Fundamental Research Corp.
Investment Analysis for Intelligent Investors

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Prestige Hospitality Opportunity Fund – I: Hotel Investments in Canada and the U.S.

Sector/Industry: Real Estate / Hotel **www.prestigecapital.ca**

Summary of the Offering	
Issuer	Prestige Hospitality Opportunity Fund - I
Offering Amount	$1.25 million min/ $50 million max
Securities Offered	Trust Units
Minimum Subscription	$9,999
Expected Time Horizon	3-5 Years (management estimate)
Selling Fees	9%of gross proceeds
Management Fee/Compensation	2% of gross revenues (paid monthly)
Auditors	Collins Barrow
Lawyer	Mission Law

•Based on Offering Memorandum ("OM") dated March 9, 2015

FRC Rating	
Base-Case IRR	N/A
Rating	3
Risk	3

*see back of report for rating and risk definitions

Investment Highlights

- Prestige Hospitality Opportunity Fund – I ("fund") is raising funds for the acquisition of hotels in North America. This offering is a blind pool and assets are yet to be acquired.
- This offering is managed by Prestige Hospitality Corp. ("Prestige"), who have previously developed two hotels near the Calgary International Airport. The two hotels were part of the Calgary Airport Hotel and Convention Center development. There is one additional hotel and a convention center remaining to be built.
- Prestige has a highly entrepreneurial management team with each individual bringing over 20 years of business experience. Management has invested $15.0 million in equity and debt in the Calgary Airport Hotel and Convention Center development. They have also committed to investing in this offering.
- For this offering, management plans to seek undervalued properties they can revitalize and improve operating income. They will also brand the hotel with a world recognized hotel operator.
- The offering is seeking to raise up to $50 million. Management plans to acquire three to six hotels given the maximum offering.
- Hotels will be purchased with a combination of debt and equity.
- Management anticipates investors will benefit from annual yields from the hotel, and appreciation in the valuation of the assets during the investment time horizon.

Risks

- Delays in acquisitions could negatively impact investor returns.
- Like most investments, investors of this offering are not guaranteed minimum distributions, or return of capital.
- Revitalizing properties may not result in an increase in income to the properties.
- Actual renovation costs may exceed management's initial estimates.
- Redemption options for investors are restricted and may incur penalties.
- Management acquires properties with leverage, which increases the risk of investment – this is a common risk for most real estate holdings.
- Interest rate risk.
- The fund will be exposed to exchange rate risks if they make acquisitions in the U.S.

Overview

Prestige Hospitality Opportunity fund - I is an opened ended trust that is focused on the acquisition, revitalization and operation of hotels. The fund will look to acquire undervalued hotels in major North American metropolitan areas with strong business travel. In addition to acquiring hotels, management may also provide mezzanine financing to existing hotels as a way to attain an equity interest. The fund is managed by Prestige Hospitality Corp., a Calgary based private company founded in 2006, with experience in developing and managing hotels. This offering is a blind pool; however, management has started reviewing target assets.

Prestige Hospitality has a highly entrepreneurial management team. In 2007, the management team partnered together to develop Park2Go, a valet parking service located adjacent to the Calgary International Airport. In 2011, Prestige raised funds for their Calgary Airport Hotel and Convention Center development, which include three hotels and a conference center. **To date, Prestige has completed two hotels that are currently operating - Homewood Suites and Hampton Inn.** The remaining buildings remain in the development stage. Management notes that the principals of Prestige collectively operate various internationally branded businesses including car dealerships (Toyota and Lexus), Subway restaurants, and care homes with an asset value of over $300 million.

For this offering, Prestige will look for existing underperforming hotels that can be repositioned (renovated, better management, etc.) to improve their Net Operating Income (“NOI”). Prestige will also look to brand the hotel with a world recognized hotel brand. They note that through their business relationships, hotel development experience, and network, they will have the ability to source properties.

Prestige is seeking to raise a maximum of $50 million, with a minimum of $1.25 million. Given the maximum raise, management anticipates purchasing between 3 - 6 hotels for the fund.

Management anticipates holding the acquired assets for 3-5 years, but will be opportunistic and sell when they feel market conditions warrant. Prestige will receive 2% of gross revenues (paid monthly) generated from the assets under management. The NOI from the assets will be distributed to investors quarterly. Investors may also benefit from property appreciation, which would be distributed to investors upon sale of a property. For this offering, there are various classes of units offered, which we discuss in detail in the *‘Structure’* section. For Class B units, investors are intended to receive a 8% p.a. preferred return or a profit share of 70% (investors) / 30% (management), whichever is higher. In other words, investors of Class B units will receive a return higher than 8% p.a. if the total return of the fund is greater than 11.4% p.a.

Management

As mentioned above, the principals of Prestige currently manage a variety of internationally branded (franchise) businesses. Management has committed to investing $0.5 million into this offering. The following details the backgrounds of management.

Ayaz Kara, CEO and Director
Mr. Kara has successfully built businesses ranging from restaurants and software companies to a national video rental chain. Mr. Kara currently owns and operates a chain of Subway restaurants in the Calgary area.

2006-Present: Co-founder of Prestige Hospitality Group
2007-Present: Co-Founder of Park 2 Go

Naushad (Jim) Jiwani, President and Director
Mr. Jiwani is President and Director of Country Hills Toyota in Calgary and Mayfield Toyota in Edmonton, two of western Canada's highest performing Toyota dealerships.

2006-Present: Co-founder of Prestige Hospitality Group
2007-Present: Co-Founder of Park 2 Go
2013-Present: Principal South Pointe Lexus
2011-Present: Principal South Pointe Toyota
2004-Present: Principal of Country Hills Toyota
1998-Present: Principal of Mayfield Toyota
1991-2003: Principal T&T Honda

Saleem Budhwani, Vice-President and Director
Mr. Budhwani's background is in accounting and financial management. He has previously managed a substantial hospitality portfolio for a multi-national company. Mr. Budhwani is currently a Director of High River Toyota, and Vice-President of Country Hills Toyota and Mayfield Toyota.

2006-Present: Co-founder of Prestige Hospitality Group
2007-Present: Co-Founder of Park 2 Go
2000-Present: CFO Prestige Auto Group (Country Hills Toyota, South Pointe Toyota, Mayfield Toyota, South Pointe Lexus)
2003-Present Director of Operations High River Toyota
1995-2000; Financial controller at Sopa Mgt Ltd, a multi-national hospitality company
1990-1995: Controller at IPS Ltd

Arif Amlani C.A., Vice President, Secretary and Director
Mr. Amlani owned and operated a successful home building company for over 15 years.

