Kennedy-Wilson Holdings, Inc.
Form 10-K/A
March 31, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Amendment No. 1
to
Form 10-K
(Mark One)

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2013
OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to
Commission file number: 001-33824
Kennedy-Wilson Holdings, Inc.
(Exact Name of Registrant as Specified in Its Charter)

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| Delaware | 26-0508760 |
| (State or Other Jurisdiction of Incorporation or Organization) | (I.R.S. Employer Identification No.) |
| 9701 Wilshire Blvd., Suite 700 Beverly Hills, CA | 90212 |
| (Address of Principal Executive Offices) | (Zip Code) |

(310) 887-6400
(Registrant's telephone number, including area code)
Securities registered pursuant to Section 12(b) of the Act:

| Title of Each Class | Name of Each Exchange on which Registered |
|---|---|
| Common Stock, $.0001 par value | NYSE |

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No x

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this

Form 10-K. o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act:

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| Large accelerated filer | x | | Accelerated filer | o |
| Non-accelerated filer | o | (Do not check if a smaller reporting company) | Smaller reporting company | o |

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes o No x

Based on the last sale at the close of business on June 28, 2013, the aggregate market value of the registrant’s common stock held by non-affiliates of the registrant was approximately $923,342,784.

The number of shares of common stock outstanding as of February 28, 2014 was 91,688,412.

DOCUMENTS INCORPORATED BY REFERENCE

Part III of the registrant's Annual Report on Form 10-K filed on March 3, 2014 incorporates certain information by reference from the registrant’s proxy statement for the annual meeting of stockholders to be held on or around June 19, 2014, which proxy statement will be filed no later than 120 days after the close of the registrant’s fiscal year ended December 31, 2013.

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EXPLANATORY NOTE

Kennedy-Wilson Holdings, Inc., a Delaware corporation (the “Company”), is filing this Amendment No. 1 (this “Amendment”) to its Annual Report on Form 10-K for the fiscal year ended December 31, 2013, which was originally filed with the Securities and Exchange Commission (the “SEC”) on March 3, 2014 (the “Original Report”), to amend Item 15 of the Original Report and include separate financial statements of the following entities, as required pursuant to Rule 3-09 of Regulation S-X under the Securities Exchange Act of 1934, as amended:

- Bay Fund Opportunity, LLC and Subsidiaries
- KW Real Estate Fund IV, L.P.
- One Baxter Way, LP
- KW Funds - 303 North Glenoaks, LLC and KW Funds - 6100 Wilshire, LLC
- Bay Area Smart Growth Fund II, LLC
- KWF Real Estate Venture X, LP
- KWF Real Estate Venture XII, L.P
- Egret Limited and its subsidiaries
- KWF Real Estate Venture XIII, L.P
- KWVF Panther Holdco Limited
- KWF Real Estate Venture XV, L.P.
- KW Residential, LLC
- WH Valle Di Oro 79, LLC
- KW Stadium Gateway Partners, LLC
- KW Marina View, LLC
- KWI America Multifamily, LLC and KW SV Investment West Coast, LLC
- KWF Real Estate Venture VI, L.P

Other than as set forth herein, this Amendment does not affect any other parts of, or exhibits to, the Original Report, and those unaffected parts or exhibits are not included in this Amendment. This Amendment continues to speak as of the date of the Original Report, and the Company has not updated the disclosure contained in this Amendment or the Original Report to reflect events that have occurred since the filing of the Original Report. Accordingly, this Amendment should be read in conjunction with the Company's other filings with the SEC since the filing of the Original Report.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a) The following documents are filed as part of this annual report:

(1) Financial Statements. See the Index to Consolidated Financial Statements, which appears on page 46 of the Original Report. The Report of Independent Registered Public Accounting Firm, the Consolidated Financial Statements and the Notes to Consolidated Financial Statements listed in the Index to Consolidated Financial Statements, which appear beginning on page 47 of the Original Report, are incorporated by reference into this Item 15.

(2) Financial Statement Schedules. Schedules III and IV are listed in the Index to Consolidated Financial Statements, which appear beginning on page 101 of the Original Report, are incorporated by reference into this Item 15. All other Financial Statement Schedules have been omitted because the information required to be set forth therein is either not applicable or is included in the Consolidated Financial Statements or the notes thereto.

(3) Exhibits. See Item 15(b) below.

(b) Exhibits. The exhibits listed on the Exhibit Index set forth below on page 5 are filed as part of, or are incorporated by reference into, this annual report on Form 10-K.

(c) Financial Statements Required by Rule 3-09 of Regulation S-X. The financial statements required by Rule 3-09 of Regulation S-X under the Securities Exchange Act of 1934, as amended, are filed as schedules to this report and are incorporated by reference into this Item 15.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on the 31st day of March 2014.

KENNEDY-WILSON HOLDINGS, INC.,
a Delaware corporation

By: /s/ WILLIAM J. MCMORROW
William J. McMorrow
Chief Executive Officer

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EXHIBIT INDEX

| Exhibit No. | Description |
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| 3.1[2] | Second Amended and Restated Certificate of Incorporation. |
| 3.2[3] | Amended and Restated Bylaws. |
| 4.1[14] | Specimen Common Stock Certificate. |
| 4.2[4] | Form of Warrant Certificate. |
| 4.3[5] | Amended and Restated Warrant Agreement between Continental Stock Transfer & Trust Company and Kennedy- Wilson Holdings, Inc. |
| 4.4[21] | Indenture, dated as of April 5, 2011, among Kennedy-Wilson, Inc., as Issuer, Kennedy-Wilson Holdings, Inc., as guarantor, certain subsidiaries of the Issuer signatories thereto, as guarantors, and Wilmington Trust FSB, as trustee, including the form of 8.750% Notes due 2019. |
| 4.5[21] | Registration Rights Agreement, dated April 5, 2011, among Kennedy-Wilson, Inc., Kennedy-Wilson Holdings, Inc., certain subsidiaries of the Issuer signatories thereto, Merrill Lynch, Pierce, Fenner & Smith Incorporated and Morgan Stanley & Co. Incorporated. |
| 4.6[22] | Registration Rights Agreement, dated April 12, 2011, among Kennedy-Wilson, Inc., Kennedy-Wilson Holdings, Inc., certain subsidiaries of the Issuer signatories thereto, and Merrill Lynch, Pierce, Fenner & Smith Incorporated. |
| 4.7[23] | Certificate of Designation of Series A Preferred Stock. |
| 4.8[24] | Certificate of Designation of Series B Preferred Stock. |
| 4.9[26] | First Supplemental Indenture dated August 5, 2011 among Kennedy-Wilson, Inc., KW Residential Group, Inc. and Wilmington Trust, National Association. |
| 4.10[26] | Second Supplemental Indenture dated August 5, 2011 among Kennedy-Wilson, Inc., KW Telstar Partners, LLC and Wilmington Trust, National Association. |
| 4.11[26] | Third Supplemental Indenture dated August 5, 2011 among Kennedy-Wilson, Inc., KWF Manager V, LLC and Wilmington Trust, National Association. |
| 4.12[26] | Fourth Supplemental Indenture dated August 5, 2011 among Kennedy-Wilson, Inc., KW Fund IV - Kohanaiki, LLC and Wilmington Trust, National Association. |
| 4.13[26] | Fifth Supplemental Indenture dated August 5, 2011 among Kennedy-Wilson, Inc., Kennedy Wilson Property Equity IV, LLC and Wilmington Trust, National Association. |
| 4.14[26] | Sixth Supplemental Indenture dated August 5, 2011 among Kennedy-Wilson, Inc., KW Ireland, LLC and Wilmington Trust, National Association. |
| 4.15[26] | Seventh Supplemental Indenture dated August 5, 2011 among Kennedy-Wilson, Inc., KW Manager IV, LLC and Wilmington Trust, National Association. |
| 4.16[26] | Eighth Supplemental Indenture dated September 26, 2011 among Kennedy-Wilson, Inc., KWF Investors IV, LLC, KWF Investors V, LLC and Wilmington Trust, National Association. |
| 4.17[26] | Ninth Supplemental Indenture dated December 28, 2011 among Kennedy-Wilson, Inc., KW Anaheim Land Partners LLC, Pacifica West Coast Partners, LLC, KW Multi-Family Management Group, KW Mill Creek Property Manager, LLC, KW Sunrise Carlsbad, LLC, Sunrise Property Associates, LLC, certain guarantors listed therein and Wilmington Trust, National Association. |
| 4.18[31] | Tenth Supplemental Indenture, dated as of June 12, 2012, among Kennedy-Wilson, Inc., Meyers Research, LLC, KW Armacost, LLC, Santa Maria Land Partners Manager, LLC, KW Investment Adviser, LLC, NWLACDFI - Southern Oaks, LLC, Kennedy-Wilson Capital, KW Captowers Partners, LLC, KW Four Points, LLC, KW Loan Partners VII, LLC and Wilmington Trust, National Association, as trustee |
| 4.19[32] | Eleventh Supplemental Indenture, dated as of November 21, 2012, among Kennedy-Wilson, Inc., NWLACDFI-Southern Oaks, LLC, the subsidiary guarantor parties thereto, Kennedy-Wilson Holdings, Inc., and Wilmington Trust, National Association, as trustee |
| 4.20[33] | |

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| | Twelfth Supplemental Indenture, dated as of November 21, 2012, among Kennedy-Wilson, Inc., KWF Investors VII, LLC, KWF Manager VII, LLC, KW Residential Capital, LLC, KW Boise Plaza, LLC, KW Loan Partners VIII, LLC, KW UR Investment 1, LLC, KW UR Investment 2, LLC, Kennedy Wilson Property Services IV, L.P., Kennedy Wilson Property Services IV GP, LLC, KW/CV Third-Pacific Manager, LLC, KW EU Loan Partners II, LLC, KWF Investors VIII, LLC, KWF Manager VIII, LLC, KW HP 11, LLC, KW 1200 Main LLC, KW |
| 4.21(50) | Thirteenth Supplemental Indenture, dated as of February 13, 2013, among Kennedy-Wilson, Inc., KW Fund IV La Barranca, LLC (formerly KW HP 11, LLC), the subsidiary guarantor parties thereto, Kennedy-Wilson Holdings, Inc., and Wilmington Trust, National Association, as trustee |

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| 4.22[51] | Fourteenth Supplemental Indenture, dated as of February 14, 2013, among Kennedy-Wilson, Inc., KWF Manager X, LLC, KWF Manager XI, LLC, KWF Manager XII, LLC and Wilmington Trust, National Association, as trustee |
| 4.23[29] | Form on Indenture, dated as of November 28, 2012, between Kennedy-Wilson, Inc. and Wilmington Trust, National Association, as trustee |
| 4.24[30] | Supplemental Indenture No. 1, dated as of November 28, 2012, among Kennedy-Wilson, Inc., Kennedy-Wilson Holdings, Inc., the subsidiary guarantor parties thereto and and Wilmington Trust, National Association, as trustee |
| 4.25[52] | Supplemental Indenture No. 2, dated as of February 14, 2013, among Kennedy-Wilson, Inc., the subsidiary guarantor parties thereto and Wilmington Trust, National Association, as trustee |
| 4.26[34] | Registration Rights Agreement, dated as of December 6, 2012, among Kennedy-Wilson, Inc., Kennedy-Wilson Holdings, Inc., the subsidiary guarantor parties thereto, Merrill Lynch, Pierce, Fenner & Smith Incorporated and Morgan Stanley & Co. LLC |
| 4.27* | Nineteenth Supplemental Indenture to the 2019 Notes Indenture, dated as of January 6, 2014, among Kennedy-Wilson, Inc., the guarantors party thereto and Wilmington Trust, National Association, as trustee. |
| 4.28* | Twentieth Supplemental Indenture to the 2019 Notes Indenture, dated as of January 16, 2014, among Kennedy-Wilson, Inc., the released guarantors party thereto and Wilmington Trust, National Association, as trustee. |
| 4.29[29] | Form of Indenture (the “2042 Notes Indenture”), dated as of November 28, 2012, between Kennedy-Wilson, Inc. and Wilmington Trust, National Association, as trustee. |
| 4.30[30] | Supplemental Indenture No. 1 to the 2042 Notes Indenture, dated as of November 28, 2012, among Kennedy-Wilson, Inc., Kennedy-Wilson Holdings, Inc., the subsidiary guarantor party thereto and Wilmington Trust, National Association, as trustee. |
| 4.31[52] | Supplemental Indenture No. 2 to the 2042 Notes Indenture, dated as of February 14, 2013, among Kennedy-Wilson, Inc., the subsidiary guarantor parties thereto and Wilmington Trust, National Association, as trustee. |
| 4.32[53] | Supplemental Indenture No. 3 to the 2042 Notes Indenture, dated as of May 28, 2013, among Kennedy-Wilson, Inc., the guarantors party thereto and Wilmington Trust, National Association, as trustee. |
| 4.33[54] | Supplemental Indenture No. 4 to the 2042 Notes Indenture, dated as of July 15, 2013, among Kennedy-Wilson, Inc., the guarantors party thereto and Wilmington Trust, National Association, as trustee. |
| 4.34[55] | Supplemental Indenture No. 5 to the 2042 Notes Indenture, dated as of September 6, 2013, among Kennedy-Wilson, Inc., the guarantors party thereto and Wilmington Trust, National Association, as trustee. |
| 4.35[56] | Supplemental Indenture No. 6 to the 2042 Notes Indenture dated as of October 31, 2013, among Kennedy-Wilson, Inc., the guarantors party thereto and Wilmington Trust, National Association, as trustee. |
| 4.36 | Supplemental Indenture No. 7 to the 2042 Notes Indenture dated as of January 6, 2014, among Kennedy-Wilson, Inc., the guarantors party thereto and Wilmington Trust, National Association, as trustee. |
| 4.37 | Supplemental Indenture No. 8 to the 2042 Notes Indenture dated as of January 16, 2014, among Kennedy-Wilson, Inc., the released guarantors party thereto and Wilmington Trust, National Association, as trustee. |
| 4.38[34] | Registration Rights Agreement, dated as of December 6, 2012, by and among Kennedy-Wilson, Inc., Kennedy-Wilson Holdings, Inc., the subsidiary guarantors party thereto, Merrill Lynch, Pierce, Fenner & Smith Incorporated and Morgan Stanley & Co. LLC |
| 10.1[38] | Kennedy-Wilson Holdings, Inc. 2009 Equity Participation Plan. |

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| 10.2[39] | Form of Amended and Restated Consultant Restricted Stock Award Agreement to Kennedy-Wilson Holdings, Inc. 2009 Equity Participation Plan. |
| 10.3[39] | Form of Amended and Restated Director Restricted Stock Award Agreement to Kennedy-Wilson Holdings, Inc. 2009 Equity Participation Plan. |
| 10.4[39] | Form of Amended and Restated Employee Restricted Stock Award Agreement to Kennedy-Wilson Holdings, Inc. 2009 Equity Participation Plan. |
| 10.5[37] | Promissory Note issued by Kennedy-Wilson, Inc. to The Guardian Life Insurance Company of America on November 3, 2008. |

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| 10.6[37]† | Fifteenth Amendment to Employment Agreement by Kennedy-Wilson, Inc. and William J. McMorrow. |
| 10.7[39] | Employment Agreement dated August 14, 1992 between Kennedy-Wilson and William J. McMorrow. |
| 10.8[37]† | Amendment to Employment Agreement dated as of January 1, 1993 between Kennedy-Wilson and William J. McMorrow. |
| 10.9[37]† | Second Amendment to Employment Agreement dated as of between January 1, 1994 Kennedy-Wilson and William J. McMorrow. |
| 10.10[40] | Third Amendment to Employment Agreement dated as of March 31, 1995 between Kennedy-Wilson and William J. McMorrow. |
| 10.11[40]† | Fourth Amendment to Employment Agreement dated as of January 1, 1996 Kennedy-Wilson and William J. McMorrow. |
| 10.12[37]† | Amendment to Employment Agreement dated as of February 28, 1996 between Kennedy-Wilson and William J. McMorrow. |
| 10.13[15]† | Fifth Amendment to Employment Agreement dated as of May 19, 1997 between Kennedy-Wilson and William J. McMorrow. |
| 10.14[37]† | Sixth Amendment to Employment Agreement dated as of August 20, 1998 between Kennedy-Wilson and William J. McMorrow. |
| 10.15[37]† | Seventh Amendment to Employment Agreement dated as of August 9, 1999 between Kennedy-Wilson and William J. McMorrow. |
| 10.16[37]† | Eighth Amendment to Employment Agreement dated as of January 3, 2000 between Kennedy-Wilson and William J. McMorrow. |
| 10.17[37]† | Ninth Amendment to Employment Agreement dated as of October 1, 2000 between Kennedy-Wilson and William J. McMorrow. |
| 10.18[37]† | Tenth Amendment to Employment Agreement dated as of April 22, 2002 between Kennedy-Wilson and William J. McMorrow. |
| 10.19[37]† | Eleventh Amendment to Employment Agreement dated as of October 1, 2003 between Kennedy-Wilson and William J. McMorrow. |
| 10.20[37]† | Twelfth Amendment to Employment Agreement dated as of April 21, 2004 between Kennedy-Wilson and William J. McMorrow. |
| 10.21[37]† | Thirteenth Amendment to Employment Agreement dated as of January 1, 2008 between Kennedy-Wilson and William J. McMorrow. |
| 10.22[37]† | Fourteenth Amendment to Employment Agreement dated as of February 1, 2009 between Kennedy-Wilson and William J. McMorrow. |
| 10.23[37]† | Employment Agreement dated February 1, 2009 between Kennedy-Wilson and Mary L. Ricks. |
| 10.24[37]† | First Amendment to Employment Agreement dated June 1, 2009 between Kennedy-Wilson and Mary L. Ricks. |
| 10.25[37]† | Second Amendment to Employment Agreement by Kennedy-Wilson, Inc. and Mary L. Ricks. |
| 10.26[37]† | Employment Agreement dated June 15, 2009 between Kennedy-Wilson and Donald J. Herrema. |
| 10.27[37]† | First Amendment to Employment Agreement by Kennedy-Wilson, Inc. and Donald J. Herrema. |
| 10.28[37]† | Employment Agreement dated April 1, 1996 between Kennedy-Wilson and Freeman Lyle. |
| 10.29[37]† | Business Loan Agreement dated July 29, 2009 between Kennedy-Wilson, Inc. and Pacific Western Bank. |
| 10.30[41]† | Amended and Restated Loan Agreement dated June 5, 2008 between Kennedy-Wilson, Inc. and U.S. Bank National Association. |
| 10.31[1]† | Revolving Loan Agreement, dated as of August 5, 2010, by and among Kennedy-Wilson, Inc., U.S. Bank National Association, as agent, lead arranger and book manager, U.S. Bank National Association, as lender, East-West Bank, as lender, and any other bank that becomes a party thereto. |
| 10.32[57]† | Repayment Guaranty, dated as of August 5, 2010, by Kennedy-Wilson Holdings, Inc. in favor of U.S Bank National Association, as agent for the lenders. |
| 10.33[58]† | Fee Letter, dated as of August 5, 2010. |
| 10.34[1]† | |

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| | Modification Agreement, dated June 29, 2012, by and among Kennedy-Wilson, Inc., U.S. Bank National Association, as administrative agent, U.S. Bank National Association, as lender and East-West Bank, as lender. |
| 10.35†(1) | Second Modification Agreement, dated September 19, 2013, by and among Kennedy-Wilson, Inc., U.S. Bank National Association, as administrative agent, U.S. Bank National Association, as lender, East-West Bank, as lender and The Governor and Company of the Bank of Ireland, as lender. |

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| 10.36†[37] | Junior Subordinated Indenture dated, January 31, 2007 between Kennedy-Wilson, Inc. and The Bank of New York Trust Company, National Association, as trustee. |
| 10.37†[37] | First Amendment to Office Lease dated March 5, 1999 between Wilshire-Camden Associates and Kennedy-Wilson, Inc. |
| 10.38[37] | Second Amendment to Lease dated June 2, 1999 between Wilshire-Camden Associates and Kennedy-Wilson, Inc. |
| 10.39[37] | Third Amendment to Office Lease dated December 20, 2002 between Brighton Enterprises, LLC and Kennedy-Wilson, Inc. |
| 10.40[37] | Fourth Amendment to Office Lease dated September 11, 2003 between Wilshire-Camden Associates and Kennedy-Wilson, Inc. |
| 10.41[37] | Fifth Amendment to Office Lease dated January 7, 2006 between Douglas Emmett 2000, LLC and Kennedy-Wilson, Inc. |
| 10.42[37] | Standard Office Lease dated March 3, 2009 by and among 9701-Hempstead Plaza, LLC, 9701-Carolina Gardens LLC, 9701-West Point Realty LLC, 9701-Dakota Leasing LLC and 9701-Iowa Leasing LLC and Kennedy-Wilson Inc. |
| 10.43[37] | Second Amended and Restated Guaranty of Payment dated November 4, 2008 by Arthur S. Levine, as Trustee of the Ray J. Rutter Trust, Arthur S. Levine, as Trustee of the Susan Ray Rutter Trust, and Arthur S. Levine, as Trustee of the Robert Jonathan Rutter Trust, and Kennedy-Wilson Inc., to Bank Midwest N.A. |
| 10.44[37] | Amended and Restated Guaranty dated October 25, 2007 Agreement by Kennedy-Wilson, Inc. in favor of Bank of America, N.A., as agent for lenders. |
| 10.45[37] | Amendment to Irrevocable standby letters of credit dated October 26, 2007 from Bank of America to the beneficiary, City of Walnut Creek on behalf of Fairways 340 LLC. |
| 10.46[37] | Guaranty Agreement made as of August 14, 2007 by Kennedy-Wilson, Inc. in favor of Bank of America, N.A., as agent for lenders. |
| 10.47 [37] | Repayment Guaranty made as of September 4, 2007 by Kennedy-Wilson, Inc. in favor of Wachovia Bank, N.A., as agent for lenders. |
| 10.48[37] | Commercial Guaranty made as of September 13, 2007 by Kennedy-Wilson, Inc., to Pacific Western Bank, on behalf of Windscape Village LLC. |
| 10.49[37] | Repayment Guaranty made as of May 9, 2007 by Kennedy-Wilson, Inc. and KW Property Fund I, L.P. for the benefit of Wachovia Bank National Association. |
| 10.50[37] | Commercial Guaranty dated January 16, 2009 to Pacific Western Bank by KWI Property Fund I, L.P. |
| 10.51 [37] | Guaranty made as of May 29, 2008 by Kennedy-Wilson, Inc. and KW Property Fund III, L.P. for the benefit of Deutsche Bank, AG. |
| 10.52[37] | Guaranty made as of September 9, 2005, by Kennedy-Wilson, Inc., a Delaware corporation, in favor of Bank of America, N.A. |
| 10.53 [37] | Repayment Guaranty made as of September 4, 2007 by KWI Property Fund I, L.P. and KW Property Fund II, L.P., Delaware limited partnerships in favor of Wachovia Bank, N.A., as agent for lenders. [x] |
| 10.54[40] | Fourteenth Amendment to Employment Agreement dated January 1, 2009 between Kennedy-Wilson Properties and James Rosten. |
| 10.55[40] | First Amendment to Forfeiture Agreement dated October 22, 2009 between Prospect Acquisition Corp., De Guardiola Advisors, Inc., De Guardiola Holdings, Inc., Flat Ridge Investments LLC, LLM Structured Equity Fund L.P, LLM Investors L.P., CMS Platinum Fund, L.P., SJC Capital LLC, Michael P. Castine, Daniel Gressel, Michael Downey, James J. Cahill, John Merchant and Kennedy-Wilson, Inc. |
| 10.56†[40] | Waiver and Modification with respect to Employment Agreements dated October 22, 2009 between Kennedy-Wilson, Inc. and William J. McMorrow, Mary L. Ricks and Donald J. Herrema. |
| 10.57[42] | Agreement, dated as of November 11, 2009, by and between Prospect Acquisition Corp. and Victory Park Capital Advisors, LLC. |
| 10.58[42] | Form of Stock Purchase Agreement, among Prospect Acquisition Corp., David A. Minella, LLM Structured Equity Fund L.P., and LLM Investors L.P. |

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| 10.59[42] | Stock Purchase Agreement, dated as of November 12, 2009, by and between Prospect Acquisition Corp. and Credit Suisse Securities (USA) LLC. |
| 10.60[42] | Stock Purchase Agreement, dated as of November 11, 2009, by and between Prospect Acquisition Corp. and Nisswa Acquisition Master Fund, Ltd. |
| 10.61[42] | Share Purchase Agreement, dated as of November 12, 2009, by and between Prospect Acquisition Corp. and Milton Arbitrage Partners, LLC. |

