

This confidential Offering Memorandum (the “Offering Memorandum”) constitutes an offering of securities only in those jurisdictions where, and only to those persons to whom, such securities may be lawfully offered for sale. No securities commission or similar authority in Canada has passed on the merits of these securities nor reviewed this Offering Memorandum and any representation to the contrary is an offence. No prospectus has been filed with any such authority in connection with these securities. This Offering Memorandum is confidential and is provided to specific prospective investors for the purpose of assisting them and their professional advisors in evaluating these securities and is not to be construed as a prospectus or advertisement or a public offering of the securities referred to herein.

OFFERING MEMORANDUM

Continuous Offering

February 26, 2020



FIRST SOURCE MORTGAGE TRUST

Maximum \$225,000,000 Class F Units

Maximum \$25,000,000 Class B Units

Unlimited Class A, Class D and Class I Units

\$10.00 per Unit

Minimum Purchase: 5,000 Units (\$50,000)

First Source Mortgage Trust (the “Fund”) is an investment trust established under the laws of Ontario. The Fund is offering up to \$225,000,000 of Class F Units (formerly Class A Units); \$25,000,000 of Class B Units and an unlimited number of Class A Units, Class D Units and Class I Units (collectively, the “Fund Units”) in the capital of the Fund at \$10.00 per Unit (the “Offering”) subject to a minimum initial subscription of \$50,000. Contemporaneously with this Offering, investors who hold certain mortgage interests (“Eligible Mortgage Interests”) and who agree to transfer their right, title and interest in such Eligible Mortgage Interests to First Source Mortgage LP (the “Limited Partnership”) will have an opportunity to acquire an aggregate \$50,000,000 Class OI Units of the Fund, subject as provided herein. The Fund also offers Class C Units and Class M Units to eligible investors. The Fund has the right to waive the minimum subscription for any particular investor. Units are being offered on a private placement basis to eligible investors in reliance on prospectus exemptions under National Instrument 45-106 – *Prospectus and Registration Exemptions* (“NI 45-106”) as specified in this Offering Memorandum.

The Fund will invest in and own class F units (formerly Class A Units) (the “LP Class F Units”), class B units (the “LP Class B Units”), class c units (the “LP Class C Units”), class A units (the “LP Class A Units”), class D units (the “LP Class D Units”), class OI units (the “LP Class OI Units”) and class I units (the “LP Class I Units”) as well as class M units (the “LP Class M Units”) of the Limited Partnership. The Limited Partnership will in turn invest in mortgages on real property located primarily in Canada. First Source Financial Management Inc. (“FSFMI”) is the general partner of the Limited Partnership.

Westboro Management Ltd. (the “Distributor”), an exempt market dealer, will act as distributor in connection with the Offering. See “Plan of Distribution”. **In connection with the Offering, each of the Fund and the Limited Partnership is a “connected issuer” of the Distributor under National Instrument 33-105 – *Underwriting Conflicts* (“NI 33-105”). FSFMI, Velos Capital Corp. and the Distributor are “connected issuers” and “related issuers” under NI 33-105. See “Conflicts of Interest”.**

This is a risky investment. See “Risk Factors”.

PURCHASER’S RIGHTS

You have two (2) business days to cancel your agreement to purchase these securities. If there is a misrepresentation in this Offering Memorandum, you have the right to sue either for damages or to cancel your agreement to purchase these securities.

FORWARD-LOOKING INFORMATION

This Offering Memorandum may contain “forward-looking information” as such term is defined in the *Securities Act* (Ontario). Forward-looking information is disclosure regarding possible events, conditions or results of operations that is based on assumptions about future economic conditions and courses of action and includes future-oriented financial information with respect to prospective results of operations, financial position or cash flows that is presented either as a forecast or a projection. Similarly, a “financial outlook” is forward-looking information about prospective results of operations, financial position or cash flows that is based on assumptions about future economic conditions and courses of action that is not presented in the format of a historical balance sheet, income statement or cash flow statement.

Investors are advised that forward-looking information is subject to a variety of risks, uncertainties and other factors that could cause actual results to differ materially from expectations as expressed or implied herein. Although the forward-looking information contained herein reflects the beliefs and expectations of management of the Fund at this time, investors are cautioned not to place undue reliance on such information.

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SUMMARY OF THE OFFERING

The following is a summary only and is qualified by the more detailed information appearing elsewhere in this Offering Memorandum. Certain terms used in this Offering Memorandum are defined in the Glossary. All dollar amounts in this Offering Memorandum are in Canadian dollars unless otherwise indicated.

Issuer: First Source Mortgage Trust (the “Fund”), an investment trust formed under the laws of Ontario pursuant to a Declaration of Trust dated April 6, 2017.

The Offering: The Fund is offering up to \$225,000,000 of Class F Units (formerly Class A Units)¹, \$25,000,000 of Class B Units and an unlimited number of Class A Units, an unlimited number of Class D Units, and an unlimited number of Class I Units (collectively, the “Fund Units”) in the capital of the Fund at \$10.00 per Unit.

Prior to the date of this Offering, investors who held certain mortgage interests (“Eligible Mortgage Interests”) and who agreed to transfer their right, title and interest in such Eligible Mortgage Interests to First Source Mortgage LP (the “Limited Partnership”) were given an opportunity to acquire an aggregate \$50,000,000 Class OI Units of the Fund. The Class OI Units will continue to be offered in exchange for Eligible Mortgage Interests and are not part of the Offering being made pursuant to this Offering Memorandum.

In addition, the Limited Partnership is offering, without duplicating amounts under this Offering, or in respect of the Fund, up to \$225,000,000 of LP Class F Units (formerly Class A Units); \$25,000,000 of LP Class B Units, \$50,000,000 of LP Class OI Units and an unlimited number of LP Class A Units, an unlimited number of LP Class D Units and an unlimited number of LP Class I Units (collectively, the “LP Units”) in the capital of the Limited Partnership.

The Fund Units, the Class OI Units and the LP Units are offered on a private placement basis.

The Class F Units (formerly Class A Units) of the Fund and the LP Class A Units (formerly Class A Units) of the Limited Partnership are available to all investors who meet the minimum investment criteria.

The Class B Units of the Fund are reserved for investors who purchase Fund Units at the Initial Closing. An aggregate maximum of \$25,000,000 of Class B Units of the Fund and LP Class B Units of the Limited Partnership will be issued.

The Class OI Units of the Fund and the LP Class OI Units of the Limited Partnership are reserved for issuance to investors who transfer Eligible Mortgage Interests to the Limited Partnership. The LP Class OI Units and the Fund OI Units are not part of this Offering. In order to acquire the OI Units, holders of Eligible Mortgage Interests will

¹ The former Class A Units were renamed Class F Units effective February 22, 2019 pursuant to the second amended and restated declaration of trust governing the Fund dated as of February 22, 2019.

execute and deliver an Exchange Agreement in prescribed form.

An aggregate maximum of \$50,000,000 of Fund OI Units and LP OI Units will be issued.

The Fund also offers Class C Units and Class M Units to eligible investors.

See “The Offering”.

Amounts: Aggregate Maximum – \$250,000,000, excluding sales of Class I Units of the Fund and the LP Class I Units of the Limited Partnership; (\$300,000,000 including the LP Class OI Units and the Fund Class OI Units).

Minimum – None.

Offering Price: \$10.00 per Unit, payable in full on Closing.

Minimum Purchase: Minimum purchase is \$50,000 (5,000 Units) for Class F Units (formerly Class A Units), Class B Units, Class A Units and Class D Units.

Additional investment must be in amounts of not less than \$10,000.

The Fund may in its discretion waive these minimum amounts for a particular investor.

Use of Proceeds: The net proceeds of the Offering, after deduction of all fees and expenses (including organizational and offering expenses not to exceed \$100,000, amortized over 5 years), will be used by the Fund to invest indirectly, through the Limited Partnership, in mortgages on real property located primarily in Canada as described under Investment Objectives and Strategies.

Limited Partnership: The Limited Partnership is a limited partnership formed under the laws of Ontario as at April 6, 2017. First Source Financial Management Inc. (“FSFMI” or the “General Partner”) is the general partner of the Limited Partnership, responsible for managing the business and affairs of the Limited Partnership. The Limited Partnership provides mortgage financing to selected borrowers as described herein. All of the Fund’s capital will be used to acquire and hold limited partnership interests in the Limited Partnership. See “Limited Partnership Agreement”.

Trustees: Messrs. David Mandel and Samuel Weeman are the trustees of the Fund and are responsible for the management of the business and affairs of the Fund. The trustees do not receive remuneration for acting as trustees, but are entitled to be reimbursed for any out of pocket expenses incurred. The trustees are also entitled to be indemnified out of the assets of the Fund for any costs, expense or liability arising out of acting as trustees. The trustees may authorize FSFMI to perform certain of the operational and administrative duties of the trustees on their behalf, and FSFMI may be entitled to management fees for so acting. For so long as FSFMI is the general partner of the Limited Partnership, FSFMI will waive any such management fees.

General Partner:

Under the terms of the Partnership Agreement, the General Partner has the power and authority on behalf of the Partnership to conduct or arrange for the origination, underwriting, pricing, negotiation, administration and enforcement of the Partnership's mortgage portfolio. The General Partner is also responsible for the overall operations of the Partnership including issuance and redemption of Units, financial reporting and arranging for the provision of all other services required by the Partnership. FSFMI provides mortgage servicing and administration to the Limited Partnership under the terms of a Mortgage Administration and Servicing Agreement.

FSFMI is licensed with the Financial Services Commission of Ontario (FSCO) as a mortgage administrator.

Mortgage Lender:

First Source Mortgage Corporation (the "Mortgage Lender"), an affiliate of FSFMI, is the mortgage originator for the Limited Partnership. The Mortgage Lender is licensed with FSCO as a mortgage broker. Application and origination fees earned by the Mortgage Lender in respect of the mortgage portfolio of the Limited Partnership are for the account of the Limited Partnership and are not retained by the Mortgage Lender.

Investment Objectives and Strategies:

There is well established demand for real estate mortgage financing that is not readily provided by banks, trust companies, insurance companies and other conventional lenders. Short-term mortgage financing is a continuing need of individuals, builders and real estate developers, and, because of their need for flexibility and quick response time, they often require the services of private lenders and organizations such as the Fund and the Limited Partnership.

The Limited Partnership's mandate is to generate consistent and attractive risk-adjusted returns on investment through a professionally managed mortgage portfolio. The Fund's primary revenue source is interest payments received on its mortgage investments. The Limited Partnership, and indirectly, the Fund, generates additional revenues by way of application and commitment fees paid or payable by borrowers and prospective borrowers, as well as through interest bonuses for early prepayment, and late payoff bonuses for payments made after maturity.

The mortgage portfolio consists primarily of commercial and development first mortgages on new projects and re-financings. Real properties are located primarily in Canada, with a concentration in the Greater Toronto Area and the Golden Horseshoe.

A typical loan follows the syndicated model which the General Partner has successfully deployed for the previous ten years, with mortgages generally below 65% of the current value of the property. In selected instances, loans may be advanced for up to 75% of the value of the property. See "Investment Objectives and Strategies".

Operational Risk Management:

Construction and major rehabilitation loans are funded after receipt and review of an appraisal based on the "as-is" and/or completed values of the property. The loan is advanced in progress draws as agreed to by the borrower. Prior to each loan advance, the property is re-inspected by an appraiser or quantity surveyor or cost consultant who provides a

detailed written progress report and monitors costs in relation to an approved budget as required. In addition, all construction loans are funded in compliance with the *Construction Lien Act* of Ontario.

The maximum loan-to-value for any particular mortgage investment will vary depending on a number of factors including the location and marketability of the property, and the condition of the property. Notwithstanding any loan-to-value limits stated herein or other general underwriting criteria outlined herein, the Limited Partnership may advance funds to remedy the default by a borrower of its obligations in respect of a prior ranking security, or to satisfy the indebtedness secured by a prior ranking security, or for any other reason where such action is considered by FSFMI to be in the best interests of the Limited Partnership and its Unitholders.

Subscription Matters:

The Units are distributed through registered dealers (“Registered Dealers”) including Westboro Management Ltd. (“WML”), an affiliate of FSFMI, in reliance on certain prospectus exemptions in all provinces of Canada. Velos Securities Inc. (“VSI”), also an affiliate, will assume responsibility for distributing or arranging for distribution of Units from WML upon becoming registered to do so, and as used herein, the “Distributor” refers to WML or to VSI. To qualify, investors must generally be (a) an accredited investor under National Instrument 45-106 – Prospectus Exemptions (“NI 45-106”); or (b) an entity (i.e. non individual) who invests a minimum of \$150,000 (other than in Alberta where this exemption is not available), or (c) another person to whom Units may be sold.

Persons interested in investing in the Fund will be required to complete and return to the Fund the subscription documents, a copy of which will be made available to each prospective investor upon request. Subscriptions may be rejected in whole or in part in the Trustees’ sole discretion.

Purchases:

Following the Initial Closing, subscriptions will be accepted on a monthly basis, on the last business day in each month or on such other date as FSFMI may permit, subject to FSFMI’s discretion to refuse subscriptions in whole or in part. The Unit price at which Units are issued following the Initial Closing will be the Fair Value of the Units determined in accordance with the Declaration of Trust of the Fund. Units will be issued as of the following business day.

Redemption Rights:

A Unitholders is entitled to require, at any time and from time to time, redemption of all or any part of the Units registered in the name of the Unitholder. A redemption date (the “Redemption Date”) for both the Fund and the Limited Partnership is established by FSFMI from time to time, not less frequently than weekly. In general, the last Business Day of each calendar week and the last day of each month is a Redemption Date.

The amount payable in respect of each Unit redeemed (the “Redemption Amount”) is equal to the Fair Value of the Unit on the Redemption Date, together with all distributions declared and unpaid as at the Redemption Date. Except as described under “Early Redemption Penalty” below, there is no redemption fee, and the Fund

bears handling and processing costs, including any bank charges. Only whole Units may be redeemed unless the investor's entire investment is being redeemed. Fair Value is determined by FSFMI in accordance with the Declaration of Trust for the Fund.

Payment of Redemption Amounts for any Redemption Date is subject to the availability of funds. Payment of Redemption Amounts may be deferred if the total amounts to be redeemed on such Redemption Date, together with any amounts requested for redemption on a prior Redemption Date and unpaid as of such Redemption Date, exceeds 1% of the aggregate Fair Value of Units outstanding on the Redemption Date (the "Redemption Limit"). Proceeds of redemption (less applicable fees and deductions) shall be paid as soon as is practicable after the applicable Redemption Date and in any event within three (3) Business Days following the relevant Redemption Date. The date on which any redemption payment is made is called a "Redemption Payment Date". There may be multiple Redemption Payment Dates in respect of any given Redemption Date, depending on the Redemption Requests received. Unless a suspension of redemptions or other similar event is in effect, redemption requests are processed and paid in the order in which they are received.

In addition to the Redemption Limit, there are other restrictions on redemption as described below. All redemptions are made subject to and in accordance with the terms of the Declaration of Trust for the Fund.

Once paid, the redeeming Unitholders have no further claims against the Fund and no further rights to any distributions.

Early Redemption Penalty:

There is no lock-up period; however Units redeemed within the first 12 months of purchase will be subject to early redemption penalties as follows.

