

FORM 45-106 F2
Offering Memorandum for Non-Qualifying Issuers

Date: May 1, 2019
The Issuer
Name: Trez Capital Yield Trust US (Canadian \$) (the "**Trust**")
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Currently listed or quoted? No. **These securities do not trade on any exchange or market.**
Reporting issuer? No.
SEDAR filer? Yes.

The Offering

Securities offered: Series A, F and I Trust units, denominated in Canadian dollars ("**Units**").
Price per security: \$10 per Unit.
Minimum/Maximum offering: **There is no Minimum or Maximum Offering. You may be the only purchaser. Funds available under this offering may not be sufficient to accomplish our proposed objectives.**
Minimum Subscription Amount: 500 Units (\$5,000)
Payment terms: Bank draft, certified cheques or wire transfer on closing.
Proposed closing date(s): Continuous offering. Closings may occur from time to time as subscriptions are received.
Income tax consequences: There are important tax consequences to these securities. See "Income Tax Considerations".
Selling agent: No. The Trust may pay a sales fee to registered dealers, or where permitted, non-registrants, in an amount determined by the Manager in its discretion, acting reasonably, payable at the time of the initial investment. See "Compensation Paid to Sellers and Finders".

Resale restrictions

You will be restricted from selling your securities for an indefinite period. See "**Resale Restrictions**". However, the Units are redeemable on 30 days' notice at the demand of a Unitholder. See "**Securities Offered – Unitholder's Right to Redeem**".

Purchaser's rights

You have 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 the agreement. See "**Purchasers' Contractual and Statutory Rights of Action**".

No securities regulatory authority or regulator has assessed the merits of these securities or reviewed this Offering Memorandum. Any representation to the contrary is an offence. This is a risky investment. See "**Risk Factors**".

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SUMMARY

The following is a summary of certain information contained in this Offering Memorandum, and reference should be made to the more detailed and additional information contained elsewhere in this Offering Memorandum. All dollar amounts stated herein, unless otherwise stated, are expressed in Canadian dollars.

- Offering:** A continuous offering of Series A, F and I Trust Units. There is no minimum or maximum offering amount. See "Subscription for Units". A subscriber whose subscription is accepted will become a Unitholder of the Trust.
- Subscription Price:** The subscription price per Unit is CDN\$10.00.
- Minimum Subscription:** There is a minimum subscription of 500 Units (\$5,000). Residents of certain provinces may be restricted in the amount they can invest when relying on this Offering Memorandum. See "Subscription for Units".
- Business Objective:** The business objective of the Trust is to preserve invested capital and generate a steady stream of income to investors by taking advantage of an underserved niche market and making prudent Investments within the United States as selected by the Mortgage Broker. The Trust initially focused on Investments in Texas and has since expanded to make Investments in other growth states.
- Specifically, the Trust will provide short-term flexible Mortgage financing at attractive rates ("**Mortgage Investments**"), invest in Mortgage financing comprising a base rate and a "bonus" participation option derived from the economics of the project ("**Mortgage Participations**"), invest (subject to a limit of 10% of the net assets of the Trust from time to time) in loans secured by a developer's interest in the developing entity ("**Mezzanine Loans**"), and enter into investments (subject to a limit of 20% of the net assets of the Trust from time to time) in Real Property through an indirect unsecured ownership interest in Real Property with qualified third-parties ("**Equity Investments**" and, collectively with Mortgage Investments, Mortgage Participations and Mezzanine Loans, the "**Investments**"). The Trust is a source of funding for the Mortgage Broker's mortgage lending business.
- The Manager will use the Mortgage Broker's well-established lending strategies and competitive advantages, namely (i) flexible structure terms; (ii) speed and certainty of execution; and (iii) its ability to generate proprietary deal flow.
- In general, most of the Investments will generate income through either interest received or profit participation income derived from the sale of Real Property. Mortgage Investments will generally generate income through a rate of interest, which is typically payable periodically throughout the term of the Mortgages. Mortgage Participations will provide income from a rate of interest which is typically payable periodically throughout the term of the Mortgage plus a bonus profit interest when the Real Property is sold. All Mortgages will be secured by Real Property consisting primarily of residential (generally not including single family homes), office, retail, industrial, hotel or other commercial property. The Mortgages may be either first ranking, a junior position in a first ranking Mortgage, or a subsequent ranking Mortgage. Individual Mortgages may be secured by one or more properties owned by the same mortgagor. See "Objectives and Policies – Investment Restrictions".
- Tranching:** In some cases, specifically in reference to Mortgage Investments, the Manager may permit a third party (such as a bank or trust company or other mortgage investor) to participate in a senior portion of a first Mortgage at a reduced interest rate, thereby enabling the Trust to earn a disproportionately large amount of interest revenue when compared to the portion of the Mortgage it retains. This practice – sometimes referred to as "tranching" – will enable the Trust to effectively increase its returns while using less capital for each Mortgage Investment (thereby facilitating greater diversification for the Trust) and, in all cases, retain the Manager's control over administering the entire Mortgage. The third party will be given priority for payment on its "senior"

position in the Mortgage in return for receiving less interest than the stipulated rate of the Mortgage and the Manager believes the Trust will receive a disproportionately larger amount of interest revenue compared to the change in risk associated with the portion of the Mortgage it retains.

In other cases, the Manager may retain the entire Mortgage for the Trust and other mortgage investment entities the Manager manages and may also structure the Mortgage into a senior portion and a junior portion between the various entities to offer attractive returns to each mortgage investment entity on a risk adjusted basis based on the fulfillment of each mortgage investment entity's investment objectives. When the Trust takes a junior portion of a Mortgage, which by agreement with other investors, will be subordinate to those other investors in terms of priority of payment, but will earn a higher interest rate for doing so, commensurate with the additional risk.

Additionally, the Trust may permit a third party to participate in a senior portion of a first Mortgage and the Manager may tranche the junior portion into a "junior B portion" and a "junior C portion". The Trust describes a "junior portion" as being subordinate to the "senior portion" and describes a "junior B portion" as being senior to a "junior C portion".

An investment by the Trust in a subsequent ranking Mortgage differs from a junior position in a first Mortgage in that a second or subsequent ranking Mortgage has a lower priority for repayment and the Manager does not have control over administering the first Mortgage should a default occur. The Mortgages will be arranged by the Mortgage Broker. See "Business of the Trust – Tranching".

Loan Sharing:

The Manager may arrange for third parties and/or other mortgage investment entities managed by the Manager to share in a loan on a *pari passu*, senior basis (as described under "Tranching"), or junior basis. See "Business of the Trust – Loan Sharing".

Series:

Units are issuable in series ("**Series**"). The outstanding Series are denominated in Canadian dollars. All Series are of the same class and have the same objectives, strategies and restrictions, but differ with respect to one or more of their features, such as fees and distributions, as set out in this Offering Memorandum. The book value per Unit will be expressed in Canadian dollars. However, distributions allocable to each Series will differ as a result of the deduction of the amounts payable in respect of Trailer Fees for the Series A Units and the lower Management Fee payable in respect of the Series I Units. The Manager may, at any time and from time to time, authorize the Trust to issue additional Series without the authorization of Unitholders. Each Series will share in the same pool of Investments and Authorized Interim Investments on a *pari passu* basis. See "Securities Offered - Description of Units".

Purchases of Units may be effected through direct investment or through the settlement network operated by FundSERV Inc. using the following codes:

Series A Units:	TRZ – 360
Series F Units:	TRZ – 370
Series I Units:	TRZ – 380

Distribution Policy:

The Trust will make a distribution to each Unitholder of record on each calendar month end on a monthly basis. For each month end (other than the month ending December 31), the Manager will distribute an amount it deems appropriate. Such monthly distributions will be paid in arrears by the 10th day following the month to which the distribution relates.

The distribution to be made in respect of the December 31 year end (the "**Final Year End Distribution**") will equal 100% of the Trust's Taxable Income, as defined herein, for the applicable Series, less non-capital losses incurred in the year or prior years and carried forward, if any, less any reserves that the Manager deems appropriate and any previous distributions made in that year.