2006-Present: Co-founder of Prestige Hospitality Group
2007-Present: Co-Founder of Park 2 Go
2000-Present: Principal of Waverley House Personal Care Homes
2000-2014 Principal of Millrise Place and Monterey Place
1990-2006 Principal of Point Grey Homes

Curtis Potyondi
Mr. Potyondi has managed successful exempt market capital raises of $7 million for Prestige Hospitality HA Inc., and $9.5 million for Prestige Hospitality HW LP and was involved with

the implementation of the business plan, as well as the development and opening of the Hilton branded hotels associated with these offerings. He has raised over $70 million in private equity during his career.

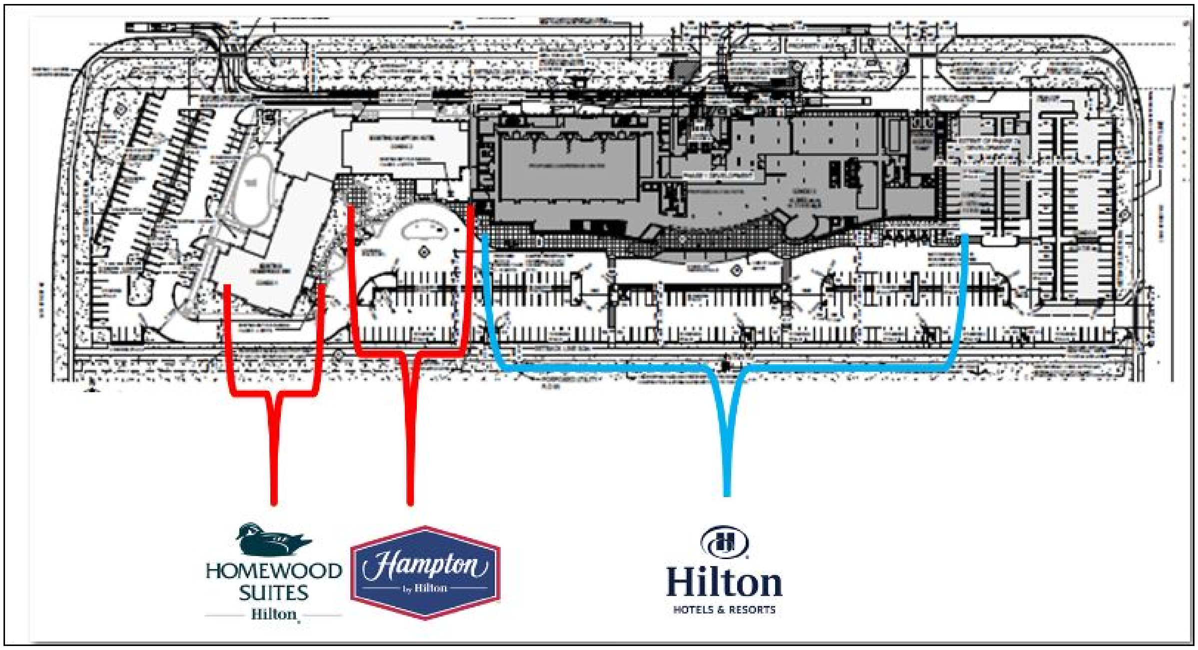
2010: Current: President Prestige Capital Inc.
2007-2009: VP Sales, Signature Capital Inc.
2002-2007: Principal Potyondi Consulting
1994-2002: Principal Progro Greenhouses Inc.

Track Record

Calgary Airport Hotels & Conference Center

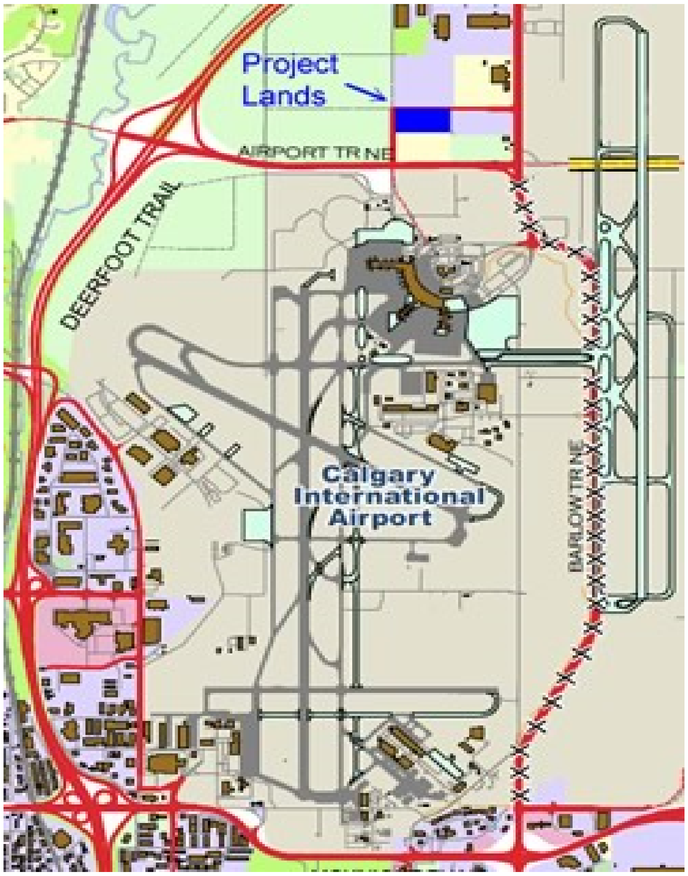
As discussed above, management has a long track record in various businesses. Their primary experience in the hotel industry comes from their development of the Calgary Airport Hotels & Conference Center. The development was planned for three phases featuring three, ten storey hotels and a convention center - all managed and branded under agreements with Hilton. The land, comprising 16 acres, and originally acquired by Prestige Hospitality for $6 million, is located just one block (or 300 meters) from the Calgary International Airport. The entire project will have a total of approximately 625 guest rooms and a 50,000 sq ft conference center.

The following shows an overview of the various phases and location of each building.



Source: Prestige Hospitality

The following shows the location of the projects relative to the Calgary Airport.



Source: Prestige Hospitality

Phase 1 – Hampton Inn

Phase 1 involved the development of the **Hampton Inn by Hilton Calgary-Airport featuring 135 guestrooms**. Prestige raised $6.7 million in equity for the project in 2011. The total development cost of this project was $25.8 million. The construction of this hotel was completed in late 2013. The hotel opened its doors on December 31, 2013. A photo of the completed building is shown below.

Source: Management

Phase 2 – Homewood Suites

Phase 2 was the development of the **Homewood Suites by Hilton featuring 122 suites** targeting the extended stay travel market, including guests who travel for work, attend seminars, corporate training programs, etc. The construction was completed in mid-2014 and is currently operating. Prestige raised $9.5 million in equity in 2012, with the approximate total cost being $25.1 million. The completed building is shown below.


Source: Management

Investors in the first phase received a convertible preferred share offering a 8% p.a. dividend. For phase two of the development, investors are expected to receive 70% of the profits.