If Units held	Amount deducted from redemption proceeds
6 months or less	2% of the Fair Value of the Units
more than 6 months but less than 9 months	1.5% of the Fair Value of the Units
more than 9 months but less than 12 months	1% of the Fair Value of the Units
more than 12 months	nil

Amounts so deducted are retained by the Fund.

Transfer or Resale:

Units may only be transferred with the consent of FSFMI and transfers will generally not be permitted. The transfer or resale of Units (which does not include a redemption of Units) is also subject to restrictions under applicable securities legislation. See "Transfer or Resale".

**Suspension, Rejection or
Deferral of Redemptions:**

The redemption right is subject to the Fund's ability to liquidate its investments in order to meet the Fund's redemption requests. The Fund is obliged to make all reasonable efforts to meet requests for redemption; however, the Fund may in certain circumstances defer or delay redemption payments where it determines in good faith that the delay is required to protect the interests of the other investors in the Fund.

FSFMI has discretion to suspend, reject or defer redemptions of Units where:

- such redemption would cause the Fund to no longer qualify as a "mutual fund trust" for purposes of the Tax Act
- the Limited Partnership has a working capital deficiency or such redemptions would cause the Limited Partnership to have a working capital deficiency;
- such redemptions would cause the Limited Partnership to be in default of its financial obligations under bona fide arm's length loan or credit arrangements; or
- such redemptions are otherwise prohibited under applicable laws.

If the Fund is only able to redeem a portion of the Units due to the foregoing circumstances, FSFMI will declare that a suspension or deferral of redemptions is in effect, and Units will be redeemed on a pro rata basis, disregarding fractions, based on redemption requests received in good order on the date immediately prior to the effective date of suspension and not withdrawn.

Unitholders who hold in excess of 10% of the total number of Units outstanding may be restricted to redeeming no more than 5% of their Units on any Redemption Date. See "Redemptions".

Distributions:

The distribution policy of the Fund and of the Limited Partnership is to distribute substantially all Distributable Cash on a monthly basis.

There is no fixed distribution; however the policy of the Fund is to distribute all net income for any taxation year so that the Fund is not liable for income tax. The Limited Partnership targets providing Limited Partners with a yield of approximately 8% per annum.

The amount of any distributions is entirely at the discretion of FSFMI and there can be no assurance that the Fund or the Limited Partnership will make any distributions in any particular year.

Fees and Expenses:

The Fund pays all costs and expenses relating to its operations, including, but not limited to:

- (a) administrative and unitholder recordkeeping and transfer agency fees,
- (b) accounting, auditing, legal, consulting, banking and custody fees and expenses, and fees paid to governmental or regulatory authorities (including costs of reports to

Unitholders, financial statements and tax returns);

- (c) all transactions fees and expenses incurred in connection with the acquisition, valuation, holding and disposition of portfolio investments (to the extent not reimbursed);
- (d) fees and expenses paid to members of any Advisory Committee and related indemnification and insurance expenses; and
- (e) all other expenses reasonably incurred in the operation of the Fund, including on any liquidation of the Fund.

The General Partner is responsible for its own operations, including rent, salaries, furniture and fixtures and all other office equipment.

Organizational and Offering Expenses:

Each of the Fund and the Limited Partnership will bear its respective organizational and offering expenses, including the out-of-pocket expenses of FSFMI and its agents actually incurred in the formation of the Fund and the Limited Partnership.

Such organizational and offering expenses shall not exceed \$100,000 in the aggregate and will be amortized over five years.

Cap on Expenses:

In any year of the Limited Partnership, the aggregate of fees and expenses charged to the Limited Partnership, including amortized organizational and offering expenses, but excluding transaction fees and expenses referenced in paragraph (c) under “Fees and Expenses” above and excluding taxes, shall not exceed the greater of 0.25% of the Fair Value of the LP Units on December 31 of such year or \$250,000.

GP Priority Distribution:

For acting as the general partner of the Partnership, the General Partner is entitled to a distribution (the “GP Priority Distribution”) from the Partnership. The GP Priority Distribution is calculated at an annualized percentage of the Fair Value of the Limited Partnership attributable to LP Units plus HST as follows:

- 1.75% for LP Class F Units (formerly Class A Units)
- 1.25% for LP Class B Units
- 2.75% for LP Class A Units
- 2.25% for LP Class D Units
- 1.25% for LP Class OI Units
- For LP Class I Units, the applicable GP Priority Distribution is negotiated on a case by case basis

The GP Priority Distribution is payable monthly, subject to adjustment following year-end. The GP Priority Distribution is paid prior to any distribution to the Limited Partners.

The Limited Partnership is authorized to issue LP Class C Units and LP Class M Units in addition to the LP Units described above. The General Partner receives a GP Priority Distribution of 1.75%

plus HST for LP Class C Units. The LP Class C Units are reserved for investors investing large amounts, and eligibility is determined in the discretion of the Trustees. The General Partner does not receive any GP Priority Distribution with respect to any assets attributable to LP Class M Units. LP Class M Units are reserved for the principals of FSFMI, their immediate family members and their associates and affiliates.

Dealer Compensation:

The General Partner will pay, out of the GP Priority Distribution, a servicing commission to a Registered Dealer through which an investor purchases Class A or Class D Units based on the aggregate market value of the Registered Dealer's clients' investments in Class A and Class D Units at an annualized rate of 1.0% for Class A Units and 0.50% for Class D Units. Servicing commissions are calculated and paid on a monthly basis in arrears approximately 15 days after the calculation of Fair Value per Unit of the relevant Class of Units, for so long as clients of the Registered Dealer hold Units of the relevant Class.

GP Incentive Distribution:

In addition to the GP Priority Distribution, the General Partner is entitled to a distribution (the "GP Incentive Distribution") in respect of all LP Units other than the LP Class M Units.

The GP Incentive Distribution is payable in respect of a class of LP Units for any fiscal year of the Limited Partnership in which the total return of the class of LP Units exceeds the "Hurdle Rate" of return for such year. For purposes of calculating the GP Incentive Distribution, the "total return" for any fiscal year is the sum of (i) the increase or decrease, if any, in the NAV per LP Unit from the beginning of the fiscal year to the end of the fiscal year; and (ii) all Distributions paid on such LP Units (net of the GP Priority Distribution) during the fiscal year, expressed as a percentage.

The amount of the GP Incentive Distribution in respect of a class of LP Units for any fiscal year is equal to 10% of the total returns (as defined above) of the applicable Class for the fiscal year.

Hurdle Rate of Return:

Government of Canada benchmark 2-Year Bond Yield published by Bank of Canada (averaged through the applicable fiscal year) plus 5%.

Valuation of the Fund's Assets:

Each of the Fund and the Limited Partnership calculates the respective "Fair Values" of their Units from time to time, but no less frequently than quarterly, and the "Net Asset Values" of their Units at least annually.

Following the Initial Closing, Units are issued and redeemed at Fair Value per Unit. FSFMI expects that absent extraordinary circumstances, Fair Value per Unit will be \$10. However, there is no guarantee that FSFMI can maintain Fair Value at \$10 per Unit.

The Net Asset Value (NAV) of the Fund and of the Limited Partnership is calculated on an annual basis for the purpose of determining the GP Incentive Distribution, if any. The NAV is the total assets, including all cash and cash equivalents, the market value of portfolio investments and the market value of all other assets, and deducting therefrom

management fees and expenses accrued or payable and all other liabilities of the Fund or Limited Partnership.

Advisory Committee: Each of the Fund and the Limited Partnership has an advisory committee (the “Advisory Committee”) composed of senior executives who provide the benefit of their experience and industry knowledge to the investment strategies of the Fund and the Limited Partnership.

Participation in Syndicated Mortgages: FSFMI and the Mortgage Lender currently carry on a successful mortgage syndication business and will seek to continue to do so following the establishment of the Fund and the Limited Partnership. The Limited Partnership is authorized to participate in mortgage syndications. The syndication may be arranged by a third party or FSFMI. All mortgage investment opportunities originated by FSFMI will be allocated to the Limited Partnership in priority to any third party lender, and only where deemed appropriate to achieve optimal investment size and targeted portfolio construction in the Limited Partnership.

From time to time, a syndicated mortgage may be funded by the Limited Partnership in the first instance, and subsequently a portion of the mortgage may be syndicated to other lenders.

Co-Investment: FSFMI or any of its officers, shareholders, employees or affiliates (“FSFMI related parties”), may purchase for their own account and own as a co-lender, a percentage interest in any investment held by the Limited Partnership. FSFMI related parties may from time to time hold a subordinate portion in any mortgage which is presented to the Limited Partnership for investment, and the rate of return on such a subordinate portion may vary from the Limited Partnership’s rate of return due to the differing loan-to-value risk assumed by the Limited Partnership. No FSFMI related party will make any such investment unless the opportunity has first been presented to the Limited Partnership and the Limited Partnership has declined all or a portion of the available investment.

Other Risk Factors: The purchase of Units involves a number of risk factors and is suitable only for investors who are aware of the risks inherent in real estate investing and who have the ability and willingness to accept the risk of loss and have no immediate need for liquidity. See “Risk Factors”.

Legal Counsel: Osler, Hoskin & Harcourt LLP

Auditors: KPMG LLP are the auditors of the Fund.

Administrator: SGGG Fund Services Inc.

GLOSSARY

“Business Day” means a day, other than a Saturday or Sunday, on which Schedule I chartered banks are open for business in Toronto, Ontario.

“Declaration of Trust” means the second amended and restated declaration of trust governing the Fund dated as of February 22, 2019, as it may be amended and restated from time to time.

“Distributable Cash” will generally consist of net income (provided that in determining net income, the Trustees have discretion to deduct such amounts as they considers to be proper allowances, reserves, deductions and disbursements applicable thereto in accordance with generally accepted accounting principles), and may include interest income, rental income, dividends and other income received by the Fund. Distributable Cash may be estimated where the actual amount has not been fully determined.

“Distribution on Termination” means the distribution, in cash, made to the Partners on the winding up of the Partnership.

“Distributor” means Westboro Management Ltd. (“WML”) until such time as WML transfers responsibility for distribution of the Units to Velos Securities Inc. (“VSI”), in which case “Distributor” means VSI, in either case provided that the entity is an exempt market or other dealer affiliated with the Fund.

“Fair Value” means, with respect to the Units or a class of Units, the fair value of the Units or class determined by the Trustees in their sole discretion from time to time, acting reasonably, based upon the price at which Units were most recently offered for sale, and adjusted as the Trustees may deem to be fair and equitable, including to reflect profits and losses to the date of determination. In determining Fair Value, Trustees shall observe the following principles: (i) until default and commencement of enforcement proceedings, mortgages shall be valued at the book value thereof; (ii) on default and commencement of enforcement proceedings, mortgage interests shall be valued at the lesser of the appraised value used for purposes of advancing the mortgage loan and the most recent independent appraisal (and a mortgage that has been written down may subsequently be written up where warranted); (iii) any real property held for sale shall be valued at the lesser of the appraised value used for purposes of advancing the mortgage loan and the most recent independent appraisal; and (iv) cash on hand and short term investments such as commercial paper shall be valued at market value or amortized cost.

“FSFMI” means First Source Financial Management Inc.

“Fund” means First Source Mortgage Trust.

“Fund Unit” means a unit of beneficial interest in the Fund for the time being outstanding and includes a fraction of a unit.

“GP Priority Distribution” means the distribution made by the Limited Partnership to the General Partner for acting as general partner, as further described under “Distributions – GP Priority Distribution”.

“GP Incentive Distribution” means the distribution made by the Limited Partnership to the General Partner in the circumstances described under “Distributions – GP Incentive Distribution”.

“General Partner” means First Source Financial Management Inc.

“Hurdle Rate” means the Government of Canada benchmark 2-Year Bond Yield published by Bank of Canada (averaged through the applicable fiscal year) plus 5%.

“Initial Closing” means the initial closing of the Offering at which Units are issued, to take place at the sole discretion of the Trustees.

“LP Unit” means a unit of beneficial interest in the Limited Partnership for the time being outstanding and includes a fraction of a unit.

“Limited Partnership” means First Source Mortgage LP.

“Limited Partnership Agreement” means the second amended and restated limited partnership agreement dated as of February 22, 2019, as it may be amended and restated from time to time.

“Net Asset Value” with respect to the Fund or to a Class of Units means the total assets, including all cash and cash equivalents, the market value of portfolio investments and the market value of all other assets of the Fund or attributable to the Class, and deducting therefrom management fees and expenses accrued or payable and all other liabilities of the Fund or Class, calculated in accordance with the Declaration of Trust.

“Mortgage Lender” means First Source Mortgage Corporation.

“Offering” means the offering under this Offering Memorandum of Class F Units (formerly Class A Units), Class A Units, Class D Units and Class B Units for maximum gross proceeds of \$250,000,000, and unlimited sales of Class I Units.

“Offering Memorandum” means this offering memorandum.

“Person” means an individual, partnership, limited partnership, corporation, unlimited liability company, limited partnership, unincorporated organization, association, government, or any department or agency thereof and the successors and assigns thereof or the heirs, executors, administrators or other legal representatives of an Individual, or any other entity recognized by law.

“Subsequent Closing” means a closing which takes place after the Initial Closing, which may occur at the sole discretion of the Trustees or FSFMI.

“Subscriber” means a Person purchasing Fund Units pursuant to this Offering.

“Subsidiary” means, with respect to any Person (other than an individual), any other Person (other than an individual) the financial results of which would be required to be consolidated with those of the first Person’s in the preparation of the first Person’s consolidated financial statements if prepared in accordance with GAAP.

“Tax Act” means the *Income Tax Act*, R.S.C. 1985 (5th Supp.), c.1 as amended.

THE FUND

First Source Mortgage Trust (the “Fund”), an investment trust formed under the laws of Ontario pursuant to a Declaration of Trust dated April 6, 2017.

THE LIMITED PARTNERSHIP

First Source Mortgage LP (the “Limited Partnership”) is a limited partnership formed under the laws of Ontario as at April 6, 2017. The Limited Partnership provides mortgage financing to selected borrowers as described herein. The Fund holds limited partnership units in the Limited Partnership. See “Limited Partnership Agreement”.

BUSINESS OF THE FUND

Investment Objectives and Strategies

The Fund’s mandate is to generate consistent and attractive risk-adjusted returns on investment through indirect investment in a professionally managed mortgage portfolio.

The Fund’s primary revenue source is interest payments received on its mortgage investments made through the Limited Partnership. The Limited Partnership, and indirectly, the Fund, generates additional revenues by way of application and commitment fees paid or payable by borrowers and prospective borrowers, as well as through interest bonuses for early prepayment, and late payoff bonuses for payments made after maturity.

The mortgage portfolio consists primarily of commercial and development first mortgages on new projects and re-financings. Real properties are located primarily in Canada, with a concentration in the Greater Toronto Area and the Golden Horseshoe.

A typical loan follows the syndicated model which the General Partner has successfully deployed for the previous ten years, with mortgages generally below 65% of the current value of the property. In selected instances, loans may be advanced for up to 75% of the value of the property.