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| 10.62[43] | Stock Purchase Agreement. |
| 10.63[44] | Stock Purchase Agreement, dated as of November 12, 2009, by and between Prospect Acquisition Corp. and Arrowgrass Master Fund Ltd. |
| 10.64[44] | Stock Purchase Agreement, dated as of November 12, 2009, by and between Prospect Acquisition Corp. and Bulldog Investors. |
| 10.65[44] | Stock Purchase Agreement, dated as of November 12, 2009, by and between Prospect Acquisition Corp. and Del Mar Master Fund Ltd. |
| 10.66[44] | Stock Purchase Agreement, dated as of November 12, 2009, by and between Prospect Acquisition Corp. and Citigroup Global Markets Inc. |
| 10.67[44] | Share Purchase Agreement, dated as of November 12, 2009, by and between Prospect Acquisition Corp. and IBS (MF) Ltd. In Respect of Glazer Merger Arbitrage Series. |
| 10.68[44] | Stock Purchase Agreement, dated as of November 12, 2009, by and between Prospect Acquisition Corp. and Glazer Offshore Fund Ltd. |
| 10.69[44] | Stock Purchase Agreement, dated as of November 12, 2009, by and between Prospect Acquisition Corp. and Glazer Capital Management, LP. |
| 10.70[44] | Stock Purchase Agreement, dated as of November 12, 2009, by and between Prospect Acquisition Corp. and HFR MA Select Opportunity Master Trust. |
| 10.71[44] | Stock Purchase Agreement, dated as of November 12, 2009, by and between Prospect Acquisition Corp. and GSS Offshore SPC-Glazer Segregated Portfolio. |
| 10.72[45] | Waiver and Modification With Respect to Employment Agreement Amendments. |
| 10.73[46] | Securities Purchase Agreement, dated June 28, 2011, by and among Kennedy-Wilson Holdings, Inc., a Delaware corporation and the Purchasers named thereto. |
| 10.74[47] | Transfer Agreement dated December 28, 2011 between KW Executive Loan Partners I LLC and K-W Properties. |
| 10.75[47] | Membership Interest Acquisition Agreement dated December 28, 2011 by and among KW Summer House Manager, LLC, K-W Properties, KW Summer House Executives, LLC and the members of KW Summer House Executives, LLC as set forth therein. |
| 10.76[47] | Membership Interest Acquisition Agreement dated December 28, 2011 by and among KW Montclair, LLC, K-W Properties, KW Montclair Executives, LLC and the members of KW Montclair Executives, LLC set forth therein. |
| 10.77[47] | Membership Interest Acquisition Agreement dated December 28, 2011 by and among KW Montclair, LLC, K-W Properties, KW Montclair Executives, LLC and the members of KW Montclair Executives, LLC set forth therein |
| 10.78[47] | Membership Interest Acquisition Agreement dated December 28, 2011 by and among KW Blossom Hill Manager, LLC, K-W Properties, KW Blossom Hill Executives, LLC and the members of KW Blossom Hill Executives, LLC set forth therein. |
| 10.79[47] | Membership Interest Acquisition Agreement dated December 28, 2011 by and among KWF Investors I, LLC, K-W Properties, KWF Executives I, LLC and the members of KWF Executives I, LLC set forth therein |
| 10.80[47] | Membership Interest Acquisition Agreement dated December 28, 2011 by and among KWF Investors II, LLC, K-W Properties, KWF Executives II, LLC, and the members of KWF Executives II, LLC set forth therein. |
| 10.81[47] | Membership Interest Acquisition Agreement dated December 28, 2011 by and among KWF Investors III, LLC, K-W Properties, KWF Executives III, LLC, and the members of KWF Executives III, LLC set forth therein. |
| 10.82[47] | Membership Interest Acquisition Agreement dated December 28, 2011 by and among KWF Investors V, LLC, K-W Properties, KWF Executives V, LLC, and the members of KWF Executives V, LLC set forth therein. |
| 10.83[47] | Membership Interest Acquisition Agreement dated December 28, 2011 by and among KW - Richmond, LLC, K-W Properties, KW Executives - Richmond, LLC, and the members of KW Executives - |

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| | Richmond, LLC set forth therein. |
| 10.84[47] | Membership Interest Acquisition Agreement dated December 28, 2011 by and among SG KW Venture I Manager, LLC, K-W Properties, SG KW Venture I Executives, LLC, and the members of SG KW Venture I Executives, LLC set forth therein. |
| 10.85[48] | Kennedy-Wilson Holdings, Inc. Amended and Restated 2009 Equity Participation Plan. |
| 10.86** | Form of First Amendment to Kennedy-Wilson Holdings, Inc. Amended and Restated 2009 Equity Participation Plan Restricted Stock Award Agreement |

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| 10.87†** | Form of Kennedy-Wilson Holdings, Inc. Amended and Restated 2009 Equity Participation Plan Employee Restricted Stock Award Agreement |
| 10.88†** | Form of Kennedy-Wilson Holdings, Inc. Amended and Restated 2009 Equity Participation Plan Consultant Restricted Stock Award Agreement |
| 10.89(59) | Consulting Agreement, dated as of December 31, 2013, among Kennedy-Wilson, Inc., Barry S. Schlesinger and CV I R.E. Services, LLC. |
| 21** | List of Subsidiaries |
| 23.1* | Consent of Independent Auditors |
| 23.2* | Consent of Independent Auditors |
| 23.3* | Consent of Independent Auditors |
| 23.4* | Consent of Independent Auditors |
| 23.5* | Consent of Independent Auditors |
| 23.6* | Consent of Independent Auditors |
| 23.7* | Consent of Independent Auditors |
| 23.8* | Consent of Independent Auditors |
| 23.9* | Consent of Independent Auditors |
| 23.10* | Consent of Independent Auditors |
| 23.11* | Consent of Independent Auditors |
| 23.12* | Consent of Independent Auditors |
| 23.13* | Consent of Independent Auditors |
| 23.14* | Consent of Independent Auditors |
| 23.15* | Consent of Independent Auditors |
| 23.16* | Consent of Independent Auditors |
| 23.17* | Consent of Independent Auditors |
| 24.1* | Power of Attorney (included on signature page). |
| 31.1* | Certification Pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934 of the Principal Executive Officer. |
| 31.2* | Certification Pursuant to Rule 13a-14(a) under Securities Exchange Act of 1934 of the Principal Financial Officer. |
| 32.1* | Certification Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 of the Principal Executive Officer. |
| 32.2* | Certification Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 of the Principal Financial Officer |
| 101** | The following materials from Kennedy-Wilson Holdings, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2011 formatted in XBRL (eXtensible Business Reporting Language): (i) the Consolidated Balance Sheets (ii) the Consolidated Statements of Operations and Comprehensive (Loss) Income (iii) the Consolidated Statements of Equity (iv) the Consolidated Statements of Cash Flows (v) related notes to those financial statements and (vi) Schedule III - Real Estate and Accumulated Depreciation.* |

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† Management Contract, Compensation Plan or Agreement.

(1) Filed as an Exhibit 10.1 to Registrant’s Current Report on Form 8-K (File No.: 001-33824) filed August 5, 2010.

(2) Filed as Annex D to Amendment No. 5 to the Registrant's Registration Statement on Form S-4 (File No.: 333-162116) filed on October 28, 2009 and incorporated by reference herein.

(3) Filed as Exhibit 3.2 to Amendment No. 3 to the Registrant's Registration Statement on Form S-1 (File No. 333-145110) filed October 26, 2007 and incorporated by reference herein.

(4) Filed as Exhibit A to Annex C to Amendment No. 5 to the Registrant's Registration Statement on Form S-4 (File No.: 333-162116) filed on October 28, 2009 and incorporated by reference herein.

(5) Filed as Annex C to Amendment No. 5 to the Registrant's Registration Statement on Form S-4 (File No.: 333-162116) filed on October 28, 2009 and incorporated by reference herein.
(6) Reserved.
(7) Reserved.
(8) Reserved.
(9) Reserved.
(10) Reserved.
(11) Reserved
(12) Reserved.
(13) Reserved.
(14) Filed as an Exhibit to the Registrant's Registration Statement on Amendment no. 1 to Form 8-A (File No.: 333-145110) filed on November 16, 2009 and incorporated by reference herein.
(15) Reserved.
(16) Reserved.
(17) Reserved.
(18) Reserved.
(19) Reserved.
(20) Reserved.
(21) Filed as an Exhibit to the Registrant's Current Report on Form 8-K (File No.: 001-33824) filed April 7, 2011.
(22) Filed as an Exhibit to the Registrant's Current Report on Form 8-K (File No.: 001-33824) filed April 13, 2011.
(23) Filed as an Exhibit to the Registrant's Current Report on Form 8-K (File No.: 001-33824) filed May 21, 2010.
(24) Filed as an Exhibit to the Registrant's Current Report on Form 8-K (File No.: 001-33824) filed August 16, 2010.
(25) Reserved.
(26) Filed as an Exhibit to the Registrant's Current Report on Form 8-K (File No.: 001-33824) filed December 30, 2011.
(27) Reserved.
(28) Filed as Exhibit 10.1 to Kennedy-Wilson Holding, Inc.'s Current Report on Form 8-K (File No.: 001-33824) filed June 29, 2012.
(29) Filed as Exhibit 4.3 to Kennedy-Wilson Holding, Inc.'s Registration Statement on Form S-3 (File No. 333-184752) filed November 5, 2012.
(30) Filed as Exhibit 4.2 to Kennedy-Wilson Holding, Inc.'s Current Report on Form 8-K (File No.: 001-33824) filed November 28, 2012.
(31) Filed as Exhibit 4.11 to Kennedy-Wilson Holding, Inc.'s Current Report on Form 8-K (File No.: 001-33824) filed December 7, 2012.

(32) Filed as Exhibit 4.12 to Kennedy-Wilson Holding, Inc.'s Current Report on Form 8-K (File No.: 001-33824) filed December 7, 2012.
(33) Filed as Exhibit 4.13 to Kennedy-Wilson Holding, Inc.'s Current Report on Form 8-K (File No.: 001-33824) filed December 7, 2012.
(34) Filed as Exhibit 4.14 to Kennedy-Wilson Holding, Inc.'s Current Report on Form 8-K (File No.: 001-33824) filed December 7, 2012.
(35) Filed as Exhibit 10.105 to Kennedy-Wilson Holdings, Inc.'s Registration Statement on Form S-4 (File No.: 333-162116) filed September 24, 2009.
(36) Filed as Exhibit 10.11 to Kennedy-Wilson Holdings, Inc.'s Current Report on Form 10-K (File No.: 001-33824) filed on March 31, 2008 and incorporated by reference herein.
(37) Filed as an Exhibit to Kennedy-Wilson Holdings, Inc.'s Registration Statement on Form S-4 (File No.: 333-162116) filed on September 24, 2009 and incorporated by reference herein.
(38) Filed as Annex E to Amendment No. 5 to Kennedy-Wilson Holdings, Inc.'s Registration Statement on Form S-4 (File No.: 333-162116) filed on October 28, 2009 and incorporated by reference herein.
(39) Filed as an Exhibit to Kennedy-Wilson Holdings, Inc.'s Registration Statement on Form S-8 (File No.: 333-164928) filed on February 16, 2010 and incorporated by reference herein.
(40) Filed as an Exhibit to Amendment No. 2 to Kennedy-Wilson Holdings, Inc.'s Registration Statement on Form S-4 (File No.: 333-162116) filed on October 23, 2009 and incorporated by reference herein.
(41) Filed as an Exhibit to Amendment No. 1 to Kennedy-Wilson Holdings, Inc.'s Registration Statement on Form S-4 (File No.: 333-162116) filed on October 16, 2009 and incorporated by reference herein.
(42) Filed as an Exhibit to Kennedy-Wilson Holdings, Inc.'s Current Report on Form 8-K (File No.: 001-33824) filed November 11, 2009.
(43) Filed as an Exhibit to Kennedy-Wilson Holdings, Inc.'s Current Report on Form 8-K (File No.: 001-33824) filed November 12, 2009.
(44) Filed as an Exhibit to Kennedy-Wilson Holdings, Inc.'s Current Report on Form 8-K (File No.: 001-33824) filed November 13, 2009.
(45) Filed as an Exhibit to Kennedy-Wilson Holdings, Inc.'s Current Report on Form 8-K (File No.: 001-33824) filed November 19, 2009.
(46) Filed as an Exhibit to Kennedy-Wilson Holdings, Inc.'s Current Report on Form 8-K (File No.: 001-33824) filed June 29, 2011 and incorporated by reference herein.
(47) Filed as an Exhibit to the Registrant's Current Report on Form 8-K (File No.: 001-33824) filed December 30, 2011.
(48) Filed as an Exhibit to the Registrant's Current Report on Form 8-K (File No.: 001-33824) filed January 30, 2012..
(49) Filed as an Exhibit to Registrant's Current Report on Form 8-K (File No.: 001-33824) filed June 29, 2012 and incorporated by reference herein.
(50) Filed as Exhibit 4.21 to Kennedy-Wilson Holdings, Inc.'s Current Report on Form 10-K (File No.: 001-33824) filed on March 12, 2013 and incorporated by reference herein.
(51) Filed as Exhibit 4.22 to Kennedy-Wilson Holdings, Inc.'s Current Report on Form 10-K (File No.: 001-33824) filed on March 12, 2013 and incorporated by reference herein.

(52) Filed as Exhibit 4.25 to Kennedy-Wilson Holdings, Inc.'s Current Report on Form 10-K (File No.: 001-33824) filed on March 12, 2013 and incorporated by reference herein.

(53) Incorporated by reference to Exhibit 4.2 to the Registrant’s Current Report on Form 8-K (File No. 001-33824) filed on May 29, 2013.

(54) Incorporated by reference to Exhibit 4.27 to the Registrant’s Registration Statement on Form S-3 (File No. 333-192059) filed November 1, 2013.

(55) Incorporated by reference to Exhibit 4.28 to the Registrant’s Registration Statement on Form S-3 (File No. 333-192059) filed November 1, 2013.

(56) Incorporated by reference to Exhibit 4.29 to the Registrant’s Registration Statement on Form S-3 (File No. 333-192059) filed November 1, 2013.

(57) Incorporated by reference to Exhibit 10.2 to Registrant’s Current Report on Form 8-K (File No.: 001-33824) filed August 5, 2010.

(58) Incorporated by reference to Exhibit 10.3 to Registrant’s Current Report on Form 8-K (File No.: 001-33824) filed August 5, 2010.

(59) Incorporated by reference to Exhibit 10.1 to Registrant’s Current Report on Form 8-K (File No.: 001-33824) filed on December 31, 2013.

*Filed herewith

**Filed previously

(c) Financial Statement Schedules. Reference is made to Item 15(a)(2) above

3-09 FINANCIAL STATEMENTS
Kennedy-Wilson Holdings, Inc.
Index to 3-09 Financial Statements

Independent Auditors' Report
The Members
Bay Fund Opportunity, LLC and Subsidiaries:

We have audited the accompanying consolidated financial statements of Bay Fund Opportunity, LLC and subsidiaries, which comprise the consolidated balance sheet as of December 31, 2012, and the related consolidated statements of operations, changes in members' equity, and cash flows for each of the years in the two-year period then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Bay Fund Opportunity, LLC and subsidiaries as of December 2012, and the results of their operations and their cash flows for each of the years in the two-year period then ended, in accordance with U.S. generally accepted accounting principles.

The accompanying consolidated balance sheet of Bay Fund Opportunity, LLC and subsidiaries as of December 31, 2013 and the related statements of operations, changes in members' equity, and cash flows for the year then ended were not audited by us, and accordingly, we do not express an opinion on them.

/s/ KPMG LLP

Dallas, Texas
March 21, 2013

BAY FUND OPPORTUNITY, LLC AND SUBSIDIARIES
(A California Limited Liability Company)
Consolidated Balance Sheets

| | December 31, 2013 (unaudited) | 2012 |
|---|---|---|
| Assets | | |
| Real estate | | |
| Land | $21,874,072 | $21,874,072 |
| Building and improvements | 87,566,335 | 87,566,335 |
| Fixtures and equipment | 944,198 | 838,938 |
| Total | 110,384,605 | 110,279,345 |
| Less accumulated depreciation | (12,610,146) | (10,335,695) |
| Total real estate, net | 97,774,459 | 99,943,650 |
| Cash and cash equivalents | 1,585,568 | 1,219,321 |
| Tax escrow | 225,950 | 143,449 |
| Capital and financing escrow deposits | 499,473 | 714,749 |
| Deferred financing costs, net | 666,053 | 230,298 |
| Accounts receivable | 68,229 | 47,521 |
| Prepaid expenses and other assets | 18,802 | 37,837 |
| Total assets | $100,838,534 | $102,336,825 |
| Liabilities and members' equity | | |
| Liabilities | | |
| Accounts payable and accrued expenses | $1,431,038 | $1,451,183 |
| Reserve for future warranty claims | 344,500 | 392,000 |
| Security deposits from tenants | 415,654 | 384,303 |
| Prepaid rent | 13,036 | 4,723 |
| Mortgages payable | 47,610,010 | 57,998,348 |
| Total liabilities: | 49,814,238 | 60,230,557 |
| Commitments and contingencies (note 6) | | |
| Members' equity | | |
| Bay Fund Opportunity, LLC | 51,024,296 | 42,106,268 |
| Total members' equity | 51,024,296 | 42,106,268 |
| Total liabilities and members' equity | $100,838,534 | $102,336,825 |

See accompanying notes to the consolidated financial statements.

BAY FUND OPPORTUNITY, LLC AND SUBSIDIARIES
(A California Limited Liability Company)
Consolidated Statements of Operations

| | Year ended December 31, | | |
|---|---|---|---|
| | 2013 (unaudited) | 2012 | 2011 |
| Revenue | | | |
| Rental income | $8,647,554 | $8,088,922 | $7,711,417 |
| Other income | — | — | 831,948 |
| Total revenue | 8,647,554 | 8,088,922 | 8,543,365 |
| Expenses | | | |
| Real estate and other taxes | 1,444,142 | 1,356,675 | 1,185,142 |
| Property insurance | 52,048 | 57,797 | 56,981 |
| Homeowners association fees | 1,970,786 | 1,926,489 | 1,850,042 |
| Repairs, maintenance and utilities | 658,131 | 560,523 | 530,743 |
| Depreciation | 2,274,451 | 2,292,647 | 2,277,048 |
| Marketing and promotion | 188,413 | 148,936 | 141,646 |
| General, administrative and other | 76,881 | 85,963 | 68,977 |
| Management fees (note 5) | 410,409 | 399,906 | 510,427 |
| Letter of credit fees | 9,823 | 50,000 | 67,764 |
| Mortgage interest | 1,744,442 | 1,746,528 | 2,676,208 |
| Total expenses | 8,829,526 | 8,625,464 | 9,364,978 |
| Net loss | (181,972) | (536,542) | (821,613) |
| Net loss attributable to noncontrolling interest | — | — | 553,885 |
| Net loss attributable to Bay Fund Opportunity, LLC | $(181,972) | $(536,542) | $(267,728) |

See accompanying notes to the consolidated financial statements.

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BAY FUND OPPORTUNITY, LLC AND SUBSIDIARIES
(A California Limited Liability Company)
Consolidated Statements of Members' Equity

| | Members' Equity | Noncontrolling Interest | Total |
|---|---|---|---|
| Balance, December 31, 2009 (unaudited) | $37,003,889 | $2,557,955 | $39,561,844 |
| Contributions (unaudited) | 197,027 | — | 197,027 |
| Net income (loss) (unaudited) | 34,622 | (2,004,070) | (1,969,448) |
| Balance, December 31, 2010 (unaudited) | 37,235,538 | 553,885 | 37,789,423 |
| Contributions | 6,500,000 | — | 6,500,000 |
| Net loss | (267,728) | (553,885) | (821,613) |
| Balance, December 31, 2011 | 43,467,810 | — | 43,467,810 |
| Distributions | (825,000) | — | (825,000) |
| Net loss | (536,542) | — | (536,542) |
| Balance, December 31, 2012 | 42,106,268 | — | 42,106,268 |
| Contributions (unaudited) | 9,800,000 | — | 9,800,000 |
| Distributions (unaudited) | (700,000) | — | (700,000) |
| Net loss (unaudited) | (181,972) | — | (181,972) |
| Balance, December 31, 2013 (unaudited) | $51,024,296 | $— | $51,024,296 |

See accompanying notes to the consolidated financial statements.

BAY FUND OPPORTUNITY, LLC AND SUBSIDIARIES
(A California Limited Liability Company)
Consolidated Statements of Cash Flows

| | Year ended December 31, | | |
|---|---|---|---|
| | 2013 | 2012 | 2011 |
| Cash flows from operating activities: | (unaudited) | | |
| Net loss | $(181,972) | $(536,542) | $(821,613) |
| Adjustments to reconcile net loss to net cash provided by operating activities: | | | |
| Depreciation | 2,274,451 | 2,292,647 | 2,277,048 |
| Amortization of deferred financing costs | 340,943 | 266,817 | 184,802 |
| Change in assets and liabilities: | | | |
| Tax escrow | (82,501) | 160,515 | 18,330 |
| Accounts receivable | (20,708) | (364) | 24,977 |
| Prepaid expenses and other assets | 19,035 | 5,866 | (1,145) |
| Accounts payable and accrued expenses | (20,145) | (31,902) | (770,838) |
| Reserve for future warranty claims | (47,500) | | |
| Security deposits from tenants | 31,351 | (12,932) | (11,468) |
| Prepaid rent | 8,313 | 1,602 | (1,945) |
| Net cash flow provided by operating activities | 2,321,267 | 2,145,707 | 898,148 |
| Cash flows from investing activities: | | | |
| Additions to real estate | (105,260) | (124,927) | (109,011) |
| Net cash flow used in by investing activities | (105,260) | (124,927) | (109,011) |
| Cash flow from financing activities: | | | |
| Principal payments on mortgage loans | (58,788,338) | (892,515) | (6,358,936) |
| Origination of mortgage loan | 48,400,000 | | |
| Mortgage loan costs | (776,698) | (116,355) | (327,831) |
| Changes in capital and financing escrow deposits | 215,276 | 12,615 | 57,276 |
| Contributions from members | 9,800,000 | — | 6,500,000 |
| Distributions to members | (700,000) | (825,000) | — |
| Net cash flow used in financing activities | (1,849,760) | (1,821,255) | (129,491) |
| Net increase in cash and cash equivalents | 366,247 | 199,525 | 659,646 |
| Cash and cash equivalents, beginning of year | 1,219,321 | 1,019,796 | 360,150 |
| Cash and cash equivalents, end of year | $1,585,568 | $1,219,321 | $1,019,796 |
| Supplemental disclosure of noncash financing activities: | | | |
| Interest paid | $1,417,975 | $1,504,773 | $2,601,842 |

See accompanying notes to the consolidated financial statements.

