CEO CFO

CapGain properties inc.

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A focus on Purchasing Under Stress Commercial Real Estate Properties at 30% to 40% Market Value in Second Tier Cities has CapGain Properties Inc. well Positioned for Growth

Financial
Real Estate Investment

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Brian Knight
President and CEO

BIO:
Mr. Knight is the President of Knight Asset Management, LLC. He has over 5 years experience in the commercial property financing industry as a direct lender and 9 years experience as the President/CEO of various companies. Mr. Knight is currently the Chief Executive Officer of CapGain Properties Inc, a publicly traded company on the TSXV. Mr. Knight is also President of K & M Oil, LLC; a privately held energy company with oil wells throughout the Indiana/Illinois Basin. Mr. Knight also currently serves as Manager for two asset management companies Knight Asset Management, LLC and Caleb Management, Inc. Mr. Knight graduated with honors and holds a bachelors degree in Biology from Illinois State University as well as a state of Illinois teaching certificate and has been certified to teach Biology, Chemistry, Physics, Economics, Political Science and History.

About CapGain Properties Inc. (TSX VENTURE:CPP):
CapGain is an investment company that purchases, re-structures when applicable, and sells real estate in the United States, with a forward moving focus on income producing real estate. CapGain's contacts within the real estate and finance industries allow the purchase of properties significantly below market value.

Interview conducted by:
Lynn Fosse, Senior Editor

CEOCFO: Mr. Knight, would you tell us about CapGain Properties?
Mr. Knight: CapGain is a commercial real estate company that purchases real estate from banks or distressed owners in the United States. We focus on commercial real estate only. We target income-producing properties when available. What we try to do is get into a situation where either a bank is under stress or an individual is under stress because their bank is under stress and then we come in and try to purchase that property around 60% to 70% of the appraised value. Then we earn some income off of the property during a time period while we stabilize it and the sell it off for the remaining profit.

CEOCFO: Within the realm of commercial property, there are many of things from which to choose. What is the criteria beyond commercial property?
Mr. Knight: We try to focus on what I tend to call second tier cities in the US meaning not in the places like Chicago, New York or LA because those cities tend to be large and have many options. Cities such as Phoenix, Atlanta and Orlando will have ample opportunity and a lot of population but maybe not necessarily the financial resources that are available. REIT is one factor in the overall scheme of things. The other factors would be we tend to like multiunit buildings over single-unit buildings. The reason is because you are less dependent if there is a renter in there on one single business. We tend to like ones with minimal maintenance, so office buildings usually come to mind as a prime example of something we would like. Retail strip malls would possibly be something that we really like because the clients are usually much more self sufficient than if you get into apartment complexes and things along those lines. I do not typically like to put people out of their homes and if they do not pay their rent, it is a little bit easier if it is a business, you are not putting mom and dad on the street.

CEOCFO: What are one or two examples of properties you have purchased?
Mr. Knight: Since we were just public in January, we only started with the properties that were originally vended in by the original shareholders. However right now we have already purchased a multiunit in Woodstock and we have under contract a multiunit in Orlando. The one in Orlando is a multiunit combination between an extended-stay and a regular hotel. The units produce about $1.4 million of net revenue or NOI. We have been able to secure it for around $8.9 million

with a few JV partners as well as ourselves. That kind of property we believe will appraise right now today around $12 million. To give you an idea of why we would be able to get a property like that in this case it is structure where the bank itself despite the fact that the borrower has been paying for years on the property and has had a perfect record of payment, the banks themselves are in trouble. Many of these banks are under pressure from the FDIC because after 2008 they changed the criteria, which means as these commercial real estate loans expire which are five to seven-year loans they cannot always renew them even if the loan is a good loan and that is the case here, so the bank is looking for a way out. The borrower has not been able to go take them out immediately when they will need to get out. I see many borrowers assume after being with the bank for ten or fifteen years that they will just renew it until the very last minute. That creates a great opportunity for us because we are able come in and the original owner is able to save a great amount of equity that they would have lost through foreclosure here in the US. We are able to save the bank's hide little bit and it works out good for everybody. That is the case in this case. It provides a good income source.