Investment Policies

The following are the investment policies and restrictions applicable to the Limited Partnership:

- Loans are secured by mortgages in favour of a nominee of the Limited Partnership and each mortgage will be duly registered in the appropriate land title office as a charge against the real property. Additional security for the loan will generally include a promissory note, a general security agreement, assignment of rents, subordination and postponement of claim from shareholders of the borrower, deficiency agreement (for construction projects) and any other security as may be customary or appropriate for similar loans
- Individual first mortgage loans are expected to be in the range of \$750,000 - \$15 million
- No more than 10% of the Partnership’s capital may be invested with any one borrower, provided this rule applies after the first anniversary of operations
- No more than 10% of the Partnership’s capital may be invested in any single mortgage investment, provided this rule applies after the first anniversary of operations
- The Limited Partnership will not advance a new mortgage loan if to do so will cause the weighted loan-to-value (LTV) of the Partnership’s mortgage portfolio to exceed 75%
- Mortgages secured by property located primarily in Canada, with a concentration in the GTA and Golden Horseshoe and urban properties between London and Ottawa.

- All mortgages are vetted by counsel to the Partnership or to the General Partner prior to the advance of funds
- The maximum initial term of a mortgage is 24 months, and the term of any mortgage may not exceed five years. Payments may be interest only but can be either amortized or paid on an interest plus principal basis
- Repayment schedules will consist primarily of interest-only mortgages, paid monthly
- The Limited Partnership may advance additional monies on a mortgage loan in order to protect its mortgage investment, notwithstanding that the additional advance of funds may cause the LTV to exceed the above parameters
- When not invested in mortgages, excess funds will be placed in CDIC insured investments including investments guaranteed by the Government of Canada, a province or territory of Canada, or interest-bearing cash deposits, deposit notes, certificates of deposit or other similar instruments issued, endorsed or guaranteed by a federally regulated financial institution
- Mortgages may be syndicated when it is deemed appropriate to achieve optimal investment size and targeted portfolio construction
- The General Partner may establish and manage property tax escrow accounts as additional security for the Limited Partnership's mortgage investments. Where considered prudent and reasonable to do so, the General Partner may also establish a loan loss reserve account, which will be an expense of the Limited Partnership, in anticipation of losses which may be realized on the mortgage portfolio in the future
- The Limited Partnership will not borrow more than 30% of the net book value of the mortgage portfolio

To account for potential increased concentration during the initial build-out of the Fund's portfolio following launch, the above policies will take effect on the first anniversary following Initial Closing.

Investment Portfolio

Prior to the date of this Offering, investors who held certain mortgage interests ("Eligible Mortgage Interests") and who agreed to transfer their right, title and interest in such Eligible Mortgage Interests to the Limited Partnership were given an opportunity to acquire an aggregate \$50,000,000 LP Class OI Units of the Limited Partnership. The Limited Partnership's loan portfolio as at May 31, 2018 was as follows:

Total Mortgages (#)	35
Mortgage Portfolio	\$39,572,831
Cash	\$3,391,890
Total Assets Under Management	\$42,964,721

Portfolio Construction

Property Type	#	\$	%
Commercial	3	\$2,343,525	5.9%
Construction	6	\$9,401,920	23.8%
Hospitality	3	\$2,179,000	5.5%
Industrial	2	\$894,200	2.3%
Land Development	20	\$21,254,186	53.7%
Residential	1	\$3,500,000	8.8%

Property Type	#	\$	%
Total	35	\$39,572,831	100.0%

Position	#	\$	%
1st	29	\$33,510,831	84.7%
B position*	6	\$6,062,000	15.9%
Total	35	\$39,572,831	100.0%

Property Location	#	\$	%
GTA	26	\$34,481,761	87.1%
North & Barrie	2	\$477,000	1.2%
Ottawa Valley	1	\$522,500	1.3%
Western Ontario	6	\$4,091,570	10.3%
	35	\$39,572,831	100.0%

In an A/B structured loan, two lenders take part in the same first mortgage. The A lender holds a priority or senior position to the B lender and accepts a lower rate for the portion that it funds. The B lender is subordinate to the A lender and receives a higher rate for its portion. The B Lender benefits by participating in a higher quality, lower risk loan that, without structuring, commands an interest rate outside its investment parameters.

OPERATIONAL RISK MANAGEMENT

Prior to funding, the General Partner obtains current appraisals from an accredited appraiser together with other relevant third party reports on the properties that secure each loan including but not limited to environmental reports, planning reports, building condition reports, insurance adequacy reports and such other reports as are customary in the commercial mortgage business. The General Partner also carries out background checks, obtains credit reports and reviews financial projections and pro forma financial statements.

Construction and major rehabilitation loans are funded after receipt and review of an appraisal based on the “as-is” and/or completed values of the property. The loan is advanced in progress draws as agreed to by the borrower. Prior to each loan advance, the property is re-inspected by an appraiser or quantity surveyor or cost consultant who provides a detailed written progress report and monitors costs in relation to an approved budget as required. In addition, all construction loans are funded in compliance with the *Construction Lien Act* of Ontario.

The maximum loan-to-value for any particular mortgage investment will vary depending on a number of factors including the location and marketability of the property, and the condition of the property. Notwithstanding any loan-to-value limits stated herein or other general underwriting criteria outlined herein, the Limited Partnership may advance funds to remedy the default by a borrower of its obligations in respect of a prior ranking security, or to satisfy the indebtedness secured by a prior ranking security, or

for any other reason where such action is considered by FSFMI to be in the best interests of the Limited Partnership and its Unitholders.

Lending Guidelines

The current prime lending area is the Greater Toronto Area and the Golden Horseshoe in Ontario with services in urban centres and towns from London to Ottawa and in smaller centers along Highway 11 to North Bay.

- Urban centres: with populations of 50,000+ (e.g. London, Cambridge, Kitchener, Waterloo, Hamilton, Oshawa, Pickering, Ajax, Bowmanville, Barrie, Belleville and Kingston)
- Smaller centres: typically located within 5 - 10 kilometres of urban centres and/or populations of 5,000+ may be considered selectively.

Maximum Loan-to-Values Considered

Property Type	Maximum Loan to Value ("LTV")
Commercial / Industrial First Mortgages	70%
A/B Structured Mortgages	75%
Construction Financing	75%
Building lots, Development Land	75%
Mixed Use Properties	75%
Gas station and gas station building and development	70%
Hotels & Special Purpose	65%

Exceptions to any of these guidelines will be considered on an individual basis and are subject to reductions in LTV based on assessment of risk of property, location, use, type, function, condition, and generally conservative underwriting practices.

Participation in Syndicated Mortgages

FSFMI and the Mortgage Lender currently carry on a successful mortgage syndication business and will seek to continue to do so following the establishment of the Fund and the Limited Partnership. The Limited Partnership is authorized to participate in mortgage syndications. The syndication may be arranged by a third party or FSFMI. All mortgage investment opportunities originated by FSFMI will be allocated to the Limited Partnership in priority to any third party lender, and only where deemed appropriate to achieve optimal investment size and targeted portfolio construction in the Limited Partnership.

From time to time, a syndicated mortgage may be funded by the Limited Partnership in the first instance, and subsequently a portion of the mortgage may be syndicated to other lenders.

Legal title to the Limited Partnership's interest in syndicated mortgages may be held in trust by a bare trustee on behalf of the Limited Partnership. When the Limited Partnership's interest is so held, the trust arrangements must be approved by FSFMI, and any trust document must be satisfactory to legal counsel.

INVESTMENT OVERVIEW

Non-Bank Mortgage Financing in Canada

There is well established demand for real estate mortgage financing that is not readily provided by banks, trust companies, insurance companies and other conventional lenders. Short-term mortgage financing is a continuing need of individuals, builders and real estate developers, and, because of their need for flexibility and quick response time, borrowers often require the services of private lenders and organizations such as the Fund. Private mortgages have long been an investment option for institutional and high net worth investors. However, due to the substantial capital outlay necessary for a well- diversified mortgage portfolio, individuals with limited amounts of funds and expertise were unable to easily access this asset class. Professional management and diversification through a pooled vehicle offers attractive advantages over individual investments in private mortgages or in mortgage syndications.

Competitive Advantages of the Fund and Limited Partnership

A large percentage of the mortgages funded by the Limited Partnership are located in or within commuting distance to Toronto. Key advantages and differentiating factors include:

- Highly desirable territory – Toronto & Golden Horseshoe are characterized by a resilient job market, stable real estate prices and continuing economic development
- Diversified portfolio of primarily commercial and development properties
- At least 80% of the loan portfolio consists of first mortgages
- Unlike most other comparable mortgage income funds, all origination and borrower administration fees (commitment fees) are paid to the Limited Partnership and, indirectly, the Fund, rather than being retained by the General Partner or the Mortgage Lender. This treatment of fees enhances returns and aligns the interests of the Unitholders with those of the General Partner.
- The principals of the Mortgage Lender have over 100 years of cumulative mortgage underwriting experience in the region; this deep knowledge of the targeted real estate market enables identification of attractive mortgage opportunities
- Together, the General Partner and the Mortgage Lender represent three tenured mortgage underwriters, eight team members and significant and tested private alternative lending experience
- Strong mortgage deal flow: a substantial and growing asset base combined with a record of reliable service, years of industry involvement and recognized industry leadership drive relationships with mortgage brokers and borrowers
- Appropriate exposure to both first and structured (A/B) commercial mortgages as well as modest leverage enhances opportunities for returns
- Certain tax advantages may be available to certain taxable corporate investors who invest through the Limited Partnership

MANAGEMENT OF THE FUND

The Trustees

Messrs. David Mandel and Samuel Weeman are the trustees of the Fund and are responsible for the management of the business and affairs of the Fund.

The trustees do not receive remuneration for acting as trustees, but are entitled to be reimbursed for any out of pocket expenses incurred. The trustees are also entitled to be indemnified out of the assets of the Fund for any costs, expense or liability arising out of acting as trustees. The trustees may authorize FSFMI to perform certain of the duties of the trustees on their behalf, and FSFMI may be entitled to management fees for so acting. For so long as FSFMI is the general partner of the Limited Partnership, FSFMI will waive any such management fees. The Trustees and FSFMI have appointed the Distributor to distribute or arrange for distribution of Units of the Fund.

The General Partner

The investment policies and operations of the Limited Partnership are subject to the control and direction of the General Partner, the principals of whom have decades of substantial experience in the commercial real estate industry.

The General Partner manages the affairs of the Partnership and does not receive fees for the management of the Partnership but is entitled to participate in distributions from the Partnership. See “Distributions”. The General Partner is related to the Distributor in that they have shareholders, directors and officers in common.

First Source Mortgage Corporation (the “Mortgage Lender”, and together with FSFMI, “First Source”) was established in 2006 to carry on the business of a private mortgage lender syndicating mortgages on behalf of its growing base of private “accredited” individual investors and companies seeking stable, conservative and diversified commercial first mortgage investment opportunities with above average returns. The Mortgage Lender is licensed by the Financial Services Commission of Ontario (“FSCO”) as a mortgage brokerage. FSFMI is licensed by FSCO as a mortgage administrator, able to hold mortgages in trust on behalf of investors and provide a full suite of mortgage investment management and administrative services.

First Source has steadily expanded its syndication business since 2007 through astute lending and consistent performance for its private investor base, so that today, it manages \$110 million of syndicated mortgages. In July of 2018, First Source will complete its 12th year of operations, marking 144 consecutive months of strong, risk-adjusted distributions to syndicate investors. First Source has originated and managed 170 mortgages totaling over \$340 million within its current strategy and geographic focus. Cumulative loan loss of \$607,000 on three individual mortgages represents 0.18% of assets invested.

In October of 2016, First Source partnered with Velos Capital Corp. (“Velos Capital”). Formed to be a platform for alternative lending businesses, Velos Capital owns Ottawa-based Westboro Mortgage Investment Corporation (“Westboro MIC”). Westboro MIC is a private lender with an investment focus in short duration, single family residential mortgages in the greater Ottawa/Gatineau region. Westboro has a diversified \$180 million portfolio and a successful 13-year track record. The synergies between First Source and Velos Capital provide a path to growth with improved deal flow and expanded investment opportunities in the Ottawa Valley, the GTA and the Golden Horseshoe. Shared resources in administration, distribution and governance will enable both teams to focus on building commercial and residential mortgage origination, driving strong risk-adjusted returns to our investors over the long term.

Directors and Senior Officers of FSFMI

The name and municipality of residence, office held and the principal occupation of each senior officer of the General Partner are as follows:

<u>Name and Municipality of Residence</u>	<u>Office</u>	<u>Principal Occupation</u>
Louis Anagnostakos, Ontario	Director	Entrepreneur, Investor
Mr. David Mandel, Toronto, Ontario	Director	Real Estate Executive
Mr. Samuel Weeman, Toronto, Ontario	Director	Finance Executive

The nature and extent of business and real estate experience is described below:

Louis Anagnostakos - Mr. Anagnostakos is the founder and CEO of Minus Global, a holding company of provide technology or services businesses in the smart waste market. Mr. Anagnostakos began his career as an institutional equity trader at Merrill Lynch and later co-founded Turtle Island Recycling, a company which grew to almost \$100 million of annual revenues and employed over 400 people. In his last role as CEO of the company, Mr. Anagnostakos successfully navigated the sale of Turtle Island Recycling to a private equity-backed strategic buyer in 2011. He currently sits on various public and private company boards and is an active investor in various start-up ventures.

Mr. Anagnostakos is a graduate and Fellow of the Richard Ivey School of Business, Quantum Shift program.

David Mandel, B.A., B.Comm., CPMB – David and co-founder Lionel Larry founded First Source in 2006. David has over 25 years of real estate, mortgage brokerage, private lending and syndication experience. David is also a past President of IMBA, now CMBA Ontario, Ontario's premier association of Mortgage Brokers and Agents in the province. Prior to founding First Source, David founded First Equity Financial in 1998, a residential and commercial mortgage brokerage, after working as an independent mortgage broker with a GTA brokerage since 1989. His many years of service, leadership and outspoken articles on the industry have served to provide recognition among his peers as a reliable, experienced funding partner. David holds a B.A. from York University (1981) and a B.Comm from the University of Windsor, Ontario (1984) and has been a licensed mortgage broker since 1989.

Samuel Weeman, M.B.A. – Mr. Weeman is the President of Velos Capital, a holding company of alternative lending businesses which controls Westboro Mortgage Investment Corp. and First Source. Mr. Weeman has twenty years of experience in finance, most recently as a principal at Kensington Capital Partners, Ltd., a Toronto-based alternative asset manager. Prior thereto, Mr. Weeman was an equity analyst on the \$1 billion long/short equity Biltmore Fund at RWC Partners, Ltd., in London, UK. Prior to RWC, Mr. Weeman was an analyst on the Consumer Goods Equity Research team at J. P. Morgan in London, UK. Prior to earning his M.B.A., Mr. Weeman was an equity trader at Citigroup and Merrill Lynch in New York. Mr. Weeman holds an M.B.A. from the Johnson Graduate School of Management at Cornell University and a B.A. (Economics) from Middlebury College.

Remuneration of Directors and Senior Officers

A person who is employed by and receives salary from FSFMI does not receive any remuneration from the Limited Partnership or the General Partner for serving as a director or executive officer.

Advisory Committee

The Fund has an advisory committee (the “Advisory Committee”) composed of senior executives who provide the benefit of their experience and industry knowledge to the investment strategies of the Fund. The Advisory Committee will be a 4-5 member board that will meet with management on a monthly basis to share their views on mortgage investment opportunities, the Fund’s portfolio construction and provide commentary on market outlook. The Advisory Committee is also charged with oversight of conflicts

between the interests of investors and those of management and monitoring related party transactions.