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BAY FUND OPPORTUNITY, LLC AND SUBSIDIARIES
(A California Limited Liability Company)
Notes to Consolidated Financial Statements
December 31, 2013 (unaudited), 2012 and 2011

NOTE 1—ORGANIZATION
Bay Fund Opportunity, LLC (the Company), a California limited liability company, was formed by and among, KW - Richmond, LLC, a Delaware limited liability company, KW Fund III - Richmond, LLC, a Delaware limited liability company, and BASGF II - Richmond, LLC, a Delaware limited liability company (collectively, the Managers). The Company was formed upon the filing of the Articles of Formation with the California Secretary of State on April 18, 2008. The term of the Company extends until the date that the Company is terminated pursuant to the terms defined in the Company's operating agreement.
The Company was organized to form, invest in, capitalize and own 50% of the equity in Emerald Marina Shores Richmond, LLC, a Delaware limited liability company, and 50% of the equity in Emerald Marina Cove Richmond, LLC, a Delaware limited liability company, which collectively own the real property located in Richmond, California (Marina Cove and Shores). Initial capital contributions to acquire these investments are $6,076,000 from KW - Richmond, LLC, $5,000,000 from KW Fund III - Richmond, LLC, and $14,000,000 from BASGF II - Richmond, LLC, for a total initial investment of $25,076,000.
The Managers may elect from time to time to distribute available cash to the Members in proportion to their percentage interests at the time of distribution.
The limited liability companies (LLCs) within the accompanying consolidated balance sheets will continue in existence until dissolved in accordance with the provisions of their operating agreements and are funded through the equity contributions of their members. As LLCs, except as may otherwise be provided under applicable law, no member shall be bound by, or personally liable for, the expenses, liabilities, or obligations of the individual companies. The members are not obligated to restore capital deficits.
Profit and loss for each fiscal period shall be allocated among the members in proportion to their percentage interests. If any membership interest is transferred or otherwise changed during any fiscal year, profit and loss for that fiscal year, shall be assigned pro rata to each day in the particular period of that fiscal year to which such item is attributable and shall be allocated to the members based upon their respective percentage interest at the close of that day. Gain or loss of the Company realized in connection with a sale or other disposition of any of the assets of the Company shall be allocated solely to the parties owning membership interests as of the date that sale or other disposition occurs.
NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
PRINCIPLES OF CONSOLIDATION—The Company consolidates entities in which it holds a greater than 50% voting interest and real estate entities that are deemed variable interest entities (VIEs) in which the Company was determined to be the primary beneficiary. The Company accounts for investments over which it has significant influence but not a controlling financial interest using the equity method of accounting.
VARIABLE INTEREST ENTITIES—The VIEs (Marina Cove and Shores) lease, manage, operate, improve, finance and sell real estate property. Management determined that the Company is the primary beneficiary of the VIEs by determining the Company has (i) the power to direct the activities that most significantly impact the VIE's economic performance and (ii) the right to receive benefits or the obligation to absorb losses which could potentially be significant to the VIE based on the terms of the VIE's operating agreement. Activities that most significantly impact the VIE's performance include selling real estate.
USE OF ESTIMATES—The preparation of the accompanying financial statements in conformity with U.S. generally accepted accounting principles (U.S. GAAP) requires management to make estimates and assumptions about future events. These estimates and the underlying assumptions affect the amounts of assets and liabilities reported, and reported amounts of income and expenses. Management evaluates its estimates and assumptions on an ongoing basis using historical experience and other factors, including the current economic environment, which management believes to be reasonable under the circumstances. Such estimates and assumptions are adjusted when facts and circumstances dictate. As future events and their effects cannot be determined with precision, actual results could differ significantly from these estimates. Changes in those estimates resulting from continuing changes in the

economic environment will be reflected in the financial statements in future periods.
CASH AND CASH EQUIVALENTS—Cash and cash equivalents include highly liquid investments purchased with original maturities of three months or less. Periodically, the Company maintains cash balances in various bank accounts in excess of federally insured limits. To date, no losses have been experienced related to such amounts. The Company places cash with quality financial institutions and does not believe there is a significant concentration of credit risk.
REAL ESTATE ASSETS—Real estate is carried at depreciated cost, less impairment, if any. Depreciation on buildings and improvements has been provided for in the accompanying financial statements using the straight-line method based on estimated useful lives of 40 years for building and improvements and five to ten years for fixtures and equipment. Maintenance and repairs are charged to expense as incurred, and costs of renewals or betterments are capitalized and depreciated at the appropriate rates.

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BAY FUND OPPORTUNITY, LLC AND SUBSIDIARIES
(A California Limited Liability Company)
Notes to Consolidated Financial Statements
December 31, 2013 (unaudited), 2012 and 2011

IMPAIRMENT OF LONG-LIVED ASSETS—In accordance with Financial Standards Accounting Board (FASB) Accounting Standards Codification (ASC) 360, Property, Plant, and Equipment, for long lived assets, the asset or asset group is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If indications of impairment exist, the Company will evaluate the property by comparing the carrying amount of the asset or asset group to the estimated future undiscounted cash flows of the property. Estimated future cash flows include estimated costs to develop the property whether these costs would be recognized as an expense or capitalized in future periods. Future interest costs that are necessary to develop the property, and therefore capitalizable, are also included. If impairment exists, an impairment loss will be recognized based on the amount by which the carrying amount exceeds the fair value of the asset or asset group. For the years ended December 31, 2013 (unaudited), 2012, and 2011, there were no impairments recorded.

CONCENTRATION OF RISK—The Company's real estate is concentrated in California. Adverse conditions in the sector or geographic location would likely result in a material decline in the value of the Company's investments.

NONCONTROLLING INTERESTS—Noncontrolling interests in the financial statements reflect the interests of noncontrolling members in Marina Cove and Shores.

ACCOUNTS RECEIVABLE—Accounts receivable primarily consist of amounts due for rental and operating expense payments in accordance with tenants' lease agreements.

REVENUE RECOGNITION—Rental revenue related to multifamily investments is recognized on the straight-line basis over the terms of the lease.

DEFERRED FINANCING COSTS, NET—Financing costs incurred in obtaining long-term debt are capitalized and amortized over the term of the related debt on a straight-line basis.

INCOME TAXES—As a limited liability company, the members elected for the Company to be a pass-through entity for income tax purposes; therefore, the Company's taxable income or loss is allocated to members in accordance with their respective ownership, and no provision or liability for income taxes has been included in the financial statements. Management has evaluated the Company's tax positions and concluded that the Company had taken no uncertain tax positions that require adjustment to the financial statements in order to comply with the provisions of ASC 740, Income Taxes. The Company is not subject to income tax examinations by U.S. federal, state or local tax authorities for years before 2010.

NOTE 3—MORTGAGES PAYABLE

Mortgages secured by Marina Cove and Shores totaled $47,610,010 (unaudited) and $57,998,348 as of December 31, 2013 and 2012, respectively. In April 2013, the Company paid off its existing mortgages with the proceeds of new mortgages in the aggregate principal amount of $48,400,000 (unaudited) and additional capital contributions of $9,800,000 (unaudited) from the members. The mortgages are collateralized by the properties and bear interest of 3 month LIBOR + 2.50% (approximately 2.75% at December 31, 2013). The mortgages mature on May 1, 2018 and require monthly principal and interest payments through maturity.

Aggregate principal payments due under the loans secured by real estate are as follows:

| | Marina Cove | Marina Shores | Total |
|---|---|---|---|
| 2014 | $419,321 | $970,758 | $1,390,079 |
| 2015 | 430,955 | 997,690 | 1,428,645 |
| 2016 | 442,893 | 1,025,328 | 1,468,221 |
| 2017 | 455,162 | 1,053,731 | 1,508,893 |
| 2018 | 12,613,366 | 29,200,806 | 41,814,172 |
| Thereafter | — | — | — |
| Total | $14,361,697 | $33,248,313 | $47,610,010 |

NOTE 4—MEMBERSHIP INTEREST CHANGES

In May 2011, KW - Richmond, LLC acquired an additional interest of 24.07% in the Company for $7,000,000 from BASGF II - Richmond, LLC, increasing its interest in the Company from 24.23% to 48.30%.

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BAY FUND OPPORTUNITY, LLC AND SUBSIDIARIES
(A California Limited Liability Company)
Notes to Consolidated Financial Statements
December 31, 2013 (unaudited), 2012 and 2011

Marina Cove and Marina Shores had mortgage notes payable that had total balances of $65,249,799 (unaudited) at December 31, 2010. On December 2, 2011, their loans were extended to June 26, 2013, with a required principal paydown of $6,358,937, which was funded by the capital contributions from two of the three members of the Company. These capital contributions increased KW - Richmond, LLC's interest from 48.30% to 48.61% and KW Fund III - Richmond, LLC's interest from 19.94% to 25.43%.

On December 28, 2011, KW Executives - Richmond, LLC transferred its interest in KW - Richmond, LLC to the Company, in exchange for a 3.57% interest directly in the Company. As a result of this exchange, KW - Richmond, LLC's interest in the Company was reduced from 48.61% to 45.04%.

Membership interest as of December 31, 2013 (unaudited), 2012, and 2011

| | KW Richmond, LLC | | KW Richmond, LLC | | BASGF II Richmond, LLC | | KW Executives Richmond, LLC | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| 12/31/2013 | 45.04 | % | 25.43 | % | 25.96 | % | 3.57 | % | 100.00 | % |
| 12/31/2012 | 45.04 | % | 25.43 | % | 25.96 | % | 3.57 | % | 100.00 | % |
| 12/31/2011 | 45.04 | % | 25.43 | % | 25.96 | % | 3.57 | % | 100.00 | % |

NOTE 5—FEES PAID TO AFFILIATES

The Company has entered into an agreement with Emerald Fund, Inc., an affiliate of the Company to provide various asset and property management services in return for a management fee. During the years ended December 31, 2013, 2012, and 2011, management fees incurred for such services totaled $410,409 (unaudited), $399,906, and $510,427, respectively.

NOTE 6—COMMITMENTS AND CONTINGENCIES

Liabilities for loss contingencies arising from claims, assessments, litigation, fines, and penalties and other sources are recorded when it is probable that a liability has been incurred and the amount can be reasonably estimated. Legal costs incurred in connection with loss contingencies are expensed as incurred. Currently, the Company does not have any material commitments or contingencies.

NOTE 7—SUBSEQUENT EVENTS

In preparing these consolidated financial statements, the Company has evaluated events and transactions for potential recognition and disclosure through March 31, 2014, the date at which the financial statements were available to be issued, and determined there are no other items to disclose.

Independent Auditors' Report

The Partners
Kennedy Wilson Real Estate Fund IV, L.P.

We have audited the accompanying financial statements of Kennedy Wilson Real Estate Fund IV, L.P., which comprise the statements of financial condition, including the schedules of investments, as of December 31, 2013 and 2012, and the related statements of operations, partners' capital, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Kennedy Wilson Real Estate Fund IV, L.P. as of December 31, 2013 and 2012, and the results of its operations and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

The accompanying statements of financial condition of Kennedy Wilson Real Estate Fund IV, L.P., including the schedules of investments, as of December 31, 2011, and the related statements of operations, partners' capital, and cash flows for the period from January 28, 2011 (inception) through December 31, 2011, were not audited by us, and accordingly, we do not express an opinion on them.

/s/ KPMG LLP

Los Angeles, California
March 31, 2014

KENNEDY WILSON REAL ESTATE FUND IV, L.P.
Statements of Financial Condition

| | December 31, 2013 | 2012 |
|---|---|---|
| Assets | | |
| Investments at fair value (cost $177,681,995 in 2013 and $128,447,755 in 2012) | $194,060,981 | $143,763,155 |
| Cash and cash equivalents | 1,322 | 1,607,141 |
| Accounts receivable | — | 67,127 |
| Prepaid expenses | — | 534,424 |
| Total assets | $194,062,303 | $145,971,847 |
| Liabilities and partners' capital | | |
| Liabilities | | |
| Accounts payable and accrued expenses | $700 | $17,245 |
| Notes payable | — | 3,012,905 |
| Total liabilities | 700 | 3,030,150 |
| Partners' capital | | |
| General partner and special limited partner | 3,343,086 | 1,508,996 |
| Limited partners | 190,718,517 | 141,432,701 |
| Total partners’ capital | 194,061,603 | 142,941,697 |
| Total liabilities and partners’ capital | $194,062,303 | $145,971,847 |

See accompanying notes to financial statements.

KENNEDY WILSON REAL ESTATE FUND IV, L.P.
Schedule of Investments
December 31, 2013

| Ownership interest | Security description | Percentage of total investments | Cost | Fair value |
|---|---|---|---|---|
| 85.02 % | Kennedy Wilson REF IV AG, LLC, an entity holding interests in twenty-four office, retail and multifamily real estate investments located in California, Oregon, Washington, Arizona, Utah, Colorado and Hawaii, and four investments in loan pool participations and notes | 100.00 % | $177,681,995 | $194,060,981 |
| | Total investments | 100.00 % | $177,681,995 | $194,060,981 |

See the following page for the full listing of investments held by Kennedy Wilson REF IV AG, LLC.

See accompanying notes to financial statements

KENNEDY WILSON REF IV AG, LLC
Schedule of Investments
December 31, 2013

| Ownership interest | Security description | Percentage of total investments | Cost | Fair value |
|---|---|---|---|---|
| | Interests in real estate assets: | | | |
| 100.00 % | KW Fund IV-Westview Heights, LLC, a single-purpose entity holding a fee simple interest in a 132-unit multifamily project located in Portland, Oregon | 4.81 % | $9,120,589 | $11,071,237 |
| 100.00 | KW Fund IV-Westview Heights 66, LLC, a single-purpose entity holding a fee simple interest in a 66-unit multifamily project located in Portland, Oregon | 3.16 | 5,004,609 | 7,288,048 |
| 100.00 | KW Royal Beverly Glen, LLC, a single-purpose entity holding a fee simple interest in 77,749 square foot office building located in Los Angeles, California. | 5.72 | 12,614,333 | 13,166,799 |
| 100.00 | KW TriCenter, LLC, a single-purpose entity holding a fee simple interest in a 143,256-square foot office building and a four-level parking structure located in Van Nuys, California. | 7.29 | 13,068,200 | 16,792,942 |
| 100.00 | KW Vancouver Partners, LLC, a single-purpose entity holding a fee simple interest in a 388-unit multifamily project located in Vancouver, Washington | 4.88 | 11,260,000 | 11,241,393 |
| 100.00 | KW El Cerrito, LLC, a single-purpose entity holding a fee simple interest in a 159-unit multifamily project located in El Cerrito, California | 7.75 | 18,147,500 | 17,863,490 |
| 96.66 | KW Aurora Land Partners, LLC, an entity holding an interest in a single-purpose entity holding a fee simple interest in a 420 unit multifamily project located in Aurora, Colorado | 5.73 | 9,952,007 | 13,193,017 |
| 50.00 | KW Huntington, LLC, an entity holding an interest in a single-purpose entity holding a fee simple interest in a 277-unit multifamily project located in Huntington Beach, California | 6.14 | 12,008,213 | 14,143,199 |
| 50.00 | KW CapTowers, LLC, an entity holding an interest in a single-purpose entity holding a fee simple interest in a 409-unit apartment building comprising a fifteen-story tower and 206 garden-style villas located in Sacramento, California | 4.23 | 8,647,830 | 9,741,273 |
| 50.00 | KW Redwood Shores, LLC, an entity holding an interest in a single-purpose entity holding a fee simple interest in a 89,455 square foot office building located in Redwood City, California | 2.08 | 3,964,062 | 4,785,956 |

| | | | | |
|---|---|---|---|---|
| 50.00 | KW Stadium Gateway, LLC, an entity holding an interest in a single purpose entity holding a fee simple interest in a 272,826 square foot office building located in Anaheim, California | 4.44 | 9,392,525 | 10,218,720 |
| 50.00 | KW Marina View, LLC, a single purpose entity holding a fee simple interest in a six-story, 60,918 square foot office building with 14,774 square feet of ground floor retail space and a two-level parking deck located in Marina Del Ray, California. | 2.25 | 5,726,603 | 5,176,360 |
| 50.00 | KW 5161 Lankershim, LLC, a single purpose entity holding a fee simple interest in a 182,369 square foot office building located in North Hollywood, California. | 3.49 | 8,090,000 | 8,049,395 |
| 48.81 | KW University Partners, LLC, a single-purpose entity holding a fee simple interest in a 209,329 square foot retail shopping center located in Orem, Utah | 2.57 | 5,068,482 | 5,912,791 |
| 48.45 | KW Paradise Hills, LLC, an entity holding an interest single-purpose entity holding a fee simple interest in a retail shopping center located in Phoenix, Arizona | 1.55 | 2,145,174 | 3,564,997 |
| 45.40 | KW Mission Blvd, LLC, a single-purpose entity holding a fee simple interest in a 188-unit multifamily community in Hayward, California | 2.77 | 4,412,434 | 6,383,240 |
| 33.33 | KW Telstar, LLC, a single-purpose entity holding a fee simple interest in a two-story, 246,912-square foot flex building and a four-level parking structure located in El Monte, California | 2.37 | 5,588,038 | 5,451,923 |
| 33.33 | Kennedy Wilson 145 Fairfax, LLC, a single-purpose entity that held a fee simple interest in a four-story, 55,574-square foot office building and a two-level subterranean parking garage located in Los Angeles, California (The property was sold in September 2013, and the entity is in the process of winding down.) | 0.01 | 17,625 | 17,625 |

See accompanying notes to financial statements

KENNEDY WILSON REF IV AG, LLC
Schedule of Investments (continued)
December 31, 2013

| | | | | |
|---|---|---|---|---|
| 33.33 | KW Warner Atrium, LLC, a single-purpose entity holding a fee simple interest in a three-story, 126,436-square foot office building and a three-level parking structure located in Woodland Hills, California | 0.71 | 2,214,157 | 1,632,097 |
| 25.00 | KW 9301 Partners, LLC, an entity holding an interest in a single-purpose entity holding a fee simple interest in a six-story, 86,529-square foot office building and a three-level subterranean parking garage located in Beverly Hills, California | 2.82 | 6,061,123 | 6,507,080 |
| 20.00 | KW Hilltop Manager, LLC, an entity holding an interest in a single-purpose entity holding a fee simple interest in a 1,008-unit multifamily project located in Richmond, California | 4.59 | 9,326,040 | 10,584,986 |
| 15.57 | KW/CV Sunset, LLC, an entity holding an interest in a single-purpose entity holding a fee simple interest in a 251-unit multifamily project located in West Covina, California | 1.24 | 2,298,910 | 2,855,541 |
| 15.00 | KW Kohanaiki Shores Member, LLC, an entity holding an interest in a single-purpose entity holding a fee simple interest in a 450-acre planned community under development for up to 474 residences and a golf course on the Kona Coast of Hawaii | 14.20 | 33,298,227 | 32,711,439 |
| 10.00 | Guardian/KW Hayward, LLC, an entity holding an interest in a single-purpose entity holding a fee simple interest in a 544-unit multifamily project located in Hayward, California | 1.82 | 3,074,296 | 4,205,409 |
| | Interests in loan pool participations and notes: | | | |
| 25.00 | KW Loan Investors VII, LLC, an entity holding a portfolio initially consisting of nine construction and term loans with an outstanding principal balance of approximately $51,000,000, collateralized by seven retail properties located in Arizona, California and Utah. As-of December 31, 2013, four loans remain. | 0.66 | 1,676,155 | 1,526,283 |
| 50.00 | Participation interest in KW Residential Capital, an entity holding a participating loan interest in a single-purpose entity owning a project under development consisting of 79 single-family residences located in Santa Clarita, California | 1.15 | 2,644,526 | 2,644,526 |
| 50.00 | Participation interest in KW Residential Capital, an entity holding a participating loan interest in a single-purpose entity owning a project under development consisting of nine single-family residences located in Ventura, California | 0.37 | 863,000 | 863,000 |
| 50.00 | Participation interest in KW Residential Capital, an entity holding a participating loan interest in a | 1.20 | 2,766,800 | 2,766,800 |

| | | | |
|---|---|---|---|
| single-purpose entity owning a project under development consisting of seventeen single-family residences located in Los Angeles, California | | | |
| Total investments | 100.00 % | $208,451,458 | $230,359,566 |

See accompanying notes to financial statements

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KENNEDY WILSON REAL ESTATE FUND IV, L.P.
Schedule of Investments
December 31, 2012

| Ownership interest | Security description | Percentage of total investments | Cost | Fair value |
|---|---|---|---|---|
| | Interests in real estate assets: | | | |
| 100.00 % | KW Fund IV-Westview Heights, LLC, a single-purpose entity holding a fee simple interest in a 132-unit multifamily project located in Portland, Oregon | 6.17 % | $6,266,117 | $8,874,960 |
| 100.00 | KW Fund IV-Westview Heights 66, LLC, a single-purpose entity holding a fee simple interest in a 66-unit multifamily project located in Portland, Oregon | 3.36 | 3,281,351 | 4,825,682 |
| 100.00 | KW Royal Beverly Glen, LLC, a single-purpose entity holding a fee simple interest in a four-story, 77,749 square foot office building and a four-level subterranean parking garage located in Los Angeles,California | 7.65 | 10,800,000 | 10,993,087 |
| 100.00 | KW Tricenter, LLC, a single-purpose entity holding a fee simple interest in a four-story 143,256 square foot office building and a four-level parking structure located in Van Nuys, California | 7.67 | 11,200,000 | 11,022,602 |
| 50.00 | KW Stadium Gateway, LLC, a single-purpose entity holding a fee simple interest in a six-story, 272,826 square foot office building with surface parking located in Anaheim, California | 5.20 | 3,700,000 | 7,475,003 |
| 50.00 | KW CapTowers, LLC, a single-purpose entity holding a fee simple interest in a 409-unit apartment building comprised of a fifteen-story tower and 206 garden-style villas located in Sacramento, California | 5.62 | 8,100,000 | 8,074,933 |
| 50.00 | KW Huntington, LLC, a single-purpose entity holding a fee simple interest in a 277-unit multifamily project located in Huntington Beach, California | 7.63 | 9,833,348 | 10,975,839 |
| 50.00 | KW Residential Capital, an entity holding a participating loan interest in a single-purpose entity owning a project under development consisting of 79 single-family residences located in Santa Clarita, California | 1.27 | 1,818,801 | 1,818,801 |
| 50.00 | KW Marina View, LLC, an entity holding a fee simple interest in a six-story, 60,918 square foot office building with 14,774 square feet of ground floor retail space and a two-level parking deck located in Marina del Rey, California | 3.72 | 5,250,000 | 5,341,561 |
| 48.81 | KW University Partners, LLC, an entity holding an interest in a single-purpose entity holding a fee simple interest in a 209,329 square foot retail center located in Orem, Utah | 3.43 | 4,600,000 | 4,927,848 |
| 33.33 | | 5.06 | 5,977,352 | 7,276,266 |

| | | | | |
|---|---|---|---|---|
| | Kennedy Wilson 16501 Ventura, LLC, a single-purpose entity holding a fee simple interest in a six-story, 185,393-square foot office building and a five-level subterranean parking garage located in Encino, California | | | |
| 33.33 | KW Telstar, LLC, a single-purpose entity holding a fee simple interest in a two-story, 246,912-square foot flex building and a four-level parking structure located in El Monte, California | 4.94 | 5,481,119 | 7,095,687 |
| 33.33 | Kennedy Wilson 145 Fairfax, LLC, a single-purpose entity holding a fee simple interest in a four-story, 55,574-square foot office building and a two-level subterranean parking garage located in Los Angeles, California | 2.13 | 2,206,301 | 3,060,758 |
| 33.33 | KW Warner Atrium, LLC, a single-purpose entity holding a fee simple interest in a three-story, 126,436-square foot office building and a three-level parking structure located in Woodland Hills, California | 1.47 | 1,826,817 | 2,116,849 |
| 25.00 | KW 9301 Partners, LLC, an entity holding an interest in a single purpose entity holding a fee simple interest in a six-story, 86,529 square foot office building and a three-level subterranean parking garage located in Beverly Hills, California | 4.00 | 4,308,563 | 5,762,247 |
| 20.00 | KW Hilltop Manager, LLC, an entity holding an interest in a single purpose entity holding a fee simple interest in a 1,008-unit multifamily project located in Richmond, California | 6.20 | 9,748,884 | 8,915,710 |
| 15.57 | KW/CV Sunset, LLC, a single-purpose entity holding a fee simple interest in a 251-unit multifamily projected located in West Covina, California | 1.58 | 2,052,225 | 2,278,277 |
| 15.00 | KW Kohanaiki Shores Member, LLC, an entity holding an interest in a single-purpose entity holding a fee simple interest in a 450-acre planned community under development for up to 474 residences and a golf course on the Kona Coast of Hawaii | 18.78 | 27,020,000 | 27,010,690 |
| 10.00 | Guardian/KW Hayward, LLC, a single-purpose entity holding a fee simple interest in a 544-unit multifamily project located in Hayward, California | 2.12 | 2,286,825 | 3,042,021 |
| | Interest in notes: | | | |
| 25.00 | KW Loan Investors VII, LLC, an entity holding a portfolio initially consisting of nine construction and term loans with an outstanding principal balance of approximately $51,000,000, collateralized by seven retail properties located in Arizona, California and Utah. | 2.00 | 2,690,052 | 2,874,334 |
| | Total investments | 100.00 % | $128,447,755 | $143,763,155 |

See accompanying notes to financial statements

KENNEDY WILSON REAL ESTATE FUND IV, L.P.
Statements of Operations

| | Year ended December 31, 2013 | Year ended December 31, 2012 | From January 28 (inception) through December 31, 2011 (Unaudited) |
|---|---|---|---|
| Investment income: | | | |
| Dividends | $3,628,660 | $1,842,575 | $555,302 |
| Interest | 1,220,900 | 1,854,804 | 4,110 |
| Total investment income | 4,849,560 | 3,697,379 | 559,412 |
| Expenses: | | | |
| Management fees | 4,767,106 | 1,720,041 | 691,195 |
| Organization costs | 115,294 | 409,387 | 590,613 |
| Interest expense | 378,325 | 585,404 | — |
| Other professional and administrative costs | 443,852 | 566,602 | 193,991 |
| Total expenses | 5,704,577 | 3,281,434 | 1,475,799 |
| Net investment (loss) income | (855,017) | 415,945 | (916,387) |
| Realized and unrealized gain on investments: | | | |
| Net realized gain on investments | 1,028,741 | — | — |
| Net change in unrealized appreciation on investments | 18,145,836 | 13,294,030 | 2,021,369 |
| Net income | $18,319,560 | $13,709,975 | $1,104,982 |

See accompanying notes to financial statements.