Phase 3 involves the development of the **Hilton & Conference Centre at the Calgary International Airport**, **which will be Alberta's first full service Hilton hotel** and will feature 370 guestrooms and a 50,000 sq. ft. conference center. Management notes this phase of development is currently under development. They have not yet raised any outside funds for this development.

Performance of the first two operating hotels

The first two phases of the development have been completed. Hampton Inn opened in December of 2013, and Homewood opened in April of 2014. We have reviewed audited financial statements (year ended June 30, 2014, for the Hampton Inn, and year ended December 31, 2013, for Homewood) for the two projects. However, the projects had minimal operations up to the audit. A brief summary of the current operations of the hotels provided by management are shown below.

Project	Rooms	Occupancy	Status	Equity from investors	Equity from management	Closing date of equity raise	Construction start
Hampton Inn	135 rooms	> 80%	Operating Since December 2013	$6.7 M	$4.0 M	Oct 31 2011	Winter 2011
Homewood Suites	122 suites	> 80%	Operating Since April 2014	$9.5 M	$4.7 M	May 1 2012	Spring 2012

Source: Management

A summary of the balance sheets of each hotel is shown below. We have not presented revenues and expenses as both hotels had minimal operations at the time of the audit.

	Hampton Inn	Homewood Suites
	30-Jun-14	31-Dec-13
Current Assets	$ 439,206	$ 2,223,053
Current Liabilities	$ 2,278,808	$ 2,850,548
Working capital	-$ 1,839,602	-$ 627,495
Total assets	$ 27,903,023	$ 27,422,723
Long term debt	$ 15,740,392	$ 11,637,436
Total debt	$ 16,813,926	$ 11,891,402
Capital	$ 27,094,075	$ 24,692,705
Debt/Capital	58%	47%

We feel that management's previous experience will be useful for identifying properties that are underperforming. Their development experience would also help with repositioning properties.

Acquisition strategy

Prestige will look for undervalued hotels in major metropolitan areas with strong business travel. They may purchase properties in both Canada and the U.S. We feel that Calgary and Western Canada would be the primary acquisition areas as that is where management is based and where their previous developments have occurred.

Management will look to add value to the properties through renovations, operational improvements and rebranding of the hotels.

Their acquisition criteria includes:

1) May use up to 33% of the gross offering for a single asset
2) Properties that are branded or are able to be branded by a major hotel chain
3) Loan to value of properties will not exceed 75%
4) May acquire properties in connection with a third party or joint venture.

From our discussions with management, they indicated that properties acquired will be in the $5 - $30 million range. Management will target a 3-5 year investment time horizon for acquired properties.

Property review

Once management identifies a property, they will seek to lock the property in a contract, and

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undergo due diligence. The due diligence period will be typically 30-60 days. This includes an analysis by management and third party consultants. Typical steps for an acquisition include:

1) Due diligence by Prestige, or a party appointed by Prestige.
2) Investigation of the property and report on opinion of value by Prestige or a party appointed by them.
3) If the above are favorable, management will enter into negotiations with the property's owners.
4) If terms are agreed, the property will be put into contract, and a more in depth due diligence process of the property will commence.
5) If their due diligence is positive, management will obtain an independent third party appraisal. Companies they would use for this include HVS Consulting and Valuation Services, Jones Lange Lassalle or Pannell Kerr Foster.
6) Management will then review all the information and must unanimously agree on the acquisition before they proceed.

Management notes that their internal projections must generate a minimum target return of 11% p.a. on investment.

Prestige may also offer pure equity or debt financings with an equity component to hotel operators. On debt investments, they would seek an annual return of 11% p.a. The maximum loan per deal would be $5 million. The exact structure of the financing will be negotiated on a deal by deal basis.

Prestige feels that through their network, real estate brokers and their development experience, they will be able to source acquisition targets. They feel that many hotel owners do not have an exit strategy, and intend to target those properties in off-market deals.

They plan to review the properties each year and would be opportunistic in selling. Since they plan to reposition undervalued properties, they would seek to stabilize the property prior to sale.

Prestige is currently reviewing a number of properties. They have extended a letter of intent on a property. We have reviewed the audited financial statements and property information. We feel that the property has a depressed NOI and the expected acquisition cost is below its replacement cost. We believe it is encouraging to see management has already started evaluating and progressing on acquisitions.

Hotel Market

Hotels have typically offered attractive investment opportunities in times of economic expansion. In good economic times, business and family travels increase. **Colliers notes, in Canada, the adjusted NOI per available room has increased from $8,006 in 2009, to $9,557 in 2013, reflecting a 4.5% CAGR (compounded annual growth rate).**

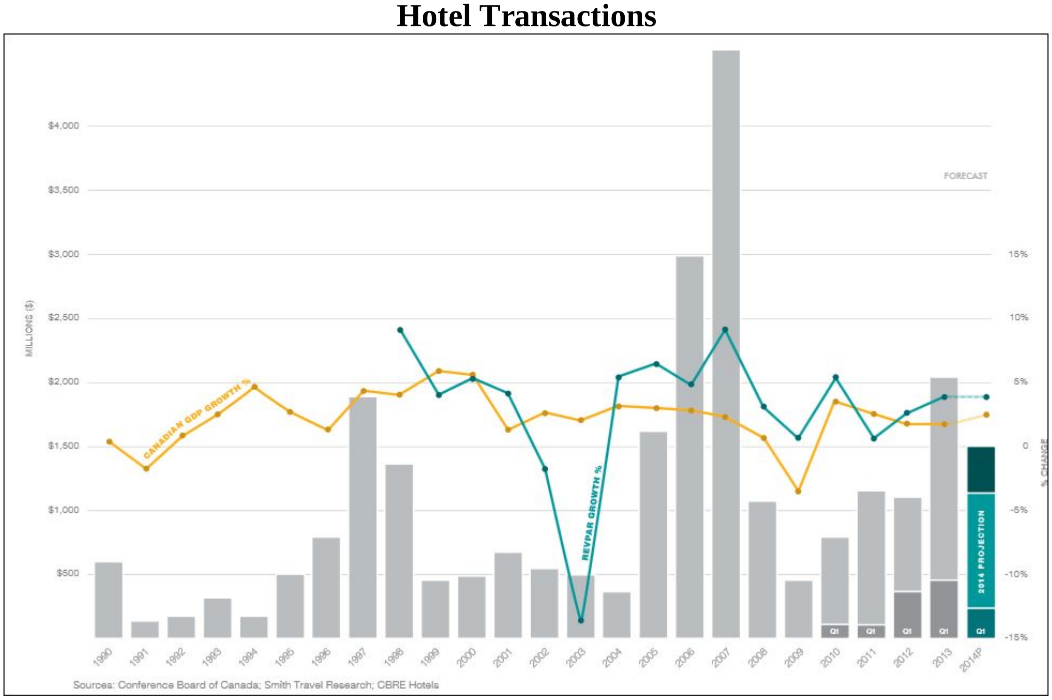
Business as well as pleasure travel in Canada is forecasted to continue to grow, as shown in the table below.