The Advisory Committee members represent or are themselves significant investors in the Fund. The below current members will be joined by 2-3 additional members in the coming months:

Conrad Ogniewicz -- Mr. Ogniewicz is the founder of Torbel Group, a Toronto developer and builder. Since 1997, Torbel has developed over 1000 residential units in the GTA including Avanti and Diva condominiums in North York and Wallace Walk in Toronto. In the 4 years prior to founding Torbel, Mr. Ogniewicz resided in Israel where he built approximately 300 mid-rise residential units. From 1987 to 1992, Mr. Ogniewicz built approximately 500 low-rise residential units in the GTA. Mr. Ogniewicz holds a BA and MA in Mechanical Engineering from the University of Waterloo and a Ph.D in Mechanical Engineering from Berkeley University in California.

Samuel Weeman -- See above.

Other than with respect to conflict of interest matters and related party transactions, recommendations made by the Advisory Committee are not binding on the Fund. The Advisory Committee does not take part in the management of the Fund.

RELATIONSHIP BETWEEN THE FUND, THE GENERAL PARTNER AND THE DISTRIBUTOR

The Fund and the Limited Partnership are each a connected issuer, and may be considered to be a related issuer, of the Distributor.

Messrs. David Mandel and Samuel Weeman are directors and officers of the General Partner and own beneficially a majority of the shares of the General Partner. Mr Weeman is also a significant shareholder of the Distributor. The General Partner is entitled to participate in distributions from the Partnership as described under “Distributions”. The Fund has retained the Distributor to provide certain distribution services to it.

FSFMI took the initiative in forming the Partnership. A portion of the proceeds of the Offering will be used by the General Partner to recover certain expenses of the Offering, as described under “Fees and Expenses”.

Conflicts of Interest

The General Partner and senior officers of the General Partner and the Distributor may be engaged in a wide range of real estate and other activities. The Limited Partnership Agreement provides that the General Partner shall be authorized in connection with resolution of any conflict of interest matters to consider: (i) the relative interests of all parties involved in such conflict or affected by such action; (ii) any customary or accepted industry practices; and (iii) any applicable generally accepted accounting practices or principles. The General Partner must act in good faith and make a written record of its consideration of material conflict of interest matters and the resolution thereof. Furthermore, the General Partner has committed to refer material conflict of interest matters to the Advisory Committee for prior approval or resolution, and to be bound by the determination of the Advisory Committee.

Co-Investment

FSFMI and the Mortgage Lender currently carry on a successful mortgage syndication business and will seek to continue to do so following the establishment of the Fund and the Limited Partnership. FSFMI or any of its officers, shareholders, employees or affiliates (“FSFMI related parties”), may purchase for their

own account and own as a co-lender, a percentage interest in any investment held by the Limited Partnership. FSFMI related parties may from time to time hold a subordinate portion in any mortgage which is presented to the Limited Partnership for investment, and the rate of return on such a subordinate portion may vary from the Limited Partnership's rate of return due to the differing loan-to-value risk assumed by the Limited Partnership. No FSFMI related party will make any such investment unless the opportunity has first been presented to the Limited Partnership and the Limited Partnership has declined all or a portion of the available investment.

DESCRIPTION OF UNITS

Units

The beneficial interests in the Fund are divided into classes, of which the Trustees have designated eight classes as "Class F Units" (formerly Class A Units), "Class B Units", "Class C Units", "Class A Units", "Class D Units", "Class I Units", "Class M Units" and "Class OI Units". The Trustees may designate other classes of units in their discretion. Each class of Units is issuable in series, with each series having such attributes as the Trustees may determine from time to time. The number of Units which the Fund may issue is unlimited. Units shall be issued only as fully paid and non-assessable.

Each Unit represents an undivided beneficial interest in the Fund. Each holder of a Unit is entitled to participate in distributions of the Fund, whether of net income, net realized capital gains or other amounts, and, in the event of a liquidation, dissolution, winding-up or other termination of the Fund, in the net assets of the Fund remaining after satisfaction of all liabilities. No Unit shall have preference or priority over any other Unit of the same class or series. See "Distributions".

Issuance of Units

The Fund may allot and issue Units or other class or series of units at such time or times and in such manner (including pursuant to any plan from time to time in effect relating to reinvestment of distributions) and to such Person as the Trustees in their sole discretion determine. Following the issuance of Units at the Initial Closing, Units may be issued at Subsequent Closings at Fair Value per Unit.

Valuation of Units

Each of the Fund and the Limited Partnership calculates the respective "Fair Values" of their Units from time to time, but no less frequently than quarterly, and the "Net Asset Values" of their Units at least annually.

Following the Initial Closing, Units are issued and redeemed at Fair Value per Unit. FSFMI expects that absent extraordinary circumstances, Fair Value per Unit will be \$10. However, there is no guarantee that FSFMI can maintain Fair Value at \$10 per Unit.

The Net Asset Value (NAV) of the Fund and of the Limited Partnership is calculated on an annual basis for the purpose of determining the GP Incentive Distribution, if any. The NAV is the total assets, including all cash and cash equivalents, the market value of portfolio investments and the market value of all other assets, and deducting therefrom management fees and expenses accrued or payable and all other liabilities of the Fund or Limited Partnership.

REDEMPTION OF UNITS

Redemption Rights

A Unitholder is entitled to require, at any time and from time to time, redemption of all or any part of the Units registered in the name of the Unitholder. A redemption date (the "Redemption Date") for both the Fund and the Limited Partnership shall be the last Business Day of each calendar week, the last day of each month, and such other date or dates as FSFMI may establish from time to time in its discretion.

The amount payable in respect of each Unit redeemed (the “Redemption Amount”) is equal to the Fair Value of the Unit on the Redemption Date, together with all distributions declared and unpaid as at the Redemption Date. Except as described under “Early Redemption Penalty” below, there is no redemption fee, and the Fund bears handling and processing costs, including any bank charges. Only whole Units may be redeemed unless the investor’s entire investment is being redeemed. Fair Value is determined by FSFMI in accordance with the Declaration of Trust for the Fund. Payment of Redemption Amounts for any Redemption Date is subject to the availability of funds. Payment of the Redemption Amounts may be deferred if the total amounts to be redeemed on such Redemption Date, together with any amounts requested for redemption on a prior Redemption Date and unpaid as of such Redemption Date, exceeds 1% of the aggregate Fair Value of Units outstanding on the Redemption Date (the “Redemption Limit”). Proceeds of redemption (less applicable fees and deductions) shall be paid as soon as is practicable after the applicable Redemption Date and in any event within three (3) Business Days following the relevant Redemption Date. The date on which any redemption payment is made is called a “Redemption Payment Date”. There may be multiple Redemption Payment Dates in respect of any given Redemption Date, depending on the Redemption Requests received. Unless a suspension of redemptions or other similar event is in effect, redemption requests are processed and paid in the order in which they are received.

In addition to the Redemption Limit, there are other restrictions on redemption as described below. All redemptions are made subject to and in accordance with the terms of the Declaration of Trust for the Fund.

Once paid, the redeeming Unitholders have no further claims against the Fund and no further rights to any distributions.

Redemption Request Process

To exercise a redemption right, a duly completed and properly executed request (“Redemption Request”) requesting the Fund to redeem Units, in a form approved by the Trustees, shall be sent to the Fund at its head office (along with the Unit Certificates, if Unit Certificates were issued). The Redemption Request must be received by the Fund by 4:00 p.m. (ET) on a date that is at least one (1) Business Day prior to the applicable Redemption Date. If at least one (1) Business Day’s advance notice is not given, the Fund will not consider redeeming the Unit(s) until the next subsequent Redemption Date. No form or manner of completion or execution is sufficient unless the same is in all respects satisfactory to the Trustees and is accompanied by such supporting documents as the Trustees may reasonably require with respect to the identity, capacity or authority of the person giving the Redemption Request. The Trustees shall be entitled in their sole discretion to waive any applicable notice period or part thereof.

The Trustees shall time and date stamp all Redemption Requests upon receipt. The Fund may defer the payment of Redemption Amounts on a particular Redemption Payment Date in excess of the Redemption Limit. Redemption payments shall be made in order of receipt of Redemption Requests. Units for which Redemption Requests have been received but not paid in full on any given Redemption Payment Date shall maintain their order of priority until payment for such Unit(s) has been made in full. Additionally, the Trustees shall be entitled in its sole discretion to extend the time for payment of any redemption proceeds, if in the reasonable opinion of the Trustees immediate payment would be materially prejudicial to the interests of the remaining Unitholders. The Trustees in its sole discretion may waive the Redemption Limit for any given Redemption Date.

Unitholders will continue to enjoy rights attached to the Units tendered for redemption until the redemption proceeds in respect of the Units have been paid in full. A holder of Units properly tendered for redemption will be entitled to receive aggregate redemption proceeds equal to the Fair Value of the Units redeemed (determined as of the applicable Redemption Date), plus any unpaid distributions thereon which have been declared payable but remain unpaid as at the applicable Redemption Payment Date.

Amounts payable on redemption will be paid by cheque or by direct deposit to the account of the registered Unitholder. Payments are conclusively deemed to have been made when deposited by direct deposit or upon the mailing of a cheque addressed to the payee unless such cheque is dishonoured upon presentment. Upon such payment, the Fund will be discharged from all liability to the former Unitholder in respect of the Units so redeemed.

Early Redemption Penalty

There is no lock-up period; however Units redeemed within the first 12 months of purchase will be subject to early redemption penalties as follows:

If Units held	Amount deducted from redemption proceeds
6 months or less	2% of the Fair Value of the Units
more than 6 months but less than 9 months	1.5% of the Fair Value of the Units
more than 9 months but less than 12 months	1% of the Fair Value of the Units
more than 12 months	nil

Amounts so deducted are retained by the Fund.

Suspension of Redemptions

The redemption right is subject to the Fund's ability to liquidate its investments in order to meet the Fund's redemption requests. The Fund is obliged to make all reasonable efforts to meet requests for redemption; however, the Fund may in certain circumstances defer or delay redemption payments where it determines in good faith that the delay is required to protect the interests of the other investors in the Fund.

FSFMI has discretion to suspend, reject or defer redemptions of Units where:

- such redemption would cause the Fund to no longer qualify as a "mutual fund trust" for purposes of the Tax Act
- the Limited Partnership has a working capital deficiency or such redemptions would cause the Limited Partnership to have a working capital deficiency;
- such redemptions would cause the Limited Partnership to be in default of its financial obligations under bona fide arm's length loan or credit arrangements; or
- such redemptions are otherwise prohibited under applicable laws.

If the Fund is only able to redeem a portion of the Units due to the foregoing circumstances, FSFMI will declare that a suspension or deferral of redemptions is in effect, and Units will be redeemed on a pro rata basis, disregarding fractions, based on redemption requests received in good order on the date immediately prior to the effective date of suspension and not withdrawn.

Substantial Unitholders

Notwithstanding the redemption rights outlined in the preceding section, in the interests of all Unitholders, certain restrictions may, in the sole discretion of the Trustees, be placed on Substantial Unitholders.

A Substantial Unitholder is defined as a Unitholder who, together with parties related to that Unitholder (as defined in the Tax Act) holds a total number of Units which is equal to or greater than 10% of the total number of Units outstanding.

As long as a particular Unitholder is classified as a Substantial Unitholder they may be restricted to redeeming no more than 5% of their Units on any Redemption Date, subject to the discretion of the Trustee.

Mandatory Redemption

The Fund has the right to require a Unitholder to redeem some or all of the Units owned by such Unitholder on a Redemption Date at the Fair Value thereof, by notice in writing to the Unitholder given at least 30 days before the designated Redemption Date, which right may be exercised by the Trustees in their sole and absolute discretion.

DISTRIBUTIONS

Distributable Cash

The Fund intends to distribute, on a monthly basis, substantially all Distributable Cash for the preceding month. “Distributable Cash” will generally consist of net income (provided that in determining net income, the Trustees have discretion to deduct such amounts as they considers to be proper allowances, reserves, deductions and disbursements applicable thereto in accordance with generally accepted accounting principles), which may include interest income, rental income, dividends and other income received by the Fund. Distributable Cash may be estimated where the actual amount has not been fully determined. The Limited Partnership targets providing Limited Partners with a yield of approximately 7.5% per annum.

The amount of any distributions is entirely at the discretion of the Trustees and there can be no assurance that the Fund will make any distributions in any particular year.

If the Trustees are of the view that cash reserves should be provided for any ensuing period and determine that to do so would be in the best interests of the Fund and the Unitholders, they may reduce for any period the percentage of Distributable Cash to be distributed to Unitholders. Distributions may be adjusted for amounts paid in prior periods if the actual Distributable Cash for the prior periods is greater than or less than the Trustees’ estimates for the prior periods.

Each year, Unitholders will receive a distribution of their proportionate share of:

- net realized capital gains (i.e., the capital gains for the taxation year, less capital losses for that taxation year) of the Fund; and
- any excess of the net income of the Fund for purposes of the Tax Act over distributions otherwise made for the year.

GP Priority Distribution

For acting as the general partner of the Partnership, the General Partner is entitled to a distribution (the “GP Priority Distribution”) from the Limited Partnership. The GP Priority Distribution is calculated at an annualized percentage of the Fair Value of the Limited Partnership attributable to the LP Units plus HST as follows:

- 1.75% for LP Class F Units (formerly Class A Units)
- 1.25% for LP Class B Units
- 2.75% for LP Class A Units
- 2.25% for LP Class D Units
- 1.25% for LP Class OI Units
- For LP Class I Units, the applicable GP Priority Distribution is negotiated on a case by case basis

The GP Priority Distribution is payable monthly, subject to adjustment following year-end. The GP Priority Distribution is paid prior to any distribution to the Limited Partners.

The Limited Partnership is authorized to issue LP Class C Units and LP Class M Units in addition to the LP Units described above. The General Partner receives a GP Priority Distribution of 1.75% plus HST for LP Class C Units. The LP Class C Units are reserved for investors investing large amounts, and eligibility is determined in the discretion of the Trustees. The General Partner does not receive any GP Priority Distribution with respect to any assets attributable to LP Class M Units. LP Class M Units are reserved for the employees of FSFMI, their immediate family members and their associates and affiliates.

Dealer Compensation

The General Partner will pay, out of the GP Priority Distribution, a servicing commission to a registered dealer through which an investor purchases Class A or Class D Units (each, a “Registered Dealer”) based on the aggregate market value of the Registered Dealer’s clients’ investments in LP Class A and LP Class D Units at an annualized rate of 1.0% for Class A Units and 0.50% for Class D Units. Servicing commissions are calculated and paid on a monthly basis in arrears approximately 15 days after the calculation of Fair Value per LP Unit of the relevant Class of LP Units, for so long as clients of the Registered Dealer hold LP Units of the relevant Class.

GP Incentive Distribution

In addition to the GP Priority Distribution, the General Partner is entitled to a distribution (the “GP Incentive Distribution”) in respect of all LP Units other than the LP Class M Units.