The Final Year End Distribution will be made in two payments. The first payment for the Final Year End Distribution will be made by the 10th day following the year end in an amount determined in the same manner as the month end distributions. The second payment, if any, for the Final Year End Distribution will be paid in arrears not later than March 15 following the year end in an amount equal to any amount payable in excess of the distributions previously paid. Pursuant to the terms of the Declaration of Trust, the Manager has consistently determined that Unitholders of record on December 31 of each year shall be entitled to the Final Year End Distribution.

In each Fiscal Year, the monthly distributions will be proportionate to the number of days the Units have been issued and outstanding in the month to which the distribution relates. The second payment of the Final Year End Distribution will be proportionate to the number of days the Units have been issued and outstanding in the year to which the distribution relates.

Unitholders who redeem their Units prior to a month end or year-end will not participate in distributions for that month end or the Final Year End Distribution, as the case may be.

Subject to a Unitholder's election to receive distributions in Units, distributions by the Trust will be paid in cash. If the Trust has taxable income for which it has not received cash the Trust may make distributions of such taxable income in Units. Such a distribution would be followed by a consolidation of the Units to maintain the Net Asset Value per Unit at \$10.00. Payment of income by the distribution of Units can result in Unitholders having a tax liability without a corresponding distribution of cash to pay that tax liability.

A Unitholder who wishes to receive distributions in Units must complete the distribution reinvestment plan enrolment form provided by the transfer agent.

The Trust intends to distribute its net income and net realized capital gains, if any, in the year they are earned or realized to ensure that no income tax is payable by the Trust. If distributions to Unitholders are in excess of net income and net realized capital gains, if any, of the Trust, the adjusted cost base of the Unitholders' Units will generally be reduced. Alternatively, the Trust may record these excess distributions as advances to Unitholders which are repaid by way of reducing subsequent year's distributions. See "Distributions" and "Income Tax Considerations."

Hedging:

The Trust invests in U.S. dollar denominated Investments. In order to mitigate, but not eliminate, the adverse effects of a decline in the U.S. dollar versus the Canadian dollar from the time that the Trust acquires a U.S. dollar denominated Investment to the time that a U.S. dollar denominated Investment is repaid, the Trust will often undertake currency hedging transactions. U.S. dollar denominated Investments are hedged by way of foreign exchange swaps with maturities of approximately one month, or such other term determined by the Manager for the maximum benefit of Unitholders. See "Securities Offered – Hedging".

Redemption by Unitholder:

Subject to the restrictions below, Units are redeemable at the demand of the Unitholders, upon 30 days' written notice, at a Redemption price equal to:

- (a) at any time up to the first anniversary of their issuance, 99% of CDN\$10.00 per Unit; and
- (b) thereafter, at CDN\$10.00 per Unit.

The Manager may from time to time suspend Redemptions and/or terminate the Trust when the Redemption price exceeds the book value per Unit. The Manager is not obligated to accept Redemption notices for amounts exceeding, in aggregate, 5% of the book value of the Trust at such time, in any one calendar month.

The Manager also may suspend the Redemption of Units, or postpone the day of payment or right of Redemption, for a period of not more than 180 days, for or during any period during which the Manager determines that conditions exist which render impractical the sale of the assets of the Trust or impair the ability of the Manager to determine the value of the assets held by the Trust. Any such suspension shall take effect at such time as the Manager specifies and thereafter there shall be no Redemption of Units during the 180 day period until the Manager declares the suspension at an end.

Closing:

Closings will take place on such dates as the Manager determines.

Manager Fees:

Pursuant to the Declaration of Trust, for the purposes of calculation of the Manager's Fees, each Series is deemed to be entitled to its Proportionate Share of the Average Annual Gross Total Assets. The Manager will be entitled to receive an annual fee equal to 1.5% of the Proportionate Share of the Series A Units and the Series F Units of the Average Annual Gross Total Assets (the "**Series A and Series F Management Fee**") and an annual fee equal to a percentage to be negotiated by the Manager and the Unitholder of the Proportionate Share of the Series I Units of the Average Annual Gross Total Assets (the "**Series I Management Fee**"). As well, the Manager is entitled to receive an annual fee (the "**Incentive Fee**") equal to 10% of the Incentive Fee Revenue of the Trust. The Management Fee is paid monthly, in arrears and is to be estimated and paid for each month (other than the month ending December 31), 15 days following the end of each such month. The payment due for the month ending December 31st will be determined taking into consideration the previous payments made on an estimated basis and will be paid not later than March 15 following that month. The Incentive Fee is paid at the same time as the final year end payment to Unitholders. The Trust will be obligated to pay any applicable GST or other taxes on such fees.

See "Directors, Management, Promoters and Principal Holders – Manager's Fees".

Mortgage Broker Fees:

Affiliates of Trez Capital Limited Partnership (the "**Mortgage Broker**"), Trez Capital Texas L.P. ("**Trez Texas**") and Trez Forman Capital Group LP ("**Trez Florida**") (collectively, the "**Originators**") will originate Investments on behalf of the Trust under the supervision of the Mortgage Broker and the Mortgage Broker will undertake its customary due diligence review of the proposed investment. The Mortgage Broker will also arrange Mortgages on behalf of the Trust and will act as mortgage broker of the Trust.

The Mortgage Broker may earn brokerage fees from placing Mortgages against properties and performing due diligence. In the case of Mortgages which are originated by the Mortgage Broker, such fees will generally be paid by the borrower and the Mortgage Broker will not charge any fees to the Trust. In some instances where the Trust agrees to participate in a loan which has no brokerage fee, the Mortgage Broker will charge the brokerage fee to the Trust, and the brokerage fee may be deducted from interest payments otherwise payable to the Trust. In the case of Mortgages, or interests in Mortgages, which have been purchased by the Mortgage Broker from third parties either on its own behalf or on behalf of the Trust, such fees may also be deducted from interest payments otherwise payable to the Trust, or may be paid directly by the Trust as a result of the difference between the purchase price paid by the Mortgage Broker and the purchase price paid by the Trust. The brokerage fees charged to the Trust in such instances will vary depending on the size of the transaction and the amount of any fees otherwise payable to the Mortgage Broker. The Originators will receive a share of the originating fees, commitment fees and renewal fees on Mortgages it originates for the Trust.

See "Directors, Management, Promoters and Principal Holders – Originators' and Mortgage Broker's Fees".