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KENNEDY WILSON REAL ESTATE FUND IV, L.P.
Statements of Partners' Capital

| | General partner and special limited partner | Limited partners | Total |
|---|---|---|---|
| Partners' capital, January 28, 2011 (inception) (unaudited) | $— | $— | $— |
| Capital contributions (unaudited) | 136,761 | 69,239,847 | 69,376,608 |
| Capital distributions (unaudited) | (11,616 ) | (5,796,137 ) | (5,807,753 ) |
| Net income (unaudited) | 4,203 | 1,100,779 | 1,104,982 |
| Partners' capital, December 31, 2011 (unaudited) | 129,348 | 64,544,489 | 64,673,837 |
| Capital contributions | 173,646 | 88,529,511 | 88,703,157 |
| Capital distributions | (48,291 ) | (24,096,981 ) | (24,145,272 ) |
| Net income | 1,254,293 | 12,455,682 | 13,709,975 |
| Partners' capital, December 31, 2012 | 1,508,996 | 141,432,701 | 142,941,697 |
| Capital contributions | 86,183 | 47,177,507 | 47,263,690 |
| Capital distributions | (28,927 ) | (14,434,417 ) | (14,463,344 ) |
| Net income | 1,776,834 | 16,542,726 | 18,319,560 |
| Partners' capital, December 31, 2013 | $3,343,086 | $190,718,517 | $194,061,603 |

See accompanying notes to financial statements.

KENNEDY WILSON REAL ESTATE FUND IV, L.P.
Statements of Cash Flows

| | Year ended December 31, 2013 | Year ended December 31, 2012 | From January 28 (inception) through December 31, 2011 (Unaudited) |
|---|---|---|---|
| Cash flows from operating activities: | | | |
| Net income | $18,319,560 | $13,709,975 | $1,104,982 |
| Adjustments to reconcile net income to net cash used in operating activities: | | | |
| Change in accreted interest | (1,219,448) | (1,852,806) | — |
| Net realized gain on investments | (1,028,741) | — | — |
| Net change in unrealized appreciation on investments | (18,145,836) | (13,294,030) | (2,021,369) |
| Change in operating assets and liabilities: | | | |
| Purchases of investments | (82,125,268) | (97,157,671) | (59,385,870) |
| Transfer of cash and cash equivalents | (2,159,975) | — | — |
| Proceeds from sale of investments | 41,292,902 | 29,948,591 | — |
| Accounts receivable | 52,078 | (67,127) | — |
| Costs related to investments to be acquired | (46,056) | — | — |
| Prepaid expenses | (167,276) | (151,071) | (383,353) |
| Accounts payable and accrued expenses | 17,800 | 15,424 | 1,821 |
| Net cash used in operating activities | (45,210,260) | (68,848,715) | (60,683,789) |
| Cash flows from financing activities: | | | |
| Proceeds from notes payable | 23,621,580 | 26,461,756 | — |
| Repayments from notes payable | (12,817,485) | (23,448,851) | — |
| Capital contributions | 47,263,690 | 88,703,157 | 69,376,608 |
| Capital distributions | (14,463,344) | (24,145,272) | (5,807,753) |
| Net cash provided by financing activities | 43,604,441 | 67,570,790 | 63,568,855 |
| Net (decrease) increase in cash and cash equivalents | (1,605,819) | (1,277,925) | 2,885,066 |
| Cash and cash equivalents, beginning of period | 1,607,141 | 2,885,066 | — |
| Cash and cash equivalents, end of period | $1,322 | $1,607,141 | $2,885,066 |
| Supplemental disclosure of cash paid during the period: | | | |
| Cash paid for interest | $252,451 | $568,259 | $— |
| | | | |
| Supplemental disclosure of net assets and liabilities transferred to Kennedy Wilson REF IV AG, LLC | | | |
| Cash and cash equivalents | $2,159,975 | | |
| Accounts receivable | 15,049 | | |
| Costs related to investments to be acquired | 46,056 | | |
| Prepaid expenses | 701,700 | | |
| Accounts payable | (34,345) | | |
| Notes payable | (13,817,000) | | |
| Total net assets and liabilities transferred to Kennedy Wilson REF IV AG, LLC | $(10,928,565) | | |

See accompanying notes to financial statements.

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KENNEDY WILSON REAL ESTATE FUND IV, L.P.
Notes to Financial Statements
December 31, 2013, 2012, and 2011 (unaudited)

NOTE 1—ORGANIZATION

Kennedy Wilson Real Estate Fund IV, L.P. (the Partnership), a Delaware limited partnership, was formed on January 28, 2011. The Agreement of Limited Partnership of the Partnership (Partnership Agreement) was executed on May 13, 2011. The general partner of the Partnership is Kennedy Wilson Property Services IV, L.P., a Delaware limited partnership (the General Partner), and the special limited partner is Kennedy Wilson Property Special Equity IV, LLC, a Delaware limited liability company (the Special Limited Partner). The Partnership Agreement was amended and restated on January 1, 2013 to allow for the creation of a parallel fund structure to enable foreign investors to co-invest with the Partnership. On March 20, 2013, Kennedy Wilson Real Estate Fund IV (IP), L.P. (the Investment Partnership) was created and Kennedy Wilson REF IV AG, LLC (the Aggregator), was formed for the purpose of aggregating the investments of the Partnership. On July 16, 2013 the Partnership contributed 100% of its net assets to the Aggregator in exchange for an 85.02% ownership interest in the Aggregator and was equalized by the investors of the Investment Partnership who afterwards owned 14.98% of the Aggregator. The contribution of net assets from the Partnership to the Aggregator and the admittance/equalization of the Investment Partnership were done as prescribed in the Partnership's amended and restated agreement of limited partnership. Per the agreement, any admitted limited partner shall be (a) treated as having been a party to the agreement and any such increased capital commitment shall be treated as having been made, as if they had been invested from day 1 of the Partnership for all purposes, (b) required to bear and contribute its portion of the management fee from day 1 of the Partnership, other Partnership expenses from day 1 and all organizational expenses whenever incurred, and (c) unless otherwise determined by the General Partner, required to pay to the Partnership an additional amount calculated at 10% per annum (determined as of the date of such limited partner's admittance to the Partnership or increase in capital commitment (with respect to the increase in capital commitment), as applicable, on each portion of its capital contribution (including, as applicable, to fund management fees) from the date such portion of such capital contribution would have been made if such Partner had been admitted as a Partner for its full capital commitment on day 1. The Partnership's investment objective has remained unchanged and continues to be to acquire office, multifamily and other real estate investments, including real estate loans and condominiums through its ownership in the Aggregator. In accordance with this objective, the Partnership may form joint ventures with appropriate strategic co-investors or invest in real estate related financings, such as first trust deeds. Partnership investments will generally involve real estate located in the western United States and Hawaii. Under the terms of the Partnership Agreement, the Partnership shall continue until the eighth anniversary of the effective date of May 13, 2011 and may be extended for an additional one-year period by the General Partner in its discretion, and for an additional one-year period by the General Partner with the prior consent of the limited partners with a majority of aggregate commitments.

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

USE OF ESTIMATES—The preparation of the accompanying financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions about future events. These estimates and the underlying assumptions affect the amounts of assets and liabilities reported, and reported amounts of revenues and expenses. Management evaluates its estimates and assumptions on an ongoing basis using historical experience and other factors, including the current economic environment, which management believes to be reasonable under the circumstances. Such estimates and assumptions are adjusted when facts and circumstances dictate. As future events and their effects cannot be determined with precision, actual results could differ significantly from these estimates. Changes in those estimates resulting from continuing changes in the economic environment will be reflected in the financial statements in future periods.

CASH AND CASH EQUIVALENTS—The Partnership considers its investment in a money market account to be a cash equivalent.

The Partnership maintains its cash in federally insured banking institutions. The account balances at these institutions periodically exceed the Federal Deposit Insurance Corporation's (FDIC) insurance coverage, and as a result, there is a concentration of credit risk related to amounts in excess of FDIC's insurance coverage. To mitigate this risk, the Partnership places its cash with quality financial institutions.

FAIR VALUE MEASUREMENT—Fair value is defined as the price that would be received to sell an asset or would be paid to transfer a liability (the exit price) in an orderly transaction between market participants at the measurement date.

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A three-level hierarchy was established for fair value measurements that distinguishes between market participant assumptions developed based on market data obtained from sources independent of the reporting entity (observable inputs) and the reporting entity’s own assumptions about market participant assumptions developed based on the best information available in the circumstances (unobservable inputs). The hierarchy level assigned to each of the Partnership's investments is based on the assessment of the transparency and reliability of the inputs used in the valuation of such investment at the measurement date. The three hierarchy levels are defined as follows:

Level 1 - Valuations based on unadjusted quoted market prices in active markets for identical securities.

Level 2 - Valuations based on observable inputs (other than Level 1 prices), such as quoted prices for similar assets and quoted prices in markets that are not active.

Level 3 - Valuations based on inputs that are unobservable and significant to the overall fair value measurement, and involve management judgment.

The availability of valuation techniques and observable inputs can vary from investment to investment. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Those estimated values do not necessarily represent the amounts that may be ultimately realized due to the occurrence of future circumstances that cannot be reasonably determined. Because of the inherent uncertainty of valuation, those estimated values may be materially higher or lower than the values that would have been used had a ready market for the investments existed. Accordingly, the degree of judgment exercised by the General Partner in determining fair value is greatest for investments classified as Level 3. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the level in the fair value hierarchy within which the fair value measurement falls is determined based on the lowest level input that is significant to the fair value measurement.

Fair value is a market-based measure considered from the perspective of a market participant rather than an entity-specific measure. Therefore, even when market assumptions are not readily available, the General Partner's own assumptions are set to reflect those that market participants would use in valuing the asset or liability at the measurement date. The General Partner uses prices and inputs that it believes are current as of the measurement date.

VALUATION OF INVESTMENTS—The Partnership's investments in real estate assets are stated at fair value using the income and market approaches. For the Limited Liability Companies (LLC) in which the Partnership has a partial ownership interest, the LLC's investments in real estate are also stated at fair value using the income and market approaches. The income approach requires the General Partner to estimate the projected operating cash flows of the real estate on an asset-by-asset basis, apply a capitalization (cap) rate to the reversion year's cash flows and discount the cash flows with a risk-adjusted rate for the respective holding periods. The market approach requires the General Partner to identify transactions for similar assets, if any, and apply asset specific adjustments for items such as location, physical condition and other pertinent factors which would impact fair value. The Partnership's investments in notes and loan pool participations are stated at fair value based on a comparison of the yield that would be required in a current transaction, taking into consideration the risk of the underlying collateral and the credit risk of the borrower to the current yield of similar fixed income securities.

The accuracy of estimating fair value for Level 3 investments cannot be determined with precision, cannot be substantiated by comparison to quoted prices in active markets, and may not be realized in a current sale or immediate settlement of the asset or liability. Additionally, there are inherent uncertainties in any fair value measurement technique, and changes in the underlying assumptions used, including discount rates, liquidity risks, and estimates of future cash flows, could significantly affect the fair value measurement amounts.

The Partnership's investments in real estate and real estate related assets and real estate related fixed income securities are accounted for on a closing-date basis.

CONCENTRATION OF RISK—Substantially all of the Partnership's investments are concentrated in real estate related investments in California, Oregon, and Hawaii. Adverse conditions in the sector or geographic locations would likely result in material declines in the value of the Partnership's investments.

REVENUE RECOGNITION—Dividend income from investments in real estate and real estate related entities is recorded when a disbursement has been approved and declared from the underlying investments of the Partnership. Undistributed earnings from real estate and real estate related entities are considered by the General Partner in estimating the fair value of these investments. The Partnership also records its proportionate share of the Aggregator's income, expenses, realized and unrealized gain (losses) after July 16, 2013 (date of equalization).

KENNEDY WILSON REAL ESTATE FUND IV, L.P.
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INCOME TAXES—The Partnership is not subject to federal or state income taxes, and accordingly, no provision for income taxes has been made in the accompanying financial statements. The partners are required to report their proportional share of income, gains, loss, credit, or deduction on their respective tax returns.

The Partnership is required to determine whether a tax position is more likely than not to be sustained upon examination by the applicable taxing authority, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The tax benefit to be recognized is measured as the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement, which could result in the Partnership recording a tax liability that would reduce net assets. Based on its analysis, the Partnership has determined that there are no tax benefits that would have a material impact on the Partnership's financial position or results of operations. The tax year 2011 (year of inception) is the earliest year that remains open to examination by the taxing jurisdictions to which the Partnership is subject.

NOTE 3—FAIR VALUE OF INVESTMENTS

The following table presents the classification of the Partnership's fair value measurements as of December 31, 2013:

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Interests in real estate assets | $— | $— | $187,501,720 | $187,501,720 |
| Interests in loan pool participations and notes | — | — | 6,559,261 | 6,559,261 |
| | $— | $— | $194,060,981 | $194,060,981 |

The following table presents changes in Level 3 investments for the year ended December 31, 2013:

| | January 1, 2013 | Purchases | Transfer from real estate to loans | Transfer to Aggregator | Sales | Realized gains (losses) | Accretion on loans | Unrealized appreciation (depreciation) |
|---|---|---|---|---|---|---|---|---|
| Interests in real estate assets | $140,888,821 | $78,445,308 | $(1,818,081) | $(10,067,162) | $(39,166,000) | $1,028,741 | $— | $18,190,093 |
| Interests in loan pool participations and notes | 2,874,334 | 3,679,960 | 1,818,081 | (861,403) | (2,126,902) | — | 1,219,448 | (44,257 |
| | $143,763,155 | $82,125,268 | $— | $(10,928,565) | $(41,292,902) | $1,028,741 | $1,219,448 | $18,145,836 |

The net change in unrealized appreciation on investments that use Level 3 inputs still held as of December 31, 2013 was $20,299,207.

The following table presents the classification of the Partnership's fair value measurements as of December 31, 2012:

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Interests in real estate assets | $— | $— | $140,888,821 | $140,888,821 |
| Interests in notes | — | — | 2,874,334 | 2,874,334 |
| | $— | $— | $143,763,155 | $143,763,155 |

The following table presents changes in Level 3 investments for the year ended December 31, 2012:

| | January 1, 2012 | Purchases | Sales | Realized gains (losses) | Unrealized appreciation (depreciation) | December 31, 2012 |
|---|---|---|---|---|---|---|
| Interests in real estate assets | $61,407,239 | $67,871,834 | $(1,500,000) | $— | $13,109,748 | $140,888,821 |
| Interests in notes | — | 31,138,643 | (28,448,591) | — | 184,282 | 2,874,334 |
| | $61,407,239 | $99,010,477 | $(29,948,591) | $— | $13,294,030 | $143,763,155 |

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The net change in unrealized appreciation on investments that use Level 3 inputs still held as of December 31, 2012 was $13,294,030.

The following table presents the classification of the Partnership's fair value measurements as of December 31, 2011 (unaudited):

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Interests in real estate assets | $— | $— | $61,407,239 | $61,407,239 |
| | $— | $— | $61,407,239 | $61,407,239 |

The following table presents changes in Level 3 investments for the period from January 28, 2011 (inception) through December 31, 2011 (unaudited):

| | January 28, 2011 | Purchases | Sales | Realized gains (losses) | Unrealized appreciation (depreciation) | December 31, 2011 |
|---|---|---|---|---|---|---|
| Interests in real estate assets | $— | $59,385,870 | $— | $— | $2,021,369 | $61,407,239 |
| | $— | $59,385,870 | $— | $— | $2,021,369 | $61,407,239 |

The net change in unrealized appreciation on investments that use Level 3 inputs still held as of December 31, 2011 was $2,021,369 (unaudited).
Since inception, all investments have been classified as Level 3 investments and there have been no transfers between other levels of the hierarchy.
In estimating fair value of investments in real estate assets, the Partnership considers significant inputs such as capitalization and discount rates. The table below describes the range of inputs used as of December 31, 2013, 2012, and 2011 (unaudited):

| | Cap rate | | Discount rate | |
|---|---|---|---|---|
| | Min | Max | Min | Max |
| Multifamily | 5.75 % | 7.00 % | 8.50 % | 9.25 % |
| Office | 6.00 | 7.50 | 7.50 | 9.75 |
| Retail | 8.00 | 8.00 | 9.00 | 12.00 |

Valuing real estate related assets and indebtedness, the Partnership considers significant inputs such as the term of the debt, value of collateral, current loan-to-value ratios, market interest rates and spreads, and credit quality of investment entities. The credit spreads used by the Partnership for these types of investments range from 1.75% to 7.90%.
The accuracy of estimating fair value for investments utilizing unobservable inputs cannot be determined with precision, cannot be substantiated by comparison to quoted prices in active markets, and may not be realized in a current sale of immediate settlement of the asset or liability. Additionally, there are inherent uncertainties in any fair value measurement technique, and changes in the underlying assumptions used, including cap rates, discount rates, liquidity risks, and estimates of future cash flows, could significantly affect the fair value measurement amounts.
NOTE 4—RELATED PARTY TRANSACTIONS
MANAGEMENT FEE—During the period which commenced on May 13, 2011 and expires on the earlier of the third anniversary of such date or when all of the commitments of the nonaffiliated limited partners have been invested (the Investment Period), the Partnership shall pay the General Partner a management fee equal to 1.50% per annum of the invested capital contributed by the nonaffiliated limited partners and 1.00% per annum of the difference between the aggregate capital commitments of the nonaffiliated limited partners and the invested capital contributed by the nonaffiliated limited partners. After the Investment Period expires, the Partnership shall pay the General Partner a management fee equal to 1.50% per annum of the invested capital contributed by the nonaffiliated limited partners.

The Partnership incurred $2,731,850 and $1,720,041 in management fees for the years ended December 31, 2013 and 2012 respectively, and $691,195 (unaudited) in management fees for the period from January 28, 2011

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(inception) through December 31, 2011. The Partnership’s proportionate share of the Aggregator’s management fee is $2,035,256 for the period from July 16, 2013 (date of equalization) through December 31, 2013.

The management fee shall be reduced, in any calendar quarter, by the nonaffiliated limited partners’ percentage of any organizational expenses that the Partnership pays in excess of $1,000,000. In the event that the amount of fee reduction exceeds the management fee for such quarterly period, such excess shall be carried forward to reduce the management fee payable in following quarterly periods. There have been no reductions for the years ended December 31, 2013 and 2012, and the period from January 28, 2011 (inception) through December 31, 2011 (unaudited).

ORGANIZATION EXPENSE—The Partnership shall pay or reimburse the General Partner for up to $1 million of organizational expenses incurred on behalf of the Partnership. Organization expenses in excess of $1 million will reduce the management fee paid to the General Partner. The Partnership incurred organization costs of $115,294 and $409,387 for the years ended December 31, 2013 and 2012 respectively, and $590,613 (unaudited) for the period from January 28, 2011 (inception) through December 31, 2011.

NOTE 5—PARTNERS' CAPITAL

CONTRIBUTIONS—The total committed capital of the Partnership is $257,368,421 as of December 31, 2013, of which $179,925,970 or 69.91% has been called, and $156,578,947 as of December 31, 2012 of which $131,347,622 or 83.89% had been called.

The General Partner is authorized to call additional capital in its sole discretion when additional capital is required to acquire investments, provide working capital, establish reserves, or pay expenses, costs, losses, or liabilities of the Partnership. However, only nonaffiliated limited partners are required to fund management fees or excess organization costs as described above. No limited partner shall be required to make any additional capital contributions in excess of its capital commitment. Any portion of a limited partner's capital commitment that has not been called by the General Partner within the period ending three years from the effective date of May 13, 2011 may not be drawn to fund new commitments for investments. However, the partners shall remain obligated to make capital contributions throughout the duration of the Partnership in order to fund commitments for new investments in existence at the end of the Investment Period, to pay for management fees and other partnership expenses, to fund requirements of existing investments in an aggregate amount not to exceed 15% of the aggregate commitments, or to pay continuing obligations of the Partnership under any line of credit or permitted indebtedness.

The General Partner may cause the Partnership to return to the partners any portion of a capital contribution that is not invested in an investment or used to pay partnership expenses, that is a contribution for bridge financing that is recouped by the Partnership within twelve months, or is invested in a portion of an investment sold to either an executive fund or related parallel fund. All such returned capital contributions shall be returned to the partners in proportion to the cash contribution made by each partner and shall be treated as not having been called or funded.

DISTRIBUTIONS—Distributions of net cash flow shall initially be made to the partners based on the percentage of their aggregate investment contributions to the aggregate investment contributions made by all partners. The initial amount apportioned to the limited partners shall be distributed to the limited partners and the Special Limited Partner as follows:

(i) First, 100% to limited partners until the limited partners have received cumulative distributions equal to the sum of their aggregate contributions for investments and partnership costs;

(ii) Second, 100% to limited partners until the unpaid preferred return of ten percent (10%), compounded annually, due to the limited partners is reduced to zero,

(iii) Third, 50% to the Special Limited Partner and 50% to the limited partners to the extent necessary so that the aggregate distributions to the Special Limited Partner equal 20% of the cumulative amount of distributions made to limited partners pursuant to (ii) and (iv), and

(iv) Thereafter, 20% to the Special Limited partner and 80% to the limited partners.

Notwithstanding the above, the General Partner shall have authority to make distributions to the Special Limited Partner in an amount equal to the tax liability on its carried interest. Such distributions shall be treated as advances of distributions to the Special Limited Partner and shall reduce future distributions due to the Special Limited Partner.
ALLOCATION OF PARTNERSHIP INCOME AND LOSSES—The allocation of Partnership income and loss will generally follow the allocation of distributions.

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NOTE 6—FINANCIAL HIGHLIGHTS

The Internal Rate of Return (IRR) of the limited partners of the Partnership, net of all fees and profit allocations to the Special Limited Partner, is 11.14% and 11.16% at December 31, 2013 and 2012, respectively, and 3.47% (unaudited) from inception through December 31, 2011.

The IRR was computed based on the actual dates of the cash inflows (capital contributions), outflows (cash distributions), and the ending net assets at the end of the period (residual value) of the limited partners' capital accounts as of December 31, 2013, 2012, and 2011 (unaudited).

| | 2013 | | 2012 | | 2011 (unaudited) | |
|---|---|---|---|---|---|---|
| Ratio to average limited partners’ capital: | | | | | | |
| Net investment income (loss) | (0.63 | )% | 0.47 | % | (2.98 | )% |
| Total expenses | 4.21 | % | 3.68 | % | 4.81 | % |
| Incentive allocation | 0.38 | % | 1.37 | % | — | % |
| Total expenses and incentive allocation | 4.59 | % | 5.05 | % | 4.81 | % |

The net investment income and total expense ratios (including incentive allocation) are calculated for the limited partners taken as a whole. The computation of such ratios, based on the amount of net investment income, expenses, and incentive allocation assessed to an individual investor, may vary from these ratios based on the timing of capital transactions. The above ratios are computed based upon the weighted average limited partners' capital of the Partnership as measured at the end of each monthly accounting period for the years ended December 31, 2013 and 2012, and the period from inception through December 31, 2011 (unaudited).

NOTE 7—SUBSEQUENT EVENTS

Management has evaluated all subsequent events occurring after the date of the statement of financial condition through March 31, 2014, the date of the financial statements were available to be issued, to determine whether any subsequent events necessitated adjustment or disclosure in the financial statements. No such events were identified that necessitated adjustment or disclosure.

Independent Auditors' Report
The Partners
One Baxter Way, LP:

We have audited the accompanying financial statements of One Baxter Way, LP, which comprise the balance sheet as of December 31, 2013, and the related statements of operations, changes in partners' capital, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of One Baxter Way, LP as of December 31, 2013, and the results of its operations and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

The accompanying balance sheet as of December 31, 2012 and the related statements of operations, changes in partners' capital, and cash flows for the years in the two-year period then ended were not audited by us, and accordingly, we do not express an opinion on them.