Overnight Travel	2013 Actual	2014 Forecast	2015 Projection
Business Travel Domestic	1.6%	2.0%	2.7%
Pleasure Travel Domestic	0.9%	2.2%	2.9%
Total Domestic Travel	1.0%	1.7%	2.5%
U.S. Travel	1.2%	1.6%	3.5%
Overseas Travel	2.5%	5.4%	4.1%
TOTAL OVERNIGHT TRAVEL	1.0%	1.8%	2.7%
National Accommodation Demand Growth	2.3%	2.7%	2.7%

Source: PKF (the actual 2014 numbers are yet to be published)

The following chart shows the volume of hotel transactions in Canada. As shown below, following the recession, hotel transactions declined, but have since rebounded. Colliers notes that the hotel transaction volume in Canada in the first 9 months of 2014 totalled $826 million. Volume has been pretty even with 53% in eastern Canada, and 47% in western Canada. This is down from the year prior where in the same period, $1.7 billion was transacted in Canada. However, 2013 is skewed by the sale of a portfolio of five Westin hotels for $765 million.

Hotel Transactions



Yellow line - Canadian GDP growth, Blue line - Revenue per available room growth

The transaction volume broken down by region in Canada is shown below. As shown below, the 2013 market was dominated by Ontario, which made up almost 50% of the total volume (in dollars) in Canada. Alberta was second with 24% of the total volume.

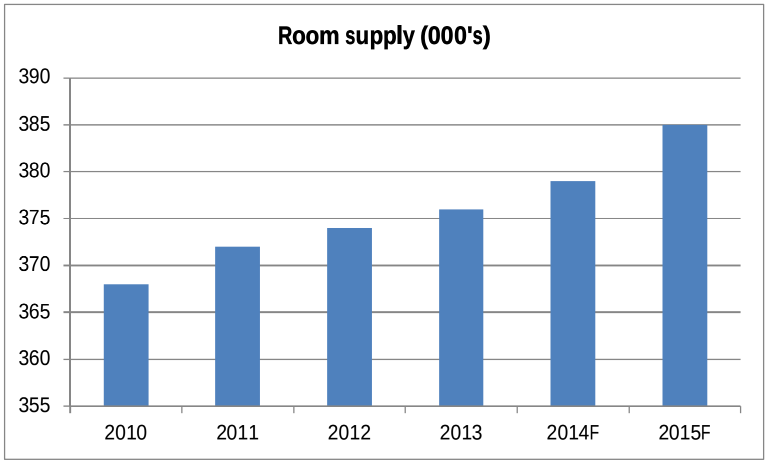
2013 Transaction volume by region

Transaction Volume by Region	No. of Hotels	No. of Rooms	$ Volume ($M)	% Volume	Price Per Room
West	**47**	**5,558**	**$826**	**41%**	**$154,700**
Alberta	24	3,189	$494	24%	$156,300
British Columbia	18	1,985	$310	15%	$164,400
Manitoba	3	293	$15	1%	$52,300
Yukon	2	91	N/A	N/A	N/A
East	**68**	**10,802**	**$1,197**	**59%**	**$122,500**
Ontario	51	8,499	$1,009	50%	$125,100
Quebec	12	1,531	$90	4%	$50,900
Nova Scotia	3	548	$84	4%	$153,200
Newfoundland	1	127	$9	0%	N/A
New Brunswick	1	97	$3	0%	$35,100
Total	**116**	**16,360**	**$2,023**	**100%**	**$133,000**

Source: Colliers

The number of distressed hotel inventory in Canada has decreased (as shown below), indicating the strengthening hotel industry.

The supply of hotel rooms in Canada is shown below. As shown, the forecast for 2014, and 2015 (the actual 2014 data is yet to be released), is for supply to continue to increase.



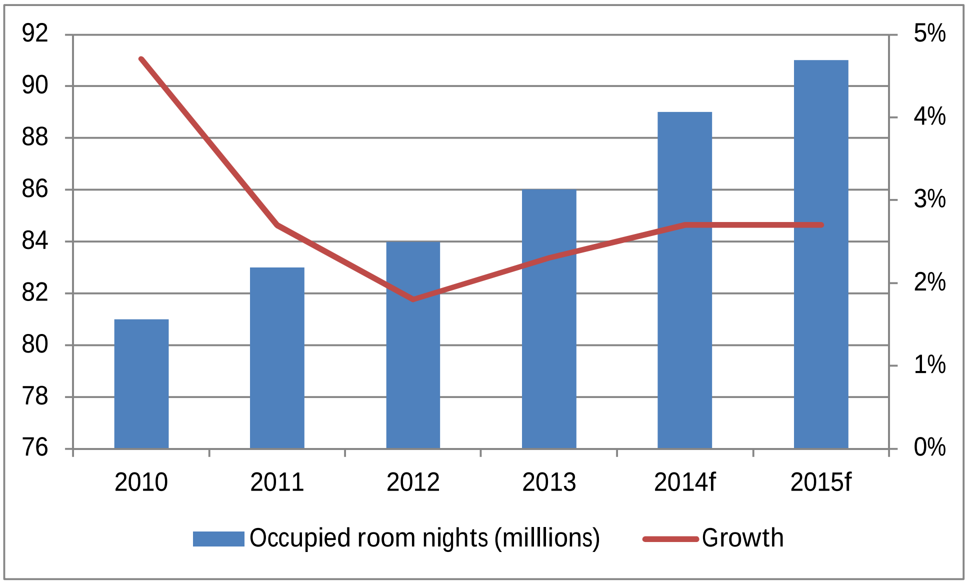
Source: PKF

The annual growth rate in hotel rooms is shown below.

Annual Hotel Supply Growth

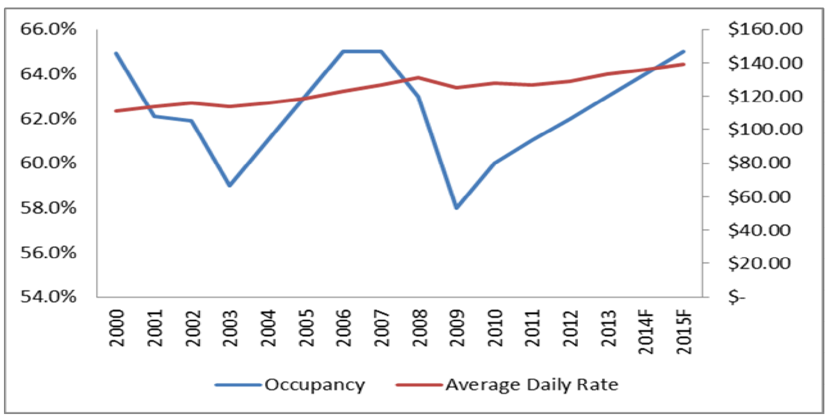
Source: Hotel Association of Canada

The demand for hotel rooms has been steadily rising in Canada since the recession. The number of occupied room nights per year in Canada has shown steady growth over the last few years, and is expected to continue.