- Trailer Fees:** The Trust will pay an annual servicing fee equal to 1.00% per annum of the Subscription Price of the Units (the "**Trailer Fee**") to registered dealers in respect of the Series A Units, payable monthly in arrears. The amount of the Trailer Fee will be deducted from distributions to Series A Unitholders.
- Use of Proceeds:** The Net Subscription Proceeds will be invested in Investments. Investments will be made as set out in "Objectives and Policies - Investment Restrictions". Pending investment in Investments, the Net Subscription Proceeds will be invested in Authorized Interim Investments. The Manager will use its reasonable commercial efforts to make suitable investments of the Net Subscription Proceeds in Investments as soon as possible following each Closing.
- The Trust will pay the expenses of this Offering.
- Distribution on Termination:** On the termination of the Trust, the assets of the Trust will be liquidated and the proceeds distributed to pay the liabilities of the Trust (including the fees and expenses of the Manager) and to establish reserves for the contingent liabilities of the Trust. The balance of any funds remaining will be used to redeem Units on a pro rata basis. See "Distributions - Distribution on Termination of the Trust".
- Taxation of the Trust and Unitholders:** Generally, the Trust will not pay tax under Part 1 of the Tax Act on its Taxable Income to the extent it is distributed to its Unitholders. In limited circumstances foreign income tax may be payable by the Trust. The Trust will not be liable to tax as a "specified investment flow-through trust" or "SIFT trust". In computing their income, Unitholders will be required to include the Taxable Income distributed to them by the Trust. Distributions not included in a Unitholder's income, other than the non-taxable portion of net realized capital gains, will generally reduce a Unitholder's adjusted cost base of the Units held. On a redemption or other disposition of Units, the Unitholder will realize a capital gain or loss to the extent that the proceeds of disposition exceed or are exceeded by the adjusted cost base of the Units. One-half of a capital gain must be included in income as a taxable capital gain. One-half of a capital loss is an allowable capital loss which may be applied against taxable capital gains realized in the year, with any excess available for carry back three years, or forward indefinitely, and applied against taxable capital gains realized in those earlier or later years.
- To the extent the Trust's investments include assets denominated in currencies other than Canadian dollars, the income derived from those assets must be determined for purposes of the Tax Act in Canadian dollars, and the Trust may therefore recognize gains or losses by virtue of fluctuations in the value of foreign currencies relative to Canadian dollars. The Trust will also carry out hedging transactions in respect of Investments denominated in currencies other than Canadian dollars which are intended to reduce gains or losses resulting from fluctuations in the value of foreign currencies relative to Canadian dollars.
- If the Trust has income that is liable to United States income tax, such tax will be paid by the Trust, which will then make a designation that generally will provide Unitholders with a foreign tax credit for foreign tax paid by the Trust.
- Investment by Deferred Plans:** The Trust is a mutual fund trust as defined in the Tax Act. As such, the Units of the Trust are qualified investments for Deferred Plans. Provided the Trust qualifies as a mutual fund trust as defined in the Tax Act the Units of the Trust will be qualified investments for Deferred Plans. See "Income Tax Considerations" for discussion regarding the qualification of the Trust as a mutual fund trust.
- No Transferability:** Units will not be transferable except by operation of law (such as the death or bankruptcy of a Unitholder) or in circumstances where the Manager deems it appropriate to do so in its absolute discretion. As well, securities laws will restrict, and may prohibit, transfer of Units. Units will not be listed on any stock exchange. See "Resale Restrictions".

Risk Factors:

Investment in the Trust entails a number of risks. This Offering is not suitable for investors who cannot afford to assume moderate risks in connection with their investments. These risks include the following:

- a) Unitholders' returns will be determined by the returns generated by the Investment Portfolio. These investments are affected by general economic conditions, local real estate markets, the attractiveness of the property to tenants/purchasers, competition from other available properties, fluctuations in market pricing and occupancy rates, operating expenses and other factors. It is possible that credit market deterioration could affect the Trust's returns. See "Directors, Management, Promoters and Principal Holders – The Mortgage Broker – Due Diligence Procedures and Risk Reduction".
- b) The Investments, which will be indirect investments in Real Property or be secured by Real Property, can fluctuate in value. Changes in market conditions may decrease the value of the secured property and reduce the actual or projected cash flow from the property, thereby affecting the ability of the borrower to service the debt and/or repay the loan or the ability to sell the Real Property.
- c) As at December 31, 2018, 20.51% of the Trust's Mortgage Portfolio by number of Mortgages and 19.13% of the Trust's Mortgage Portfolio by dollar amount will relate to Mortgages granted to one borrower. The loan to value ratio of the properties securing these Mortgages is 70.28%. Given the concentration of the Trust's exposure to this borrower, the Trust will be more susceptible to adverse financial circumstances affecting this borrower than a mortgage investment entity that does not have its Mortgage investments concentrated with a small number of borrowers.
- d) Given the concentration of the Trust's exposure to the Mortgage lending and Real Property investment sector, the Trust will be more susceptible to adverse economic or regulatory occurrences affecting that sector than a mortgage investment entity that is not concentrated in a single sector. Investments in Mortgages and Real Property are relatively illiquid. This lack of liquidity may result in the Trust suspending the Redemption of Units from time to time. The Investments will be invested and may from time to time be concentrated by location of the properties, type of property, or other factors resulting in the Investments being less diversified than at other times.
- e) An impairment of liquidity within the financial markets could affect the ability of the Trust's borrowers to refinance and pay out Mortgage Investments, Mortgage Participations or Mezzanine loans when due and the ability to sell Real Property. This lack of liquidity may result in the Trust suspending the Redemption of Units from time to time.
- f) There is no market for the Units and a market for the Units is not expected to develop. Units will not be transferable, except by operation of law (such as the death or bankruptcy of a Unitholder) or in circumstances where the Manager deems it appropriate to do so in its absolute discretion. As well, securities laws will restrict, and may prohibit, transfer of Units. See "Resale Restrictions".
- g) The Trust makes no representation as to any return that will be generated from the Investments. There can be no assurance that past returns achieved by funds managed by the Manager will be, in any respect, indicative of how Investments will perform (either in terms of profitability, volatility or low correlation with other investments) in the future.
- h) Subordinate financing, which will be carried on by the Trust, is generally considered higher risk than primary financing.

- i) If there is a decline in interest rates (as measured by the indices upon which the interest rates of the Trust's Mortgage Investments, Mortgage Participations or Mezzanine Loans are based), the Trust may find it difficult to originate additional Investments bearing rates sufficient to achieve distributions on the Units at the rates previously achieved by the Trust.
- j) If there is an increase in interest rates, property values may decline and adversely affect the value of the Investments.
- k) The Trust may borrow funds and secure such borrowings by Investments in the portfolio or may participate in a junior position in a Mortgage Investment and/or Mortgage Participation, which could increase the risk of the Trust's insolvency and the risk of Unitholder liability.
- l) The Trust will be highly dependent upon the expertise and abilities of the Manager and the Mortgage Broker. The loss of services of key personnel of the Manager or the Mortgage Broker could adversely affect the Trust.
- m) The role of the Board of Governors is generally advisory in nature and it does not involve itself in the day to day management of the Trust. Its duties differ from those of the board of directors of a corporation. Its responsibilities are limited to those expressly set forth in the Declaration of Trust and substantially all powers, authorities and responsibilities in respect of the Trust are those of the Manager.
- n) Conditions may arise which would cause the Manager to suspend the Redemption of Units, or postpone the day of payment or right of Redemption, for a period of not more than 180 days, for or during any period during which the Manager determines that conditions exist which render impractical the sale of the assets of the Trust or impair the ability of the Manager to determine the value of the assets held by the Trust. If the Manager receives a Redemption Notice or is required to make a Redemption for an amount exceeding the book value per Unit, the Manager may, in its discretion, give notice to terminate the Trust as of the Termination Date which precedes the intended date of such Redemption or Redemptions. See "Securities Offered – Unitholder's Right to Redeem".
- o) The Trust enters into hedging transactions relating to investments denominated in U.S. dollars to manage the risks from changes in currency conversion. Hedging instruments allow the Manager to reduce, but not eliminate, the potential effects of the variability in cash flow from fluctuations in currency conversion. The Manager's hedging strategy and future hedging transactions will be determined at its discretion.
- p) The Units share certain attributes common to equity securities. The Units represent an undivided interest in the assets of the Trust. However, Unitholders will not have the statutory rights normally associated with ownership of shares of a corporation including, for example, the right to bring "oppression" or "derivative" actions.
- q) The Manager is required to satisfy a standard of care in exercising its duties with respect to the Trust. However, neither the Manager nor its officers, directors, Affiliates, or employees are required to devote all or any specified portion of their time to their responsibilities relating to the Trust. The Manager and its officers, directors, employees and Affiliates may undertake financial, investment or professional activities which give rise to conflicts of interest with respect to the Trust.
- r) Payment of income by the distribution of Units, for example, in satisfaction of a Unitholder's income distribution, can result in Unitholders having a tax

liability without a corresponding distribution of cash to pay that tax liability.

You should carefully consider whether your financial condition and/or retirement savings objectives permit you to invest in the Trust. The Units involve a moderate degree of risk. An investment in Units of the Trust is appropriate only for investors who have the ability to absorb a loss of some or all of their investment. See "Risk Factors".