/s/ KPMG LLP

Dallas, Texas
March 31, 2014

ONE BAXTER WAY, LP
(A Delaware Limited Partnership)
Balance Sheets

| | December 31, 2013 | 2012 (Unaudited) |
|---|---|---|
| Assets | | |
| Real estate | | |
| Land | $22,208,240 | $22,208,240 |
| Buildings and improvements | 97,699,135 | 97,231,716 |
| Total | 119,907,375 | 119,439,956 |
| Accumulated depreciation | (14,919,927) | (12,456,983) |
| Total real estate, net | 104,987,448 | 106,982,973 |
| Cash | 1,054,810 | 1,104,633 |
| Escrows and deposits | 1,044,234 | 298,246 |
| Deferred leasing costs, net of accumulated amortization of $3,682,410 at December 31, 2013 and $2,893,718 at December 31, 2012 | 1,955,503 | 2,740,657 |
| Deferred financing fees, net of accumulated amortization of $1,793,548 at December 31, 2013 and $1,659,584 at December 31, 2012 | 485,148 | 617,906 |
| Acquired in place lease value, net of accumulated amortization of $2,910,923 and $2,627,913 at December 31, 2013 and 2012 | — | 283,010 |
| Deferred rent | 5,754,666 | 6,736,483 |
| Accounts receivable | 13,988 | 40,431 |
| Prepaid expenses | 112,854 | 90,873 |
| Other assets | 55,856 | 20,353 |
| Total assets | $115,464,507 | $118,915,565 |
| Liabilities and partners' capital | | |
| Liabilities | | |
| Mortgage loan payable | $63,500,000 | $63,500,000 |
| Prepaid rent | 862,781 | 814,687 |
| Tenant deposits | 72,937 | 72,937 |
| Accounts payable and accrued expenses | 430,879 | 759,372 |
| Total liabilities | 64,866,597 | 65,146,996 |
| Partners' capital | | |
| Partners' capital | 50,597,910 | 53,768,569 |
| Total liabilities and partners' capital | $115,464,507 | $118,915,565 |

See accompanying notes to the financial statements.

ONE BAXTER WAY, LP
(A Delaware Limited Partnership)
Statements of Operations

| | Year ended December 31, 2013 | 2012 (Unaudited) | 2011 (Unaudited) |
|---|---|---|---|
| Revenue | | | |
| Rental income | $10,288,456 | $9,776,071 | $9,522,034 |
| Operating expense recoveries | 360,582 | 532,107 | 153,359 |
| Other | 58,358 | 17,834 | 27,124 |
| Total revenue | 10,707,396 | 10,326,012 | 9,702,517 |
| Expenses | | | |
| Property taxes | 849,186 | 813,559 | 825,745 |
| Utilities | 1,219,760 | 1,038,492 | 1,113,673 |
| Repairs and maintenance | 1,174,558 | 1,105,575 | 1,037,543 |
| Salaries and wages | 855,486 | 862,621 | 796,835 |
| General and administrative | 83,687 | 113,680 | 240,295 |
| Insurance | 247,619 | 211,495 | 166,628 |
| Depreciation | 2,462,944 | 2,395,742 | 2,126,608 |
| Amortization | 1,205,666 | 1,608,230 | 1,054,683 |
| Interest expense | 1,409,149 | 1,619,890 | 2,107,565 |
| Total expenses | 9,508,055 | 9,769,284 | 9,469,575 |
| Impairment loss | — | — | (12,476,401) |
| Forgiveness of debt | — | — | 6,230,192 |
| Net income (loss) | $1,199,341 | $556,728 | $(6,013,267) |

See accompanying notes to the financial statements.

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ONE BAXTER WAY, LP
(A Delaware Limited Partnership)
Statements of Changes in Partner's Capital

| | |
|---|---|
| Partners' Capital Balance at December 31, 2010 (unaudited) | $45,241,322 |
| Contributions (unaudited) | 18,817,643 |
| Distributions (unaudited) | (259,719) |
| Net loss (unaudited) | (6,013,267) |
| Partners' Capital Balance at December 31, 2011 (unaudited) | 57,785,979 |
| Distributions (unaudited) | (4,574,138) |
| Net income (unaudited) | 556,728 |
| Partners' Capital Balance at December 31, 2012 (unaudited) | 53,768,569 |
| Distributions | (4,370,000) |
| Net income | 1,199,341 |
| Partners' Capital Balance at December 31, 2013 | $50,597,910 |

See accompanying notes to the financial statements.

ONE BAXTER WAY, LP
(A Delaware Limited Partnership)
Statements of Cash Flows

| | Year ended December 31, 2013 | 2012 (Unaudited) | 2011 (Unaudited) |
|---|---|---|---|
| Cash flows from operating activities: | | | |
| Net income (loss) | $1,199,341 | $556,728 | $(6,013,267) |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | | |
| Forgiveness of indebtedness income | — | — | (6,230,192) |
| Impairment loss | — | — | 12,476,401 |
| Depreciation | 2,462,944 | 2,395,742 | 2,126,608 |
| Amortization of leasing costs | 788,692 | 661,741 | 615,875 |
| Amortization of in place lease values | 283,010 | 485,154 | 485,154 |
| Amortization of deferred financing fees | 133,964 | 461,335 | 569,529 |
| Change in assets and liabilities: | | | |
| Deferred rent | 981,817 | 318,286 | (755,746) |
| Tenant receivables | 26,443 | 143,087 | (65,756) |
| Prepaid expenses | (57,485) | (4,850) | (39,827) |
| Prepaid rent | 48,094 | 89,595 | 39,224 |
| Tenant deposits | — | 72,937 | — |
| Accounts payable and accrued expenses | (358,043) | (102,228) | (19,109) |
| Net cash provided by operating activities | 5,508,777 | 5,077,527 | 3,188,894 |
| Cash flows from investing activities: | | | |
| Additions to real estate | (437,869) | (1,989,511) | (357,208) |
| Deferred leasing costs | (3,538) | (342,215) | (2,840) |
| Change in escrows and deposits | (1,193,481) | (298,246) | (1,500,000) |
| Draws on escrows and deposits | 447,493 | 1,500,000 | 3,054,191 |
| Net cash (used in) provided by investing activities | (1,187,395) | (1,129,972) | 1,194,143 |
| Cash flows from financing activities: | | | |
| Additions to debt service reserves | — | — | (8,333,423) |
| Draws on debt service reserves | — | — | 10,567,110 |
| Principal payments on borrowings | — | (62,452,501) | (86,038,407) |
| Originations of new loans | — | 63,500,000 | 62,602,500 |
| Contributions from partners | — | — | 18,817,643 |
| Payments made for financing fees | (1,205) | (640,288) | (498,746) |
| Distributions to partners | (4,370,000) | (4,574,138) | (259,719) |
| Net cash used in financing activities | (4,371,205) | (4,166,927) | (3,143,042) |
| Net change in cash | (49,823) | (219,372) | 1,239,995 |
| Cash at beginning of period | 1,104,633 | 1,324,005 | 84,010 |
| Cash at end of period | $1,054,810 | $1,104,633 | $1,324,005 |
| Supplemental disclosure of cash flow information: | | | |
| Cash paid for interest | $1,411,612 | $1,646,189 | $1,476,310 |
| Supplemental disclosure of non-cash activity: | | | |
| Accrued capital expenditures | $29,550 | $270,478 | $— |

See accompanying notes to the financial statements.

ONE BAXTER WAY, LP
(A Delaware Limited Partnership)
Notes to Financial Statements
December 31, 2013 , 2012 (unaudited), and 2011 (unaudited)

NOTE 1—ORGANIZATION
One Baxter Way, LP (the Partnership), a Delaware limited partnership, is 45.52% owned by KW Property Fund I, L.P., 45.52% owned by KW Property Fund II, L.P (Fund II), and 8.96% owned by K-W Properties, which is wholly owned by Kennedy-Wilson Holdings, Inc. (Kennedy Wilson).
The Partnership was organized in September 2007 to invest in and fully own the property known as The Oaks (the Property). The Property is an office building totaling approximately 354,000 rentable square feet (unaudited), located in Westlake Village, California.
Available cash is distributed to the partners in proportion to their percentage interests at the time of distribution. Profit and loss for each fiscal period shall be allocated among the partners in proportion to their percentage interests, in accordance with the limited partnership agreement.
The term of the Partnership extends until the date all Partnership investments have been liquidated, the Partnership is dissolved, or at any time there are no Limited Partners.

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
REVENUE RECOGNITION—Rental revenue from tenants is recognized on a straight-line basis over the lease term when collectability is reasonably assured and the tenant has taken possession or controls the physical use of the leased asset.
Tenant recoveries related to the reimbursement of real estate taxes, insurance, repairs and maintenance, and other operating expenses are recognized as revenue in the period the applicable expenses are incurred. The reimbursements are recognized and presented gross, since the Partnership is generally the primary obligor with respect to purchasing goods and services from third-party suppliers, has discretion in selecting the supplier, and bears the associated credit risk.
USE OF ESTIMATES—The preparation of the accompanying financial statements in conformity with U.S. generally accepted accounting principles (U.S. GAAP) requires management to make estimates and assumptions about future events. These estimates and the underlying assumptions affect the amounts of assets and liabilities reported, and the reported amounts of income and expenses. Management evaluates its estimates and assumptions on an ongoing basis using historical experience and other factors, including the current economic environment, which management believes to be reasonable under the circumstances. Such estimates and assumptions are adjusted when facts and circumstances dictate. As future events and their effects cannot be determined with precision, actual results could differ significantly from these estimates. Changes in those estimates resulting from continuing changes in the economic environment will be reflected in the financial statements in future periods.
CASH—Cash includes highly liquid investments purchased with original maturities of three months or less. Periodically, the Partnership maintains cash balances in various bank accounts in excess of federally insured limits. To date, no losses have been experienced related to such amounts. The Partnership places cash with quality financial institutions and does not believe there is a significant concentration of credit risk.
REAL ESTATE ASSETS—The fair value of real estate acquired was allocated to the acquired tangible assets, consisting primarily of land and buildings and improvements, and to the identified acquired intangible assets, which comprise in-place leases, above-market leases and below-market leases.
The fair value of real estate was determined by valuing the property as if it were vacant, which was then allocated to land and buildings and improvements, based on management's determination of the relative fair values of these assets. The value of the acquired in-place leases was determined by calculating the present value of the cash flows provided by the leases, net of related incremental expenses over the estimated lease-up period. The fair value determination was made using Level 3 inputs.

Real estate assets are carried at depreciated cost. Depreciation on buildings and improvements has been provided for in the accompanying financial statements using the straight-line method based on estimated useful lives of 40 years for building and improvements and over the lease life for tenant improvements. Maintenance and repairs are charged to expense as incurred, and costs of renewals or betterments are capitalized and depreciated at the appropriate rates.

ONE BAXTER WAY, LP
(A Delaware Limited Partnership)
Notes to Financial Statements
December 31, 2013 , 2012 (unaudited), and 2011 (unaudited)

IMPAIRMENT OF LONG-LIVED ASSETS—In accordance with FASB ASC Topic 360, Property, Plant, and Equipment, the asset or asset group is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If indications of impairment exist, the Partnership will evaluate the project by comparing the carrying amount of the asset or asset group to the estimated future undiscounted cash flows of the project. If impairment exists, an impairment loss will be recognized based on the amount by which the carrying amount exceeds the fair value of the asset or asset group. For the years ended December 31, 2013 and 2012 (unaudited) there were no impairments recorded. For the year ended December 31, 2011, an impairment loss of $12,476,401 was recorded (unaudited) as the carrying amount of the Property exceeds the fair value.

CONCENTRATION OF RISK—The Partnership's real estate is located in California. Adverse conditions in the sector or geographic location would likely result in a material decline in the value of the Partnership's investment.

DEFERRED FINANCING COSTS, NET—Financing costs incurred in obtaining long-term debt are capitalized and amortized over the term of the related debt on a straight-line basis, which approximates the effective interest method.

INCOME TAXES—As a limited partnership, the partners elected for the Partnership to be a pass-through entity for income tax purposes; therefore, the Partnership's taxable income or loss is allocated to partners in accordance with their respective ownership, and no provision or liability for income taxes has been included in the financial statements. Management has evaluated the Partnership's tax positions and concluded that the Partnership had taken no uncertain tax positions that require adjustment to the financial statements in order to comply with the provisions of FASB ASC Topic 740, Income Taxes.

FAIR VALUE MEASUREMENTS —The Partnership follows the provisions of FASB ASC Topic 820, Fair Value Measurements and Disclosures (ASC Topic 820), for fair value measurements of financial assets and financial liabilities and for fair value measurements of nonfinancial items that are recognized or disclosed at fair value in the financial statements on a recurring or nonrecurring basis. ASC Topic 820 defines fair value as the price that would be received to sell an asset or would be paid to transfer a liability (the exit price) in an orderly transaction between market participants at the measurement date.

A three-level hierarchy was established for fair value measurements that distinguishes between market participant assumptions developed based on market data obtained from sources independent of the reporting entity (observable inputs) and the reporting entity's own assumptions about market participant assumptions developed based on the best information available in the circumstances (unobservable inputs). The three hierarchy levels are defined as follows:

Level 1 - Valuations based on unadjusted quoted market prices in active markets for identical securities.

Level 2 - Valuations based on observable inputs (other than Level 1 prices), such as quoted prices for similar assets and quoted prices in markets that are not active.

Level 3 - Valuations based on inputs that are unobservable and significant to the overall fair value measurement, and involve management judgment.

For certain financial instruments, including cash, tenant receivables, escrows and deposits, prepaid expenses, accounts payable and accrued expenses, prepaid rent, and tenant deposits, recorded amounts approximate fair value due to the relatively short-term nature of these instruments.

The Partnership has no assets or liabilities measured at fair value on a recurring or nonrecurring basis in the financial statements as of December 31, 2013 and 2012 (unaudited). As of December 31, 2011, level 3 inputs were used to fair value the land and building and determine the impairment charge recorded.

NOTE 3—REAL ESTATE ACQUISTION

The fair value of the Property was allocated to the acquired tangible assets, consisting primarily of land and building and improvements, and to the identified acquired intangible assets, which comprises of in-place leases, in accordance with Business Combinations ASC Subtopic 805-10. Acquisition related costs were expensed as incurred.

Upon the purchase in 2007, the fair value of real estate was determined by valuing the Property as if it were vacant, which was then allocated to land and building and improvements, based on management's determination of the relative fair value of the asset. The value of the acquired in-place leases was determined by calculating the present value of the cash flows provided by the leases, net of related incremental expenses over the estimated lease-up period. As of December 31, 2013 no amount of intangible asset is capitalized and and subject to amortization related to leases that were in-place upon acquisition in 2007. As of December 31, 2012 (unaudited), $283,010 of intangible assets is capitalized and subject to amortization related to leases that were in-place upon acquisition in 2007.

ONE BAXTER WAY, LP
(A Delaware Limited Partnership)
Notes to Financial Statements
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NOTE 4—MORTGAGES PAYABLE

In November 2011, the mortgage loan which which is secured by the property, was refinanced. The mortgage loan was settled for less than its contractual obligation, which resulted in $6,230,192 of debt forgiveness and recorded as income on the accompanying statements of operations for the year ended December 31, 2011.

In September 2012, the mortgage loan which is secured by the Property, was refinanced. The mortgage loan bears an interest rate of LIBOR + 2.0% and mature on October 1, 2017.

The fair value of the mortgage loan as of December 31, 2013 was $63,526,785. The fair value was estimated based on the quoted market prices for the same or similar issues for debt of the same remaining maturities. Based on its nature, the fair value of the mortgage loan was determined using Level 2 inputs, as defined in note 2. The fair value amount does not necessarily represent the amount that would be required to satisfy the debt obligation.

As of December 31, 2013, the future cash principal payments on the mortgage payable are as follows:

| | |
|---|---|
| 2014 | $600,000 |
| 2015 | 2,400,000 |
| 2016 | 2,400,000 |
| 2017 | 58,100,000 |
| | $63,500,000 |

The mortgage loan covenants require that the Property maintain a Debt Service Coverage Ratio of not less than 1.15 to 1.00. As of December 31, 2013, the Property was in compliance with this covenant.

NOTE 5—MINIMUM FUTURE LEASE RENTALS

As of December 31, 2013, the minimum future cash rents receivable under non-cancellable operating leases in each of the next five years and thereafter are as follows:

| | |
|---|---|
| 2014 | $11,437,431 |
| 2015 | 9,375,041 |
| 2016 | 9,656,292 |
| 2017 | 9,945,981 |
| 2018 | 7,683,556 |
| Thereafter | 1,715,758 |
| | $49,814,059 |

Contractual rents are normally increased over the term of the lease. Depending on local market factors, increases may be structured as a fixed percentage increase for each year of the lease or as an increase based on the Consumer Price Index. Also, concessions in the form of free rent may sometimes be provided. Such determinable changes in contractual rents are recognized on a straight line basis over the life of the lease.

In addition to base rent, most tenants are assessed monthly for their proportionate share of estimated net increases in property operating costs and real property taxes. Such expense reimbursements are typically amounts in excess of the tenant's share of expenses attributable to a base year stipulated in the lease.

ONE BAXTER WAY, LP
(A Delaware Limited Partnership)
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NOTE 6—TENANT CONCENTRATIONS

The top two tenants accounted for approximately $8,117,501 and $1,346,008, or 85.8% and 14.2%, respectively, of the Partnership's combined rental income for the year ended December 31, 2013. No other tenant comprised more than 10% of the Partnership's combined rental income for the year ended December 31, 2013.

The top two tenants accounted for approximately $8,117,501 and $1,346,008, or 82.9% and 13.7%, respectively, of the Partnership's combined rental income for the year ended December 31, 2012. No other tenant comprised more than 10% of the Partnership's combined rental income for the year ended December 31, 2012.

The top two tenants accounted for approximately $8,152,866 and $1,346,008, or 79.2% and 13.1%, respectively, of the Partnership's combined rental income for the year ended December 31, 2011. No other tenant comprised more than 10% of the Partnership's combined rental income for the year ended December 31, 2011.

NOTE 7—TRANSACTIONS WITH THE AFFILIATES

Affiliates receive leasing commissions, a management fee, a construction management fee, reimbursements for certain billed management and administrative related costs. Management fees is calculated based on 3% of base rent and other immaterial miscellaneous adjustments.

Fees and reimbursements paid by the Partnership were as follows:

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2013 | 2012 (unaudited) | 2011 (unaudited) |
| Management and administrative related cost reimbursement | $351,147 | $296,980 | $269,106 |
| Leasing commissions | 724 | 15,394 | — |
| Construction management | 26,543 | 84,809 | 20,260 |
| | $378,414 | $397,183 | $289,366 |

As of December 31, 2013, 2012 (unaudited), and 2011 (unaudited), there were no outstanding balances due to affiliates. The construction supervision fees and leasing fees are capitalized to tenant improvements and deferred leasing costs, respectively.

NOTE 8—COMMITMENTS AND CONTINGENCIES

Liabilities for loss contingencies arising from claims, assessments, litigation, fines, and penalties and other sources are recorded when it is probable that a liability has been incurred and the amount can be reasonably estimated. Legal costs incurred in connection with loss contingencies are expensed as incurred. Currently, the Partnership does not have any material commitments or contingencies.

NOTE 9—SUBSEQUENT EVENTS

In preparing these financial statements, the Partnership has evaluated events and transactions for potential recognition and disclosure through March 31, 2014, the date at which the financial statements were available to be issued, and determined there are no other items to disclose.

## Independent Auditors' Report

The Members
KW Funds - 303 North Glenoaks, LLC and KW Funds - 6100 Wilshire, LLC:

We have audited the accompanying combined financial statements of KW Funds - 303 North Glenoaks, LLC (a Delaware limited liability company) and KW Funds - 6100 Wilshire, LLC, which comprise the combined balance sheet as of December 31, 2013, and the related combined statements of operations, members' capital, and cash flows for the year ended December 31, 2013, and the related notes to the combined financial statements.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these combined financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of combined financial statements that are free from material misstatement, whether due to fraud or error.

### Auditors' Responsibility

Our responsibility is to express an opinion on the combined financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the combined financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the combined financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of KW Funds - 303 North Glenoaks, LLC and KW Funds - 6100 Wilshire, LLC as of December 31, 2013, and the results of their operations and their cash flows for the year ended December 31, 2013, in accordance with U.S. generally accepted accounting principles.

The accompanying combined balance sheet of KW Funds - 303 North Glenoaks, LLC and KW Funds - 6100 Wilshire, LLC, as of December 31, 2012 and the related combined statements of operations, members' capital, and cash flows for the years ended December 31, 2012 and 2011, were not audited by us, and accordingly, we do not express an opinion on them.

/s/ KPMG LLP

Los Angeles, California
March 31, 2014

KW Funds-303 North Glenoaks, LLC
(A Delaware Limited Liability Company)
and KW Funds-6100 Wilshire, LLC
(A Delaware Limited Liability Company)
Combined Balance Sheets

| | December 31, 2013 | 2012 (Unaudited) |
|---|---|---|
| Assets | | |
| Real Estate | | |
| Land | $21,240,031 | $21,240,031 |
| Buildings | 115,609,788 | 113,783,415 |
| Total | 136,849,819 | 135,023,446 |
| Accumulated depreciation | (17,571,772) | (13,756,586) |
| Real Estate, net | 119,278,047 | 121,266,860 |
| Cash | 436,175 | 878,487 |
| Escrow and deposits | 904,273 | 1,603,088 |
| Deferred leasing costs, net of accumulated amortization of $2,217,826 at December 31, 2013 and $1,448,886 at December 31, 2012 | 1,779,444 | 1,816,290 |
| Mortgage loan costs, net of accumulated amortization of $2,032,292 at December 31, 2013 and $1,033,423 at December 31, 2012 | 480,989 | 1,479,858 |
| Deferred rent | 1,889,569 | 1,406,149 |
| Accounts receivable | 661,154 | 391,253 |
| Prepaid expenses | 161,375 | 130,223 |
| Total assets | $125,591,026 | $128,972,208 |
| Liabilities and members' capital | | |
| Liabilities | | |
| Mortgage loans payable | $71,874,002 | $88,342,649 |
| Prepaid rent | 458,936 | 120,533 |
| Tenant deposits | 592,947 | 557,798 |
| Accounts payable and accrued expenses | 2,513,156 | 2,542,982 |
| Total liabilities | 75,439,041 | 91,563,962 |
| Members' capital | | |
| Members' capital | 50,151,985 | 37,408,246 |
| Total liabilities and members’ capital | $125,591,026 | $128,972,208 |

See accompanying notes to the combined financial statements

KW Funds-303 North Glenoaks, LLC
(A Delaware Limited Liability Company)
and KW Funds-6100 Wilshire, LLC
(A Delaware Limited Liability Company)
Combined Statements of Operations

| | Year ended December 31, 2013 | Year ended December 31, 2012 (Unaudited) | Year ended December 31, 2011 (Unaudited) |
|---|---|---|---|
| Revenue | | | |
| Rental income | $11,196,136 | $10,051,095 | $8,980,801 |
| Operating expense recoveries | 638,129 | 650,046 | 762,068 |
| Other | 1,098,080 | 956,555 | 837,014 |
| Total revenue | 12,932,345 | 11,657,696 | 10,579,883 |
| Operating expenses | | | |
| Property taxes | 1,209,764 | 972,958 | 997,250 |
| Utilities | 1,435,698 | 1,322,983 | 1,264,045 |
| Repairs and maintenance | 1,702,296 | 1,551,537 | 1,381,264 |
| Management fees | 367,275 | 316,572 | 273,225 |
| Salaries and wages | 747,229 | 675,116 | 691,430 |
| General and administrative | 155,306 | 169,539 | 113,817 |
| Insurance | 355,998 | 295,498 | 220,699 |
| Depreciation | 3,815,186 | 3,534,184 | 3,237,321 |
| Amortization | 768,940 | 638,563 | 417,511 |
| Interest expense | 5,312,176 | 6,015,393 | 6,110,285 |
| Total operating expenses | 15,869,868 | 15,492,343 | 14,706,847 |
| Net loss | $(2,937,523) | $(3,834,647) | $(4,126,964) |

See accompanying notes to the combined financial statements

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KW Funds-303 North Glenoaks, LLC
(A Delaware Limited Liability Company)
and KW Funds-6100 Wilshire, LLC
(A Delaware Limited Liability Company)
Combined Statements of Members' Capital

| | |
|---|---|
| Balance, December 31, 2010 (unaudited) | $33,393,442 |
| Contributions from members (unaudited) | 12,326,209 |
| Distributions to members (unaudited) | (676,940) |
| Net loss (unaudited) | (4,126,964) |
| Balance, December 31, 2011 (unaudited) | 40,915,747 |
| Contributions from members (unaudited) | 527,146 |
| Distributions to members (unaudited) | (200,000) |
| Net loss (unaudited) | (3,834,647) |
| Balance, December 31, 2012 (unaudited) | 37,408,246 |
| Contributions | 17,011,000 |
| Distributions | (1,329,738) |
| Net loss | (2,937,523) |
| Balance, December 31, 2013 | $50,151,985 |