Source: PKF

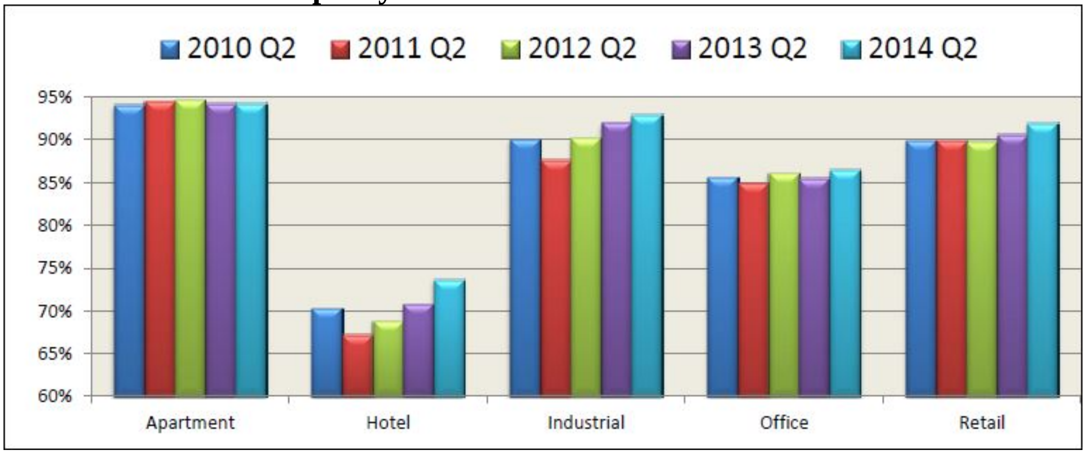
Since 2000, hotels in Canada have shown steady rent growth. However, occupancy has been volatile, as it trends with the economy. The occupancy and average daily rate for hotels in Canada are shown below.



Source: Hotel Association of Canada

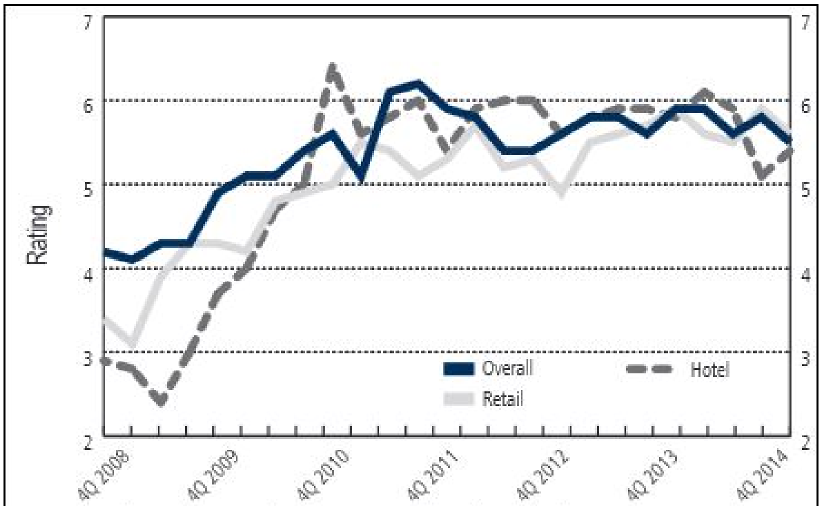
As shown below, occupancy rates are well below those of other real estate asset segments. Hotel rooms turnover almost every day, which can cause large fluctuations in occupancy. However, since 2011, with the improving economy, occupancy has consistently improved.

Occupancy rates across various asset classes



Source: NAREIT

Hotels are generally considered to be a riskier asset class within real estate because its performance is highly related to overall economic performance. The Real Estate Research Corporation (RERC) tracks the risk-return profile of various commercial asset classes and rates them on a scale of 1-10. The chart below shows the ratings since Q4-2008. During the recession, the risk-return rating of hotels was well below the overall commercial real estate market, but has since improved with economic growth.



Ratings are based on a scale of 1 to 10, with 10 being high.
Source: Situs RERC, 4Q 2014.

Note that investors are compensated for the riskier nature of hotel investments through higher capitalization ("cap") rates (discussed below). We feel that Prestige is offering investors greater upside potential than a traditional buy and hold hotel investment due to their investment thesis to acquire underperfoming assets.

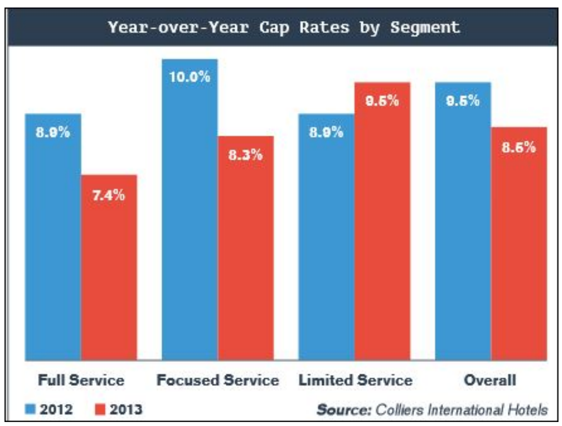
Since Prestige is seeking to purchase 3-6 hotels, we feel there is concentration risk, as each hotel will account for a significant portion of the portfolio. A key factor that may impact the portfolio is the ability to secure and maintain financing for all the projects. For example, if one project defaults on its loans, it could impact the rest of the portfolio as lenders' credit policies typically assign a high weight on the credibility of operators.

Cap rates in 2014 for hotels in various locations are shown below.

HOTEL						
MARKET	URBAN FULL SERVICE		SELECT SERVICE		LIMITED SERVICE	
CITY	LOW	HIGH	LOW	HIGH	LOW	HIGH
Vancouver	6.00%	7.00%	7.25%	8.50%	7.25%	8.50%
Calgary	7.00%	8.50%	8.00%	9.25%	8.50%	10.00%
Edmonton	7.50%	9.00%	8.00%	9.50%	9.00%	10.50%
Toronto	7.00%	8.00%	7.25%	8.75%	9.25%	11.50%
Ottawa	6.50%	8.00%	8.50%	9.50%	9.25%	11.25%
Montreal	7.25%	9.00%	8.50%	9.75%	9.75%	11.50%
Winnipeg	7.75%	8.75%	8.75%	10.50%	10.00%	11.75%
Halifax	7.50%	8.50%	9.00%	10.00%	9.50%	11.00%
Victoria	7.50%	8.50%	8.50%	10.50%	9.00%	11.50%

Source: Colliers

Cap rates have been declining over the last 5 years due to the improving economy. Collier's notes that cap rates 5 years ago were in the 10% - 12% range, compared to today's 8% - 9%.

