment rate of the major CMAs in Canada.



Source: Statistics Canada

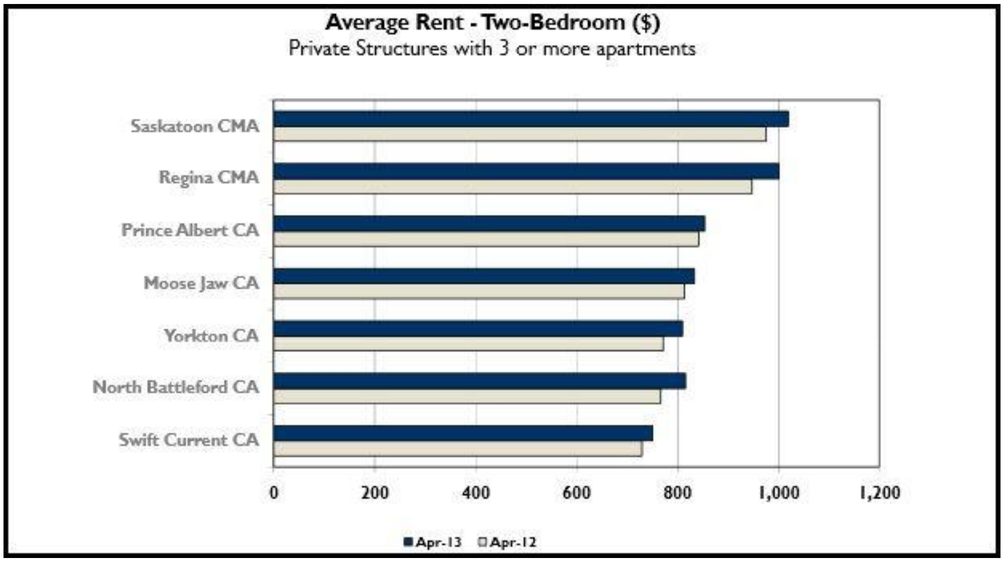
Although employment growth in the Regina CMA is expected to slow slightly in 2013, and 2014, the growth rates are better than most Canadian cities.



In summary, we believe, Regina's strong economic forecasts will benefit the multi-family rental real estate market.