Certificates:

Certificates for Units will not be issued to Unitholders.

GLOSSARY

The following terms appear throughout this Offering Memorandum. Care should be taken to read each term in the context of the particular provision of this Offering Memorandum in which such term is used.

"**Affiliate**" or "**Affiliates**" has the same meaning as in the *Securities Act* (British Columbia);

"**Audit Committee**" means the audit committee of the Board of Governors;

"**Auditor(s)**" means the firm of Chartered Professional Accountants appointed as auditor(s) of the Trust from time to time by the Board of Governors;

"**Authorized Interim Investments**" means such investments that are "qualified investments" for a trust governed by a Deferred Plan;

"**Average Annual Gross Total Assets**" means, for a particular period, the sum of the Total Assets of the Trust determined as of the end of each month in such period, divided by the number of months in such period;

"**Board of Governors**" means the board named as such and established pursuant to the Declaration of Trust;

"**book value of the Units**" means an amount equal to the Net Asset Value;

"**book value per Unit**" means the book value per Unit, as described under the heading "Calculation of Book Value – Book Value of the Trust";

"**Business Day**" means a day other than a Saturday, Sunday or any day on which the principal office of the Trust's bankers located in Vancouver, British Columbia, is not open for business during normal banking hours;

"**Calculation Date**" means the last day of each month in a calendar year;

"**Closing**" means a closing of the sale of Units as the Manager may determine from time to time;

"**Credit Committee**" means the credit committee of the Board of Governors;

"**Declaration of Trust**" has the meaning given to it under the heading "Business of the Trust – Structure";

"**Deferred Plan**" means a "registered retirement savings plan", a "registered retirement income fund", a "tax-free savings account", a "registered disability savings plan", a "registered education savings plan" or a "deferred profit sharing plan" as such terms are defined under the Tax Act;

"**Distribution Payment Date**" means, for each of the first eleven calendar months, the 10th day of the month following the Calculation Date for such calendar month and for the calendar month ending December 31, the Distribution Payment Date will be not later than the following March 15;

"**Equity Investment**" means, in respect of Real Property, an agreement with a third party to invest in Real Property through an indirect unsecured ownership interest in such Real Property. For greater certainty, "Equity Investment" does not include an investment by the Trust in a wholly-owned subsidiary of the Trust;

"**Final Year End Distribution Payment**" means, in respect of any year, an amount equal to any amount payable in excess of the distributions previously paid for such year;

"**Fiscal Year**" means each such consecutive period of twelve months commencing on January 1, and ending on December 31;

"**FundSERV**" means the facility maintained and operated by FundSERV Inc. for electronic communication with participating companies, including the receiving of orders, order matching, contracting, registrations, settlement of orders, transmission of confirmation of purchases and the redemption of investments or instruments;

"**IFRS**" means International Financial Reporting Standards;

"**Incentive Fee**" means a fee to be paid to the Manager pursuant to the Declaration of Trust, consisting of an annual fee equal to 10% of the Incentive Fee Revenue for such period;

"**Incentive Fee Revenue**", in respect of a period, means the net income and capital gains for a Series of the Trust for that period prior to the deduction of the Incentive Fee payable for that period and after the deduction of the Management Fee payable in respect of that Series;

"**Independent Review Committee**" means the independent review committee of the Board of Governors;

"**Investment Portfolio**" means the portfolio of Investments acquired by the Trust in accordance with the investment policy of the Trust;

"**Investments**" has the meaning given to it under the heading "Summary – Business Objective";

"**Management Fee**" means, collectively, the Series A and Series F Management Fee and the Series I Management Fee and the management fee for any Series which may be created subsequently;

"**Manager**" means Trez Capital Fund Management Limited Partnership, a limited partnership validly existing under the laws of the Province of British Columbia, or such other entity appointed to serve as Manager hereunder from time to time;

"**Manager's Fees**" means, collectively, the Management Fee and the Incentive Fee;

"**Mezzanine Loans**" has the meaning given to it under the heading "Summary – Business Objective";

"**Mortgage**" or "**Mortgages**" or "**Deed of Trust**" or "**Deeds of Trust**" means a mortgage, a deed of trust, a mortgage of a mortgage or a mortgage of a leasehold interest (or other like instrument, including an assignment of or an acknowledgement of an interest in a mortgage), hypothecation, deed of trust, charge or other security interest of or in Real Property used to secure obligations to repay money by a charge upon the underlying Real Property;

"**Mortgage Broker**" has the meaning given to it under the heading "Business of the Trust – Structure";

"**Mortgage Broker Agreement**" means the agreement dated December 8, 2016 among the Manager, the Mortgage Broker and the Trust, pursuant to which the Mortgage Broker provides its services to the Trust;

"**Mortgage Investment**" means an investment by the Trust in a Mortgage;

"**Mortgage Participation**" means an investment in a Mortgage which includes a bonus payment from any profits from the disposition of the Real Property;

"**NI 45-106**" has the meaning given to it under the heading "Subscription for Units - Qualified Unitholders";

"**Net Asset Value**" or "**NAV**" means the value of all assets of the Trust less the value of all liabilities of the Trust, in each case determined in accordance with the Valuation Policy;

"**Net Asset Value per Unit**" means the quotient obtained by dividing the amount equal to the Net Asset Value by the total number of outstanding Units;

"Net Subscription Proceeds" means the gross proceeds to the Trust from the sale of the Units, less the payment of any costs associated with the closing of the offering, including legal expenses, and any other costs.

"Offering" means the offering of Series A, F and I Units pursuant to this Offering Memorandum;

"Ordinary Resolution" means a resolution consented to, in writing, by holders of more than 50% of all outstanding Units of the Trust or where Series are differently affected by the resolution, then 50% of each Series, or approved by at least 50% of the votes cast by Unitholders (or Unitholders of that Series) present in person or by proxy at a meeting of Unitholders which has been duly called and at which a quorum is present, as provided herein and excluding the votes of Units owned by the Manager or any Affiliate thereof in respect of any matter in which they have a financial interest (other than as Unitholders);

"Originators" means collectively Trez Texas and Trez Florida;

"Proportionate Share" when used to describe a Unitholder's, or a Series', interest in any amount, means the portion of that amount obtained by multiplying that amount by a fraction, the numerator of which is the number of Units of the Trust registered in the name of that Unitholder, or that Series, as the case may be, and the denominator of which is the total number of Units of the Trust then outstanding;

"Real Property" means land, lots, rights or interest in land or lots (including without limitation leaseholds, air rights and rights in condominiums, but excluding Mortgages) and any buildings, structures, improvements and fixtures located thereon;

"Redemption" means a redemption of Units by the Trust or by a Unitholder on his or her written request and subject to the limitations described herein;

"Registrar and Transfer Agent" means Trez Capital Limited Partnership.

"Sales Fee" means a fee to registered dealers, or where permitted, non-registrants in an amount determined by the Manager in its discretion acting reasonably, payable at the time of the initial investment;

"Securities Authorities" means, collectively, the British Columbia Securities Commission, the Alberta Securities Commission, the Saskatchewan Securities Commission, the Manitoba Securities Commission and the Ontario Securities Commission, and equivalent regulatory authorities in each Province or Territory of Canada in which the Units are qualified for distribution;

"Series" means a series of Units of the same class created by the Manager pursuant to the Declaration of Trust;

"Series A and Series F Management Fee" means a fee to be paid to the Manager pursuant to the Declaration of Trust, consisting of an annual fee, as estimated monthly, equal to 1.5% of the Proportionate Share of the Series A Units and Series F Units of the Average Annual Gross Total Assets of the Trust as of the date same is calculated;

"Series A Units" means a Series, designated as Series A;

"Series F Units" means a Series, designated as Series F;

"Series I Management Fee" means a fee to be paid to the Manager pursuant to the Declaration of Trust, consisting of an annual fee, as estimated monthly, equal to a percentage to be negotiated by the Manager and the Unitholder of the Proportionate Share of the Series I Units of the Average Annual Gross Total Assets of the Trust as of the date same is calculated;

