

UNTERNEHMENSANALYSE

Stephan Appel

To: TSO Europa Funds, Inc.
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CEO Allan Boyd Simpson

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CHECK-analysis

TSO-DNL Active Property I and II, LP/TSO-performance-audit

Dear Mr. Simpson

I've reviewed some documents and material being kindly provided with and now here are following the reduced number of questions that may easier be answered because of being put on a better informed basis:

1. Financial Statements: "The annual audit of the financial statement shall be done by a firm of independent certified public accountants chosen by the general partner" (P. 133, Active Property 1 = ACP 1). Please give us the chance to audit these original statements, especially including the operating LP's/property companies' audit.
2. TSO Reporting: amendment 1 of TSO-DNL Fund IV, L.P. p.3, Atlanta 2012, referring to the cumulated results of TSO-DNL Fund I: in line 6 you summarize **proceeds of USD 1.612.283**. Date: "Results from 31.12.2010"! But in the performance review, audited by the German certified public accountants Brandt listed the expected exit sales from May 2012 with an amount of 5.061.047. What are the real summarized proceeds by October 2017?
3. Is it correct, that the reported sales figures of TSO Fund 2 have been planned figures (prognosis), but haven't been realized yet? Is their any external audit of these sales? How can you yield 8 % from this investment? In the prognosis column are assigned less yields, around 3 %?! So where did the proceeded fund payments come from?
4. Former investor reports showed besides the liquidity results the net income yields of the real estate business of each real estate property. So investors and readers could comprehend where the proceeded distributions came from. In the today's reports you retrained from discussing these figures: why? Investors complain about a lack of transparency!

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5. Could you please explain (allow us to have a look) the liquidity stream on each level of the fund structure under the surface of ACP 1 LP roof?
6. TSO Chattanooga Development: For the investment loan of about USD 20m you are supposed to pay around 4,5 % interest rate: That means about USD 810.000 year, USD 67.500 a month. Given that there are yet no payments from tenants how can you meet payment obligations? Before realization of construction and growing lease income, the interest obligations have to get covered by other free liquidity. Where does this liquidity come from?
7. ACP 1, amendment 2, P. 14, Chattanooga: Please explain us the calculation of the projected exit prognosis amounting USD 47,2m. How did you calculate that yield/sales price?
8. What pays Benz USA actually as rent (and the expected following tenant)?
9. Do you partner at Sterling Pointe with a third party (reduced share of ACP 1 including GP-Share)? What kind of rights does this partner have as main owner in the SP project? Does he have a first place put option to sell SP when he wants? Under which conditions does this partner participate? What happens if he does not want to sell but you need liquidity for distributions?
10. What is the actual SP occupancy rate by tenants, by projected full occupancy and by value in USD?
11. ACP 1, amendment 2, SP p 8: Your prognosis calculates an exit sale of USD 94,4m. Your investment including purchase price, development and transfer costs was reported to an amount of USD 61,2m (amendment 2 ACP 1 P.8). Please help us to recapitulate that calculation: If you buy the LP Shares for the German Investors with a Cap rate of 8 %, you need to gain a yearly gross income of about 12 % to be able to pay 8 % to the investors after costs: that would mean you need a yearly amount of USD 9m (12 %) covering at least USD 4,9m (8%) distribution. But the occupation rate in 2016 amounts 78, 5 % average because of vacancy. That means less income reaching about USD 6,04m. In other words you need more income, to cover distribution payments on the committed level. Do we have the chance to look through the SP cash flow structure by being able to assess the book keeping?
12. SP: cashing 27/sqft you might earn gross sales of around USD 9m a year and after costs, maintenance, fees, interest, amortization, tax you might possibly gain just USD 3m (as we see facing similar results referring to the Arbors Portfolio yielding around USD 1m net income on a USD 21m investment!). At what lease rate do you close actual lease contracts?

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13. DNL has funded around USD 225m for ACP 1: Do you have to invest in far more projects than the current listed projects? Which pipeline projects are still ready to get realized?
14. Funding USD 225m for ACP 1 has for consequence: if you deduct summarized soft costs of ca. 20 %. There remain around USD 180m for LP partnership shares. Till now you reported about 14 Investments for ACP 1. Is it possible to get an overview of all the invested shares till October 2017?
- 15. We recently have been informed of 7 additional investments for ACP 1 during 2016. If you add cumulated former invested USD 87,1m to the list reported in amendment 2 of around USD 50m, which results in an investment amount for AC 1 at around USD 137,1m per the end of October 2017. Roughly counted there should be a liquidity rest on your German investor USD master account of about USD 43m? Could you please correct these figures and deliver us an independent evidence for our understanding?**
16. To get the money invested at 8 % cap rate aren't you motivated to invest the money as soon as possible to benefit from favorable investment opportunities to comply with payment commitments from the date on you receive the money from German investors? In 5 Years you have to distribute a sum of around USD 90m? Plus returning the investment of USD 225! Plus interest payments. As a result you have the obligation issuing a net return of investment of more than USD 350m within a time frame of about 5 years?
17. Related on an investment quote of actually USD 137,1m working capital that would mean you have to gain for the first distribution year around 13 % on that actual bound equity capital having to deliver USD 18m promised distribution? Do the acquired real estate projects yielding that amount? How do you manage these liquidity obligations?
18. If we take in consideration that "Market Street" will deliver the first income in a (half) years we initially have to deduct some part of USD 14,6m from USD 137,1m and on that basis we have to gain at least a yield of 14,7 % on USD 122,5m average capital employed.
19. What is at least the actual remaining capital still available on the ACP 1-Funds-account? Therefore we should inspect the referring TSO investment account (let's call it "USD master account").
20. How is this "Highlight" to understand: In your ACP 1 Reporting for the share holder assembly 2016: page 7 of the presentation shows a total investment of USD 440,24m. The quote of the loan amounts USD 218,25m. By an average interest payment of nearly USD 10m a year (4,5 %) you have to earn a net profit of around twice that sum, being able to pay be-

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sides the loan the investors distributions of about USD 18m. How is this possible?

21. On page 9 are reported distribution payments of USD 15,7m for 2016. How is it possible to pay these distributions if your planed yields of USD 24m are not yet achieved (see page 10)?
22. Understanding: In your Millpond Holding, LP report from 31. July 2017 under the "Statement of Cash Flow" are listed Cash Flows from Financing Activities of USD 4,786m which is encumbered by "Loan Costs" of USD 0,423m and by "Partner Contributions" of USD 2m. Which partner receives this money?
23. Bashing campaign against TSO-DNL: please help us, to refute allegations of the so called "GerlachReport", a blacklisted bashing online magazine operating from an US based Bot-mashine against you and DNL. They don't get tired, to insist that: *"Research by gerlachreport failed to verify the TSO company's data in Atlanta, Georgia. Even revenues are not recognizable. Company documents and receipts showed a similar picture. In a jungle of more than 100 companies belonging to the "partner" TSO - The Simpson Organization, the German millions disappear. It is unclear whether only money may be laundered or real business is actually being done."* 15.03.2017
24. We would like to evaluate the ongoing projects of ACP 1 and 2 to gain a deeper understanding of your investment und liquidity management.

I'd be lucky to experience your point of view, either by personal contact, by phone, by skype conference or just by written words and for examination (confidentially) delivered further documents.

Yours Sincerely, Hamburg

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