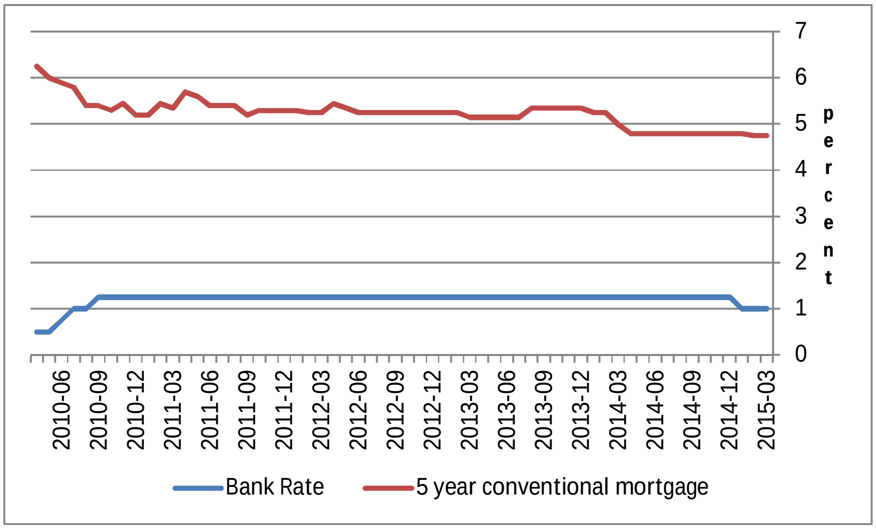


The occupancy, average daily rate ("ADR"), and revenue per available room ("RevPAR") are expected to show improvement.

	2012	2013	2014F	2015F
Occupancy	62%	63%	64%	65%
ADR	$ 129.00	$ 133.00	$ 136.00	$ 139.00
RevPAR	$ 80.00	$ 83.00	$ 87.00	$ 90.00

Source: PKF

Interest rates: Interest rates continue to be at historically low levels, as shown in the chart below. As a result of this, developers/investors are able to secure relatively cheap rates in the near term, allowing for better leveraged returns.



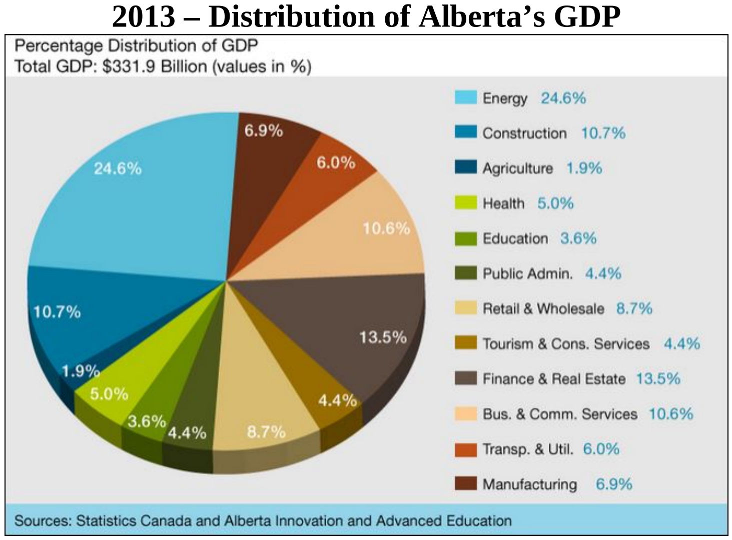
Source: FRC / Bank of Canada

Impact of oil prices on AB's real estate

As mentioned previously we feel that management will focus on Alberta and Western Canada for acquisitions. There is significant uncertainty over how the recent dip in oil prices will impact AB's economy and its real estate market.

Energy makes up approximately 25% of Alberta's Gross Domestic Product ("GDP"), as shown in the chart below. The Energy sector is also responsible for driving the other key sectors in the province, such as Finance & Real Estate, Construction, etc. We feel that since hotel performance is tied to business travel, and overall economic performance, a sustained period of low oil prices would negatively impact the hotel industry in Alberta.

2013 – Distribution of Alberta's GDP



The recent dip in oil prices (as shown in the chart below) has introduced significant uncertainty on the health of AB's economy and its real estate. Major oil producing companies have announced significant spending and job cuts for this year.

Source: Macrotrends

We believe the oil price drop is associated with three factors – a strong US$, the buildup of oil inventory over the past 6 to 9 months, and the OPEC's (Organization of the Petroleum Exporting Countries) decision to not cut production / supply. Historically, OPEC has reduced supply to keep prices from dropping too low. However, they were reluctant to do so this time. This, we believe, is a decision they took to maintain their global market share, and continue to dominate the oil industry.

OPEC countries are highly reliant on oil revenues. For example, more than 50% of the GDP of Kuwait and Libya comes from oil. Oil accounts for more than 40% of Saudi Arabia's GDP. We believe that OPEC may be prompted to reduce their supply over the next 3 – 6 months. This is because we estimate that if they cut supply, the upside from oil prices will more than offset the decline in production, resulting in stronger revenues for its members.

In summary, we believe that if the price of oil is not above US$60 – US$70 per barrel, a significant portion of global production/development will be suspended. Exploration and development spending will drop drastically. At the same time, the global demand for oil is expected to continue to increase at 1.1% p.a. Due to the above factors, we maintain a positive long-term outlook on oil, and therefore, do not expect the recent drop in prices to have a long-term impact on Alberta's real estate. However, in the short term, the oil price decline may benefit Prestige as they may be able to make acquisitions at reasonable valuations. Also, the lower fuel prices may lead to a higher spring/summer travel season due to increased road trips throughout Canada.

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Stronger US$ makes US acquisitions unlikely in the near-term

In the near term, we feel that properties will likely be purchased in Canada due to the weaker C$. The chart below shows the US$/C$ exchange rate.

US$/CDN$ exchange rate

Source: XE

Our long-term forecast for the C$/US$ is 1.1x. The near-term weakness in the C$, we believe, is likely to encourage tourism and benefit the Canadian hotel industry.

Hotel REITs

The following table shows the compounded annual returns of REITs as compiled by North American Real Estate Investment Trusts (NAREIT) over 1, 3, 5 and 10 year time horizons. **Over the last 1-year and 3-year periods, as the economy has improved, 'Lodging and Resorts' have shown the highest gains.** The 5 year returns of Lodging and Resorts are similar to the REIT average, and the 10 year returns are below the industry average.