"Series I Units" means a Series, designated as Series I;

"Short Term", when used in respect of Mortgage Investments, Mortgage Participations, and Mezzanine Loans, means investments which have an intended maturity date generally of no more than three years;

"Special Resolution" means a resolution consented to, in writing, by holders of more than 66 $\frac{2}{3}$ % of all outstanding Units of the Trust or where Series are differently affected by the resolution, then 66 $\frac{2}{3}$ % of each Series, or approved by at least 66 $\frac{2}{3}$ % of the votes cast by Unitholders present in person or by proxy at a meeting of Unitholders (or Unitholders of that Series) which has been duly called for that purpose and at which a quorum is present, as provided herein and excluding the votes of Units owned by the Manager or any Affiliate thereof in respect of any matter in which they have a financial interest (other than as Unitholders);

"Subscriber" means a subscriber for Units;

"Subscription Agreement" means the subscription agreement for Units, the form of which can be found at www.trezcapital.com;

"Subscription Price" means an amount equal to CDN\$10.00 per Unit;

"Subscription Proceeds" means the gross proceeds to the Trust from the sale of the Units;

"Tax Act" means the *Income Tax Act* (Canada), R.S.C. 1985 (5th Supp.) c.1, as amended, and the regulations thereunder;

"Taxable Income" of the Trust for a year means the net income and net realized taxable capital gains of the Trust (as those terms are defined in the Declaration of Trust and the Tax Act) determined without any gross-up in respect of taxable dividends from corporations resident in Canada and without deduction for distributions by the Trust to Unitholders during the year;

"Termination Date" means the date on which the Trust is terminated in accordance with the provisions of the Declaration of Trust;

"Termination Event" has the meaning attributed thereto under the heading "Termination of the Trust";

"Total Assets" means the aggregate fair value of the assets of the Trust determined in accordance with the terms of the Declaration of Trust;

"Trailer Fee" means a fee payable to registered dealers, in an amount equal to 1.0% per annum of the Subscription Price payable in respect of Series A Units, payable in arrears;

"Trez Florida" means Trez Forman Capital Group LP., a limited partnership formed under the laws of Delaware;

"Trez Texas" means Trez Capital Texas L.P., a limited partnership formed under the laws of Delaware;

"Trust" means Trez Capital Yield Trust US (Canadian \$), a trust created pursuant to the Declaration of Trust;

"Trust Property" means:

- (a) all moneys, securities, property, assets and investments paid or transferred to and accepted by or in any manner acquired by the Trustee and held by the Trustee on the trust herein declared;
- (b) all income which may hereafter be accumulated under the powers herein contained; and
- (c) all moneys, securities, property, assets or investments substituted for or representing all or any part of the foregoing;

less any money, securities, property, assets or investments distributed, expended, sold, transferred or otherwise disposed of in accordance with the provisions of the Declaration of Trust;

"Trustee" means Computershare Trust Company of Canada, the trustee named under the Declaration of Trust;

"Unanimous Resolution" means a resolution consented to, in writing, by all Unitholders, or approved by 100% of the votes cast by Unitholders present in person or by proxy at a meeting of Unitholders which has been duly called for that purpose and at which a quorum is present;

"Unit" means a unit of beneficial interest in the Trust issued in a Series of such units;

"Unitholders" means those investors whose subscriptions to purchase Units offered by this Offering Memorandum are accepted by the Trust and thereafter at any particular time the persons entered in the register or registers of the Trust as holders of Units and the singular form means one such registered holder;

"Valuation Date" means any day on which a subscription form or a request for Redemption is received by the Manager and includes any other day on which the Trustee or the Manager elects, in its discretion, to calculate the Net Asset Value per Unit; and

"Valuation Policy" means the policy of the Manager, as described under the heading "Calculation of Book Value - Valuation Policy".

CANADIAN CURRENCY

All dollar amounts stated herein, unless otherwise stated, are expressed in currency of Canada.

FORWARD LOOKING STATEMENTS

This Offering Memorandum contains forward-looking statements. Often, but not always, forward-looking statements can be identified by the use of words such as "plans", "proposes", "expects", "estimates", "intends", "anticipates" or "believes", or variations (including negative and grammatical variations) of such words and phrases or state that certain actions, events or results "may", "could", "would", "might", "likely" or "will" be taken, occur or be achieved. Forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Trust to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Actual results, performance and developments are likely to differ, and may differ materially, from those expressed or implied by the forward-looking statements contained in this Offering Memorandum. Such forward-looking statements are based on a number of assumptions which may prove to be incorrect including, but not limited to: the completion of this Offering, the ability of the Trust to acquire and maintain an Investment Portfolio capable of generating the necessary annual yield or returns to enable the Trust to achieve its investment objectives, the ability of the Trust to establish and maintain relationships and agreements with key strategic partners, the maintenance of prevailing interest rates at favourable levels, the ability of borrowers to service their obligations under the Mortgages, the ability of the Manager to effectively perform its obligations to the Trust, anticipated costs and expenses, competition, and changes in general economic conditions. While the Trust anticipates that subsequent events and developments may cause its views to change, the Trust specifically disclaims any obligation to update these forward-looking statements, except as required by applicable law. These forward-looking statements should not be relied upon as representing the Trust's views as of any date subsequent to the date of this Offering Memorandum. Although the Trust has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors that cause actions, events or results not to be as anticipated, estimated or intended. There can be no assurance that forward-looking statements will prove to be accurate, as actual results, performance and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements. The factors identified above are not intended to represent a complete list of the factors that could affect the Trust. Additional factors are noted under "**Risk Factors**".

INTERPRETATION

As used in this offering memorandum, unless the context otherwise indicates or requires, the term "Trust" is referring to the Trust, as managed by the Manager and in the context of the Trust's operations, is referring to the Trust's operations as carried out by the Manager on behalf of the Trust.

DOCUMENTS INCORPORATED BY REFERENCE

The following documents are incorporated by reference as part of this Offering Memorandum:

- (a) the marketing materials related to this Offering prepared as at the date of this Offering Memorandum delivered or made reasonably available to a prospective purchaser; and
- (b) the marketing materials related to this Offering which may be prepared after the date of this Offering Memorandum and delivered or made reasonably available to a prospective purchaser prior to the termination of this Offering.

USE OF AVAILABLE FUNDS

Subscription Proceeds and Available Funds

	<u>Assuming \$1,000,000 Offering</u>	<u>Assuming \$20,000,000 Offering</u>
A. Amount to be Raised by this Offering	\$1,000,000 ⁽¹⁾	\$20,000,000 ⁽¹⁾
B. Selling Commissions and Fees	\$Nil	\$Nil
C. Estimated Offering Costs (legal, accounting)	\$Nil ⁽²⁾	\$Nil ⁽²⁾
D. Net Proceeds (D = A – B – C)	\$1,000,000	\$20,000,000
E. Investment Capital – Redeemable Units	\$454,213,264 ⁽³⁾	\$454,213,264 ⁽³⁾
F. Working Capital Deficiency	\$Nil	\$Nil
G. Available Funds (F = D + E - F)	\$455,213,264	\$474,213,264

Notes:

- (1) There is no minimum or maximum offering. The sums of \$1,000,000 and \$20,000,000 have been used for illustrative purposes.
- (2) The Trust will pay the expenses of this Offering, estimated to be approximately \$10,000 which will not be deducted from the amount to be raised by this Offering.
- (3) As at December 31, 2018.

Use of Net Subscription Proceeds

The Net Subscription Proceeds will be invested in Investments in the United States. Investments will be made as set out in "Objectives and Policies". Pending such investment, the Net Subscription Proceeds will be invested in Authorized Interim Investments. The Manager will use its reasonable commercial efforts to make suitable investments of the Net Subscription Proceeds in Investments as soon as possible following each Closing.