CEOCFO: What does your group understand that is helpful in finding the right property?

Mr. Knight: It seems like many people want to participate in the discount real estate market. Many people focus on the residential side because they focus on the fact that there is all this inventory out there and it is easy to find and easily available. I do not like the residential side as much because I do think the market is flooded with inventory. We stick to the commercial side. When it comes to the commercial side, it is a little bit more difficult to find the right deals. Certainly there is the approach to call bank by bank and get an insight to what they may have on their books but that is a poor way to do it and you will usually end up paying much more. I have been in the lending industry for the last seven years so I have an established relationship with many different lending institutions and even some relationships with groups that help work out those lending institutions. One of the things that I have been active in doing is being part of the loan process that has taken out those groups for a long time. The evolution to CapGain has been a different philosophy; rather than loan the money, we will own the property ourselves. Those same relationships are really the key and they allow you to get an insight into the bank that maybe a regular person would have and it is not necessarily just common knowledge, which banks are facing pressure from the feds to restructure or reorganize. You have to target those types of institutions because if you do not target those types of institutions they are not really offering the same kind of discounts without facing the same sort of outside pressures. That kind of option is good. The other thing is that you do have some other firms out there that are looking and they do know the right places to purchase but they tend to purchase in bulk and they go and they are looking for the lowest price available and maybe trying to place a ton of money. We do not operate under that assumption. I do not believe that personally it is great to buy things at $0.30 if you get a bunch of junk in there with what you buy. I would rather cherry pick a few properties upfront and then let somebody else buy the properties at $0.30. What we will do is offer slightly higher bid than they would get from a regular sell-to-Wall Street type equation. For example, let us say I am a bank facing problems and I have inventory properties that I own or are foreclosing on. I may turn around and try to sell those to a big hedge fund on Wall Street for $0.30 on the dollar. I will come into a firm like that and say listen before you go and do that I would like to listen to your inventory. If I can pick out a couple properties that we can take out the top, I will pay you $0.60 cents for it. It works out great for the bank because they are going to take $0.50 or $0.60 extra on the dollar but at the end of the day we get the better properties for resale and I think that is really the key. You have to be happy that you can resell that property at the end of the day. It will do you good to buy a property that is 30% off the appraisal but it is a bad property that is going to sit on the market for seven to eight years. You are going to lose much of that savings anyway in opportunity cost. From our standpoint, if you can get a good property you can get it at a slight discount and will be more likely to sell it and reap the benefits of getting that discount. Secondly, there is oftentimes revenue associated with it that can help you cover any kind of payments or bond payments or even a straight financing. You have to be more selective, you have to know the institutions to go to and you have to know the regions that are in that institution so that when you are looking at the properties you can buy it and that is what we try to focus on. My experience before CapGain has been seven years of commercial lending throughout the United States. It is going to be a good insight to certain parts of the country where we tend to focus. We are not just picking properties hit or miss. We are targeting properties that we can resell fairly rapidly.

"We are a great play when it comes down to thinking about where to put your money that is solid and is going to be here years from now."- Brian Knight

CEOCFO: Would you tell us about the recent public listing and why in Canada?