Compound Annual Return	1 Year	3 Year	5 Year	10 Year
All Equity REITs	13.17%	17.17%	16.17%	8.53%
Industrial/Office	9.28%	15.73%	11.34%	4.47%
Retail	16.02%	19.40%	19.07%	7.39%
Apartments	16.79%	10.89%	17.52%	10.92%
Lodging / Resorts	23.35%	28.19%	16.24%	5.84%

Source: NAREIT

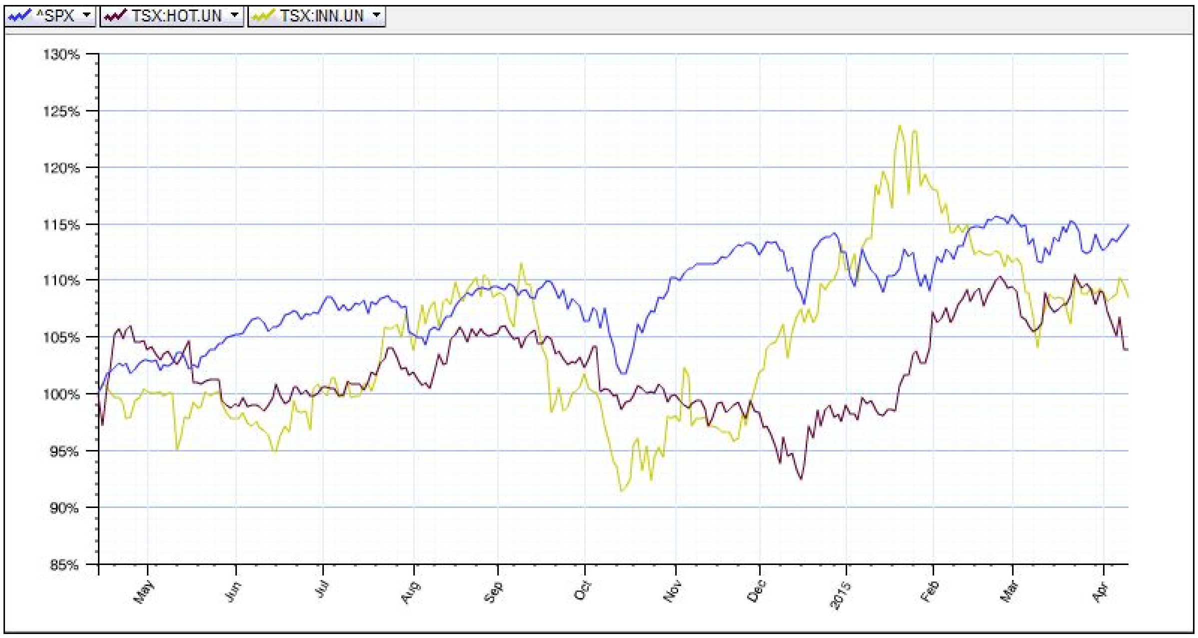
The following section discusses Canadian Hotel REITs:

- American Hotel Income Properties REIT (TSX: HOT.UN) is based in Vancouver, BC, and currently has 32 hotels primarily located throughout the U.S.
- Innvest (TSX: INN.UN), based in Mississauga, Ontario, has 110 hotels throughout Canada.

Dividend yields for the most recent fiscal year are shown below:

	Hotels	Dividend yield
American Hotel Income Properties REIT (TSX: HOT.UN)	32	8.4%
Innvest (TSX: INN.UN)	110	7.0%

The following chart shows their share performance relative to the TSX composite. Over the last year, the TSX composite index was up 7.8%, Innvest was up 8.6%, and American Hotel Income Properties was up 3.6%. Note that the hotel REITs also returned a dividend to investors.



Source: Capital IQ

The main difference between the above REITs and Prestige's offering is that Prestige focuses on acquiring undervalued assets and repositioning them for exit in 3-5 years. The hotel REITs are more focused on acquiring existing assets and operating them for the long-term. Based on this, we believe Prestige offers higher upside potential (with higher risk).

Structure

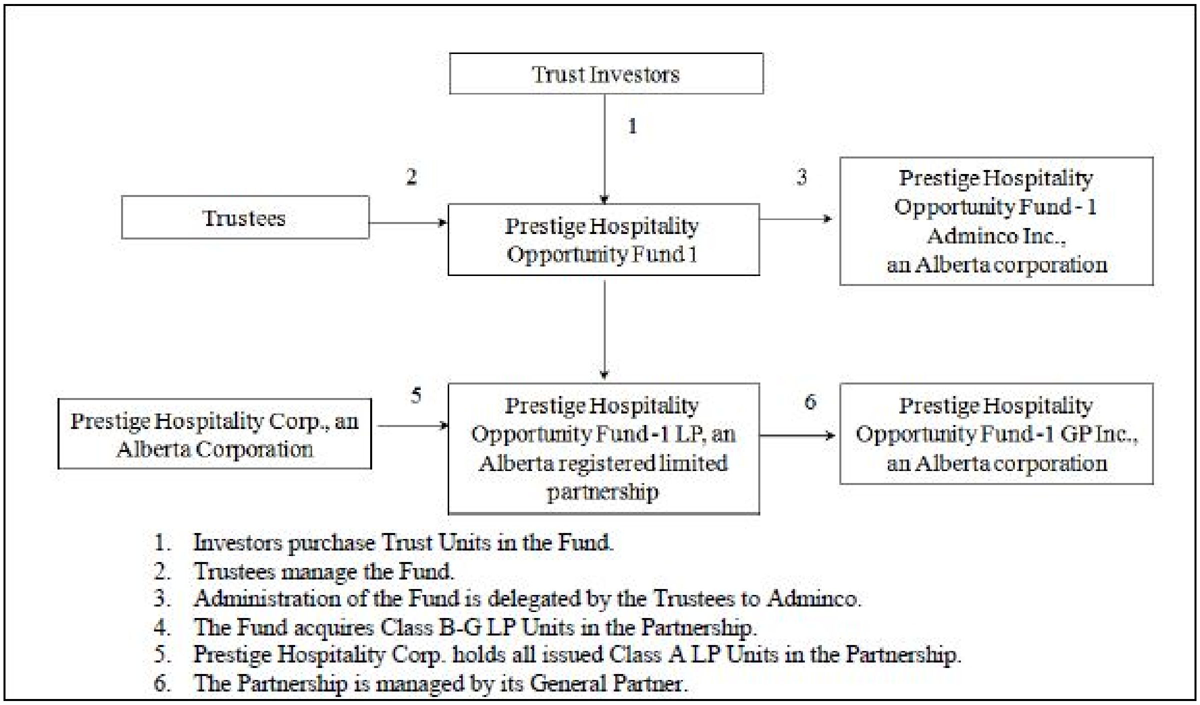
Prestige Hospitality Opportunity Fund I is offering various classes of trust units to investors. We discuss the various units in detail later. The fund will use the capital from investors to purchase limited partnership units in the Prestige Hospitality Opportunity Fund I LP ("LP"). The LP will then use the funds to acquire hotels.