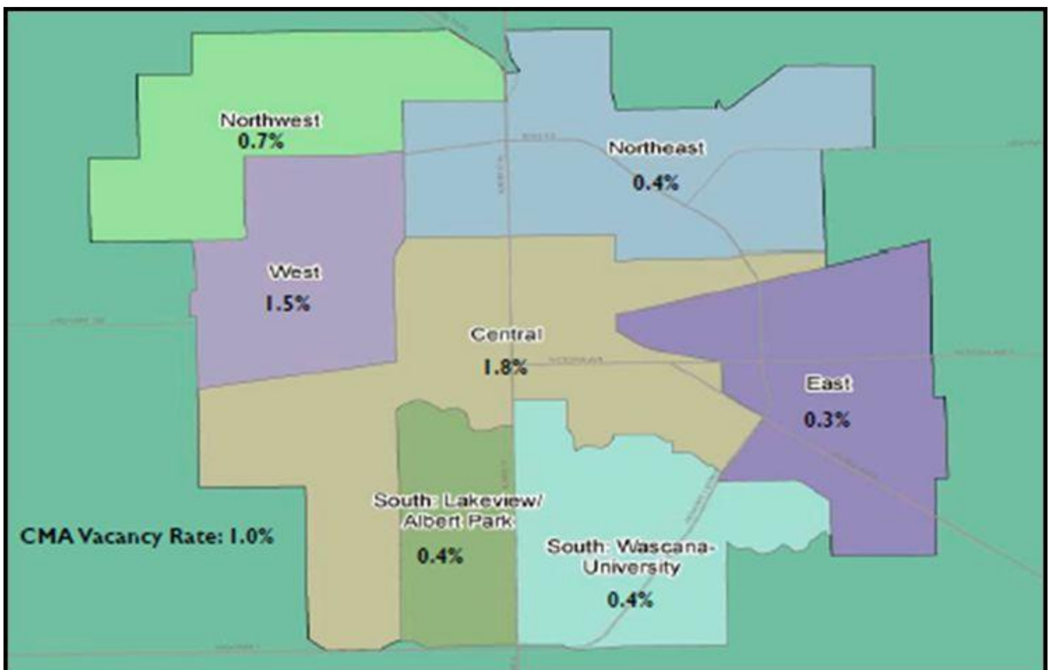
Housing Market

Due to the strong economy in Regina, the rental market has been very strong. Average rental prices have been on the increase. CMHC forecasts that Regina 2-bedroom apartments will increase in rent to $1,020 per month in 2013, from $979 in 2012. 2014 is expected to show further growth in rental prices, increasing to $1,050. A comparison of rental rates of surrounding cities is shown below.



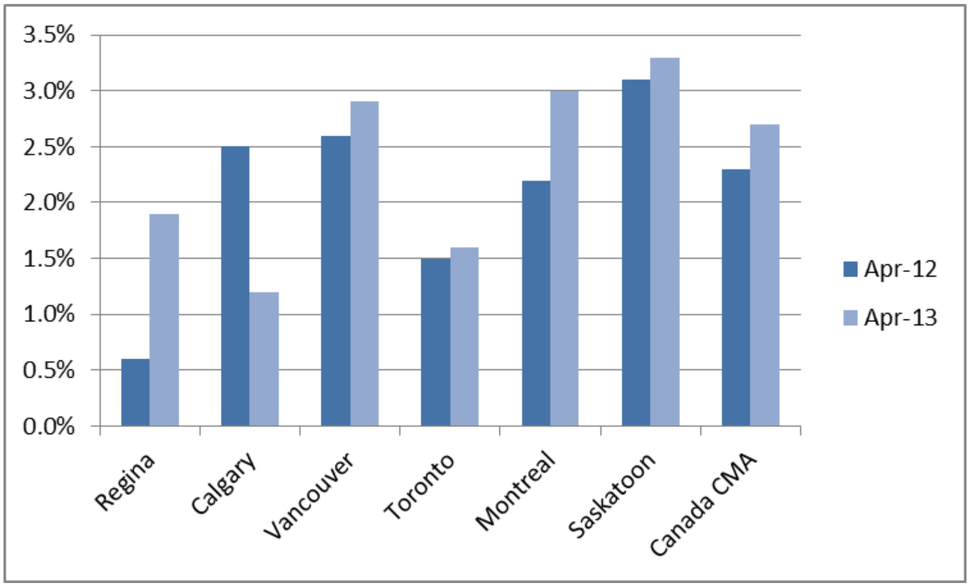
Source: CMHC

The chart below shows the vacancy rates of apartments in Regina. The trust's target properties are located in the north (Hawkstone), south (Harbour Landing) and east (Sterling Manor II).



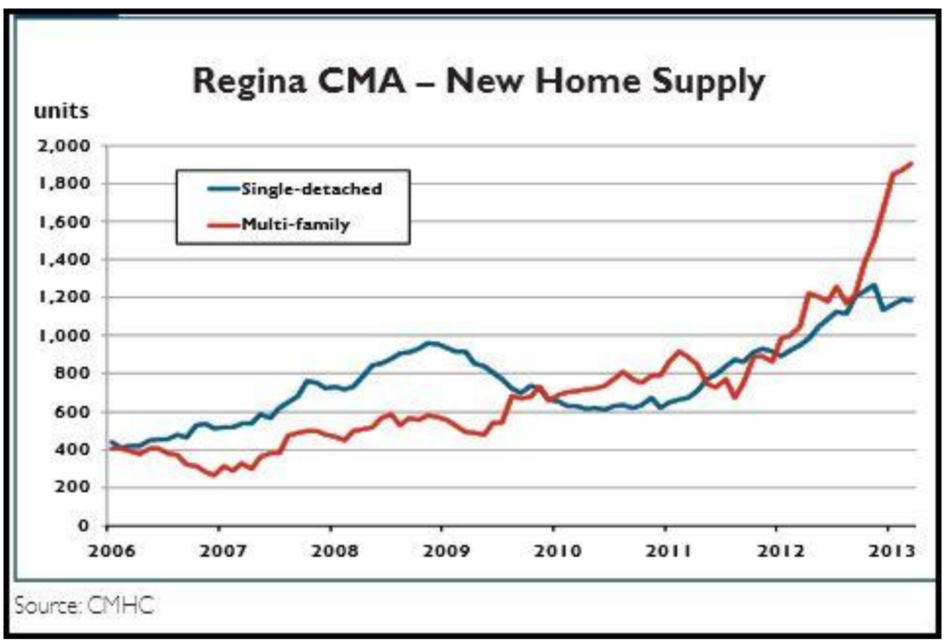
Source: CMHC Rental Market Survey, October 2012