BUSINESS OF THE TRUST

Structure

The Trust is an open-ended investment trust created under the laws of the Province of British Columbia pursuant to a Declaration of Trust made as of December 8, 2016 (the "Declaration of Trust"). The principal place of business of the Trust is located at 1700-745 Thurlow Street, Vancouver, British Columbia, V6E 0C5. The Trust is not a "mutual fund" as defined by applicable securities legislation. The Trust differs from a mutual fund in that Units are redeemable monthly by the Unitholder at 99% of the Subscription Price during the first year after purchase, and at the Subscription Price thereafter, rather than based on their Net Asset Value or market value. Redemptions are processed 30 days after the requested redemption. The Trust is not subject to the prescribed investment restrictions for mutual funds as defined by applicable securities legislation and, accordingly, is permitted to invest in Investments and to borrow funds.

The beneficial interest in the assets of the Trust is divided into Units issued in Series. Only Series A Units, Series F Units and Series I Units are offered hereby. The Manager may issue additional Series without the approval of the Unitholders, provided same are within the investment objectives of the Trust. All of the Series of Units have the same investment objective, strategies and restrictions but differ with respect to one or more of their features, such as fees or distributions, as set out in this Offering Memorandum. The Trust's Net Asset Value is calculated as the value of the Trust's assets, less its liabilities, computed on a particular date in accordance with the Declaration of Trust. The Manager will calculate the Net Asset Value for each Unit. The Net Asset Value per Unit will be the same for all Series.

Computershare Trust Company of Canada is the Trustee of the Trust pursuant to the Declaration of Trust. Trez Capital Fund Management Limited Partnership is the Manager under the Declaration of Trust. Trez Capital Limited Partnership is the Mortgage Broker of the Trust pursuant to the Mortgage Broker Agreement. The principal place of business of the Manager and the Mortgage Broker is located at 1700-745 Thurlow Street, Vancouver, British

Columbia, V6E 0C5. The registered office of the Manager and the Mortgage Broker is 2900-595 Burrard Street, Vancouver, British Columbia, V7X 1J5.

The Trust's Business

The Trust has been created for the purpose of generating revenues from interests acquired in a portfolio of Mortgages in the United States, as well as investments in Real Property in the United States through Mortgage Investments, Mortgage Participations, Equity Investments and Mezzanine Loans. The Trust intends to participate in U.S. real estate markets which provide potential investment opportunities for the Trust. The Trust's initial focus was on the State of Texas but has since expanded to Investments in other growth states.

Investment Strategies

The Manager has established the Trust to take advantage of an under-serviced niche market in the United States that requires Short Term, flexible customized Mortgages, as well as Real Property investment opportunities in the United States.

(A) Mortgage Lending

The Trust's strategy is to make prudent investments in Mortgages focused on Short Term financing to qualified real estate investors and developers. U.S. financial institutions are generally reluctant to dedicate resources to originating and structuring Mortgages to real estate investors and developers and typically cannot provide the customization or timeliness required to meet the needs of these borrowers. As a result of the under-servicing of such borrowers, there is reduced competition in this market sector, thereby providing the Trust with an opportunity to provide well structured, secured Mortgages with attractive pricing.

The Mortgages will be arranged by the Mortgage Broker. The Mortgage Broker can benefit borrowers by providing (a) the ability to execute quickly on real estate investment opportunities, (b) loan terms that are in line with the real estate investor's business model, and (c) potentially lower monthly payments relative to traditional financing. As a result of the above, borrowers are generally willing to pay higher interest rates for such Short Term Mortgages. The Mortgage Broker will use its well-established lending strategies and competitive advantages, namely (i) flexible structure terms, (ii) speed and certainty of execution, and (iii) its ability to generate proprietary deal flow.

Once these Mortgages are structured, the Trust has the opportunity to increase its returns by permitting third parties (including US banks, trust companies and other mortgage investment entities) to participate in such Mortgages on a senior basis at reduced interest rates, thereby enabling the Trust to retain a disproportionate amount of interest in respect of the portions of the Mortgages it retains. The Manager may alternatively retain the entire Mortgage for the Trust and other mortgage investment entities it manages and may also structure the Mortgage into a senior portion and junior portion to offer attractive returns to each mortgage investment entity it manages on a risk adjusted basis based on the fulfillment of each mortgage investment entity's investment objectives. When the Trust takes a junior portion of a Mortgage, which by agreement with other investors, will be subordinate to those other investors in terms of priority of payment, but will earn a higher interest rate for doing so, commensurate with the additional risk. See "Mortgage Tranching".

Additionally, the Trust may permit a third party to participate in a senior portion of a first Mortgage and the Manager may tranche the junior portion into a "junior B portion" and a "junior C portion" for the mortgage investment entities it manages. The Trust describes a "junior portion" as being subordinate to the "senior portion" and describes a "junior B portion" as being senior to a "junior C portion".

An investment by the Trust in a second Mortgage differs from a junior position in a first Mortgage in that the Manager does not have control over administering the first Mortgage should a default occur.

In other cases where the Manager may retain the entire Mortgage for the Trust and other mortgage investment entities it manages the Manager may allocate the Mortgage across its mortgage investment entities in pari passu position, thereby reducing the risk of the single Mortgage to the Trust and facilitating greater diversification. The

Manager may also arrange for third parties to share in a pari passu or junior basis of a Mortgage. See "Loan Sharing".

In general, the Mortgages will generate income through a rate of interest, which is typically payable periodically throughout the terms of the Mortgages. The Manager intends to maintain a balanced portfolio of Mortgages with staggered maturity dates. All Mortgages will be secured by Real Property consisting primarily of real property which requires horizontal infrastructure (such as gas lines, water lines, sewage systems, paved roads) but can also include other residential (generally not including single family homes), office, retail, industrial, hotel or other commercial property. Mortgages may be either first ranking, a junior position in a first ranking Mortgage, or a subsequent ranking Mortgage, and individual Mortgages may be secured by more than one property owned by the same mortgagor.

For over 20 years, the Mortgage Broker and its predecessor, Trez Capital Corporation, have managed a series of mortgage investment funds previously offered to investors on a prospectus-exempt basis, as well as TG Income Trust, TG Income Trust II, and TG Income Trust III, which have been offered in the Provinces of British Columbia and Alberta by prospectus. In 2012, the Manager offered shares in Trez Capital Mortgage Investment Corporation and Trez Capital Senior Mortgage Investment Corporation by prospectus in all the provinces and territories of Canada, except Québec.

The current investment opportunity allows investors to access the Mortgage Broker's extensive experience and track record in order to indirectly invest in a fully-secured, high-yield portfolio of Mortgage assets. With its strong platform and Mortgage lending expertise, the Mortgage Broker is able to issue Mortgages in as little as four weeks to meet short deadlines for qualified real estate investors and/or developers.

(B) Mezzanine Loans

The Trust may make loans that are secured by the developer's interest in the entity that is developing the real estate. Mezzanine financing can take several forms, but most commonly it involves extending credit to the partners or other equity holders of the borrower and taking a pledge of such parties' equity interests (including the right to distributions of income). The Trust will earn a higher rate of return than that of a first Mortgage on the Real Property, which is commensurate with the greater risk of an equity loan.

(C) Equity Investments and Mortgage Participations

The Trust will make equity investments in two ways – Equity Investments and Mortgage Participations.

Equity Investments are commonly entered into through a limited partnership. The Trust, as a financier, will set up an entity which will be the limited partner and the developer will be the general partner. There may be third parties that participate as limited partners alongside the Trust. The limited partner(s) and developer will advance funds to the project. Usually, the developer and financier(s) will earn a preferred rate of return on their respective advances and after the repayment of the capital advanced and the preferred rate of return, the balance of the proceeds will be split on a predetermined, negotiated basis.

Mortgage Participation loans earn the lender returns in two ways – an agreed interest rate plus participation in the profits of the venture on disposition of the Real Property. These loans are typically secured by the Real Property. The agreed interest rate is paid during the term of the loan and the participation paid when the Real Property is sold and profits ascertainable.