See accompanying notes to the combined financial statements

KW Funds-303 North Glenoaks, LLC
(A Delaware Limited Liability Company)
and KW Funds-6100 Wilshire, LLC
(A Delaware Limited Liability Company)
Combined Statements of Cash Flows

| | Year ended December 31, 2013 | 2012 (Unaudited) | 2011 (Unaudited) |
|---|---|---|---|
| Cash flows from operating activities: | | | |
| Net loss | $(2,937,523) | $(3,834,647) | $(4,126,964) |
| Adjustments to reconcile net loss to net cash provided by operating activities: | | | |
| Depreciation | 3,815,186 | 3,534,184 | 3,237,321 |
| Amortization of deferred leasing costs | 768,940 | 638,563 | 417,511 |
| Amortization of deferred financing fees | 998,869 | 908,294 | 1,089,876 |
| Change in assets and liabilities: | | | |
| Deferred rent | (483,420) | (715,251) | (235,883) |
| Accounts receivable | (269,901) | 325,003 | (227,579) |
| Prepaid expenses | (31,152) | (16,952) | (49,049) |
| Prepaid rent | 338,403 | (42,460) | (33,100) |
| Tenant deposits | 35,149 | 56,438 | 157 |
| Accounts payable and accrued expenses | (332,584) | 387,602 | 375,476 |
| Net cash provided by operating activities | 1,901,967 | 1,240,774 | 447,766 |
| Cash flows from investing activities: | | | |
| Additions to real estate | (1,523,615) | (1,935,098) | (1,937,781) |
| Deferred leasing costs | (732,094) | (1,177,618) | (797,605) |
| Change in capital escrow and deposits | 698,815 | 556,551 | (1,091,852) |
| Net cash used in investing activities | (1,556,894) | (2,556,165) | (3,827,238) |
| Cash flows from financing activities: | | | |
| Payments of mortgage loans payable | (1,198,020) | (96,978) | (24,122,089) |
| Advances from mortgage loans | 1,279,373 | 1,881,627 | 16,550,000 |
| Payoff of second mortgage | (16,550,000) | — | — |
| Payments made for mortgage loan costs | — | (920,646) | (2,100,751) |
| Contributions from members | 17,011,000 | 527,146 | 12,326,209 |
| Distributions to members | (1,329,738) | (200,000) | (676,940) |
| Net cash (used in) provided by financing activities | (787,385) | 1,191,149 | 1,976,429 |
| Net change in cash | (442,312) | (124,242) | (1,403,043) |
| Cash at beginning of period | 878,487 | 1,002,729 | 2,405,772 |
| Cash at end of period | $436,175 | $878,487 | $1,002,729 |
| Supplemental disclosure of cash flow information: | | | |
| Cash paid for interest | $4,320,698 | $5,295,681 | $4,818,298 |
| Supplemental disclosure of non-cash activity: | | | |
| Accrued capital expenditures | $302,758 | $586,111 | $143,994 |

See accompanying notes to the combined financial statements

KW Funds-303 North Glenoaks, LLC
(A Delaware Limited Liability Company)
and KW Funds-6100 Wilshire, LLC
(A Delaware Limited Liability Company)
Notes to the Combined Financial Statements
December 31, 2013 and 2012 (unaudited) and 2011 (unaudited)

NOTE 1—ORGANIZATION

KW Funds—303 North Glenoaks, LLC (Glenoaks), a Delaware limited liability company, is 50% owned by KW Property Fund II, L.P. (Fund II) and 50% owned by KW Property Fund III, L.P. (Fund III). Glenoaks was organized in March 2008 to invest in and fully own the property known as 303 North Glenoaks (the Glenoaks Property). This property is an office building totaling approximately 176,000 rentable square feet, located in Burbank, California.

KW Funds—6100 Wilshire, LLC (6100 Wilshire), a Delaware limited liability company, is 85.71% owned by KW Property Fund II, L.P. and 14.29% owned by KW Property Fund III, L.P. 6100 Wilshire was organized in June 2008 to invest in and fully own the property known as 6100 Wilshire (the Wilshire Property). This property is an office building totaling approximately 214,000 rentable square feet, located in Los Angeles, California.

The combination of Glenoaks and 6100 Wilshire is collectively referred to as "the Companies". The Companies are presented on a combined basis, as they are held under common ownership by Fund II and Fund III. The Glenoaks Property and the Wilshire Property are collectively referred to as "the Properties".

Available cash is distributed to the members in proportion to their percentage interests at the time of distribution. Profit and loss for each fiscal period shall be allocated among the members in proportion to their percentage interests.

The limited liability companies (LLC's) will continue in existence until dissolved in accordance with the provisions of their operating agreement and are funded through the equity contributions of their members. As LLC's, except as may otherwise be provided under applicable law, no member shall be bound by, or personally liable for, the expenses, liabilities, or obligations of the individual companies. The members are not obligated to restore capital deficits.

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REVENUE RECOGNITION—Rental revenue from tenants is recognized on a straight-line basis over the lease term when collectability is reasonably assured and the tenant has taken possession or controls the physical use of the leased asset.

Operating expense recoveries related to the reimbursement of real estate taxes, insurance, repairs and maintenance, and other operating expenses are recognized as revenue in the period the applicable expenses are incurred. The reimbursements are recognized and presented gross, since the Companies are generally the primary obligor with respect to purchasing goods and services from third-party suppliers, has discretion in selecting the supplier, and bears the associated credit risk.

Other revenue is primarily comprised of parking income. The total amount of parking income for the year ended December 31, 2013, 2012, and 2011 was $1,060,495, $888,790 (unaudited), and $749,905 (unaudited), respectively.

USE OF ESTIMATES—The preparation of the accompanying financial statements in conformity with U.S. generally accepted accounting principles (U.S. GAAP) requires management to make estimates and assumptions about future events. These estimates and the underlying assumptions affect the amounts of assets and liabilities reported, and the reported amounts of income and expenses. Management evaluates its estimates and assumptions on an ongoing basis using historical experience and other factors, including the current economic environment, which management believes to be reasonable under the circumstances. Such estimates and assumptions are adjusted when facts and circumstances dictate. As future events and their effects cannot be determined with precision, actual results could differ significantly from these estimates. Changes in those estimates resulting from continuing changes in the economic environment will be reflected in the financial statements in future periods.

CASH—Cash includes highly liquid investments purchased with original maturities of three months or less. Periodically, the Companies maintain cash balances in various bank accounts in excess of federally insured limits. To date, no losses have been experienced related to such amounts. The Companies place cash with quality financial institutions and do not believe there is a significant concentration of credit risk.

REAL ESTATE ASSETS—Real estate assets are carried at depreciated cost. Depreciation on buildings and improvements has been provided for in the accompanying financial statements using the straight-line method based on estimated useful lives of 40 years for buildings and the related lease life for tenant improvements. The amortization of intangible assets associated with in-place leases has been provided for in the accompanying financial statements using the straight-line method based on the weighted-average remaining lease lives. Maintenance and repairs are charged to expense as incurred, and costs of renewals or betterments are capitalized and depreciated at the appropriate rates.

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(A Delaware Limited Liability Company)
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(A Delaware Limited Liability Company)
Notes to the Combined Financial Statements
December 31, 2013 and 2012 (unaudited) and 2011 (unaudited)

IMPAIRMENT OF LONG-LIVED ASSETS—In accordance with accounting guidance for long-lived assets, the properties are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If indications of impairment exist, the Companies will evaluate the properties by comparing the carrying amount of the properties to the estimated future undiscounted cash flows of the properties. If impairment exists, an impairment loss will be recognized based on the amount by which the carrying amount exceeds the fair value of the properties. For the periods ended December 31, 2013, 2012 (unaudited), and 2011 (unaudited), there were no impairments recorded.

CONCENTRATION OF RISK—The Companies' real estate is located in California. Adverse conditions in the sector or geographic location would likely result in a material decline in the value of the Companies investment.

DEFERRED FINANCING COSTS, NET—Financing costs incurred in obtaining long-term debt are capitalized and amortized over the term of the related debt on a straight-line basis.

INCOME TAXES—As LLC's, the members elected for the Companies to be pass-through entities for income tax purposes; therefore, the Companies' taxable income or loss is allocated to members in accordance with their respective ownership, and no provision or liability for income taxes has been included in the combined financial statements. Management has evaluated the Companies tax positions and concluded that the Companies have taken no uncertain tax positions that require adjustment to the combined financial statements in order to comply with the provisions of this guidance.

FAIR VALUE MEASUREMENTS—The Companies follow the provisions of FASB ASC Topic 820, Fair Value Measurements and Disclosures, for fair value measurements of financial assets and financial liabilities and for fair value measurements of nonfinancial items that are recognized or disclosed at fair value in the combined financial statements on a recurring or nonrecurring basis. ASC Topic 820 defines fair value as the price that would be received to sell an asset or would be paid to transfer a liability (the exit price) in an orderly transaction between market participants at the measurement date.

A three-level hierarchy was established for fair value measurements that distinguishes between market participant assumptions developed based on market data obtained from sources independent of the reporting entity (observable inputs) and the reporting entity's own assumptions about market participant assumptions developed based on the best information available in the circumstances (unobservable inputs). The three hierarchy levels are defined as follows:

Level 1 - Valuations based on unadjusted quoted market prices in active markets for identical securities.

Level 2 - Valuations based on observable inputs (other than Level 1 prices), such as quoted prices for similar assets and quoted prices in markets that are not active.

Level 3 - Valuations based on inputs that are unobservable and significant to the overall fair value measurement, and involve management judgment.

For certain financial instruments, including cash, tenant receivables, escrows and deposits, prepaid expenses, accounts payable and accrued expenses, prepaid rent, and tenant deposits, recorded amounts approximate fair value due to the relatively short-term nature of these instruments.

The Companies have no assets or liabilities measured at fair value on a recurring or nonrecurring basis in the financial statements as of December 31, 2013 and 2012 (unaudited).

NOTE 3—REAL ESTATE ACQUISTION

The fair value of the Properties was allocated to the acquired tangible assets, consisting primarily of land and buildings, and to the identified acquired intangible assets, which comprise in-place leases, above-market leases and below-market leases, in accordance with Business Combinations ASC Subtopic 805-10. Acquisition related costs were expensed as incurred.

Upon their respective purchases in 2008, the fair value of real estate was determined by valuing the Properties as if they were vacant, which was then allocated to land and buildings and improvements, based on management's determination of the relative fair values of these assets. The value of the acquired in-place leases was determined by calculating the present value of the cash flows provided by the leases, net of related incremental expenses over the estimated lease-up period. As of December 31, 2013 and 2012 (unaudited), no amount of intangible assets is capitalized and subject to amortization related to leases that were in-place upon acquisition in 2008.

KW Funds-303 North Glenoaks, LLC
(A Delaware Limited Liability Company)
and KW Funds-6100 Wilshire, LLC
(A Delaware Limited Liability Company)
Notes to the Combined Financial Statements
December 31, 2013 and 2012 (unaudited) and 2011 (unaudited)

NOTE 4—MORTGAGES PAYABLE

The Properties have mortgage loans payable to third-party financial institutions, which are secured by the Glenoaks Property and the Wilshire Property. The mortgages bear an interest rate of LIBOR + 4.0% and mature on October 31, 2014. The loans are subject to a repayment fee of $911,198 that is due at the time the loans are repaid. An accrual for this obligation is recorded in accounts payable and accrued expenses in the accompanying combined balance sheets as of December 31, 2013 and 2012 (unaudited). The Companies intend to extend the terms of these mortgages in 2014.

During 2013, the Companies repaid off $16,550,000 of mortgage loan payable using funds received from contributions from Members. This second mortgage on the combined Properties bore interest at a rate of 11.0%.

The fair value of the debt as of December 31, 2013 and 2012 was $71,841,609 and $89,462,726 (unaudited), respectively. The fair value was estimated based on the quoted market prices for the same or similar issues for debt of the same remaining maturities as well as the credit quality of the Companies. Although the Companies have determined that the majority of the inputs used to value the mortgage fall within Level 2 of the fair value hierarchy, the assessment of the Companies' credit quality associated with the valuation utilized Level 3 inputs. However, the Companies assessed the significance of the impact of the Level 3 inputs on the overall valuation of the liability and determined that it is not significant to the overall valuation of the mortgage. As a result, the Companies have determined that its mortgage payable valuation in its entirety be classified in Level 2 of the fair value hierarchy, as defined in note 2. The fair value amount does not necessarily represent the amount that would be required to satisfy the debt obligation.

NOTE 5 - TENANT CONCENTRATIONS

The top two tenants accounted for approximately $1.9 million and $1.4 million, or 17.1% and 12.8%, respectively, of the Companies combined rental income for the year ended December 31, 2013. No other tenant comprised more than 10% of the Companies' combined rental income for the year ended December 31, 2013.

NOTE 6—MINIMUM FUTURE LEASE RENTALS

The following is a schedule of future minimum rents to be received under noncancellable operating leases as of December 31, 2013:

| | |
|---|---|
| 2014 | $9,949,898 |
| 2015 | 8,014,866 |
| 2016 | 5,422,778 |
| 2017 | 4,054,895 |
| 2018 | 2,732,324 |
| Thereafter | 3,107,726 |
| Total | $33,282,487 |

Contractual rents are normally increased over the term of the lease. Depending on local market factors, increases may be structured as a fixed percentage increase for each year of the lease or as an increase based on the Consumer Price Index. Also, concessions in the form of free rent may sometimes be provided. Such determinable changes in contractual rents are recognized on a straight line basis over the life of the lease.

In addition to base rent, most tenants are assessed monthly for their proportionate share of estimated net increases in property operating costs and real property taxes. Such expense reimbursements are typically amounts in excess of the tenant's share of expenses attributable to a base year stipulated in the lease.

NOTE 7—TRANSACTIONS WITH THE AFFILIATES

Affiliates receive leasing commissions, a management fee, a construction management fee, reimbursements for certain billed management and administrative related costs.

KW Funds-303 North Glenoaks, LLC
(A Delaware Limited Liability Company)
and KW Funds-6100 Wilshire, LLC
(A Delaware Limited Liability Company)
Notes to the Combined Financial Statements
December 31, 2013 and 2012 (unaudited) and 2011 (unaudited)

Fees earned and reimbursements received by Kennedy-Wilson Holdings, Inc. and its affiliates were as follows:

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2013 | 2012 (unaudited) | 2011 (unaudited) |
| Management fees | $367,275 | $316,572 | $273,225 |
| Leasing commissions | 62,917 | 46,315 | 32,806 |
| Construction management | 60,492 | 81,772 | 13,970 |
| | $490,684 | $444,659 | $320,001 |

As of December 31, 2013, Glenoaks owed a related affiliate $177,376 which is included in accounts payable and accrued expenses on the combined balance sheet. As of December 31, 2013 and 2012, the outstanding balance due to affiliates was $31,447 and $60,476 (unaudited), respectively, and included in accounts payable and accrued expenses on the combined balance sheets.

The construction supervision fees and leasing fees are capitalized to tenant improvements and deferred leasing costs, respectively.

NOTE 8—COMMITMENTS AND CONTINGENCIES

Liabilities for loss contingencies arising from claims, assessments, litigation, fines, and penalties and other sources are recorded when it is probable that a liability has been incurred and the amount can be reasonably estimated. Legal costs incurred in connection with loss contingencies are expensed as incurred. Currently, the Companies do not have any material commitments or contingencies.

NOTE 9—MEMBERS' CAPITAL

The below details the Members Capital accounts related to each of the Companies for the following periods:

| | KW Funds-303 North Glenoaks, LLC | KW Funds-6100 Wilshire, LLC | Total |
|---|---|---|---|
| Balance, December 31, 2010 (unaudited) | 16,114,996 | 17,278,446 | 33,393,442 |
| Contributions from members (unaudited) | 791,774 | 11,534,435 | 12,326,209 |
| Distributions to members (unaudited) | (676,940) | — | (676,940) |
| Net loss (unaudited) | (968,135) | (3,158,829) | (4,126,964) |
| Balance, December 31, 2011 (unaudited) | 15,261,695 | 25,654,052 | 40,915,747 |
| Contributions from members (unaudited) | — | 527,146 | 527,146 |
| Distributions to members (unaudited) | (200,000) | — | (200,000) |
| Net loss (unaudited) | (895,167) | (2,939,480) | (3,834,647) |
| Balance, December 31, 2012 (unaudited) | 14,166,528 | 23,241,718 | 37,408,246 |
| Contributions | 4,261,000 | 12,750,000 | 17,011,000 |
| Distributions | (560,698) | (769,040) | (1,329,738) |
| Net loss | (705,671) | (2,231,852) | (2,937,523) |
| Balance, December 31, 2013 | $17,161,159 | $32,990,826 | $50,151,985 |

NOTE 10—SUBSEQUENT EVENTS

Management has evaluated all subsequent events through March 31, 2014, the date that the financial statements are available for issuance.

Independent Auditors' Report

The Members
Bay Area Smart Growth Fund II, LLC:

We have audited the accompanying financial statements of Bay Area Smart Growth Fund II, LLC which comprise the balance sheet as of December 31, 2012, and the related statements of operations, members' equity, and cash flows for each of the years in the two-year period then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly in all material respects, the financial position of Bay Area Smart Growth Fund II, LLC as of December 31, 2012, and the results of its operations and its cash flows for each of the years in the two-year period then ended, in accordance with U.S. generally accepted accounting principles.

The accompanying balance sheet of Bay Area Smart Growth Fund II, LLC as of December 31, 2013, and the related statement of operations, members' equity, and cash flows for the year ended December 31, 2013 were not audited by us and accordingly, we do not express an opinion on them.

/s/ KPMG LLP

Dallas, Texas
March 21, 2013

BAY AREA SMART GROWTH FUND II, LLC
(A Delaware Limited Liability Company)
Balance Sheets

| | December 31, 2013 (unaudited) | 2012 |
|---|---|---|
| Assets | | |
| Investments in unconsolidated real estate entities (note 3) | $23,474,790 | $21,445,083 |
| Cash and cash equivalents | 80,550 | 133,144 |
| Accounts receivable | — | 5,148 |
| Prepaid expenses and other assets | 4,805 | 5,740 |
| Total assets | $23,560,145 | $21,589,115 |
| Liabilities and members' equity | | |
| Liabilities | | |
| Accrued expenses (note 4) | $859,164 | $419,296 |
| Note payable to affiliate (note 4) | 2,544,080 | — |
| Total liabilities | 3,403,244 | 419,296 |
| Commitments and contingencies (note 5) | | |
| Members' equity | 20,156,901 | 21,169,819 |
| Total liabilities and members' equity | $23,560,145 | $21,589,115 |

See accompanying notes to the financial statements

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BAY AREA SMART GROWTH FUND II, LLC
(A Delaware Limited Liability Company)
Statements of Operations

| | Year ended December 31, | | |
|---|---|---|---|
| | 2013 | 2012 | 2011 |
| Revenues: | (unaudited) | | |
| Interest income | $— | $57,940 | $— |
| Total revenues | — | 57,940 | — |
| Expenses: | | | |
| General,administrative and other | 85,741 | 121,577 | 106,667 |
| Management fees (note 4) | 665,357 | 667,179 | 674,470 |
| Interest expense (note 4) | 231,511 | — | 57,386 |
| Total expenses | 982,609 | 788,756 | 838,523 |
| Equity in loss from investments in unconsolidated real estate entities (note 3) | (30,309) | (315,193) | (604,819) |
| Net realized loss on disposition of investment in unconsolidated real estate entity (note 3) | — | — | (2,359,686) |
| Net loss | $(1,012,918) | $(1,046,009) | $(3,803,028) |

See accompanying notes to the financial statements

BAY AREA SMART GROWTH FUND II, LLC
(A Delaware Limited Liability Company)
Statements of Members' Equity

| | Managing Member | Nonmanaging Members | Special Member | Total |
|---|---|---|---|---|
| Balance, December 31, 2010 (unaudited) | $1,300,943 | $24,717,913 | $— | $26,018,856 |
| Net loss | (190,152) | (3,612,876) | — | (3,803,028) |
| Balance, December 31, 2011 | 1,110,791 | 21,105,037 | — | 22,215,828 |
| Transfer of nonmanaging member interests to managing member (note 1) | 10,508,731 | (10,508,731) | — | — |
| Net loss | (76,797) | (969,212) | — | (1,046,009) |
| Balance, December 31, 2012 | 11,542,725 | 9,627,094 | — | 21,169,819 |
| Net loss (unaudited) | (552,288) | (460,630) | — | (1,012,918) |
| Balance, December 31, 2013 (unaudited) | $10,990,437 | $9,166,464 | $— | $20,156,901 |

See accompanying notes to the financial statements

BAY AREA SMART GROWTH FUND II, LLC
(A Delaware Limited Liability Company)
Statements of Cash Flows

| | Year ended December 31, 2013 (unaudited) | 2012 | 2011 |
|---|---|---|---|
| Cash flows from operating activities: | | | |
| Net loss | $(1,012,918) | $(1,046,009) | $(3,803,028) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | | |
| Realized loss on disposition of investment in unconsolidated real estate entity | — | — | 2,359,686 |
| Equity in loss from investments in unconsolidated real estate entities | 30,309 | 315,193 | 604,819 |
| Change in assets and liabilities: | | | |
| Accounts receivable | 5,148 | (5,148) | — |
| Prepaid expenses and other assets | 935 | 167,256 | (157,871) |
| Accrued expenses | 439,868 | 419,296 | (1,043,930) |
| Net cash flow used in operating activities | (536,658) | (149,412) | (2,040,324) |
| Cash flows from investing activities: | | | |
| Advances under note receivable from affiliate | — | — | (1,209,428) |
| Repayment of note receivable from affiliate | — | 1,209,428 | — |
| Contributions to unconsolidated real estate entities | (2,550,761) | (1,203,294) | (2,783,867) |
| Distributions from unconsolidated real estate entities | 490,745 | 257,619 | — |
| Proceeds from disposition of investment in unconsolidated real estate entity | — | — | 7,000,000 |
| Net cash flow (used in) provided by investing activities | (2,060,016) | 263,753 | 3,006,705 |
| Cash flow from financing activities: | | | |
| Proceeds from note payable | 2,544,080 | — | — |
| Repayments of note payable | — | — | (947,678) |
| Net cash flow provided by (used in) financing activities | 2,544,080 | — | (947,678) |
| Net (decrease) increase in cash and cash equivalents | (52,594) | 114,341 | 18,703 |
| Cash and cash equivalents, beginning of year | 133,144 | 18,803 | 100 |
| Cash and cash equivalents, end of year | $80,550 | $133,144 | $18,803 |
| Supplemental disclosure of noncash financing activities: | | | |
| Cash paid for interest | $— | $— | $109,662 |

See accompanying notes to the financial statements

BAY AREA SMART GROWTH FUND II, LLC
(A Delaware Limited Liability Company)
Notes to the Financial Statements
December 31, 2013 (unaudited), 2012, and 2011

NOTE 1—ORGANIZATION

Bay Area Smart Growth Fund II, LLC, a Delaware Limited Liability Company (the Company) was formed by and among KW BASGF II Manager, LLC, a Delaware limited liability company (Managing Member); Pacific National Bank, Far East National Bank, First Bank, Union Bank, United Commercial Bank, US Bank National Association, Washington Mutual Community Development, Inc. and Mechanics Bank (collectively, the Nonmanaging Members); and Bay Area Council, a California nonprofit corporation (Special Member); collectively, the Members. The Company was formed upon the filing of the Company's Certificate of Formation in the office of the Secretary of State of the State of Delaware on February 5, 2007. The term of the Company initially extends to August 31, 2016 and can be extended to facilitate the realization of investments.

The Company was formed to invest in retail, office, commercial and industrial projects, and in multi-family housing projects. The purposes of the Company are to achieve double bottom line fund returns (i.e., produce a risk-adjusted market rate of return for members while generating positive economic, social and environmental benefits for the neighborhoods that are within the San Francisco Bay Area region, the Double Bottom Line).

The Managing Member of the Company is an affiliate of Kennedy-Wilson, Inc. (KWI). It is anticipated that the Company will form and be the sole member of separate limited liability companies to purchase real estate interests.