Limited supply, as of 2012, caused Regina to have one of the lowest vacancy rates in Canada. Management states that the vacancy at their current apartment buildings is 0.5%. Apartment vacancy compared to other major metropolitan areas is shown below.



Source: CMHC

The increase in vacancy in 2013 is largely due to the amount of new supply that was constructed in 2012. According to CMHC, there were 1,804 multi-family starts in 2012, compared to 736 in 2011. As per CMHC, multi-family housing starts are expected to decline to 1,300 in 2013, and remain at a similar level in 2014.



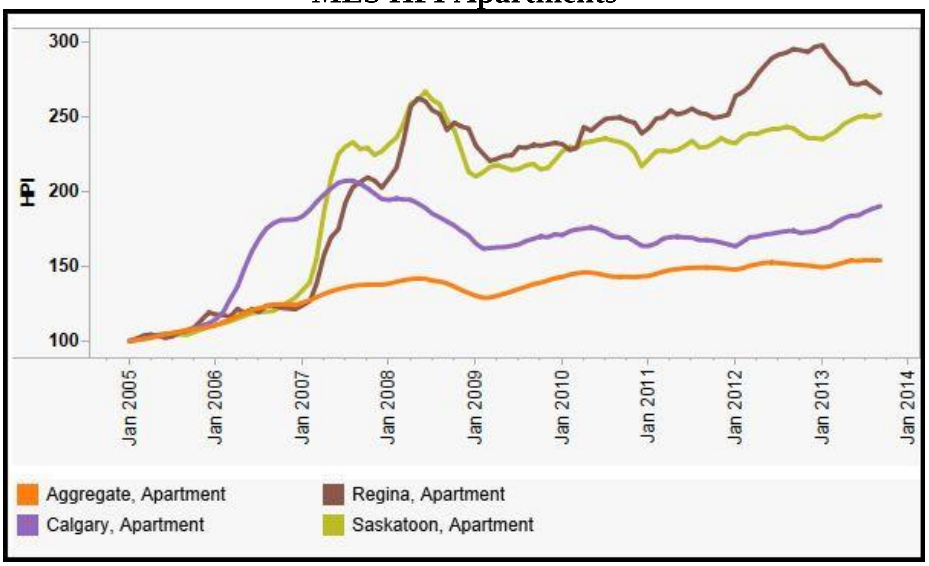
Source: CMHC

We feel that the new supply will negatively affect the housing market leading to lower growth in rental rates and a higher vacancy rate. However, we still expect the Regina rental market to be strong compared to other Canadian cities.

A major factor to consider for this offering is the price appreciation that will occur from the completed buildings. Regina has had the highest price appreciation, compared to other major Canadian cities, according to the MLS housing price index (HPI), from 2005 to Sept 2013. The HPI value of 275 (from 100) far exceeds other major metropolitan areas. The second highest was Saskatoon, followed by Calgary. Pricing for single-family homes has been relatively stable in the past 12 months. The Regina condominium market, and apartment units, have experienced a slight decrease recently as supply has begun to increase.