The GP Incentive Distribution is payable in respect of a class of Units for any fiscal year of the Partnership in which the Total Return of the class of Units exceeds the “Hurdle Rate” of return for such year. For purposes of calculating the GP Incentive Distribution, the “Total Return” for any fiscal year is the sum of (i) the increase or decrease, if any, in the NAV per LP Unit from the beginning of the fiscal year to the end of the fiscal year; and (ii) all Distributions paid on such Units (net of the GP Priority Distribution) during the fiscal year, expressed as a percentage.

The amount of the GP Incentive Distribution in respect of a class of Units for any fiscal year is equal to 10% of the Total Return (as calculated above) of the applicable Class for the fiscal year.

Distribution Reinvestment Plan

The Fund will adopt a reinvestment plan which will provide that a holder of Units may elect to reinvest all or a portion of distributions paid on the Units held by such holder in additional Units of the same class. Holders of Units who wish to reinvest distributions date should contact FSFMI or their dealer for details as to enrolment.

THE OFFERING

Prospectus Exemptions

This Offering Memorandum is being delivered in reliance on the exemptions from the prospectus requirements contained in sections 2.3, 2.5 and 2.10 of NI 45-106 (the “accredited investor”, “family, friends, and business associates” and “minimum amount investment” exemptions, respectively). The rights referred to in section 130.1 of the *Securities Act* (Ontario) do not apply in respect of an offering memorandum (such as this Offering Memorandum) delivered to a prospective purchaser in connection with a distribution made in reliance on the accredited investor exemption if the prospective purchaser is:

- a) a Canadian financial institution or a Schedule III bank (each as defined in NI 45-106);

- b) the Business Development Bank of Canada incorporated under the *Business Development Bank of Canada Act* (Canada); or
- c) a subsidiary of any person referred to in paragraphs (a) and (b), if the person owns all of the voting securities of the subsidiary, except the voting securities required by law to be owned by directors of that subsidiary.

Minimum Investment

Minimum investment is \$50,000, provided that the minimum amount may be waived in the case of any Subscriber at the discretion of FSFMI.

PLAN OF DISTRIBUTION

The Units of the Fund will be offered on a private placement basis on behalf of the Fund by various Registered Dealers, including the Distributor, as placement agents (collectively, the “Placement Agents”) in reliance upon certain exemptions from the prospectus requirements of applicable securities legislation. The obligations of the Fund to issue and sell, and of the Placement Agents to sell the Fund Units, are subject to compliance with all necessary legal requirements.

The Units will not be listed on any securities or stock exchange. The issue of the Units is a new issue of securities with no established trading market. The Units have not and will not be registered under the U.S. Securities Act of 1933, as amended (the “U.S. Securities Act”) and, except pursuant to an exemption from registration under the U.S. Securities Act, may not be offered or sold in the United States, or to, or for the account or benefit of United States persons. This Offering Memorandum does not constitute an offer to sell or a solicitation of an offer to buy the Units in the United States or to, or for the account or benefit of, a U.S. person (as defined in Regulation S under the U.S. Securities Act). Offers and sales of any of the Units within the United States, its territories, its possessions and other areas subject to its jurisdiction or to, or for the account or benefit of, a U.S. Person (as defined in Regulation S under the U.S. Securities Act), would constitute a violation of the U.S. Securities Act unless made in compliance with the registration requirements of the U.S. Securities Act or an exemption therefrom.

All subscription funds received by the Placement Agents will be held in trust pending closing (for greater certainty, all subscription funds will be held in trust for a minimum of two business day prior to a closing).

Subscriptions for Units will be received subject to rejection or allotment in whole or in part and the right is reserved to close the subscription books for the Units at any time without notice. The Fund may accept subscriptions for additional Units on such dates as it determines and at a purchase price equal to the Fair Value of the Units at such time.

SUBSCRIPTION MATTERS

Representations of Subscribers

Subscriptions for Fund Units must be made by completing and executing the subscription form (the “Subscription Agreement”) provided by FSFMI. Each Subscriber of Units will be deemed to have represented to the Fund, and any dealer who sells the Units to such Subscriber that:

- the offer and sale of Fund Units was made exclusively through the final version of the Offering Memorandum and was not made through an advertisement of the Fund Units in any printed media of general and regular paid circulation, radio, television or telecommunications, including electronic display, or any other form of advertising in Canada;
- it has reviewed and acknowledges the terms referred to herein under the section entitled “Resale

Restrictions”;

- where required by law, it is purchasing as principal, or is deemed to be purchasing as principal in accordance with applicable Canadian securities laws in which it is resident, for its own account and not as agent for the benefit of another person;
- it is an accredited investor as defined in NI 45-106 or it is entitled to rely on the family, friends, and business associates exemption in NI 45-106 or it will invest subject to the minimum amount investment exemption as defined in NI 45-106; and
- it is not a person created or used solely to purchase or hold the LP Units as an accredited investor or through the minimum amount investment exemption.

Use of Personal Information

In addition, each purchaser of Units will be deemed to have represented to the Fund, and each Registered Dealer from whom a purchase confirmation is received, that such Subscriber:

- (a) has been notified by the Fund:
 - that the Fund may be required to provide certain personal information (“personal information”) pertaining to the Subscriber as required to be disclosed in Schedule 1 of Form 45-106F1 under NI 45-106 (including its name, address, telephone number and the number and value of any Units purchased), which Form 45-106F1 may be required to be filed;
 - that such personal information may be delivered to the securities regulatory authority in the jurisdiction of residence of the purchaser in accordance with NI 45-106;
 - that such personal information is collected indirectly by the securities regulatory authority in the jurisdiction of residence of the purchaser under the authority granted to it under applicable securities legislation;
 - that such personal information is collected for the purposes of the administration and enforcement of applicable securities legislation; and
 - that contact information for the public official at the securities regulatory authority in the jurisdiction of residence of the purchaser who can answer questions about indirect collection of personal information is set out in Annex A of this Offering Memorandum; and
- (b) has authorized the indirect collection of the personal information by the OSC.

By purchasing Units, the Subscriber consents to the disclosure of such information.

Closings

Closings of sales of Units (each a “Closing”) will occur at the discretion of the General Partner, as such Units are subscribed.

The obligation of the Fund to issue the Units and the obligation of the purchasers to purchase the Units will be conditional upon certain matters, including, but not limited to, the following:

- (a) the execution and delivery of a subscription agreement in such form and substance as may be satisfactory to the Trustees;
- (b) if applicable, the execution and delivery of a certificate, in the form prescribed by the General Partner, indicating the category under which the investor qualifies as an accredited investor; and
- (c) if applicable, the execution and delivery of a risk acknowledgement in the form required by applicable securities law.

No Certificates

Generally, the Fund will not issue Unit certificates but may do so in the discretion of the Trustees. However, on any purchase, redemption or transfer of Units, the investor will receive trade confirmations indicating the nature of the transaction effected by the Unitholder and the number of Units held by such Unitholder after such transaction. Unit certificates, if issued, shall be in such form as the Trustees may from time to time approve.

USE OF PROCEEDS

The net proceeds of the Offering, after deduction of all Fees and Expenses, will be used by the Fund to invest indirectly, through the Limited Partnership, in mortgages on real property located primarily in Canada as described under Investment Objectives and Strategies.

SUMMARY OF DECLARATION OF TRUST

Meetings of Unitholders

The Fund will not hold regular meetings, however the Trustees may convene a meeting of Unitholders as it considers appropriate or advisable from time to time. The Trustees must also call a meeting of Unitholders on the written request of Unitholders holding not less than 50% of the outstanding Units of the Fund in accordance with the Declaration of Trust.

Matters Requiring Unitholder Approval

The Declaration of Trust provides that the Fund, as a limited partner of the Limited Partnership, will not agree to or approve any material amendment to the Limited Partnership Agreement (including any material amendment to the investment guidelines of the Limited Partnership) unless any such proposed amendment has received the consent or approval of (i) more than 50% of the votes cast at a meeting of Unitholders called for such purpose; or (ii) more than 50% of the holders of Units then outstanding.

Liability of Unitholders

The Declaration of Trust provides that it is intended that no Unitholder will be held to have any personal liability as such, and no resort will be had to a Unitholder's private property, for satisfaction of any obligation in respect of or claim arising out of or in connection with any contract or obligation of the Fund or of the Trustee or any obligation in respect of which a Unitholder might otherwise have to indemnify the Trustee for any liability incurred by the Trustee, but rather only the trust property is intended to be subject to any levy or execution for satisfaction of any obligation or claim.

Because of uncertainties in the law relating to investment trusts such as the Fund, there is a remote risk that a Unitholder could be held personally liable, notwithstanding the foregoing statement in the Declaration of Trust, for obligations in connection with the Fund (to the extent that claims cannot be satisfied by the Fund). It is intended that the Fund's operations be conducted in such a way as to minimize any such risk and, in particular and where practical, to cause every written contract or commitment of the Fund to contain an express statement that liability under such contract or commitment is limited to the value of the assets of the Fund.

Distribution on Termination of the Fund

The Fund does not have a fixed termination date. The Fund may be terminated by Unitholders by Special Resolution at a meeting of Unitholders called for that purpose. The Trustees may, in their discretion, on 60

days' notice to Unitholders, terminate the Fund without the approval of Unitholders if, in the opinion of the Trustees: (i) it would be in the best interests of the Fund and the Unitholders to terminate the Fund; or (ii) it is no longer economically feasible to continue the Fund.

Upon termination, the net assets of the Fund will be distributed to Unitholders on a pro rata basis. Prior to the effective date of termination, the Trustees will, to the extent possible, convert the assets of the Fund to cash and after paying or making adequate provision for all of the Fund's liabilities, distribute the net assets of the Fund to the Unitholders. Any unliquidated assets may be distributed in specie rather than in cash, subject to compliance with any securities or other laws applicable to such distributions. The Trustees may, in their discretion, defer the effective date of termination for up to 90 days if the Trustees provide written notice of such deferral to Unitholders.

DESCRIPTION OF LIMITED PARTNERSHIP

General

The Partnership is a limited partnership governed in accordance with the laws of the Province of Ontario and the federal laws of Canada applicable therein.

Expenses of the Limited Partnership

The Limited Partnership is responsible for all of its operational expenses (other than expenses assumed by the Fund), including, but not limited to: (a) interest and other costs of borrowed money; (b) fees and expenses of lawyers, accountants, auditors, appraisers, custodians, valuers and other agents or consultants employed by or on behalf of the Limited Partnership or the General Partner; (c) fees and expenses connected with the acquisition, valuation, holding disposition and ownership of real property interests or other property; (d) reasonable expenses in connection the marketing and distribution of LP Units; (e) expenses in connection with unitholder recordkeeping, transfer agency, reporting to Limited Partners and the other bookkeeping and clerical work necessary in maintaining relations with Limited Partners (including reporting to Limited Partners, preparation and delivery of financial statements and tax reporting); (f) expenses of changing or terminating the Partnership; (g) fees and expenses paid to any Advisory Committee and related indemnification and insurance expenses; (h) fees and charges of regulators, transfer agents, registrars, and other custodians; (i) all costs and expenses in connection with the incorporation or establishment, organization and maintenance of corporations and other entities formed to hold mortgage, real property or other property of the Limited Partnership; and (j) all other costs and expenses that the General Partner, acting reasonably, determines to be incurred for the Limited Partnership.

The Fund, as limited partner, will not be entitled to take part in the management or control of the business or affairs of the Limited Partnership in a manner that would jeopardize its status as a limited partner of the Limited Partnership and the General Partner will operate and carry on the business of the Limited Partnership in a manner to ensure, to the greatest extent possible, the limited liability of the Fund as limited partner. However, the Fund may lose its limited liability in certain circumstances. If the limited liability of the Fund is lost by reason of the gross negligence of the General Partner in performing its duties and obligations under the Limited Partnership Agreement, the General Partner will indemnify the Fund against all claims arising from assertions that its liabilities are not limited as intended by the Limited Partnership Agreement.

Amendments to the Limited Partnership Agreement

The Limited Partnership Agreement may be amended by a vote of a majority of the votes cast at a meeting of Limited Partners duly called for that purpose, provided that the Limited Partnership Agreement may be amended by the General Partner without the consent, approval or ratification of the Limited Partners or any

other person: (a) to reflect a change that, in the sole discretion of the General Partner, is reasonable and necessary or appropriate to qualify or continue the qualification of the Partnership as a partnership in which the Limited Partners have limited liability under the applicable laws; to remove any conflicts or inconsistencies in the Limited Partnership Agreement or making minor corrections including the rectification of any ambiguities, defective provisions, errors, mistakes or omissions that are, in the opinion of the General partner, necessary or desirable and not prejudicial to the Limited Partners; (c) to make amendments which, in the opinion of the General Partner are necessary or desirable to remove conflicts or inconsistencies between the disclosure in this Offering Memorandum and the Limited Partnership Agreement; (d) to reflect a change that, in the sole discretion of the General Partner, is reasonable, necessary or appropriate to enable the Limited Partnership to take advantage of, or not be detrimentally affected by, changes in the Income Tax Act or other taxation laws; (e) to ensure or continue compliance with applicable laws, regulations or requirements of any governmental authority having jurisdiction over the Limited Partnership; or (f) for any purpose (except one in respect of which a vote of Unitholders is specifically otherwise required) if the General Partner is of the opinion that the amendment is not prejudicial to Unitholders and is necessary or desirable.

Removal of the General Partner

The Limited Partnership Agreement provides that the General Partner will be deemed to resign as general partner upon: (a) ceasing to be a Canadian resident within the meaning of the Tax Act; (b) filing a voluntary petition for bankruptcy; (c) the appointment of a trustee, receiver or liquidator in respect of the General Partner; (d) having entered against it an order for relief in a bankruptcy or insolvency proceeding which is not stayed, vacated or dismissed within 120 days; (e) being involuntarily dissolved, liquidated or wound up; or (f) the commencement of any act or proceeding in connection with dissolution, liquidation or winding up, whether voluntary or involuntary, and which, if involuntary, is not contested in good faith by the General Partner. Such deemed resignation shall not be effective until the earlier of the date of appointment of a new general partner by majority vote of the limited partners or 120 days after the occurrence of such event, except a deemed resignation arising as a result of (a), above, which shall be effective immediately before the General Partner ceased to be a resident of Canada. The General Partner is permitted to resign as general partner, or to transfer its interest in the Limited Partnership, only on 45 days' prior written notice to the Limited Partnership and the Limited Partners, provided that any resignation by the General Partner will only be effective following the appointment of a replacement general partner. The appointment of such replacement General Partner must be ratified by at least a majority of the Limited Partners within 120 days, failing which the resigning General Partner must reassume the duties of the General Partner (but may seek another replacement General Partner). The General Partner may not be removed and replaced with another person as general partner of the Limited Partnership except where the General Partner has been found by a court of competent jurisdiction to have committed fraud, wilful misconduct, breach of its fiduciary duties or wilful breach of the Limited Partnership Agreement. Notwithstanding anything else contained herein, the General Partner may be summarily removed without notice or penalty in the event that the General Partner has been found to have committed fraud or a criminal offence.

FEES AND EXPENSES

Organizational and Offering Expenses

The Fund will bear its organizational and offering expenses, including the out-of-pocket expenses of FSFMI and its agents actually incurred in the formation of the Fund.

Such organizational and offering expenses shall not exceed \$100,000 and will be amortized over five years.