Investment Process

In connection with the Trust, the Mortgage Broker has formed the Originators to conduct its operations out of Texas and Florida. See "Directors, Management, Promoters and Principal Holders – Trez Capital Limited Partnership (the Mortgage Broker)". Under the supervision of the Mortgage Broker, the Originators and the Mortgage Broker will originate potential Investments for review by the Mortgage Broker. See "Directors, Management, Promoters and Principal Holders – The Mortgage Broker – The Mortgage Broker's Operations". The Originators and the Mortgage

Broker will utilize an investment process that is characterized by a top-down approach to identify attractive investment opportunities, beginning first with a macro-level economic analysis of various geographic markets and asset classes, and followed by the identification and evaluation of individual investment opportunities. Once an investment opportunity is determined by the Originators or the Mortgage Broker to be satisfactory based on an initial review, the Mortgage Broker performs comprehensive due diligence on the underlying assets. This top-down approach to investment selection is expected to result in investments by the Trust that are high quality and offer attractive returns on a risk adjusted basis.

Due diligence procedures undertaken by the Mortgage Broker prior to funding investments have resulted in a strong record of return of principal, interest, and profits from Investments placed by the Mortgage Broker. The Mortgage Broker's core strategy of investment in traditional real estate in major markets and with multiple-contingent exit strategies has proven to be successful over the long term.

The Mortgage Broker manages the risks associated with Investments through initial due diligence and careful monitoring of its Investment portfolio, active communication with borrowers and Equity Investment partners and the prompt institution of enforcement procedures on defaulting Mortgages. All properties are evaluated on the basis of location, quality, source of repayment, prospects for value-add and, cash flow profile. In addition, the creditworthiness of the borrower or Equity Investment partner is reviewed and personal covenants are often obtained from the principals of the borrower. Once funded, the Mortgage Broker regularly monitors the status of each Investment and performance of the borrower and Equity Investment partners. The Mortgage Broker communicates regularly with borrowers and Equity Investment partners to understand how their Real Property is performing and to discuss and monitor their repayment strategies and redevelopment strategies, where appropriate. The Mortgage Broker believes that a strong relationship with borrowers and Equity Investment partners is critical to the success of the Mortgages and to the development of a good quality and repeat borrowers and Equity Investment partners.

The Mortgage Broker monitors the performance of the Investment portfolio, including tracking the status of outstanding payments due and due dates, progress of construction projects, pay down requirements from sales, and the calculation and assessment of other applicable charges. Each member of management of the Manager and the Mortgage Broker has extensive knowledge and understanding of the Mortgage and real estate industries that has enabled them to have a strong track record of making prudent investment decisions and identifying sound investment opportunities. As part of approving each Investment, the Mortgage Broker generally follows the investment approval process summarized below:

Investment Approval Stage	Investment Approval Activity
Credit Committee First Review	<p>The Mortgage Broker's credit committee reviews a comprehensive written analysis (a "New Business Summary") prepared by the individual who is the relevant Investment originator (who will generally be an employee, officer or an agent of the Mortgage Broker) which details the proposed loan terms and provides preliminary assessment based on the preliminary information received from the prospective borrower and/or Equity Investment partners, together with some initial due diligence evidentiary materials.</p> <p>Prior to preparing a New Business Summary, in situations where a potential Investment is complex or non-standard compared to the normal course of business, the Investment originator (who will generally be an employee, officer or an agent of the Mortgage Broker) is encouraged to discuss the Investment with a credit committee member. Early discussion will generally be accompanied by a written analysis which includes high level deal characteristics and an outline of key risks and mitigants. Early stage discussion is intended to improve the alignment of risk appetite with Investment originators.</p>
Letter of Intent	<p>Upon review of the New Business Summary, if the preliminary assessment is positive, the credit committee may authorize the issuance of a letter of intent. The letter of intent then sent to the proposed borrower for signature and return, together with a deposit cheque from the borrower sufficient to cover</p>

<u>Investment Approval Stage</u>	<u>Investment Approval Activity</u>
	third party due diligence, legal and other costs.
Deal Team Meeting	The underwriter assigned to the proposed transaction, the originator, the Vice President, Credit Risk & Underwriting, and the Senior Manager, Mortgage Funding & Administration, conduct a meeting to develop a strategy for the due diligence process. This includes discussions on timing, roles and responsibilities, underwriting tactics, and potential issues.
Due Diligence	The underwriter conducts due diligence including a review of: credit checks, financial statements and personal net worth statements of the prospective borrower(s), Equity Investment partner(s), and any guarantor(s); internet searches; third party reports (such as valuation appraisals, environmental, building condition assessment and geotechnical appraisals, and quantity surveyor reports); rent rolls, leases, and estoppel certificates; a development budget and schedules, zoning and permits; and prior and subsequent ranking mortgage balances. The underwriter also reviews the remainder of the information in the Mortgage Broker's due diligence checklist and completes an underwriting analysis model. The underwriter proceeds with completion of an Underwriting Transaction Report which details the loan terms, underwriting and due diligence, and comprises a complete analysis of the Investment.
Underwriting Review Meeting	The Underwriting Transaction Report is submitted to the Vice President Credit Risk & Underwriting for first review. The Vice President, Credit Risk & Underwriting analyzes the underwriting inputs, assumptions, supporting due diligence and output analysis. The Vice President, Credit Risk & Underwriting approves the submission prior to submission for credit approval. Note: Any changes to transaction terms and conditions or changes in perceived risk that occur during due diligence require that the transaction be returned to the credit committee for approval.
Credit Approval	Once the due diligence is approved by the Vice President, Credit Risk & Underwriting, and the transaction is deemed to meet the expectations of set out by the committee during the first committee review, it is submitted to the Chief Credit Officer for approval, then to the Vice President of Loan Administration (or delegate) for concurrence.
Commitment Letter	Once the transaction is approved, a commitment letter is sent to the borrower for signature. Where a commitment letter is not applicable in certain jurisdictions, the Mortgage Broker's legal counsel will prepare and conclude a loan agreement with the borrower.
Mortgage Funding Process	The Mortgage Broker's legal counsel prepares legal documents, obtains title insurance, and conducts the required enquiries and searches. The Mortgage Broker obtains advice from an insurance consultant whether the current and/or proposed insurance coverage is adequate. The Mortgage Broker obtains transmittal and reliance letters from various consultants who provided reports concerning the transaction.
Final Due Diligence Meeting and Funding	The underwriter, the Mortgage Broker's Mortgage funding department, the originator and the Vice-President of Loan Administration confirm that all due diligence and funding requirements have been completed. The Mortgage Broker's treasury department, as directed by the Manager, identifies the source of the funds and funding parties for the Investment. Legal counsel registers the Mortgage and other security documents and ensures all conditions are satisfied before releasing funds to the borrower or Equity Investment partner.

The Mortgage Broker intends to manage the risk to Unitholders by diversifying the Investments geographically and across residential, industrial, retail and office sectors. To manage and diversify risk, the Mortgage Broker may permit one or more investors to participate in Investments.

As new Investments are approved by the Mortgage Broker following the procedures summarized above, the Manager will determine whether the Investment opportunity is suitable for the Trust, having regard for the Trust's investment objectives, strategies and restrictions and the Manager's goal of maintaining a diversified, fully-invested portfolio for the Trust. Where the Manager determines that a new Investment opportunity is suitable for more than one mortgage investment entity managed by the Manager, the mortgage investment entities, when practicable, participate pro rata in that opportunity based upon, among other things, the relative importance of the investment opportunity to the fulfillment of each mortgage investment entity's objectives and the relative amount of assets under management in each mortgage investment entity. See "Objectives and Policies".