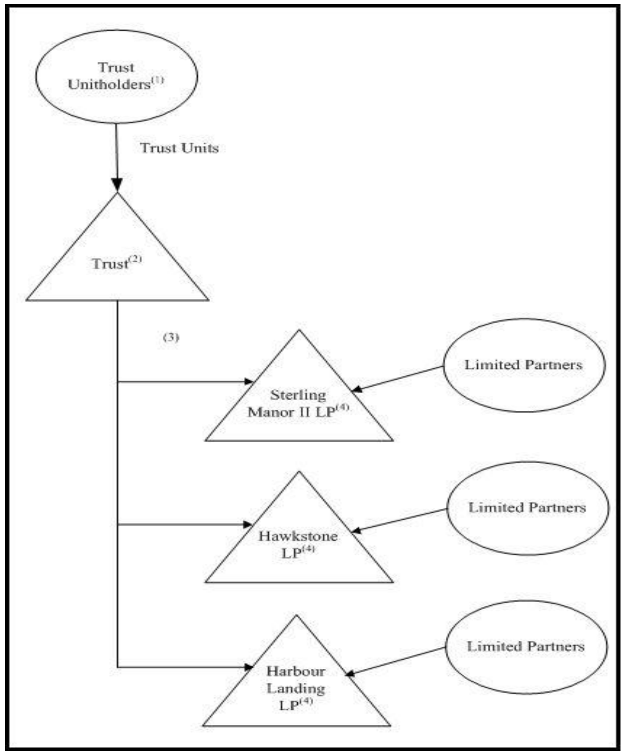
We feel that the housing market will show lower price appreciation in the coming years due to the increased supply. The CMHC estimates 1-2% annual growth in single family home prices over the next 2 years.

MLS HPI Apartments



Source: MLS HPI

Structure



Source: OM

Investors will purchase units in Auctus Real Estate Trust at a price dependent on the date of purchase. The trust intends to use the funds to purchase limited partnership units in the LPs that will hold and develop the multi-family rental properties.

Trust unit pricing is: $9.00 up to December 31, 2013, $9.50 up to March 31, 2014, and $10 from April 1, 2014 onwards.

The trust intends to qualify as a mutual fund trust and will require 150 investors. If the required number of investors is not reached by March 31, 2014, all the funds will be returned to investors without interest or deductions as per the OM. **Status as a mutual fund trust is intended to qualify the investment for deferred plans.**

Use of funds for the offering is shown below.

		Assuming Minimum Offering	Assuming Maximum Offering
A	Total amount to be raised by the Offering(1)	-	$8,850,000
B	Selling commissions and fees (2)	-	$619,500
C	Estimated Offering costs (3)	-	$180,500
D	**Available Funds: D=A-(B+C)**	-	**$8,050,000**
E	Additional sources of funding required(4)	-	-
F	Working capital deficiency(5)	-	-
G	**Total: G = (D+E)-F**	-	**$8,050,000**

Source: OM

Sales and commission fees

Sales and commission fees total 6% of the offering and there is a 1% EMD fee. We believe the fee is lower than comparable offerings.

Management Fees

There is an asset management fee to KAM of 1.5% of the net asset value. The trust may also pay fees to any trustee and/or Mr. Gelsinger to guarantee any debt. The fees will range from 0.5% to 1% of the total debt principal.

Management will also receive a performance fee, which is structured as follows.

1. Investors receive capital back;
2. Investors receive an 8% return (simple interest) on their capital;
3. Funds are split 50/50 until management receives 20% of distributed funds above investors invested capital;
4. Any remaining funds are split 80% (investors) / 20% (management)

This works out to investors receiving returns up to 8%; returns above 8% are split 50/50 with management; returns above 13.3% are split 80 (investors) / 20 (management).

We feel that the fees charged by management are in-line with industry averages. We also feel that the related party fees (construction management and property rental) are in line with market rates. The performance fee aligns management with investors, due to the 8% hurdle.

Early Redemption

Investors may submit early redemption requests, but cash payment will be at the discretion of the board of trustees. We do not anticipate the trust will have funds on hand to redeem investors early.

Management intends for the trust units to be eligible for deferred plans.

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Valuation

For our valuation of the target properties, we used the following inputs.

Rental Rates
As discussed above, the average rental rate for a two bedroom apartment in Regina was $1,020. The average rental rate for the properties (1 and 2 bedrooms) held in the LP in Q3-2013 was $1,104 (rental summary shown in the strategy section above). Keep in mind the rental rate is forecasted to increase in the next few years.