The trust units are priced at $1.00 per unit. Early investors have the opportunity to purchase trust units at the following price:

- The first $5 million will be raised at $0.90 per unit

- $5-$10 million will be at $0.95 per unit
- Funds above $10 million will be at $1.00 per unit

The structure of the offering is shown below.



Source: Offering Memorandum

Fees

Prestige may pay up to 9% of the gross amount raised in commissions to sales agents. The fund may pay up to 4% of the gross amount raised in marketing fees to Prestige Capital Inc. ("PCI"). PCI is a related entity that is controlled by the management of Prestige. **We feel that the total sales and marketing fee of 13% for this offering is slightly higher than comparable offerings.** The price discount offered to investors of the first $10 million investment, and the sales fee, will result in a significant drop in the NAV of the fund. To illustrate, the fund will have to issue 10.82 million units for the first $10 million (gross), and $8.7 million (net) proceeds raised. This implies a NAV of $0.80 per unit, or a 20% discount from the original NAV of $1.00 per unit. Note that the negative impact of the price discount reduces as the fund raises capital over the first $10 million. For example, if the fund reaches its maximum raise of $50 million (assuming units are issued at $1.00 for capital over $10 million), the fund will have to issue 50.82 million units for net proceeds of $43.5 million. This translates into a NAV of $0.86 per unit.

The partnership will pay management 2% of the gross revenues (paid monthly) from the operation of hotels as asset management fees. For mezzanine financings, management will receive 2% p.a. of the profits of any mezzanine financing. Based on a $100 investment by investors, we estimate the asset management fee to be approximately $1.53 (calculations outlined later). We feel this is below the industry norm of 2% p.a. of NAV.

The following outlines the use of funds.

Description of intended use of available funds listed in order of priority	Assuming Minimum Offering	Assuming Maximum Offering
Pay the estimated legal, accounting and corporate finance costs associated with this Offering (1)	$150,000	$150,000
Pay for Selling Commissions associated with this Offering (2)	$100,000	$4,500,000
Pay the PCI Marketing Fee (3)	$50,000	$2,000,000
Working Capital for the acquisition of Hotel Properties and Mezzanine Financing (3)	$929,500	$43,249,500
Pay the estimated operating and administration expense of the Trust and the Partnership (4)	$20,000	$100,000
Pay the Administration Fee to AdminCo (5)	$500	$500
Total	**$1,250,000**	**$50,000,000**

Source: O.M. (refer OM for notes)

Distributions

Classes B, C and D are targeted at retail investors. Investors of these classes either receive a preferred return of 8% p.a., or a profit share (as shown in the table below), whichever is higher. Classes E, F and G are also targeted at retail investors, but they do not have a hurdle rate. The minimum investment varies with unit class.

			Profit Share		
Unit Class	**Minimum investment**	**Hurdle**	**Investor**	**Management**	**Minimum return needed for profit share**
B	$9,994	8%	70.0%	30%	11.43%
C	$75,000	8%	72.5%	28%	11.03%
D	$150,000	8%	75.0%	25%	10.67%
E	$9,994	n/a	85.0%	15%	
F	$75,000	n/a	87.5%	13%	
G	$150,000	n/a	90.0%	10%	

*The far right column shows the minimum return needed for the profit share to exceed the 8%.

Prestige is also offering Class H to O units, which will be custom structured for institutional investors. As the terms and priority of these units are unknown, we are not in a position at the moment to comment on their impact on the cash flows of the other unit classes.

Management receives their share of profits only after investors receive their capital and preferred return. We feel this feature aligns management and investors' interest.

Redemptions

Investors may redeem their units; however, redemptions are limited to a total of $75,000 per quarter. Units redeemed in the first year will receive 88% of the trust's NAV and those in the second year will receive 93% of the NAV. After 2 years, investors may redeem the units at NAV. The NAV is calculated annually by management. Redemptions may also be paid in notes. The redemption notes would bear an interest rate of the annual average RBC prime rate and be for a term no longer than 5 years. We feel that redemption options are very limited for investors due to management's ability to pay in notes and the quarterly maximum.

Financial Projections:
The following table shows our estimate of the breakdown of funds given a $100 investment by investors. We have assumed an 8.5% capitalization rate, and a debt to capital of 65% (interest rate – 6% p.a.) for acquisitions. According to Capital IQ, the industry average debt/capital for the Hotel and Resort REIT industry is 41.2%. We have assumed that the acquisition price includes renovation costs. We have also assumed that since management will look to exit the properties in 3-5 years, they will try to take out interest only loans.

Breakdown		
$100 investment	$	100.00
Sales fee (9% of offering)	-$	9.00
Marketing fee (4% of offering)	-$	4.00
Available for investment	$	87.00
Admin expenses and working capital	-$	5.00
Funds available with leverage (assuming 65% leverage)	$	234.29
Net operating income (8.5% capitalization rate)*	**$**	**19.91**
less Management fee (2% of revenues)	-$	1.53
less interest payment (@6% p.a.)	-$	8.84
Distributable funds	**$**	**9.55**

* assumed that NOI is 26% of the gross revenues based on industry data

We estimate that $9.55 will be available to distribute to investors each year. As mentioned earlier, 100% of the distributable funds are passed on to investors until they receive their capital and preferred return (if applicable).

In addition to annual distributions, investors may also benefit from appreciation in prices of the properties upon exit. The following table shows the sensitivity of returns based on the investment time horizon (in years) and the percentage appreciation in property prices. The IRRs shown below reflect the annual dividends and the total cash paid out upon liquidation of assets.

IRR estimates

Property Price Increase / Investment Time Horizon	3	5	7
-50%	-63.96%	-29.82%	-13.91%
-25%	-25.13%	-10.01%	-2.94%
0%	2.15%	5.48%	6.92%
25%	14.11%	11.15%	10.00%
50%	24.30%	16.74%	13.73%

Since this offering is a blind pool, we are not assigning a base case estimate.

Rating / Conclusion

Among the various real estate investment types, hotels tend to be riskier. However, investors are compensated by their higher cap rates (expected yields). We feel management's strategy of adding value through renovations and operational improvements offers higher upside potential (with higher risks) over hotel REITS that usually adopt a long-term buy and hold strategy. We also like that Prestige is targeting operating hotels, which eliminates any development risks associated with real estate offerings. Management's previous hotel development experience and a highly entrepreneurial background, we believe, is a key factor of this offering.

We assign an overall rating of 3, and a risk rating of 3 for this offering.

FRC Rating	
Base-Case IRR	N/A
Rating	3
Risk	3

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	26%	Risk - 2	2%
Rating - 3	46%	Risk - 3	31%
Rating - 4	10%	Risk - 4	44%
Rating - 5	5%	Risk - 5	10%
Rating - 6	1%	Suspended	15%
Rating - 7	0%		
Suspended	12%		

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