Operating Expenses

The Fund pays all costs and expenses relating to its operations, including, but not limited to:

- (a) administrative and unitholder recordkeeping and transfer agency fees,
- (b) accounting, auditing, legal, consulting, banking and custody fees and expenses, and fees paid to governmental or regulatory authorities (including costs of reports to Unitholders, financial statements and tax returns);
- (c) all transactions fees and expenses incurred in connection with the acquisition, valuation, holding and disposition of portfolio investments (to the extent not reimbursed);
- (d) fees and expenses paid to members of any Advisory Committee and related indemnification and insurance expenses; and
- (e) all other expenses reasonably incurred in the operation of the Fund, including on any liquidation of the Fund.

The General Partner and the Distributor are responsible for their own operations, including rent, salaries, furniture and fixtures and all other office equipment.

Cap on Expenses

In any year of the Limited Partnership, the aggregate of fees and expenses charged to the Limited Partnership, including amortized organizational and offering expenses, but excluding transaction fees and expenses described in paragraph (c) under “Description of the Limited Partnership – Expenses of the Partnership” and excluding taxes, shall not exceed the greater of 0.25% of the Fair Value of the LP Units on December 31 of such year or \$250,000.

CERTAIN CANADIAN FEDERAL INCOME TAX CONSIDERATIONS

Prospective purchasers should consult with their own professional advisers to obtain advice on the income tax consequences that apply to their particular circumstances.

The following is a general summary of the principal Canadian federal income tax consequences to a prospective Unitholder of the acquisition, holding and disposition of Units acquired pursuant to this Offering Memorandum. It is assumed for the purposes of this summary that: (i) the Unitholder is an individual (other than a trust) that is a resident of Canada for purposes of the Tax Act; (ii) the Unitholder is the original purchaser and beneficial owner of the Units; (iii) the Unitholder deals at arm’s length with the Fund and FSFMI; and (iv) the Unitholder holds the Units as capital property. Generally, Units will be considered to be capital property to a Unitholder provided that such Unitholder does not hold its Units in the course of carrying on a business and has not acquired them in one or more transactions considered to be an adventure or concern in the nature of trade. Certain Unitholders who might not otherwise be considered to hold their Units as capital property may, in certain circumstances, be entitled to make the irrevocable election permitted by subsection 39(4) of the Tax Act to have such Units, and any other “Canadian security” (as defined in the Tax Act) owned in the taxation year in which the election is made and all subsequent taxation years, deemed to be capital property. Such Unitholders should consult their own tax advisers regarding their particular circumstances.

This summary is also based on the assumptions that: (i) none of the issuers of securities held by the Fund will be a foreign affiliate of either the Fund or any Unitholder; (ii) none of the securities held by the Fund will be a “tax shelter investment” within the meaning of section 143.2 of the Tax Act; (iii) none of the securities held by the Fund will be an interest in a non-resident trust other than an “exempt foreign trust” as defined for purposes of the Tax Act; (iv) none of the securities held by the Fund will be an interest in a

non-resident trust that is deemed to be a controlled foreign affiliate of the Fund for the purposes of the Tax Act; and (v) the Fund will not enter into any arrangement where the result is a dividend rental arrangement for the purposes of the Tax Act. In addition, a person or partnership, an interest in which is a “tax shelter investment”, if acquired, would be a “tax shelter investment”, as that term is defined in the Tax Act and this summary is not applicable to such a person or partnership.

Under certain provisions of the Tax Act, trusts or partnerships (defined as “SIFT trusts” and “SIFT partnerships”, respectively) the securities of which are listed or traded on a stock exchange or other public market, and that hold one or more “non-portfolio properties” (as defined), are effectively taxed on income and taxable capital gains in respect of such non-portfolio properties at combined rates comparable to the rates that apply to income earned and distributed by Canadian corporations. Distributions of such income received by unitholders of SIFT trusts and allocations of such income made to members of SIFT partnerships are treated as eligible dividends from a taxable Canadian corporation.

This summary is based on the assumption that “investments” (as defined in the Tax Act) in the Fund are not, and will not be, listed or traded on a stock exchange or any other trading system or other organized facility. If this assumption is not correct, the Fund could be a “SIFT trust” for purposes of the Tax Act, and the consequences to the Fund and the Unitholders under the Tax Act could be materially different from those described below.

The following summaries of the principal Canadian federal income tax consequences to a prospective Unitholder of Units in the Fund are based on the current provisions of the Tax Act, the regulations thereunder (the “Regulations”), all specific proposals to amend the Tax Act or the Regulations publicly announced by or on behalf of the Minister of Finance (Canada) prior to the date hereof (the “Tax Proposals”) and the current published administrative practices of the Canada Revenue Agency (“CRA”). These summaries do not otherwise take into account or anticipate any changes in law, whether by judicial, administrative or legislative decision or action, nor do they take into account provincial, territorial or foreign income tax legislation or considerations, which may differ from those described therein.

The summaries are not exhaustive of all possible Canadian federal tax considerations applicable therein and are not intended to constitute legal or tax advice. The income and other tax consequences will vary depending on the Unitholder’s particular circumstances, including the province(s) or Territory(ies) in which the Unitholder resides or carries on business. Accordingly, prospective Unitholders should consult their own tax advisors about their individual circumstances.

Canadian Federal Income Tax Considerations applicable to Unitholders of the Fund

This summary is based on the assumption that the Fund will qualify as a “mutual fund trust” for purposes of the Tax Act before the 91st day after the end of its first taxation year, that the Fund will elect under subsection 132(6.1) of the Tax Act in its income tax return for its first taxation year to be deemed to have been a mutual fund trust from its inception, and that the Fund will continue to qualify as a mutual fund trust at all relevant times. In order to qualify as a mutual fund trust, among other things, the Fund must restrict its undertaking to investing its funds in property, it must qualify as a “unit trust” and it must comply on a continuous basis with certain minimum distribution requirements relating to the Units. The trustee expects that the Fund will qualify as a mutual fund trust under the Tax Act at all relevant times. If the Fund does not qualify as a mutual fund trust at all relevant times, the income tax considerations could be materially different from those described below.

Taxation of the Fund

The taxation year of the Fund is the calendar year. In each taxation year, the Fund is subject to tax under the Tax Act on its income for the year, including net realized taxable capital gains, computed in accordance with the detailed provisions of the Tax Act, less any portion thereof that it deducts in respect of amounts

paid or payable in the year to Unitholders. The Fund will be required to include in its income any income or loss allocated to it by the Partnership for any fiscal year of the Partnership that ends in the calendar year. It is the Fund's intention to distribute to Unitholders in each year its net income and net realized capital gains (net of realized capital losses, if any), taking into account any entitlement to capital gains refunds, to such an extent that the Fund will not be liable in any year for income tax under Part I of the Tax Act.

In determining the income of the Fund, gains or losses realized upon dispositions of securities in the Fund's portfolio (as well as capital gains allocated to the Fund by the Partnership) will constitute capital gains or capital losses of the Fund in the year realized unless the Fund is considered to be trading or dealing in securities or otherwise carrying on an investment business of buying and selling securities or the Fund has acquired the securities in a transaction or transactions considered to be an adventure or concern in the nature of trade. The Fund will treat its investment in the Partnership as capital property and will take the position that gains and losses realized on the disposition thereof are capital gains and capital losses. Further, the Fund intends to make an election pursuant to subsection 39(4) of the Tax Act such that "Canadian securities" held by the Partnership (including mortgages issued by persons resident in Canada) will be deemed to be capital property when determining the character of gains and losses realized on such property by the Partnership that are allocated to the Fund.

The Fund is required to compute its income and gains for tax purposes in Canadian dollars. Therefore, the amount of income, cost, proceeds of disposition and other amounts in respect of investments that are not Canadian dollar denominated will be affected by fluctuations in the exchange rate of the Canadian dollar against the relevant foreign currency.

In computing its income for purposes of the Tax Act, the Fund may deduct reasonable administrative costs and other expenses incurred by it for the purpose of earning income, the Fund may generally deduct the costs and expenses of issuing Units pursuant to the Offering, incurred by the Fund and not reimbursed, at the rate of 20% per year pro-rated where the Fund's fiscal year is less than 365 days.

In the event the Fund is otherwise liable for tax on its net realized taxable capital gains for a taxation year, it will be entitled for such taxation year to reduce (or receive a refund in respect of) its liability for such tax by an amount determined under the Tax Act based on the redemption of Units during the year (the "Capital Gains Refund"). Where the Capital Gains Refund in a particular taxation year does not offset the Fund's tax liability for such taxation year arising as a result of the redemption of Units, any capital gains realized by the Fund as a result of such redemption will be allocated to Unitholders, including Unitholders redeeming their Units. The taxable portion of such capital gains must be included in the income of Unitholders.

Losses incurred by the Fund in a taxation year cannot be allocated to Unitholders, but may be deducted by the Fund in future years in accordance with the Tax Act.

Taxation of Unitholders

A Unitholder will generally be required to include in income for a particular taxation year of the Unitholder such portion, if any, of the net income, including the taxable portion of the net realized capital gains, of the Fund for a taxation year as is paid or becomes payable to the Unitholder in that particular taxation year, whether received in cash or in additional Units.

Provided that appropriate designations are made by the Fund, such portion of: (i) the net realized taxable capital gains of the Fund, (ii) income from foreign sources and (iii) the taxable dividends received or deemed to be received by the Fund on shares of taxable Canadian corporations, as is paid or payable to a Unitholder will effectively retain its character and be treated as such in the hands of the Unitholder for purposes of the Tax Act. A taxable Unitholder will generally be entitled to foreign tax credits in respect of foreign taxes subject to detailed foreign tax credit rules in the Tax Act and depending upon other foreign source income or loss of and foreign taxes paid by the Unitholder. To the extent amounts are designated as taxable dividends from taxable Canadian corporations, the gross-up and dividend tax credit rules will apply, including an enhanced gross-up and dividend tax credit in respect of "eligible dividends" paid by taxable

Canadian corporations. Any loss of the Fund for purposes of the Tax Act cannot be allocated to, and cannot be treated as a loss of, a Unitholder.

Distributions by the Fund in excess of its net income for tax purposes in a year will not generally be included in the Unitholder's income for the year. However, a Unitholder will be required to reduce the adjusted cost base of his or her Units by the portion of any amount paid or payable to the Unitholder by the Fund (other than the non-taxable portion of certain capital gains, the taxable portion of which was designated by the Fund for the year as described in the paragraph above) that was not included in computing the Unitholder's income. A Unitholder will realize a capital gain to the extent that the adjusted cost base of such Unitholder's Units would otherwise be a negative amount, and the adjusted cost base of such Units will be deemed to be nil immediately thereafter.

Unitholders will be informed each year of the composition of the amounts distributed to them, including amounts in respect of both cash and reinvested distributions. This information will indicate whether distributions are to be treated as ordinary income, taxable dividends (including eligible dividends), taxable capital gains, non-taxable amounts, foreign source income, and as to foreign tax deemed paid by the Unitholder as those items are applicable.

The Net Asset Value per Unit will reflect any income and gains of the Fund that have accrued at the time Units are acquired. Accordingly, a Unitholder who acquires Units may become taxable on the Unitholder's share of income and gains of the Fund that accrued before the Units were acquired notwithstanding that such amounts will have been reflected in the price paid for the Units.

On the disposition or deemed disposition of a Unit by a Unitholder, whether on redemption or otherwise, the Unitholder will generally realize a capital gain (or a capital loss) equal to the amount by which the proceeds of disposition exceed (or are less than) the aggregate of the Unitholder's adjusted cost base of the Unit and any reasonable costs of disposition. Proceeds of disposition will not include an amount payable by the Fund that is otherwise required to be included in the Unitholder's income (such as an amount designated as payable by the Fund to a redeeming Unitholder out of capital gains or income of the Fund as described above).

For the purpose of determining the adjusted cost base to a Unitholder of Units when a Unit is acquired, the cost of the newly-acquired Unit will be averaged with the adjusted cost base of all identical Units owned by the Unitholder as capital property immediately before that acquisition. The adjusted cost base of a Unit to a Unitholder will include all amounts paid or payable by the Unitholder for the Unit, with certain adjustments. The cost to a Unitholder of additional Units acquired on a distribution will generally be the amount of income and capital gains distributed by the issuance of those Units.

One-half of any capital gain realized by a Unitholder, and the amount of any net taxable capital gains designated by the Fund in respect of such Unitholder, will be included in the Unitholder's income as a taxable capital gain. One-half of any capital loss realized by such a Unitholder on a disposition, or deemed disposition, of Units is required to be deducted only from taxable capital gains of the Unitholder in the year of disposition, and any excess of one-half of such capital losses over taxable capital gains may generally be deducted in computing taxable income in the three preceding taxation years or in any subsequent taxation year, to the extent and under the circumstances described in the Tax Act.

Generally, net income of the Fund paid or payable to a Unitholder that is designated as taxable dividends from taxable Canadian corporations or as net realized capital gains and capital gains realized on the disposition of Units may increase the Unitholder's liability for alternative minimum tax.

Each investor should satisfy himself or herself as to the federal and provincial tax consequences of an investment in the securities offered hereby by obtaining advice from his or her tax advisor.

ELIGIBILITY FOR INVESTMENT

Provided that the Fund qualifies as a mutual fund trust within the meaning of the Tax Act, the Units, if issued on the date hereof, would be qualified investments under the Tax Act for trusts governed by registered retirement savings plans, registered retirement income funds, deferred profit sharing plans, registered education savings plans, registered disability savings plans and tax-free savings accounts. However, the holder of a tax-free savings account that governs a trust or an annuitant of a registered retirement savings plan or registered retirement income fund may be subject to a penalty tax pursuant to the “prohibited investment” rules in the Tax Act if the holder or annuitant does not deal at arm’s length with the Fund for purposes of the Tax Act or has a “significant interest” as defined in the Tax Act in the Fund. Generally, a holder or annuitant, as the case may be, will not have a significant interest in the Fund unless the holder or annuitant, as the case may be, owns interests as a beneficiary under the Fund that have a fair market value of 10% or more of the fair market value of the interests of all beneficiaries under the Fund, either alone or together with persons and partnerships with which the holder or annuitant, as the case may be, does not deal at arm’s length.

Any investor contemplating a purchase of Units is strongly advised to consult with their own tax advisors regarding the application of the foregoing having regard to their particular circumstances.

RISK FACTORS

This purchase of Units involves a number of risk factors and is suitable only for investors who are aware of the risks inherent in the real estate industry and who have the ability and willingness to accept the risk of loss of their invested capital and who have no immediate need for liquidity.

The Fund advises that prospective investors should consult with their own independent professional legal, tax, investment and financial advisors before purchasing Units in order to determine the appropriateness of this investment in relation to their financial and investment objectives and in relation to the tax consequences of any such investment.

In addition to the factors set forth elsewhere in this Offering Memorandum, prospective investors should consider the following risks before purchasing Units. Any or all of these risks, or other as yet unidentified risks, may have a material adverse effect on the Fund’s business, and/or the return to the investors.

Tax Related Risks

There can be no assurance that income tax laws will not be changed in a manner that adversely affects the Fund. If the Fund ceases to qualify as a “mutual fund trust”, the Canadian federal tax considerations described under “*Canadian Federal Income Tax Considerations*” and “*Eligibility for Investment*” would be materially and adversely different, and the Fund and the Unitholders may be reassessed for additional taxes from time to time. Investors should consult their own tax advisors with respect to the tax consequences of investing in the Units.