We feel that the buildings will be rented for a premium due to their high end finishes, and as they are newly built. The buildings are also in quickly developing areas. The below shows management's estimate based on comparable rents. We have reviewed various rental data for the Regina market, and rental comparisons from the property appraisals for Sterling Manor and Hawkstone. The rental rates in the appraisals are 5%-10% below management's estimates. However, they are based on the current rental rates and we anticipate an appreciation in rates. We have used the below rental rates in our model and feel that they are achievable once the developments are completed.

	Sterling Manor	Hawkstone LP	Harbour Landing
Units	160	48	200
One Bed	32	8	34
One Bed + den	32	8	34
Two Bed	96	32	132
One Bed Rent	$ 1,075	$ 1,075	$ 1,120
One Bed + den	$ 1,225	$ 1,225	$ 1,275
Two Bed Rent	$ 1,350	$ 1,350	$ 1,380

Vacancy
Management states that the current vacancy of the LP properties is 0.5%. The properties are projected to be constructed in areas with lower vacancy than the Regina average. Due to the supply increases as discussed above, we feel a vacancy rate of 3.5% would be reasonable. In their projections, management used a vacancy rate of 3%, and the appraisal reports for Sterling Manor and Hawkstone used a rate of 5%.

Capitalization rates
From the comparable properties we have reviewed, and properties for sale, the cap rates ranged between 4.5% and 8.0%. The appraisal reports for the properties held by the LP properties used a 6.0% and 6.5% cap rate. For Hawkstone and Sterling Manor, the appraisals used a 6.5% cap rate. Management has used a 6.5% cap rate for their projections. The majority of the comparable properties were older apartment buildings (constructed in the 1960's and 1970's). We feel that a cap rate of 6% would be reasonable for a newly developed building.

Operating expenses
Operating expenses of newly constructed properties are much less than older properties.

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Management states that current operating expenses for Sky Harbour, and Sky Pointe, range between 20%-22% of revenues. We have used an estimate of 25% of gross rents. The appraisal reports estimated an operating expense of 22% for Sterling Manor, and 26% for Hawkstone. Management used 25% operating expense in their valuation.

Construction Costs

We feel that management's construction estimates are reasonable given our review of the BTY cost consultancy report, appraisals, and management's experience. Management has included a 5% contingency in their construction costs. They also note that approximately 75% of their cost of construction is known due to the land being purchased, and the cost of modular construction units are known. We have used management's estimates plus a 3% increase for our base case, to be conservative.

Hold period of investment

Management estimates to begin construction on Sterling Manor II in March of 2014. The completion of Harbour Landing (the third and last building) is estimated to occur in August of 2016. To be conservative, we have estimated a six month rent up, and exit of all the properties after 3 years (2017). Management notes they will try to liquidate properties as soon as possible after construction. Exit upon completion would increase returns to investors as the hold period is decreased.

We anticipate that the mortgage financing debt will be approximately 4.5%.

The table below shows the key inputs used in our models.

Vacancy	3.5%
Construction cost overruns	3.0%
Operating expense (% of revenue)	25.0%
Cap rate	6.0%
Interest rate	4.5%
Exit of projects (months)	36
Percent of estimated rent attained	100.0%

The below shows our estimated income and returns to investors.

	Sterling Manor II LP	Hawkstone LP	Harbour Landing LP
Construction costs	$ 25,708,800	$ 7,921,112	$ 32,702,088
Construction length (months)	15	9	17
Equity investment (50%)	$ 6,240,000.00	$ 1,922,600	$ 7,937,400
Debt	$ 19,468,800	$ 5,998,512	$ 24,764,688
Units	160	48	200
One Bed	32	8	34
One Bed + den	32	8	34
Two Bed	96	32	132
One Bed Rent	$ 1,075	$ 1,075	$ 1,120
One Bed + den	$ 1,225	$ 1,225	$ 1,275
Two Bed Rent	$ 1,350	$ 1,350	$ 1,380
Gross rent	$ 2,438,400	$ 739,200	$ 3,163,080
Other income	$ 30,000	$ 10,000	$ 40,000
Less: vacancy	$ 85,344	$ 25,872	$ 110,708
Less: operating expense	$ 609,600	$ 184,800	$ 790,770
Net operating income	**$ 1,773,456**	**$ 538,528**	**$ 2,301,602**
Cap rate	6.0%	6.0%	6.0%
Property value estimate	$ 29,557,600	$ 8,975,467	$ 38,360,037
Rental income until sale	$ 2,216,820	$ 942,424	$ 191,800
Interest on Debt	$ (1,518,424)	$ (598,079)	$ (650,073)
Guarantee on debt	$ (194,688)	$ (59,985)	$ (247,647)
Profit (after equity/debt paid out)	**$ 4,352,508**	**$ 1,338,715**	**$ 5,199,676**
ROI	69.8%	69.6%	65.5%