Cumulative capital contributions and commitments were as follows as of December 31, 2013 and 2012:

| | 2013 (unaudited) | 2012 |
|---|---|---|
| KW BASGF II Manager, LLC | $14,312,483 | $14,312,483 |
| Far East National Bank | 3,000,000 | 3,000,000 |
| First Bank | 1,000,000 | 1,000,000 |
| Union Bank | 2,624,967 | 2,624,967 |
| East West Bank (formerly United Commercial Bank) | 3,000,000 | 3,000,000 |
| US Bank National Association | 1,312,221 | 1,312,221 |
| Mechanics Bank | 1,000,000 | 1,000,000 |
| | $26,249,671 | $26,249,671 |

During 2010, the original members, United Commercial Bank and Pacific National Bank, were taken over by East West Bank and US Bank, respectively. Due to an agreement between US Bank and FDIC, Pacific National Bank's investment in the Company was transferred to FDIC. During 2012, the interests of FDIC (as Receiver for Pacific National Bank) and JP Morgan Chase (formerly Washington Mutual Community Development, Inc.) were transferred to KW BASG II Manager, LLC.

Distributions of investment proceeds to the Members are calculated and made with respect to each investment made by the Company generally as follows:

a) First to the Members pro rata in proportion to, and to the extent of, the amount necessary so that each Member has received on a cumulative basis an amount equal to 100% of such Members invested capital with respect to such investment.

b) Then, to the Members pro rata in proportion to and to the extent of the amount necessary so that each such Member has received on a cumulative basis an amount equal to a preferred rate of return on the Member's Capital with respect to such investment at the rate of ten percent (10%) per annum compounded annually.

c) Then, pari passu 79% to the Managing Member, 8.316% to the Special Member, and 12.684% to Members in proportion to capital contributions until such time as the Managing Member has received 19% of the amounts distributed to the Members pursuant to paragraph (b) above and this paragraph (c), and the Special Member has received 2% of the amounts distributed to the Members pursuant to paragraph (b) above and this paragraph (c).

d) Thereafter, pari passu 79% to all Members in proportion to capital contributions, 19% to the Managing Member, and 2% to the Special Member.

Any other cash or other property received by the Company shall be allocated among, and distributed to, the Members in a manner determined by the Managing Member to be fair and equitable to the Members and as nearly as practicable to the provisions above.

BAY AREA SMART GROWTH FUND II, LLC
(A Delaware Limited Liability Company)
Notes to the Financial Statements
December 31, 2013 (unaudited), 2012, and 2011

The Members have agreed to allocate income and loss for financial reporting purposes in a manner which they believe reflects the Members' respective economic interests in the total reported Members' capital of the Company as of and for each year ended December 31.

NOTE 2—SIGNIFICANT ACCOUNTING POLICIES

MANAGEMENT ESTIMATES—The preparation of the accompanying financial statements in conformity with U.S. generally accepted accounting principles (U.S. GAAP) requires management to make estimates and assumptions about future events. These estimates and the underlying assumptions affect the amounts of assets and liabilities reported, and the reported amounts of income and expenses. Management evaluates its estimates and assumptions on an ongoing basis using historical experience and other factors, including the current economic environment, which management believes to be reasonable under the circumstances. Such estimates and assumptions are adjusted when facts and circumstances dictate. As future events and their effects cannot be determined with precision, actual results could differ significantly from these estimates. Changes in those estimates resulting from continuing changes in the economic environment will be reflected in the financial statements in future periods.

PRINCIPLES OF CONSOLIDATION—The Company consolidates entities in which it holds a greater than 50% voting interest, or when certain conditions are met for variable interest entities. The Company has no involvement with variable interest entities. The Company accounts for investments over which it has significant influence but not a controlling financial interest using the equity method of accounting.

ORGANIZATION OF LIMITED LIABILITY COMPANIES—The limited liability companies (LLCs) within the accompanying financial statements will continue in existence until dissolved in accordance with the provisions of their operating agreements and are funded through the equity contributions of the members. As LLCs, except as may otherwise be provided under applicable law, no member shall be bound by, or personally liable for, the expenses, liabilities, or obligations of the individual companies. The members are not obligated to restore capital deficits.

INVESTMENTS IN UNCONSOLIDATED REAL ESTATE ENTITIES—In accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 323, Investment —Equity Method and Joint Ventures, unconsolidated equity method investments are initially recorded at cost and subsequently are adjusted for the Company's share of the venture's earnings or losses and cash distributions.

In accordance with the guidance, the allocation of profit and losses should be analyzed to determine how an increase or decrease in net assets (determined in conformity with GAAP) will affect cash payments to the investor over the life of the entity and on its liquidation. Because certain agreements contain preferences with regard to cash flows from operations, capital events and/or liquidation, the Company reflects its share of profits and losses by determining the difference between its “claim on the investee's book value” at the end and the beginning of the period. This claim is calculated as the amount that the Company would receive (or be obligated to pay) if the investee were to liquidate all of its assets at recorded amounts determined in accordance with GAAP and distribute the resulting cash to creditors and investors in accordance with their respective priorities. This method is commonly referred to as the hypothetical liquidation at book value method.

Costs incurred in connection with the acquisition of investments in unconsolidated real estate entities are capitalized as part of the Company's basis in the investments in the entities. The Company amortizes any excess of the carrying value of its investments over the book value of the underlying equity over the estimated useful lives of the underlying operating property, which represents the assets to which the excess is most clearly related.

On a periodic basis, the Company assesses whether there are any indicators that the value of its investments may be impaired. An investment is impaired only if management's estimate of the value of the investment is less than the carrying value of the investments, and such decline in value is deemed to be other-than-temporary. To the extent impairment has occurred, the loss shall be measured as the excess of the carrying amount of the investment over the estimated fair value of the investment. The Company's estimates of estimated fair value for each investment are based

on a number of assumptions that are subject to economic and market uncertainties including, among others, demand for space, competition for tenants, changes in market rental rates and operating costs of the property. As these factors are difficult to predict and are subject to future events that may alter these assumptions, the values estimated by the Company in its impairment analysis may not be realized. During the year ended December 31, 2011, the Company recognized a loss on the transfer of a portion of its interest in the Bay Fund Opportunity, LLC of $2,359,686 (see note 3). As of December 31, 2013 (unaudited) and 2012, the Company determined there was no impairment related to the investments in unconsolidated real estate entities.
CASH AND CASH EQUIVALENTS—Cash and cash equivalents include highly liquid investments purchased with a maturity of three months or less. Periodically, the Company maintains cash balances in various bank accounts in excess of federally

BAY AREA SMART GROWTH FUND II, LLC
(A Delaware Limited Liability Company)
Notes to the Financial Statements
December 31, 2013 (unaudited), 2012, and 2011

insured limits. To date, no losses have been experienced related to such amounts. The Company places cash with quality financial institutions and does not believe there is a significant concentration of credit risk.

INCOME TAX MATTERS—As a limited liability company, the members elected for the Company to be a pass through entity for income tax purposes; therefore, the Company's taxable income or loss is allocated to members in accordance with their respective ownership, and no provision or liability for income taxes has been included in the financial statements.

Management has evaluated the Company's tax positions and concluded that the Company had taken no uncertain tax positions that require adjustment to the financial statements in order to comply with the provisions of this guidance. The Company is not subject to income tax examinations by U.S. federal, state or local tax authorities for years before 2010 (unaudited).

CONCENTRATION OF RISK—The Partnership's real estate is located in California. Adverse conditions in the sector or geographic location would likely result in a material decline in the value of the Partnership's investment.

NOTE 3—INVESTMENTS IN UNCONSOLIDATED REAL ESTATE ENTITIES

During 2008, the Company acquired a member's interest in the following unconsolidated real estate entities: 300 California Partners, LLC (300 California) and Marina Shores and Marina Cove. The Company acquired its interests in these entities in May 2008 and June 2008, respectively.

300 California is a venture between the Company and two other members affiliated through common management and a common investor. 300 California owns and leases an office building located in San Francisco, California.

300 California had a mortgage note payable that had a balance of $37,537,646 (unaudited) at its original maturity date in August 2010 and at December 31, 2010. This loan was extended to November 14, 2013 with a required $2,000,000 paydown made January 14, 2011 and a required $3,000,000 letter of credit also provided January 14, 2011. The $2,000,000 paydown was funded by a short-term loan from Kennedy-Wilson Holdings, Inc., an affiliate of the Managing Member to the property. This short-term loan was paid off from capital contributions from the investors in 2011. The maturity date of the mortgage note has been extended to November 15, 2015. As part of the modification 300 California is required to make principal payments of $1,500,000 (unaudited) on September 1, 2014 and December 1, 2014 and monthly payments of $273,000 (unaudited) from January 1, 2015 to November 1, 2015 (unaudited). The latest modification also allowed for the release of the $3,000,000 (unaudited) letter of credit that was provided on January 14, 2011 and increased the total guaranteed principal amount from the Members to $8,884,000 (unaudited). The mortgages bear an interest rate of three month LIBOR + 2.75% (unaudited). Management will use a combination of additional capital from investors and the Partnership's existing cash balances to make these pay downs as required.

Marina Shores and Marina Cove each separately own a multifamily housing complex, both of which are located in Richmond, California, and are in close proximity to one another. Marina Shores and Marina Cove are under common management and ownership. On May 4, 2011, the Company sold 24.07% of its interest in Bay Fund Opportunity, LLC for $7,000,000 to an affiliate of the Managing Member, reducing the Company's interest from 55.83% to 31.76%. The transfer of interest resulted in a realized loss on disposition of $2,359,686, which is shown on the 2011 statement of operations as a net realized loss on disposition of investment in unconsolidated real estate entity. On December 2, 2011, the mortgage notes payable secured by Marina Cove and Marina Shores were extended to June 26, 2013 with a required principal paydown of $6,358,937, which was funded by capital contributions from other investors in Bay Fund Opportunity, LLC. These capital contributions reduced the Company's interest from 31.76% to 25.96%. On March 28, 2013, management of the Company refinanced the existing mortgages with new mortgages that totaled $48,400,000 (unaudited) and $9,368,173 (unaudited) of additional capital contributions from the members of the joint venture. The new mortgages bear an interest rate of three month LIBOR + 2.5% (unaudited) and mature on May 1, 2018 (unaudited).

The following presents summarized financial information of the unconsolidated real estate entities as of and for the year ended December 31, 2013 (unaudited):

BAY AREA SMART GROWTH FUND II, LLC
(A Delaware Limited Liability Company)
Notes to the Financial Statements
December 31, 2013 (unaudited), 2012, and 2011

| | 300 California | Marina Cove and Marina Shores | Total |
|---|---|---|---|
| Land and buildings | $61,228,091 | $97,738,650 | $158,966,741 |
| Other assets | 1,528,946 | 3,147,384 | 4,676,330 |
| Mortgage loans | (35,537,646) | (47,610,010) | (83,147,656) |
| Other liabilities | (924,004) | (2,251,728) | (3,175,732) |
| Net assets | $26,295,387 | $51,024,296 | $77,319,683 |
| Company's share of net assets | $10,228,914 | $13,245,876 | $23,474,790 |
| Operating revenues | $4,423,938 | $8,647,554 | $13,071,492 |
| Property operating expenses | (3,138,647) | (6,873,573) | (10,012,220) |
| Rental operations, net | 1,285,291 | 1,773,981 | 3,059,272 |
| Non operating expense, net | (38,437) | (284,998) | (323,435) |
| Interest expense | (1,196,177) | (1,670,956) | (2,867,133) |
| Net income (loss) | $50,677 | $(181,973) | $(131,296) |
| Company's share of net income (loss) | $16,930 | $(47,239) | $(30,309) |

The following presents summarized financial information of the unconsolidated real estate entities as of and for the year ended December 31, 2012:

| | 300 California | Marina Cove and Marina Shores | Total |
|---|---|---|---|
| Land and buildings | $61,789,366 | $99,943,650 | $161,733,016 |
| Other assets | 1,656,197 | 2,393,175 | 4,049,372 |
| Mortgage loans | (35,537,646) | (57,998,348) | (93,535,994) |
| Other liabilities | (758,207) | (2,232,209) | (2,990,416) |
| Net assets | $27,149,710 | $42,106,268 | $69,255,978 |
| Company's share of net assets | $10,514,317 | $10,930,766 | $21,445,083 |
| Operating revenues | $3,506,476 | $8,088,922 | $11,595,398 |
| Property operating expenses | (2,696,149) | (6,590,804) | (9,286,953) |
| Rental operations, net | 810,327 | 1,498,118 | 2,308,445 |
| Non operating expense, net | (25,335) | (288,133) | (313,468) |
| Interest expense | (1,311,550) | (1,746,528) | (3,058,078) |
| Net loss | $(526,558) | $(536,543) | $(1,063,101) |
| Company's share of net loss | $(175,906) | $(139,287) | $(315,193) |

The following presents summarized income statement of the unconsolidated real estate entities as of and for the year ended December 31, 2011:

BAY AREA SMART GROWTH FUND II, LLC
(A Delaware Limited Liability Company)
Notes to the Financial Statements
December 31, 2013 (unaudited), 2012, and 2011

| | 300 California | Marina Cove and Marina Shores | Total |
|---|---|---|---|
| Operating revenues | $2,056,010 | $7,711,417 | $9,767,427 |
| Property operating expenses | (2,103,605) | (6,198,017) | (8,301,622) |
| Rental operations, net | (47,595) | 1,513,400 | 1,465,805 |
| Non operating (loss) income, net | (15,400) | 341,195 | 325,795 |
| Interest expense | (1,314,783) | (2,676,208) | (3,990,991) |
| Net loss | $(1,377,778) | $(821,613) | $(2,199,391) |
| Company's share of net loss | $(460,272) | $(144,547) | $(604,819) |

NOTE 4—TRANSACTIONS WITH THE MANAGING MEMBER AND AFFILIATES

The limited liability agreement provides for the Managing Member to be paid a fund management fee in advance on the first day of each calendar quarter in the amount of 2% per annum of the aggregate capital commitments for all Members as of such date less aggregate repaid capital of all Members, and for the Special Member to be paid an advisory fee of 0.5% on the same terms. However, the management fee paid to the Managing Member shall not be less than $320,000 per year, and the Special Member fee shall not be less than $80,000 per year if the total fair value of all real property interests held directly or indirectly by the Company is at least $50,000,000; and the management fee paid to the Managing Member shall not be less than $600,000 per year and the Special Member fee shall not be less than $150,000 if the total fair value of all real property interests held directly or indirectly by the Company is at least $100,000,000.

It is contemplated that an affiliate of the Managing Member may perform property management services and/or construction management services for the Company. The compensation and other terms for such services provided shall be at rates and on terms which are no less favorable to the Company than the prevailing market rates and terms for such services obtained on an arm's-length basis in the applicable market area. Affiliates of the Managing Member may also perform development management services for the Company.

During 2013, 2012, and 2011, the Managing Member earned $532,285 (unaudited), $533,743, and $539,576 in fund management fees and the Special Member earned $133,072 (unaudited), $133,436, and $134,894 in advisory fees, respectively. Fund management fees and advisory fees are reflected in management fees on the statement of operations. As of December 31, 2013, $502,122 (unaudited), and $125,530 (unaudited) in fund management and advisory fees were due to the Managing Member and the Special Member, respectively, and are reflected in accrued expenses on the accompanying balance sheet. As of December 31, 2012, $319,037 and $100,259 in fund management and advisory fees were due to the Managing Member and the Special Member, respectively and are reflected in accrued expenses on the accompanying balance sheet.

During 2013, the Company borrowed $2,544,080 (unaudited) from Kennedy-Wilson Holdings, Inc. an affiliate of the Managing Member in order to fund capital contributions to Marina Cove and Marina Shores. The loan bears interest of 12% (unaudited) and is due on August 31, 2016 (unaudited).

During 2011, the Company advanced $1,209,428 to KW Property Fund II, L.P. (an affiliate of the Managing Member) in order to fund follow-on investments in 300 California. The amount was subject to a promissory note with a maximum amount of the $1,500,000 bearing interest at a rate of 15% per annum on the principal balance and a maturity date of June 30, 2012. This note was paid off in its entirety during 2012 along with interest in the amount of $57,940, which is included in interest income on the statement of operations.

During 2010, the Company borrowed funds from Kennedy-Wilson Holdings, Inc, an affiliate of the Managing Member in order to fund investment requirements and general and administrative expenses. On November 2, 2010, a promissory note was executed to document these borrowings with a $1,000,000 maximum bearing 10% interest per annum on the funded amount and a maturity date of December 31, 2011. This note was paid off in full on May 5,

2011. Interest expense on this note in the amount of $57,386 is included in the 2011 statement of operations as interest expense.

In addition, the Company paid an affiliate of the Managing Member reimbursements for administrative and accounting services in connection with the annual audits. These reimbursements were $7,500 per year for each of the years ended December 31, 2013 (unaudited), 2012, and 2011.

BAY AREA SMART GROWTH FUND II, LLC
(A Delaware Limited Liability Company)
Notes to the Financial Statements
December 31, 2013 (unaudited), 2012, and 2011

NOTE 5—COMMITTTMENT AND CONTINGENCIES

Liabilities for loss contingencies arising from claims, assessments, litigation, fines, and penalties and other sources are recorded when it is probable that a liability has been incurred and the amount can be reasonably estimated. Legal costs incurred in connection with loss contingencies are expensed as incurred. Currently, the Company does not have any material commitments or contingencies.

NOTE 6—SUBSEQUENT EVENTS

In preparing these financial statements, the Company has evaluated events and transactions for potential recognition and disclosure through March 31, 2014, the date at which the financial statements were available to be issued, and determined there are no other items to disclose.

# Independent Auditor's Report

The Partners
KWF Real Estate Venture X, L.P.:

## Report on the Financial Statements

We have audited the accompanying consolidated financial statements of KWF Real Estate Venture X, L.P. and its subsidiaries (the Partnership), which comprise the consolidated balance sheet as of December 31, 2013, and the related consolidated statements of operations, partners' capital, and cash flows for the year ended December 31, 2013, and the related notes to the consolidated financial statements.

## Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

## Auditor's Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Opinion

In our opinion, the consolidated financial statements referred to above present fairly in all material respects, the financial position of KWF Real Estate Venture X, L.P. and its subsidiaries as of December 31, 2013, and the results of their operations and their cash flows for the year ended December 31, 2013 in accordance with U.S. generally accepted accounting principles.

/s/ KPMG
Dublin, Ireland
March 28, 2014

KWF REAL ESTATE VENTURE X. L.P.
(A Delaware Limited Partnership)
AND SUBSIDIARIES
Consolidated Balance Sheets
December 31, 2013 and 2012

| | 2013 | 2012 |
|---|---|---|
| Assets | | (unaudited) |
| Real Estate: | | |
| Land | €22,900,000 | — |
| Buildings and improvements | 85,388,709 | — |
| | 108,288,709 | — |
| Accumulated depreciation | (1,509,243) | — |
| Real estate, net | 106,779,466 | — |
| | | |
| Acquired in-place lease value, net of accumulated amortization of €504,220 | 9,947,780 | — |
| Acquired intangible for above market leases, net of accumulated amortization of €654,152 | 12,905,848 | — |
| Cash | 51,864 | 3,808,301 |
| Restricted cash | 75,002 | — |
| Notes receivable | — | 106,921,596 |
| Deferred financing fees, net of accumulated amortization of €284,458 and €13,104 | 1,072,275 | 1,340,956 |
| Accounts receivable | 118,821 | — |
| Prepaid expenses | 11,349 | — |
| Derivative financial instrument | 440,192 | 421,027 |
| Total assets | €131,402,597 | 112,491,880 |
| Liabilities and Partners' Capital | | |
| Mortgage loan payable | €52,785,000 | 54,000,000 |
| Prepaid rent and accounts payable | 116,556 | — |
| Accrued expenses | 1,230,779 | 184,847 |
| Income tax payable | 70,777 | — |
| Other liabilities | — | 2,250,000 |
| Total liabilities | 54,203,112 | 56,434,847 |
| | | |
| Commitments and contingencies (note 8) | — | — |
| Partners' capital | 77,199,485 | 56,057,033 |
| Total liabilities and partners' capital | €131,402,597 | 112,491,880 |

See accompanying notes to the consolidated financial statements.

KWF REAL ESTATE VENTURE X, L.P.
(A Delaware Limited Partnership)
AND SUBSIDIARIES
Consolidated Statements of Operations
Year ended December 31, 2013 and period from November 13, 2012 (inception) through December 31, 2012

| | 2013 | 2012 (unaudited) |
|---|---|---|
| Revenues: | | |
| Rental | €4,315,387 | — |
| Interest | 1,919,236 | 424,930 |
| Operating expense recoveries | 39,086 | — |
| Total revenues | 6,273,709 | 424,930 |
| Operating expenses: | | |
| Repairs and maintenance | 482,979 | — |
| Asset management fees | 272,536 | 24,737 |
| General and administrative | 458,369 | 17,459 |
| Insurance | 16,455 | — |
| Depreciation | 1,509,243 | — |
| Amortization, deferred financing fees | 271,354 | 13,104 |
| Amortization, in-place leases | 504,220 | — |
| Total operating expenses | 3,515,156 | 55,300 |
| Other income and expenses: | | |
| Gain on foreclosure, net of acquisition costs of €2,211,571 | 23,006,833 | — |
| Interest expense | (2,604,294) | (126,630) |
| Change in value of derivative financial instrument | 19,165 | (133,973) |
| Net income before income taxes | 23,180,257 | 109,027 |
| Income taxes | (70,777) | (27,257) |
| Net income after income taxes | €23,109,480 | 81,770 |

See accompanying notes to the consolidated financial statements.

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KWF REAL ESTATE VENTURE X, L.P.
(A Delaware Limited Partnership)
AND SUBSIDIARIES
Consolidated Statement of Partners' Capital
Year ended December 31, 2013 and period from November 13, 2012 (inception) through December 31, 2012

| | KW Limited Partner | FF Limited Partner | Total |
|---|---|---|---|
| Balance, November 13, 2012 (inception) | €— | €— | €— |
| Contributions | 28,000,000 | 28,024,737 | 56,024,737 |
| Distributions | (24,737) | (24,737) | (49,474) |
| Net income after taxes | 40,885 | 40,885 | 81,770 |
| Balance, December 31, 2012 (unaudited) | 28,016,148 | 28,040,885 | 56,057,033 |
| Contributions | — | 137,028 | 137,028 |
| Distributions | (1,052,028) | (1,052,028) | (2,104,056) |
| Net income after taxes | 11,635,622 | 11,473,858 | 23,109,480 |
| Balance, December 31, 2013 | €38,599,742 | €38,599,743 | €77,199,485 |

See accompanying notes to the consolidated financial statements.

KWF REAL ESTATE VENTURE X, L.P.
(A Delaware Limited Partnership)
AND SUBSIDIARIES
Consolidated Statement of Cash Flows
Year ended December 31, 2013 and period from November 13, 2012 (inception) through December 31, 2012

| | 2013 | 2012 (unaudited) |
|---|---|---|
| Cash flows from operating activities: | | |
| Net income | €23,109,480 | 81,770 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Gain on foreclosure | (23,006,833) | — |
| Depreciation | 1,509,243 | — |
| Change in value of derivative financial instrument | (19,165) | 133,973 |
| Amortization of deferred financing fees | 271,354 | 13,104 |
| Amortization of acquired in-place lease intangible | 504,220 | — |
| Adjustment to revenue for above and below market leases | 654,152 | — |
| Change in operating assets and liabilities | — | — |
| Accounts receivable | (118,821) | — |
| Prepaid expenses | (11,349) | — |
| Prepaid rent and accounts payable | 116,556 | — |
| Accrued expenses | 1,045,932 | 184,847 |
| Income tax payable | 70,777 | — |
| Net cash provided by operating activities | 4,125,546 | 413,694 |
| Cash flows from investing activities: | | |
| Acquisition of notes receivable | — | (106,921,596) |
| Additions to real estate | (2,372,280) | — |
| Increase in restricted cash | (75,002) | — |
| Net cash used in investing activities | (2,447,282) | (106,921,596) |
| Cash flows from financing activities: | | |
| Contributions from partners | 137,028 | 56,024,737 |
| Distributions to partners | (2,104,056) | (49,474) |
| Payment made for derivative financial instrument | — | (555,000) |
| (Repayments) proceeds from affiliate loan | (2,250,000) | 2,250,000 |
| Payments made for financing fees | (2,673) | (1,354,060) |
| (Principal repayments) proceeds from mortgage loan | (1,215,000) | 54,000,000 |
| Net cash (used in) provided by financing activities | (5,434,701) | 110,316,203 |
| Net (decrease) increase in cash | (3,756,437) | 3,808,301 |
| Cash at beginning of period | 3,808,301 | — |
| Cash at end of period | €51,864 | 3,808,301 |
| | | |
| Supplemental disclosure of cash flow information: | | |
| Cash paid for interest | €2,215,537 | — |

Supplemental disclosure of non-cash investing activities:
During the year ended December 31, 2013, notes receivable of €106,921,596 were exchanged for real estate with a fair value of €132,140,000.
See accompanying notes to the consolidated financial statements.