Even if the Units are a qualified investment for a trust governed by a tax-free savings account, a registered retirement savings plan or registered retirement income fund, a holder of a tax-free savings account or the annuitant of a registered retirement savings plan or registered retirement income fund will be subject to a penalty tax in respect of Units held in a trust governed by such a Plan if such Trust Units are a “prohibited investment” for the purposes of the Tax Act.

Pursuant to rules in the Tax Act, if the Fund experiences a “loss restriction event”, the Fund (i) would be deemed to have a year-end for tax purposes (which would result in an unscheduled distribution of income and net realized capital gains, if any, at such time to holders of beneficial interests so that it would not be liable for income tax on such amounts under Part I of the Tax Act), and the Fund (ii) would become subject to the loss restriction rules generally applicable to a corporation that experiences an acquisition of control, including a deemed realization of any unrealized capital losses and restrictions on its ability to carry forward

losses. Generally, the Fund would be subject to a loss restriction event if a person becomes a “majority-interest beneficiary”, or a group of persons becomes a “majority-interest group of beneficiaries”, of the Fund, as those terms are defined in subsection 251.2(1) of the Tax Act. Generally, a majority-interest beneficiary of the Fund would be a beneficiary in the income or capital, as the case may be, whose beneficial interests, together with the beneficial interests of persons and partnerships with whom the beneficiary is affiliated, have a fair market value that is greater than 50% of the fair market value of all the interests in the income or capital, as the case may be, of the Fund. The loss restriction event rules would not apply to a trust that qualifies as a “mutual fund trust” for purposes of the Tax Act and meets certain asset diversification requirements. However, it is not anticipated that the Fund would meet such asset diversification requirements. In the event that the Fund experienced a loss restriction event, such event could give rise to adverse tax consequences to such trust and adversely affect the return to holders of Units.

Representations of Subscribers

Each Subscriber of Units will represent to the Limited Partnership and any dealer who sells the Units to such Subscriber that such Subscriber is an “accredited investor” as defined in NI 45-106, or that the Subscriber will subscribe under the “minimum amount investment” exemption as defined in NI 45-106.

Resale Restrictions

The Units are not listed on an exchange. There is currently no secondary market through which the Units may be sold, there can be no assurance that any such market will develop and the Limited Partnership has no current plans to develop such a market. Accordingly, the sole method of liquidation of an investment in Units is by way of redemption of the Units.

Limitations on Redemption

Unitholders have the right to require the Fund to redeem Units, upon advance written notice of redemption to the Fund. Payment of redemption proceeds is subject to the availability of funds and payments may be deferred where the total amount to be paid exceeds 1% of the Fund. Accordingly, this investment may be unsuitable for those prospective investors who require greater liquidity.

Absence of Management Rights

The Units being sold under this Offering do not carry voting rights, and consequently an investor’s investment in Units does not carry with it any right to take part in the control or management of the Fund’s business, including the election of trustees. In assessing the risks and rewards of an investment in Units, potential investors should appreciate that they are relying solely on the good faith, judgment and ability of the trustees of the Fund and the directors, officers and employees FSFMI to make appropriate decisions with respect to the management of the Fund, and that they will be bound by the decisions of the Fund’s trustees, and FSFMI’s directors, officers and employees. It would be inappropriate for investors unwilling to rely on these individuals to this extent to purchase Units.

Lack of Separate Legal Counsel

The investors, as a group, have not been represented by separate counsel. Counsel for the Fund and the Limited Partnership do not purport to have acted for the investors nor to have conducted any investigation or review on their behalf.

Reliance on FSFMI

In accordance with the terms of the Declaration of Trust and the Limited Partnership Agreement, FSFMI has significant responsibility for assisting the Fund and the Limited Partnership to conduct their affairs. Any inability of FSFMI to perform competently or on a timely basis will negatively affect the Fund.

Concentration

The Fund is a mortgage investment entity and so its investments are concentrated in mortgages. Exposure to a specialized industry, market sector, particular geographical area or asset class involves risk that the Fund will suffer loss because of market, economic (including interest rate) or regulatory events which affect the sector or asset class. The Fund is not a broadly diversified investment across many industries and types of economic activity.

Conflicts of Interest

Conflicts of interest exist, and others may arise, between investors and the directors and officers of FSFMI, the Mortgage Lender and the Fund and their associates and affiliates.

There is no assurance that any conflicts of interest that may arise will be resolved in a manner most favourable to investors. Persons considering a purchase of Units pursuant to this Offering must rely on the judgment and good faith of the directors, officers and employees of FSFMI, the Mortgage Lender, and the Fund in resolving such conflicts of interest as may arise.

The Fund and the Unitholders are dependent in large part upon the experience and good faith of FSFMI. FSFMI is entitled to act in a similar capacity for investment vehicles or private lenders with investment criteria similar to those of the Fund. Notwithstanding this fact, FSFMI does not anticipate any difficulty in keeping the Fund fully invested.

Several of the Fund's mortgages may be shared with other investors affiliated or associated with FSFMI, which parties may include shareholders, directors or staff of FSFMI or FSFMI itself.

The Fund's investment position may rank either equally with, in priority to, or subordinate to other members of the syndicate or participating investors.

Investors are deemed to have acknowledged that FSFMI, the Mortgage Lender, as well as any of their directors, officers, shareholders, employees and their respective associates and affiliates may purchase for their own account and own as a co-lender a percentage interest in an investment that is held or presented to the Fund, and that FSFMI or the Mortgage Lender may also sell undivided percentage interests in any such investment opportunities to other co-lenders.

Investors are deemed to have acknowledged that FSFMI or its affiliates may hold a subordinate position in a mortgage which is presented to the Fund and the rate of return on such subordinated position may be greater than the Fund's rate of return to reflect the Fund's risk position relative to the other investors.

The General Partner has committed to refer material conflict of interest matters to the Advisory Committee for prior approval or resolution, and to be bound by the determination of the Advisory Committee.

Future Operations and Possible Need for Additional Funds

Certain uninsurable or uninsured events may occur which can substantially reduce the ability of the Fund to carry on business in a profitable manner, including natural or man-made disasters.

The Fund anticipates that a substantial portion of the net proceeds of this Offering will be expended by the Fund in investing in commercial mortgages, and also anticipates that the net proceeds of the Offering and

anticipated cash flow from operating revenues will be sufficient to carry out the Fund's business plan.

Industry Risk

There are also risks faced by the Fund because of the industry in which it operates. Real estate investment is subject to significant uncertainties due, among other factors, to uncertain costs of construction, development and financing, uncertainty as to the ability to obtain required licenses, permits and approvals, and fluctuating demand for developed real estate. The anticipated higher returns associated with the Fund's mortgage loans reflect the greater risks involved in making these types of loans as compared to long-term conventional mortgage loans. Inherent in these loans are completion risks as well as financing risks.

Insurance

The Fund's mortgage loans will not usually be insured in whole or in part. As well, there are certain inherent risks in the real estate industry, some of which the Fund may not be able to insure against or which the Fund may elect not to insure due to the costs of such insurance. The effect of these factors cannot be accurately predicted.

Priority

Financial charges for construction and other financing funded by conventional third party lenders may rank in priority to the mortgages registered in favour of the Fund. Although the Fund will have all of the rights of the holder of a subsequent mortgage in this scenario, in the event of default by the mortgagor under any prior financial charge, the Fund may not recover any or all the monies advanced.

Default

If there is default on a mortgage, it may be necessary for the Fund, in order to protect the investment, to engage in foreclosure or sale proceedings and to make further outlays to complete an unfinished project or to maintain prior encumbrances in good standing. In those cases, it is possible that the total amount recovered by the Fund may be less than the total investment, resulting in loss to the Fund. The directors intend to implement a policy of building up a "loan loss reserve" account to absorb such losses, but there is no assurance that such losses will not exceed the amount set aside in this account. Equity investment in real property may involve fixed costs in respect of mortgage payments, real estate taxes, and maintenance costs, which could adversely affect the Fund's income.

Yield

The yields on real estate investments, including mortgages, depend on many factors including economic conditions and prevailing interest rates, the level of risk assumed, conditions in the real estate industry, opportunities for other types of investments, legislation, government regulation and tax laws. The Fund cannot predict the effect that such factors will have on its operations.

Competition

The earnings of the Fund depend on the Fund's ability, with the assistance of FSFMI, to locate suitable opportunities for the investment and reinvestment of the Fund's funds and on the yields available from time to time on mortgages. The investment industry in which the Fund operates is subject to a wide variety of competition from private businesses in Canada and the United States, many of whom have greater financial and technical resources than the Fund. Although such competition, as well as any future competition, may

adversely affect the Fund's success in the marketplace, at the present time FSFMI has no reason to believe that such competition will prevent the Fund from successfully executing its business plan or operating profitably.

Mortgage Prepayment

Mortgages comprising the mortgage portfolio from time to time permit the borrower to prepay the principal amount. Any prepayment bonus or penalty may not fully compensate the Fund for the total amount of the return foregone had the mortgage been held to term, and the Fund may not be able to redeploy the capital at the same interest rate.

Mortgage Renewals

There can be no assurances that any of the mortgages comprising the mortgage portfolio from time to time can or will be renewed at the same interest rates and terms when the same mature, or in the same amounts as are currently in effect. With respect to each mortgage comprising the mortgage portfolio, it is possible that the mortgagor, First Source, or both will elect not to renew such mortgage. In addition, if the mortgages in the mortgage portfolio are renewed, the principal balance of such renewals, the interest rates and the other terms and conditions for such mortgages will be subject to negotiations between the mortgagors, First Source, and the Mortgage Lender at the time of renewal.

Composition of Mortgage Portfolio

The composition of the mortgage portfolio may vary widely from time to time and may be concentrated by type of mortgage, industry, or geographic region, resulting in the mortgage portfolio being less diversified than anticipated. A lack of diversification may result in the Fund being exposed to economic downturns or other events that have an adverse and disproportionate effect on particular types of mortgage, industry or geographic region.

Appraisals

As a condition of funding all loans, the Fund and FSFMI will either require the production of an appraisal prepared by an accredited appraiser licensed to prepare appraisals in the province of Ontario, or may rely upon an opinion of value furnished by a reputable realtor with expertise in the subject property. However, preparing appraisals and/or real estate valuations is not an exact science, and there is no guarantee that any such appraiser will not make an error in judgment notwithstanding the experience, training and qualifications of such person. Such errors could result in the realizable value of the underlying security being less than anticipated, causing a loss to the Fund.

Dependence on Key Personnel

The operations of the Fund and FSFMI are highly dependent upon the continued support and participation of their key personnel. The loss of their services may materially affect the time or the ability of the Fund to implement its business plan. FSFMI's management team consists of several key personnel. In order to manage the Fund successfully in the future, it may be necessary to further strengthen its management team. There can be no assurance of success in attracting, retaining, or motivating qualified individuals. Failure in this regard would likely have a material adverse effect on the Fund's business, financial condition, and result of operations.

Failure or Unavailability of Computer and Data Processing Systems and Software

FSFMI is dependent upon the successful and uninterrupted functioning of its computer and data processing systems and software. The failure or unavailability of these systems could interrupt operations or materially impact FSFMI's ability to collect revenues and make payments on behalf of the Limited Partnership and to manage risks. If sustained or repeated, a system failure or loss of data could negatively and materially adversely affect the ability of FSFMI to discharge its duties to the Limited Partnership and the impact on the Limited Partnership may be material.

Nature of Units

The Units are not the same as shares of a corporation. As a result, Unitholders will not have the statutory rights and remedies normally associated with share ownership, such as the right to bring "oppression" or "derivative" actions.

REPORTING TO UNITHOLDERS

Audited financial statements will be provided within ninety (90) days of each fiscal year end and unaudited financial information will be provided on a quarterly basis. The General Partner also provides investors with tax information required to complete tax returns.

RESALE RESTRICTIONS

The distribution of the Units in Ontario is being made on a private placement basis only and is exempt from the requirement that the Fund prepares and files a prospectus with the relevant Canadian securities regulatory authorities. Accordingly, any resale of the Units must be made in accordance with applicable Canadian securities laws which may require resales to be made in accordance with prospectus and dealer registration requirements or exemptions from the prospectus and dealer registration requirements. Subscribers of Units are advised to seek legal advice prior to any resale of the Units.

The Units are not listed on an exchange. There is currently no secondary market through which the Units may be sold, there can be no assurance that any such market will develop and the Limited Partnership has no current plans to develop such a market. Accordingly, the sole method of liquidation of an investment in Units is by way of redemption of the Units. Aggregate redemptions are subject to the Redemption Limit per Redemption Date unless approved by FSFMI. See "Redemption of Units".

PURCHASERS' RIGHT OF ACTION

General

Securities legislation provides purchasers of Units pursuant to this Offering Memorandum with a remedy for damages or rescission, or both, in addition to any other rights they may have at law, where the Offering Memorandum and any amendment to it contain an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to make any statement not misleading in light of the circumstances in which it was made. These remedies, or notice with respect to these remedies, must be exercised or delivered, as the case may be, by the purchaser within the time limits prescribed by applicable securities legislation.

Ontario

Securities legislation in Ontario provides purchasers of Units pursuant to this Offering Memorandum with a remedy for damages or rescission, or in both, in addition to any other rights they may have at law, where the Offering Memorandum and any amendment to it contains a "Misrepresentation". Where used herein, "Misrepresentation" means an untrue statement of a material fact or an omission to state a material fact that

is required to be stated or that is necessary to make any statement not misleading in light of the circumstances in which it was made.

Section 130.1 of the *Securities Act* (Ontario) provides that every purchaser of securities pursuant to an offering memorandum shall have a statutory right of action for damages or rescission against the issuer and any selling security holder in the event that the offering memorandum contains a Misrepresentation. A purchaser who purchases securities offered by the offering memorandum during the period of distribution has, without regard to whether the purchaser relied upon the Misrepresentation, a right of action for damages or, alternatively, while still the owner of the securities, for rescission against the issuer and any selling security holder provided that:

- if the purchaser exercises its right of rescission, it shall cease to have a right of action for damages as against the issuer and the selling security holders, if any;
- the issuer and the selling security holders, if any, will not be liable if they prove that the purchaser purchased the securities with knowledge of the Misrepresentation;
- the issuer and the selling security holders, if any, will not be liable for all or any portion of damages that it proves do not represent the depreciation in value of the securities as a result of the Misrepresentation relied upon; and
- in no case shall the amount recoverable exceed the price at which the securities were offered.

Section 138 of the *Securities Act* (Ontario) provides that no action shall be commenced to enforce these rights:

- in the case of an action for rescission, 180 days after the date of the transaction that gave rise to the cause of action; or
- in the case of an action for damages, the earlier of:
 - 180 days after the date that the purchaser first had knowledge of the facts giving rise to the cause of action; or
 - three years after the date of the transaction that gave rise to the cause of action.