Mr. Knight: Canada is attractive for a couple of reasons. First, people in the United States have been through a lot with commercial real estate and residential real estate lately. It seems that the attitudes are more slow to adjust whereas many Canadian investors see the United States as an opportunity and I think correctly so. When it comes to the upturns that we have seen in property, properties have gone down in value for the last four years but then this year they started to creep back up. Two years ago I saw half my properties still going down and half going up but this last year every single one of them went up across the board. The United States is ripe for that opportunity but I think the people in this country are slow to realize that and they are shell shocked from having that big fallout in the first place. That lends itself lends well to the Canadian investors who are taking advantage of those opportunities a bit more. The cost of being public in the Canadian market is much better and much more in line with what this kind of industry would demand. I think when it comes to the amount of legal work that is associating with being a public company; Canada is a much better buy. It is reasonable. The United States I would give the example of having one security document put together costs me about as much for my security as having gone through the whole process of getting public up there and that is just astounding to me. I think the Canadian people have a better grasp over it and I think that their system works really well for this. At the end of the day I also thing that there is a little bit more active money ready to come into firms our size up there. I think that the only people that are getting funded at a nice clip are the mega large companies that are on the New York Stock Exchange. That is fine but it does not mean that they are necessarily always the plays. I think a firm our size offers some advantage because we are a bit more careful and selective with what we buy and I think we can bring a good advantage up there. The people up there need some guidance with maybe where they want to invest in real estate but they are not really sure where to go in the United States. They know the US is a good buy but they need some help so I think it is a good match. I have been very excited and have enjoyed working with the people up in Canada. I found it rather enjoyable in comparison of working with the attorneys or people down here. I think it is a great market and I think it is also one that is very active now because they have been more careful with their money than the people in the US have been in the last few years.

CEOCFO: What is the financial picture like for the company?

Mr. Knight: The company has a great balance sheet but we really need it to raise a little bit more in terms of working capital off the bat. We are very low-debt to asset ratio right around 10%, which means we are not leveraged very much and purposefully so. As a private company it was not our intention to leverage or grow necessarily on a massive pace. Now that we are past the point of merging with the CPC, I think that we can look at expansion and raising capital. Many of those options include something along the lines of convertible debentures. I think they include leveraging some of our current properties maybe up to close to fifty percent to expand growth. The opportunities certainly are there. For example in the last two weeks we have taken in eighty different properties for review and we certainly will not make bids on eighty different properties but we have taken that many in for review because there are that many good ones out there that are meeting our criteria. When you have that much and you have a low debt ratio, you can leverage yourself a little bit and make some expansion growth here. When we were a private company we did not have that goal. We were more holding onto properties just to sell them in the long-term and not thinking too much expansion. When this opportunity came up there to do this, I thought it was the right time for it and it is probably time for expansion. With a little bit of capital raise, which we I think we plan on doing in the next few months, we will be able to expand rapidly. I can easily see us by the end of the year doubling the size of our assets as we have them now.

CEOCFO: Why should the business and investment community pay attention to CapGain Properties?

Mr. Knight: I think that our philosophy is one that goes to both growth and safety. I see many different companies out there and I am a regular Midwest guy. By that I mean I have those kind of values that say be conservative first. There is a reason that the company only has so little bet on it as it does now and I did not say we are going to leverage up to 80% to 90%. I said even in a growth strategy where we are only leveraging at 50%, it is because I really believe in safety by the quality of the balance sheet. I think the whole group does as well when it comes to our directors. We look at it and ask how we can make sure that we do not leverage ourselves beyond what is necessary for growth and keep ourselves in a safe position. Having those assets to back it is a good thing. Certainly you might be able to find a huge return and a startup technology company but you do not have assets to back those things and realistically right now we have the assets to back the things. Our stock currently is now trading below our book value for the stock would be which I think speaks for the fact that there is some room for growth here and room for the stock to go up. When you look at the company you can say hey it is positioned well balanced sheet wise. I think the properties that we have on the agenda to buy in the next round here all could easily service any kind of bond or any kind of piece even as high as 68% with great ease. We are even finding that if we were to take quick money and get in at 12% or 13%, we can service the debts easily. To that extent you consider that you buy the property at a discount and you say you are getting the property for $0.60 on the dollar. It can service the debt, it can still put some cash flow into the company as well after the service of the debt and as some inherent equity that we will get when we sell the property in the long-term. We have potential for growth, cash service and safety but not over-leveraging ourselves. That ultimately is a good combination for growth. That real estate market is upturning here and I think we are a great play when it comes down to thinking about where to put your money that is solid and is going to be here years from now that has a solid plan that is not just a complete risk or a complete safe plan. You are not putting your money into a 2% or 3% return. We could probably place a 6% to 8% return with no problems, no stress in the company, very low overhead and at the end of the day still have that upside growth. That would be my pitch to people and investors that they are working with why they should invest with us.

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