KWF REAL ESTATE VENTURE X, L.P.
(A Delaware Limited Partnership)
AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
December 31, 2013 and 2012

(1) Organization

KWF Real Estate Venture X, L.P., a Delaware limited partnership (the Partnership) was formed by and between KWF Manager X, LLC, a Delaware limited liability company as the general partner (the General Partner), K-W Properties, a California corporation, as a limited partner (the KW Limited Partner), and Odyssey Reinsurance Company (the FF Limited Partner), a Connecticut corporation, as a limited partner. Collectively, the KW Limited Partner and the FF Limited Partner are referred to as the Limited Partners.

The Partnership was formed upon the filing of the Certificate of Limited Partnership with the office of the Secretary of the State of Delaware on November 13, 2012. The term of the Partnership extends until the earlier of (i) eight years after November 13, 2012, the date of the Limited Partnership Agreement of KWF Real Estate Venture X, L.P. (the Limited Partnership Agreement) or (ii) the date the partnership investment has been liquidated, the Partnership is dissolved, or at any time, there are no limited partners.

The business of the Partnership is to acquire, hold, manage, finance, and dispose of a real estate investment pursuant to the initial business plan in the Limited Partnership Agreement as amended thereafter by the Partners. The initial business plan provided for the acquisition of two mortgage loans in the principal amount of €120,000,000 and secured by the State Street Building, an office building totaling 174,653 rentable square feet, located in Dublin, Ireland, and adjoining 3.4-acre parcel (the Partnership Investment) through a wholly owned subsidiary of the Partnership, KW State Street, LLC. The consideration for these loans was €106,000,000. On April 16, 2013, KW State Street, LLC foreclosed on the two mortgage loans resulting in the ownership of the underlying real estate that had been used as collateral for the two loans.

Initial capital contributions were €28,000,000 by the KW Limited Partner and €28,000,000 by the FF Limited Partner. Requests for capital contributions may be made by the General Partner and used to satisfy obligations pursuant to the Partnership Investment, including follow-on investments in the Partnership Investment, and to pay partnership expenses. Capital contributions made by the FF Limited Partner may not exceed €28,000,000 in the aggregate unless the General Partner has obtained the prior written consent of the FF Limited Partner. In the event that the FF Limited Partner elects not to make capital contributions above €28,000,000, the KW Limited Partner may provide additional funding to the Partnership in the form of a demand loan bearing interest at the greater of 10% per annum or the Citibank N.A. prime rate.

Subject to the prior payment of principal and interest on any demand loans made to the Partnership by any Limited Partner, distributions shall be apportioned between the Limited Partners in proportion to their percentage interests of 50% to the KW Limited Partner and 50% to the FF Limited Partner. The amount apportioned to each Limited Partner shall be distributed to the Limited Partner and the General Partner at the end of the Partnership or at such point that the final internal rate of return can be estimated with reasonable certainty in the following order of priority:

(i) First, one hundred percent (100%) to such Limited Partner until such Limited Partner has received a fifteen percent (15%) per annum internal rate of return, compounded annually;
(ii) Second, eighty percent (80%) to such Limited Partner and twenty percent (20%) to the General Partner until such Limited Partner has received a twenty five percent (25%) per annum internal rate of return, compounded annually;
(iii) Thereafter, sixty percent (60%) to such Limited Partner and forty percent (40%) to the General Partner.

Profit and loss for each fiscal period shall generally be allocated among the partners in a manner to cause their capital account balances to equal the amounts of distributions that would be made if the Partnership were dissolved assuming its assets sold for their respective carrying values and its liabilities satisfied in accordance with their terms.

During the period, the Partnership set up a tax-exempt structure for its Irish investments through a Qualifying Investor Alternative Investment Fund (KW Real Estate plc, the “QIAIF”). As part of this structure, the QIAIF acquired the total share capital from the Partnership's two wholly owned subsidiaries, KWF SS Real Estate Limited and KWF SS Real Britton Limited.

KWF REAL ESTATE VENTURE X, L.P.
(A Delaware Limited Partnership)
AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
December 31, 2013 and 2012

(2) Summary of Significant Accounting Policies

(a)Principles of Consolidation
The consolidated financial statements include the accounts of the Partnership and its wholly owned subsidiaries, KW State Street, LLC, KWF SS Real Estate Limited, KWF SS Real Britton Limited, and KW Irish Real Estate Fund IV (collectively, the Partnership). All significant intercompany items have been eliminated in the accompanying consolidated financial statements.
(b)Use of Estimates
The preparation of the accompanying consolidated financial statements in conformity with U.S. generally accepted accounting principles (U.S. GAAP) requires management to make estimates and assumptions about future events. These estimates and the underlying assumptions affect the amounts of assets and liabilities reported, and the reported amounts of income and expenses. Management evaluates its estimates and assumptions on an ongoing basis using historical experience and other factors, including the current economic environment, which management believes to be reasonable under the circumstances. Such estimates and assumptions are adjusted when facts and circumstances dictate. As future events and their effects cannot be determined with precision, actual results could differ significantly from these estimates. Changes in those estimates resulting from continuing changes in the economic environment will be reflected in the consolidated financial statements in future periods.
(c)Real Estate Assets
On April 16, 2013, the Partnership foreclosed on the notes receivable resulting in the ownership of the underlying real estate that had been used as collateral for the loan. The Partnership has no further recourse against the borrower. In accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 310-30-40-40-2, Loans and Debt Securities Acquired with Deteriorated Credit Quality, when a loan reverts to real estate, it should be recorded at fair value, and a gain or loss recorded on the conversion date when there is a difference between the book value of the loan and the fair value of the collateral. Upon review at the date of conversion, management determined that the fair value of the real estate was €132,140,000. After costs to foreclose of €2,211,571 were considered, a gain of €23,006,833 was recorded for the real estate.
The fair value of the real estate acquired was allocated to the acquired tangible assets, consisting primarily of land and buildings and improvements, and to the identified acquired intangible assets, which comprise in-place leases and above-market leases.
The fair value of real estate was determined by valuing the property as if it were vacant, which was then allocated to land and buildings and improvements, based on management’s determination of the relative fair values of these assets. The value of the acquired in-place leases was determined by calculating the present value of cash flows provided by the leases, net of related incremental expenses over the estimated lease-up period.
The following supplemental information summarizes the fair value of the assets acquired:

| | |
|---|---|
| Real estate assets: | |
| Land | €22,900,000 |
| Building and improvements | 85,228,000 |
| | |
| Intangible assets: | |
| In-place leases | 10,452,000 |
| Above-market leases | 13,560,000 |
| Fair value of assets acquired | €132,140,000 |

Real estate assets are carried at depreciated cost, less impairment if any. Depreciation on buildings and improvements has been provided for in the accompanying consolidated financial statements using the straight-line method based on

KWF REAL ESTATE VENTURE X, L.P.
(A Delaware Limited Partnership)
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Notes to the Consolidated Financial Statements
December 31, 2013 and 2012

estimated useful lives of 40 years. Maintenance and repairs are charged to expense as incurred and costs of renewals or betterments are capitalized and depreciated at the appropriate rates.

The purchase price of acquired properties is allocated to land, buildings and intangible lease values based on their respective fair value in accordance with ASC Subtopic 805-10, Business Combinations. Acquisition-related costs are expensed as incurred.

(d) Impairment of Long-Lived Assets

Long lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable in accordance with FASB ASC 360 10, Impairment of Long Lived Assets. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to the estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated undiscounted future cash flows, an impairment charge is recognized in the amount by which the carrying amount of the asset exceeds the fair value of the asset less costs to sell. Assets to be disposed of would be separately presented in the consolidated balance sheet and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. The assets and liabilities of a disposal group classified as held for sale would be presented separately in the appropriate asset and liability sections of the consolidated balance sheet. For the period ended December 31, 2013, there were no impairments recorded.

(e) Cash

Cash includes highly liquid investments purchased with original maturities of three months or less. Periodically throughout the period from November 13, 2012 (inception) through December 31, 2013, cash balances in various bank accounts exceeded the insured limits. To date, no losses have been experienced related to such amounts. The Partnership places cash with quality financial institutions and does not believe there is a significant concentration of credit risk.

(f) Investments in Notes Receivable Acquired for Ownership of Underlying Collateral

Interest income from investments in notes receivable acquired at a discount and for ownership of the underlying collateral is recognized under the provisions of ASC 310-30 Loans and Debt Securities Acquired with Deteriorated Credit Quality. No income is accrued during the foreclosure process even though it accrues contractually. However, any interest income realized is recognized to the extent that it is received in cash during the foreclosure process.

(g) Deferred Financing Fees

All direct costs incurred in connection with obtaining long-term debt are capitalized and amortized over the term of the related debt on a straight line basis, which approximates the effective interest method.

(h) Income Taxes

As a limited Partnership, no provision is made in the accompanying consolidated financial statements for partnership income tax liabilities, because such taxes are the responsibility of the individual partners. However, the Partnership owns and consolidates certain corporate subsidiaries, which have income tax liabilities in respect of the international jurisdiction in which they operate, and these amounts are reflected in the consolidated financial statements. No future tax charge is expected due to the tax-exempt structure introduced during the year ended December 31, 2013 (refer to note 1).

Income taxes are accounted for under the asset and liability method. This process requires management to estimate the current tax exposure as well as assess temporary differences between the accounting and tax treatment of assets and liabilities, including items such as accruals and allowances not currently deductible for tax purposes. Management's judgments, assumptions, and estimates relative to the current provision for income tax take into account current tax laws and interpretations of same.

The Partnership is required to determine whether a tax position is more likely than not to be sustained upon examination by the applicable taxing authority, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The tax benefit to be recognized is measured as the largest amount of benefit that is greater than 50% likely of being realized upon settlement, which could result in the Partnership recording a tax liability that would reduce net assets. Based on their analysis, the Partnership has determined that there are no tax benefits that would have a material impact on the Partnership's financial position or results of operations. The tax years 2012 (year of inception) and 2013 remain open to examination by the taxing jurisdictions to which the Partnership is subject, being Ireland.

KWF REAL ESTATE VENTURE X, L.P.
(A Delaware Limited Partnership)
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Notes to the Consolidated Financial Statements
December 31, 2013 and 2012

(i) Accounts Receivable
Accounts receivable due from tenants are recorded at the contractual amount as determined by the lease agreements, and do not bear interest. The allowance for doubtful accounts is the Partnership's best estimate of the amount of probable credit losses in the Partnership's existing accounts receivable. The Partnership determines the allowance based on historical experience and specific item identification, which is reviewed on a quarterly basis. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote.
(j) Revenue Recognition
Rental revenue from tenants is recognized on a straight-line basis over the lease term when collectability is reasonably assured and the tenant has taken possession or controls the physical use of the leased asset.
(k) Concentration of Risk
The Partnership Investment is located in Ireland. Adverse conditions in the sector or geographic location would likely result in a material decline in the value of the Partnership Investment.
(l) Fair Value Measurements
The Partnership follows the provisions of FASB ASC Topic 820, Fair Value Measurements and Disclosures, for fair value measurements of financial assets and financial liabilities and for fair value measurements of nonfinancial items that are recognized or disclosed at fair value in the consolidated financial statements on a recurring or nonrecurring basis. ASC Topic 820 defines fair value as the price that would be received to sell an asset or would be paid to transfer a liability (the exit price) in an orderly transaction between market participants at the measurement date.
A three-level hierarchy was established for fair value measurements that distinguishes between market participant assumptions developed based on market data obtained from sources independent of the reporting entity (observable inputs) and the reporting entity's own assumptions about market participant assumptions developed based on the best information available in the circumstances (unobservable inputs). The three hierarchy levels are defined as follows:
Level 1 - Valuations based on unadjusted quoted market prices in active markets for identical securities.
Level 2 - Valuations based on observable inputs (other than Level 1 prices), such as quoted prices for similar assets and quoted prices in markets that are not active.
Level 3 - Valuations based on inputs that are unobservable and significant to the overall fair value measurement, and involve management judgment.
For certain financial instruments, including cash, restricted cash, accounts receivable, prepaid expenses, prepaid rent and accounts payable, accrued expenses, income tax payable and other liabilities, recorded amounts approximate fair value due to the relatively short-term nature of these instruments.

During 2013, the Partnership foreclosed on its loan collateral and obtained the underlying asset. This building and accompanying land have been measured at fair value in accordance with the accounting policy outlined in (c) above.

(m) Derivative Financial Instruments
The Partnership recognizes all derivative financial instruments as either assets or liabilities in the balance sheet at their respective fair values. For derivative financial instruments that are not designated as a hedging instrument, the Partnership records changes in fair value in the consolidated statement of operations in the period they occur.

KWF REAL ESTATE VENTURE X, L.P.
(A Delaware Limited Partnership)
AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
December 31, 2013 and 2012

(3) Fair Value Measurements

On December 11, 2012, in order to manage fluctuations in interest rates, the Partnership entered into an interest rate cap contract to hedge EURIBOR, which is used to determine the underlying interest rate for the mortgage loan payable described in note 4.

The interest rate cap is valued based on the net present value of expected future cash flows as determined by the counterparty. The Partnership determined that based on an evaluation of the significance of each of the inputs used to value this instrument that it is considered level 2 in its entirety.

The fair value of the derivative financial instrument held as of December 31, 2013 was €440,192 and €421,027 (unaudited) as of December 31, 2012. The interest rate cap contract does not qualify as designated hedging instrument under ASC Topic 815, Derivatives and Hedging, and accordingly, the Partnership recognized a gain of €19,165 for the year ended December 31, 2013, and a loss of €133,973 (unaudited) for the period from November 13, 2012 through December 31, 2012, on this contract.

(4) Mortgage Loan Payable

On December 21, 2012, the Partnership's subsidiaries, KW State Street, LLC and KWF SS Real Estate Limited obtained a mortgage loan collateralized by the Partnership Investment with a principal of €54,000,000. As of December 31, 2013, the outstanding balance of the mortgage was €52,785,000 and it bears interest of three-month EURIBOR plus 4.5%, resulting in an interest rate of 4.78%. The mortgage matures on December 13, 2017 and requires principal and interest payments on every January 21, April 21, July 21, and October 21 through maturity, with the first payment having been paid on April 21, 2013. Future principal repayments on this loan are as follows:

| | |
|---|---|
| 2014 | €1,620,000 |
| 2015 | 1,620,000 |
| 2016 | 1,620,000 |
| 2017 | 47,925,000 |
| | €52,785,000 |

(5) Minimum Future Lease Rentals

As of December 31, 2013, the minimum future rents receivable under non-cancellable operating leases are as follows:

| | |
|---|---|
| 2014 | €6,788,800 |
| 2015 | 6,788,800 |
| 2016 | 6,788,800 |
| 2017 | 6,788,800 |
| 2018 | 6,788,800 |
| Thereafter | 61,099,200 |
| | €95,043,200 |

(6) In-Place Lease Valuation

The fair value of real estate acquired was allocated to the acquired tangible assets, consisting primarily of land and buildings, and to the identified acquired intangible assets, which comprise in-place leases and above-market leases.

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Notes to the Consolidated Financial Statements
December 31, 2013 and 2012

The fair value of real estate was determined by valuing the property as if it were vacant, which was then allocated to land and building, based on management's determination of the relative fair values of these assets. The value of the acquired in-place leases was determined by calculating the present value of the cash flows provided by the in-place leases, net of related incremental expenses over the estimated lease-up period. The value of the acquired in-place leases and above-market lease asset was €10,452,000 and €13,560,000, respectively, at the date of acquisition.
The value of the acquired in-place leases and above-market lease intangibles is amortized over 174 months, the remaining term of the lease. For the period ended December 31, 2013, the amortization expense related to in-place leases and above-market leases was €504,220 and €654,152 respectively.
As of December 31, 2013, the annual amortization expense of in place-leases and above-market leases for each of the next five years and thereafter is as follows:

| | In-Place Leases | Above-Market Leases |
|---|---|---|
| 2014 | €771,160 | €1,000,467 |
| 2015 | 771,160 | 1,000,467 |
| 2016 | 771,160 | 1,000,467 |
| 2017 | 771,160 | 1,000,467 |
| 2018 | 771,160 | 1,000,467 |
| Thereafter | 6,091,980 | 7,903,513 |
| | €9,947,780 | €12,905,848 |

(7) Transactions with Affiliates
The Limited Partnership Agreement provides that the General Partner be paid an acquisition fee of 0.5% of the gross purchase price of the Partnership Investment payable in full at the close of the acquisition. Additionally, the Partnership shall pay the General Partner, a management fee in an amount equal to 1% of capital invested by the FF Limited Partner exclusive of capital contributions for such management fees. This management fee is payable semiannually in arrears through capital contributions made by the FF Limited Partner. The Partnership incurred a €530,000 (unaudited) acquisition fee during the period from November 13, 2012 (inception) through December 31, 2012 that is included in the cost of the notes receivable on the accompanying consolidated balance sheet. The Partnership also incurred €272,536 and €24,737 (unaudited) of management fees for the year ended December 31, 2013 and for the period from November 13, 2012 (inception) through December 31, 2012, respectively.
During the period from November 13, 2012 (inception) through December 31, 2012, the Partnership received a short-term interest free advance in the amount of €2,250,000 from Kennedy-Wilson Holdings, Inc., an affiliate of the General Partner and the KW Limited Partner, in order to establish a post-closing reserve with the mortgage lender. At December 31, 2012, the balance of this note payable was €2,250,000 and is included in the accompanying consolidated balance sheet as other liabilities. The note payable to the affiliate was paid off in full on April 25, 2013.
(8) Commitments and Contingencies
Liabilities for loss contingencies arising from claims, assessments, litigation, fines, and penalties and other sources are recorded when it is probable that a liability has been incurred and the amount can be reasonably estimated. Legal costs incurred in connection with loss contingencies are expensed as incurred. Currently, the Partnership does not have any material commitments or contingencies.
(9) Subsequent Events
Management has evaluated all subsequent events occurring after the date of the balance sheet through March 28, 2014, the date the consolidated financial statements were available to be issued, to determine whether any subsequent events necessitated adjustment to or disclosure in the consolidated financial statements. No other events were identified that necessitated adjustment or disclosure.

Independent Auditor’s Report

The Partners
KWF Real Estate Venture XII, L.P.:

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of KWF Real Estate Venture XII, L.P. and its subsidiaries (the Partnership), which comprise the consolidated balance sheet as of December 31, 2013 and the related consolidated statements of operations, partners’ capital, and cash flows for the year ended December 31, 2013, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor’s Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor`s judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of KWF Real Estate Venture XII, L.P. and its subsidiaries as of December 31, 2013 and the results of their operations and their cash flows for the year ended December 31, 2013 in accordance with U.S. generally accepted accounting principles.

/s/ KPMG
Dublin, Ireland
March 28, 2014

KWF REAL ESTATE VENTURE XII, L.P.
(A Delaware Limited Partnership)
AND SUBSIDIARIES
Consolidated Balance Sheets
December 31, 2013 and 2012

| | 2013 | 2012 (Unaudited) |
|---|---|---|
| Assets | | |
| Real Estate: | | |
| Land | £5,000,000 | — |
| Buildings and improvements | 81,056,644 | — |
| | 86,056,644 | — |
| Accumulated depreciation | (426,492) | — |
| Real estate, net | 85,630,152 | — |
| Acquired in-place lease value, net of accumulated amortization of £602,096 | 29,132,904 | — |
| Acquired intangible for above-market leases, net of accumulated amortization of £47,995 | 2,476,005 | — |
| Cash | 3,783,717 | — |
| Deposits in escrow | 508,569 | 13,500,000 |
| Notes receivable | 9,194,526 | 76,063,339 |
| Investment in loan pool participation (note 4) | 2,508,427 | 9,901,331 |
| Deferred financing fees, net of accumulated amortization of £271,472 and £nil | 1,169,237 | 139,933 |
| Accounts receivable, net of allowance for bad debts of £72,305 | 476,032 | — |
| Deferred tax asset (note 6) | 697,876 | — |
| Other assets | 576,706 | 113,829 |
| Total assets | £136,154,151 | 99,718,432 |
| Liabilities and Partners' Capital | | |
| Note payable (note 9) | £4,689,288 | 48,723,935 |
| Mortgage loan payable | 56,587,280 | — |
| Prepaid rent | 1,093,886 | — |
| Accrued expenses | 603,679 | 81,883 |
| Accounts payable | 240,999 | — |
| VAT payable | 306,875 | — |
| Acquired intangible for below-market leases, net of accumulated amortization of £47,438 | 2,075,562 | — |
| Other liabilities | 261,248 | 149,000 |
| Total liabilities | 65,858,817 | 48,954,818 |
| Commitments and contingencies (note 12) | — | — |
| Partners' capital | 70,295,334 | 50,763,614 |
| Total liabilities and partners' capital | £136,154,151 | 99,718,432 |

See accompanying notes to the consolidated financial statements.

KWF REAL ESTATE VENTURE XII, L.P.
(A Delaware Limited Partnership)
AND SUBSIDIARIES
Consolidated Statements of Operations
Year ended December 31, 2013 and period from December 3, 2012 (inception) through December 31, 2012

| | 2013 | 2012 (Unaudited) |
|---|---|---|
| Revenues: | | |
| Rental | £1,784,144 | — |
| Interest income | 3,185,977 | |
| Participation income | 1,040,000 | — |
| Operating expense recoveries | 401,997 | |
| Total revenues | 6,412,118 | — |
| Operating expenses: | | |
| Utilities | 29,764 | — |
| Repairs and maintenance | 271,493 | — |
| Management fees | 36,842 | — |
| Asset management fees | 290,482 | — |
| General and administrative | 463,370 | — |
| Insurance | 186,675 | — |
| Depreciation | 426,492 | — |
| Amortization, deferred financing fees | 271,472 | — |
| Amortization, in-place leases | 602,096 | |
| Total operating expenses | 2,578,686 | — |
| Other income and expenses: | | |
| Gain on foreclosure, net of foreclosure costs of £1,248,766 | 26,498,795 | — |
| Interest expense | (4,397,045) | (81,883) |
| Change in value of derivative financial instrument | (16,975) | (35,171) |
| Net income (loss) before income taxes | 25,918,207 | (117,054) |
| Income taxes benefit | 697,876 | — |
| Net income (loss) after income taxes | £26,616,083 | (117,054) |

See accompanying notes to the consolidated financial statements.

KWF REAL ESTATE VENTURE XII, L.P.
(A Delaware Limited Partnership)
AND SUBSIDIARIES
Consolidated Statement of Partners' Capital
Year ended December 31, 2013 and period from December 3, 2012 (inception) through December 31, 2012

| | KW Limited Partner | FF Limited Partner | Total |
|---|---|---|---|
| Balances, December 3, 2012 (inception) (unaudited) | £— | £— | £— |
| Contributions | 50,880,668 | — | 50,880,668 |
| Net loss after income taxes | (117,054) | — | (117,054) |
| Balances, December 31, 2012 | 50,763,614 | — | 50,763,614 |
| Contributions | — | 34,394,561 | 34,394,561 |
| Distributions | (29,127,756) | (12,351,168) | (41,478,924) |
| Net income after income taxes | 13,511,809 | 13,104,274 | 26,616,083 |
| Balances, December 31, 2013 | £35,147,667 | £35,147,667 | £70,295,334 |

See accompanying notes to the consolidated financial statements.

KWF REAL ESTATE VENTURE XII, L.P.
(A Delaware Limited Partnership)
AND SUBSIDIARIES
Consolidated Statements of Cash Flows
Year ended December 31, 2013 and period from December 3, 2012 (inception) through December 31, 2012

| | 2013 | 2012 (Unaudited) |
|---|---|---|
| Cash flows from operating activities: | | |
| Net income (loss) | £26,616,083 | (117,054) |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | |
| Gain on foreclosure | (26,498,795) | |
| Depreciation | 426,492 | — |
| Amortization of acquired in-place lease value | 602,096 | — |
| Amortization of deferred financing fees | 271,472 | — |
| Adjustment to revenue for above and below market leases | 557 | — |
| Deferred tax benefit | (697,876) | — |
| Change in value of derivative financial instrument | 16,975 | 35,171 |
| Bad debt expense | 72,305 | — |
| Accrued participation income | (1,040,000) | — |
| Increase in operating assets and liabilities: | | |
| Accounts receivable | (548,337) | — |
| Other assets | (496,852) | — |
| Prepaid rent | 1,093,886 | — |
| Accrued expenses | 521,796 | 81,883 |
| Accounts payable | | |