Rights for Unitholders in Québec

Under legislation adopted but not yet in force in Québec, if this Offering Memorandum, together with any amendment hereto, delivered to a Limited Partner resident in Québec contains a misrepresentation, the Limited Partner will have (i) a right of action for damages against the Limited Partnership, every officer and director of the Limited Partnership, the dealer (if any) under contract to the Limited Partnership and any expert whose opinion, containing a misrepresentation, appeared, with the expert's consent in this Offering Memorandum, or without prejudice to the Limited Partner's right to claim damages (ii) a right of action against the Corporation for rescission of the purchase contract or revision of the price at which the Units were sold to the Limited Partner, provided that:

1. no person or company will be liable if it proves that: (a) the Limited Partner purchased the Units with knowledge of the misrepresentation; or (b) in an action for damages, that it acted prudently and diligently (except in an action brought against the Limited Partnership).
2. no action may be commenced to enforce such a right of action: (a) for rescission or revision of price more than three years after the date of the purchase; or (b) for damages later than the earlier of (i) three years after the Limited Partner first had knowledge of the facts giving rise to the cause of action, except on proof of tardy knowledge imputable to the negligence of the Limited Partner, or (ii) five years from the filing of the Offering Memorandum with the Autorité des marchés financiers.

British Columbia and Alberta

A purchaser of Units pursuant to this Offering Memorandum who is a resident in Alberta or British Columbia has, in addition to any other rights the subscriber may have at law, a right of action for damages or rescission against the Limited Partnership if this Offering Memorandum, together with any amendments hereto, contains a Misrepresentation. A purchaser has additional statutory rights of action for damages against every director of the Limited Partnership at the date of this Offering Memorandum or amendment hereto and every person or company who signed this Offering Memorandum or amendment hereto.

If this Offering Memorandum or any amendment hereto contains a Misrepresentation, which was a Misrepresentation at the time the Units were purchased, the purchaser will be deemed to have relied upon the Misrepresentation and will, as provided below, have a right of action against the Limited Partnership for damages or alternatively, if still the owner of any of the Units purchased by that subscriber, for rescission, in which case, if the purchaser elects to exercise the right of rescission, the purchaser will have no right of action for damages against the Limited Partnership, provided that:

- (a) no person or company will be liable if it proves that the purchaser purchased the securities with knowledge of the misrepresentation;
- (b) in the case of an action for damages, the defendant will not be liable for all or any portion of the damages that it proves do not represent the depreciation in value of the securities as a result of the misrepresentation;
- (c) in no case will the amount recoverable in any action exceed the price at which the securities were purchased by the purchaser under this Offering Memorandum; and
- (d) in the case of a purchaser resident in Alberta, no person or company, other than the Limited Partnership, will be liable if such person or company is entitled to rely upon certain statutory provisions set out in subsections 204(3)(a)-(e) of the Securities Act (Alberta).

No action may be commenced more than:

- in the case of an action for rescission, more than 180 days after the date of the transaction that gave rise to the cause of action; or
- in the case of any other action, other than an action for rescission, more than the earlier of (i) 180 days after the subscriber first had knowledge of the facts giving rise to the cause of action; or (ii) three years after the date of the transaction that gave rise to the cause of action.

Saskatchewan

The *Securities Act, 1988* (Saskatchewan) provides statutory rights to purchasers of Units in Saskatchewan as described in the *Securities Act, 1988* (Saskatchewan) upon their coming into force. Such Act provides that, subject to certain limitations, in the event that this Offering Memorandum and any amendment to this Offering Memorandum contain a Misrepresentation, a purchaser who purchases Units under this Offering Memorandum or an amendment to this Offering Memorandum, has a right of action for damages against the Limited Partnership, every promoter of the Limited Partnership, every person who signed this Offering Memorandum or the amendment to this Offering Memorandum and every person or company that sells securities on behalf of the Limited Partnership under this Offering Memorandum or amendment to this Offering Memorandum.

Alternatively, where the purchaser purchased Units, the purchaser may elect to exercise a right of rescission against the Limited Partnership.

The Securities Act, 1988 (Saskatchewan) also provides that, subject to certain limitations, where any advertising or sales literature (as such terms are defined in *The Securities Act, 1988* {Saskatchewan}) disseminated in connection with the Offering contains a Misrepresentation, a purchaser who purchases Units referred to in that advertising or sales literature has a right of action against the Limited Partnership, every promoter of the Limited Partnership and every person who or company that sells Units under the Offering with respect to which the advertising or sales literature was disseminated.

In addition, subject to certain limitations, where an individual makes a verbal statement to a prospective purchaser that contains a Misrepresentation relating to the Units of the Limited Partnership and the verbal statement is made either before or contemporaneously with the purchase of Units of the Limited Partnership, the purchaser has a right of action for damages against the individual who made the verbal statement.

No action shall be commenced to enforce the foregoing rights:

- (a) in the case of an action for rescission, more than 180 days after the date of the transaction that gave rise to the cause of action; or
- (b) in the case of any action, other than an action for rescission, more than the earlier of (i) one year after the purchaser first had knowledge of the facts giving rise to the cause of action, or (ii) six years after the date of the transaction that gave rise to the cause of action.

Manitoba

The Securities Act (Manitoba) provides purchasers of securities under a private placement who receive this Offering Memorandum with certain statutory rights in the event there is a Misrepresentation in this Offering Memorandum. In such event, Purchasers would have a statutory right to sue:

- (a) to cancel the agreement to buy Units; or
- (b) or damages against the Limited Partnership, every person who is a director at the date of the Offering Memorandum, and every person or company who signed the Offering Memorandum.

The statutory right to sue is available to a purchaser whether or not the purchaser relied on the Misrepresentation. If a purchaser chooses to rescind a purchase, the purchaser cannot then sue for damages. In addition, in an action for damages, a person will not be liable for all or any portion of damages that the person proves do not represent the depreciation in value of the securities as a result of the Misrepresentation. Furthermore, the amount recoverable in an action for damages will not exceed the price at which the securities were offered. There are various defenses available to the persons that a purchaser has a right to sue. For example, a person has a defense if the purchaser knew of the Misrepresentation when the purchaser purchased the securities. If a purchaser intends to rely on the rights described above in paragraph (a) or (b), the purchaser must do so within strict time limitations. A purchaser must commence an action to cancel the agreement within 180 days after the transaction or commence action for damages within the earlier of (i) 180 days after the purchaser first had knowledge of the facts giving rise to the cause of action; or (ii) two years after the day of the transaction.

New Brunswick

In the event that this Offering Memorandum, together with any amendments hereto used in connection herewith, delivered to a purchaser of Units resident in New Brunswick, or in any other information provided pursuant to the Offering, contains a Misrepresentation and it was a Misrepresentation at the time of purchase of Units by such purchaser, the purchaser will be deemed to have relied upon the Misrepresentation and will, as provided below, have a right of action against the Limited Partnership for damages; or, while still

the owner of the Units purchased by that purchaser, for rescission against the Limited Partnership, in which case, if the purchaser elects to exercise the right of rescission, the purchaser will have no right of action for damages against the Limited Partnership, provided that:

- (a) the right of action for rescission or damages must be exercisable by the purchaser not later than,
 - i. in the case of an action for rescission, 180 days after the date of the transaction that gave rise to the cause of action; or
 - ii. to cancel your agreement to buy these securities, or in the case of any action, other than an action for rescission, the earlier of (A) one year after the plaintiff first had knowledge of the facts giving rise to the cause of action, or (B) six years after the date of the transaction that gave rise to the cause of action;
- (b) the defendant will not be liable if it proves that the purchaser purchased the Units with knowledge of the Misrepresentation;
- (c) in the case of an action for damages, the defendant will not be liable for all or any portion of the damages that it proves do not represent the depreciation in value of the Units as a result of the Misrepresentation relied upon; and
- (d) in no case will the amount recoverable in any action exceed the price at which the Units were sold to the purchaser.

Nova Scotia

In the event that this Offering Memorandum, together with any amendments hereto used in connection herewith, delivered to a purchaser of Units resident in Nova Scotia, or in any advertising and sales literature provided with respect to the Offering, contains a Misrepresentation and it was a Misrepresentation at the time of purchase of Units by such purchaser, the purchaser will be deemed to have relied upon the Misrepresentation and will, as provided below, have a right of action against the Limited Partnership for damages; or, while still the owner of the Units purchased by that purchaser, for rescission against the Limited Partnership, in which case, if the purchaser elects to exercise the right of rescission, the purchaser will have no right of action for damages against the Limited Partnership, provided that:

- (a) the right of action for rescission or damages must be exercisable by the purchaser not later than,
 - i. in the case of an action for rescission, 180 days after the date of the transaction that gave rise to the cause of action; or
 - ii. in the case of any action, other than an action for rescission, the earlier of, (A) 180 days after the plaintiff first had knowledge of the facts giving rise to the cause of action, or (B) three years after the date of the transaction that gave rise to the cause of action;
- (b) the defendant will not be liable if it proves that the purchaser purchased the Units with knowledge of the Misrepresentation;
- (c) in the case of an action for damages, the defendant will not be liable for all or any portion of the damages that it proves do not represent the depreciation in value of the Units as a result of the Misrepresentation relied upon; and
- (d) in no case will the amount recoverable in any action exceed the price at which the Units were sold to the purchaser.

Newfoundland and Labrador

In the event that this Offering Memorandum, together with any amendments hereto used in connection herewith, delivered to a purchaser of Units resident in Newfoundland contains a Misrepresentation and it was a Misrepresentation at the time of purchase of Units by such purchaser, the purchaser will be deemed to have relied upon the Misrepresentation and will, as provided below, have a contractual right of action against the Limited Partnership for damages; or, while still the owner of the Units purchased by that purchaser, for rescission against the Limited Partnership, in which case, if the purchaser elects to exercise the right of rescission, the purchaser will have no right of action for damages against the Limited Partnership, provided that:

- (a) the right of action for rescission or damages must be exercisable by the purchaser not later than,
 - i. in the case of an action for rescission, 180 days after the date of the transaction that gave rise to the cause of action; or
 - ii. in the case of any action, other than an action for rescission, the earlier of, (A) 180 days after the plaintiff first had knowledge of the facts giving rise to the cause of action, or (B) three years after the date of the transaction that gave rise to the cause of action;
- (b) the defendant will not be liable if it proves that the purchaser purchased the Units with knowledge of the Misrepresentation;
- (c) in the case of an action for damages, the defendant will not be liable for all or any portion of the damages that it proves do not represent the depreciation in value of the Units as a result of the Misrepresentation relied upon; and
- (d) in no case will the amount recoverable in any action exceed the price at which the Units were sold to the purchaser.

Contractual Rights of Action

A contractual right of action for rescission or damages which is the same as the statutory right of action for rescission or damages provided to purchasers resident in the Province of Ontario (as discussed above) will be provided to purchasers resident in the Provinces of British Columbia and Québec, and will be conferred by the issuance of a purchase confirmation in respect of the Units by the Fund to such purchasers. Such contractual rights of action for rescission or damages are in addition to, and without derogation from, any other rights or remedies the purchaser may have at law.

LANGUAGE OF DOCUMENTS

Upon receipt of this document, each investor hereby confirms that it has expressly requested that all documents evidencing or relating in any way to the sale of securities described herein (including for greater certainty any purchase confirmation or notice) be drawn up in the English language only. Par la réception de ce document, chaque investisseur confirme par les présentes qu'il a expressément exigé que tous les documents faisant foi ou se rapportant de quelque manière que ce soit à la vente des valeurs mobilières décrites aux présentes (incluant, pour plus de certitude, toute confirmation d'achat ou tout avis) soient rédigés en anglais seulement.

MATERIAL CONTRACTS

The following is a list of all material documents related to the Limited Partnership:

- the Declaration of Trust

- the Limited Partnership Agreement;

The Material Contracts are available for review by potential investors at the offices of the General Partner.

AUDITOR, TRANSFER AGENT AND REGISTRAR

The auditors of the Fund and the General Partner are KPMG LLP.

The General Partner acts as the transfer agent and registrar for the Units.

ANNEX A

CONTACT INFORMATION FOR SECURITIES REGULATORY AUTHORITIES

Alberta Securities Commission

Suite 600, 250 – 5th Street SW
Calgary, Alberta T2P 0R4
Telephone: (403) 297-6454
Toll free in Canada: 1-877-355-0585
Facsimile: (403) 297-2082

British Columbia Securities Commission

P.O. Box 10142, Pacific Centre
701 West Georgia Street
Vancouver, British Columbia V7Y 1L2
Inquiries: (604) 899-6854
Toll free in Canada: 1-800-373-6393
Facsimile: (604) 899-6581
Email: inquiries@bcsc.bc.ca

The Manitoba Securities Commission

500 – 400 St. Mary Avenue
Winnipeg, Manitoba R3C 4K5
Telephone: (204) 945-2548
Toll free in Manitoba 1-800-655-5244
Facsimile: (204) 945-0330

**Financial and Consumer Services Commission
(New Brunswick)**

85 Charlotte Street, Suite 300
Saint John, New Brunswick E2L 2J2
Telephone: (506) 658-3060
Toll free in Canada: 1-866-933-2222
Facsimile: (506) 658-3059
Email: info@fcnb.ca

**Government of Newfoundland and Labrador
Financial Services Regulation Division**

P.O. Box 8700
Confederation Building
2nd Floor, West Block
Prince Philip Drive
St. John's, Newfoundland and Labrador A1B 4J6
Attention: Director of Securities
Telephone: (709) 729-4189
Facsimile: (709) 729-6187

**Government of the Northwest Territories
Office of the Superintendent of Securities**

P.O. Box 1320
Yellowknife, Northwest Territories X1A 2L9
Attention: Deputy Superintendent, Legal & Enforcement
Telephone: (867) 920-8984
Facsimile: (867) 873-0243

Nova Scotia Securities Commission

Suite 400, 5251 Duke Street
Duke Tower
P.O. Box 458
Halifax, Nova Scotia B3J 2P8
Telephone: (902) 424-7768
Facsimile: (902) 424-4625

Government of Nunavut Department of Justice

Legal Registries Division
P.O. Box 1000, Station 570
1st Floor, Brown Building
Iqaluit, Nunavut X0A 0H0
Telephone: (867) 975-6590
Facsimile: (867) 975-6594

Ontario Securities Commission

20 Queen Street West, 22nd Floor
Toronto, Ontario M5H 3S8
Telephone: (416) 593- 8314
Toll free in Canada: 1-877-785-1555
Facsimile: (416) 593-8122
Email: exemptmarketfilings@osc.gov.on.ca
Public official contact regarding indirect collection of information:
Inquiries Officer

Prince Edward Island Securities Office

95 Rochford Street, 4th Floor Shaw Building
P.O. Box 2000, Charlottetown, Prince Edward Island C1A 7N8
Telephone: (902) 368-4569
Facsimile: (902) 368-5283

Autorité des marchés financiers

800, Square Victoria, 22^e étage
C.P. 246, Tour de la Bourse
Montréal, Québec H4Z 1G3
Telephone: (514) 395-0337 or 1-877-525-0337
Facsimile: (514) 873-6155 (For filing purposes only)
Facsimile: (514) 864-6381 (For privacy requests only)
Email: financementdassocies@lautorite.qc.ca (For corporate
finance issuers); fonds_dinvestissement@lautorite.qc.ca (For
investment fund issuers)

Financial and Consumer Affairs Authority of Saskatchewan

Suite 601 - 1919 Saskatchewan Drive
Regina, Saskatchewan S4P 4H2
Telephone: (306) 787-5879
Facsimile: (306) 787-5899

**Government of Yukon
Department of Community Services**

Law Centre, 3rd Floor
2130 Second Avenue
Whitehorse, Yukon Y1A 5H6
Telephone: (867) 667-5314
Facsimile: (867) 393-6251