The following shows our estimated return to investors:

Investor capital (equity)	$	8,850,000
Profit (50% of total profit)	$	5,445,449
Less management fee	$	(398,250)
Available to investors	$	5,047,199
8% return	$	2,124,000
Management performance	$	(1,009,440)
Total returns for investors (after equity is returned)	$	4,037,759
IRR		**13.3%**

Note: We have not assumed any property sales commissions. We feel the most likely sale is to a related party (Auctus LP or a REIT), and will not incur a sales fee. A 2% sales fee would lower our base IRR to 11.5%.

Sensitivity analysis to key inputs is shown below. For our sensitivity analysis, we maintained all the base-case inputs, and adjusted one input at a time.

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Sensitivity			Base		
Cap rate	8.0%	7.0%	6.0%	5.0%	4.0%
IRR	-21.5%	-1.7%	13.3%	29.1%	47.3%
Vacancy	5.5%	4.5%	3.5%	2.5%	1.5%
IRR	10.7%	12.0%	13.3%	14.6%	15.9%
Construction costs	15.0%	10.0%	3.0%	0.0%	-5.0%
IRR	3.5%	8.3%	13.3%	15.7%	19.4%
Percent of estimated rent attained	90.0%	95.0%	100.0%	105.0%	110.0%
IRR	4.0%	9.0%	13.3%	17.8%	21.9%
Operating expense (% of rev)	35.0%	30.0%	25.0%	20.0%	15.0%
IRR	-1.8%	7.7%	13.3%	19.5%	25.0%

As shown by the sensitivity analysis above, returns are very sensitive to the exit cap rate and operating expenses.

Risks

- Management intends to use leverage to purchase properties.
- There is an increasing amount of supply coming to the market, which may negatively affect property value.
- Early redemption options are restricted.
- The construction timeline may exceed management's estimates.
- Construction costs may exceed estimates.
- A slowdown in the Regina real estate market may impact property values.
- Interest rate risks (associated with debt).
- Returns are sensitive to key inputs (cap rates, operating expenses)
- Financing (equity / debt) for the construction of the properties has not yet been secured.
- The trust intends to have a 50% interest in the three projects. Additional equity will be needed to develop the projects.
- Returns to investors are dependent on price appreciation of the developments. Investors' funds may be returned if there are less than 150 investors (in order to qualify as a mutual fund trust).

Conclusion

Given our inputs, we estimate a base case IRR of 13.3%. We feel that management has the experience to successfully develop the projects as planned. Auctus LP intends to partner with the trust on two projects, which we feel benefits investors. Management already owns the land for Hawkstone, and has already made a significant deposit for Sterling Manor II, which we feel limits the financing risk and construction delays from financing. Management will also use a standard building design for these projects, which we feel limits the risks of development (speed, cost, permitting etc.). An additional benefit we see for this offering is good exit options for the developed properties. The main concern is the sensitivity of key inputs to the exit value of projects. We assign an overall rating of 2-, and a risk rating of 4.

FRC Rating	
Base-Case IRR	13.3% p.a.
Rating	2-
Risk	4

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	25%	Risk - 2	0%
Rating - 3	52%	Risk - 3	32%
Rating - 4	4%	Risk - 4	47%
Rating - 5	4%	Risk - 5	0%
Rating - 6	0%	Suspended	21%
Rating - 7	0%		
Suspended	15%		

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