Mortgage Tranching

The Trust may hold interests in Mortgages in which the Manager has permitted third parties (such as banks or trust companies and other mortgage investors) or other mortgage investment entities it manages to lend to the mortgagee against security of the applicable Mortgage at reduced interest rates in a senior position on a non-recourse basis. This enables the Trust to retain a disproportionately large amount of interest revenue when compared to the junior position in the Mortgages it retains. This practice – sometimes referred to as "tranching" – enables the Trust to effectively increase its returns while using less capital for each Mortgage investment (thereby facilitating greater diversification for the Trust) and, retaining the Manager's control over administering the Mortgages. The Manager believes that tranching will enhance risk-adjusted returns as the interest rate received by the Trust will be significantly higher than the rate it would have obtained under an equivalent non-tranched Mortgage.

In certain mortgage tranching arrangements, generally with respect to U.S. third parties which require the Mortgages to be held by a U.S. domiciled subsidiary of the Trust, the Trust may, at the discretion of the Manager, make investments in Mortgages through one or more corporations, trusts or persons, the shares or interests of which may be directly or indirectly owned or controlled by or for the benefit of the Trust and which corporation, trust or person shall hold equity, limited partnership or other interests in the entity that holds legal or beneficial title to such Mortgages.

The participation interests of the Trust, other mortgage investment entities, and third parties in Mortgages generally will be represented through participation agreements under which the mortgagee retains control over administering the entire Mortgages. The third party who lends to the mortgagee would receive a collateral assignment of the Mortgage (and related loan documents) to secure the loan made by the third party to the mortgagee, and the documents between the mortgagee and the third party lender would provide that, in the event of a failure by the borrower to pay any amount owing under a Mortgage, the mortgagee will be entitled to enforce the Mortgage in accordance with applicable law. In the event of a failure by a mortgagor to make a scheduled payment of interest and/or principal, the mortgagee will immediately communicate with the mortgagor and, failing prompt rectification, will issue a notice of the mortgagee's intent to exercise such remedy or remedies available to the mortgagee which the Manager considers appropriate. All legal costs, costs related to registration of Mortgages and costs relating to obtaining appraisals of Real Property, as allowed by law, will be for the account of the mortgagors.

The participation agreements will provide a legal entitlement of the Trust in the subject Mortgage, although not a directly registered interest. Where appropriate and in most cases, title insurance will be obtained. Any title insurance will be held in the name of the Manager and not the Trust. In addition, the lender of record will obtain standard security in respect of commercial Mortgages which, depending on the specific Mortgage, may include one or more of an assignment of rents, an assignment of purchase agreements (on residential development projects), a general security agreement and personal covenants from borrowers.

Loan Sharing

The Manager may arrange for third parties or other mortgage investment entities managed by it to share in the loan on a pari passu, senior (as described under "Mortgage Tranching"), or junior basis.

For instance, if the Mortgage is determined to be too large for the Trust and/or it is suitable for more than one mortgage investment entity it manages, the Manager may either sell off a portion of a loan to a third party or may allocate the loan across various mortgage investment entities based on, among other things, the relative importance of the investment opportunity to the fulfillment of each mortgage investment entity's objectives and the relative amount of assets under management in each mortgage investment entity. This will reduce the risk of a Mortgage to the Trust and facilitate greater diversification of the Trust by using less capital for each Mortgage investment.

Similarly, the Manager may determine that a Mortgage investment has a higher element of risk than appropriate for the Trust and the Manager may allow a third party or other mortgage investment entities managed by it to invest in a junior portion of the loan. The syndication process facilitates the ability to provide a more secure senior portion of a Mortgage to a lower risk entity, with progressively higher risk / higher return junior portions to those with higher risk tolerances.

Loan sharing arrangements with third parties may potentially include contractual agreements or covenants such as fund level liquidity and debt covenants, funding and/or repayment guaranty agreements, reporting requirements and other such obligations associated with a specific Investment.

The Trust's Operating Facility

The Trust has a US\$100M credit facility, which such limit can increase at any time, from Fortress Credit Co. LLC ("**Fortress**") for its U.S.-based lending activities and is using the additional resources to expand its business in select growth markets in the U.S. The amount available under the facility is based on a borrowing base of select Mortgage Investments. Interest is calculated at the US LIBOR rate plus 5.25% per annum and a standby fee of 0.5% per annum is charged on the undrawn portion of the loan.

The Fortress credit facility has financial tests and other covenants with which the Trust must comply. To date, the Trust was in compliance with all such covenants.

The Fortress credit facility is collateralized by a security agreement representing a charge on the Mortgage Investments comprising the borrowing base, which are held in a wholly-owned subsidiary. The Fortress credit facility commenced operations on April 11, 2018 and has a term of three years.

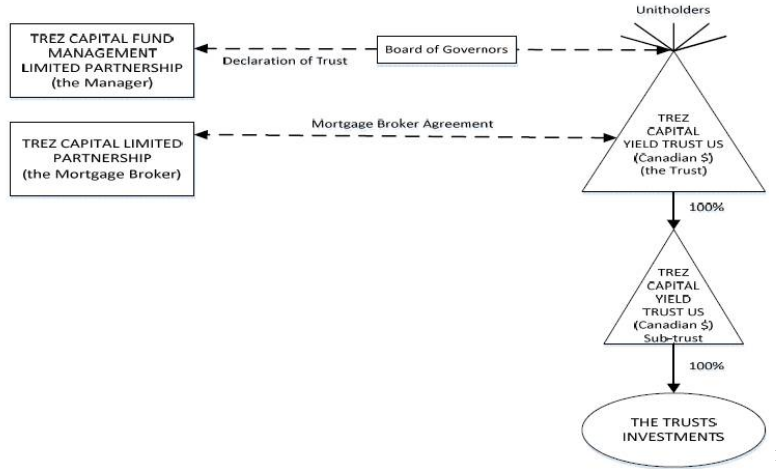
Management

The Originators and the Mortgage Broker will originate investments for approval by the Mortgage Broker. The Trust has retained the services of the Mortgage Broker to provide advice to the Trust with respect to the acquisition of interests in Investments. The Manager is responsible for carrying out all the transactions of the Trust, providing management services for the Trust and, as portfolio advisor, supervising the investment and Investment Portfolio of the Trust. Investments are reviewed by the Board of Governors of the Trust, through its Credit Committee, on a quarterly basis to ensure compliance with the Trust's investment objectives. Upon receipt of advice from the Mortgage Broker and subject to any required approvals of the Credit Committee, the Manager will, from time to time sell investments in Mortgages and reinvest the proceeds or exchange such investments for other investments in Mortgages. See "Directors, Management, Promoters and Principal Holders – Trez Capital Limited Partnership (the Mortgage Broker)" and "Directors, Management, Promoters and Principal Holders – The Independent Review Committee".

The Mortgage Broker is well known in the non-bank real estate lending industry in Canada. It identifies potential transactions principally through a network of existing business contacts, repeat borrowers and its reputation. The Mortgage Broker seeks out, reviews and presents to the Trust, Investment opportunities which are consistent with the investment objectives and operating policies of the Trust and services such Investments on its behalf. Trez Capital Corporation, the predecessor to the Mortgage Broker, and subsequently the Mortgage Broker, have successfully originated, underwritten and serviced Mortgage investments on behalf of, and syndicated Mortgage investments with, numerous investor clients and financial institutions for the past 20 years. See "Directors, Management, Promoters and Principal Holders – Trez Capital Limited Partnership (the Mortgage Broker)".

Organizational Relationships

The investment structure of the Trust and the Investment Portfolio are illustrated below. This diagram is provided for illustration purposes only and is qualified by the information set forth elsewhere in this Offering Memorandum.



Investment Portfolio of the Trust as at December 31, 2018.

The following are details of the Investment Portfolio of the Trust as at December 31, 2018, by type of Mortgage.

Type of Mortgage	Number of Mortgage Investments	Outstanding Balance (\$)	Weighted Average Interest Rate	Percentage of Total Investments
First Mortgage	68	424,501,238	11.58%	91.92%
Second Mortgage	9	36,623,293	12.23%	7.93%
Third Mortgage	1	691,900	10.00%	0.15%
Total	78	461,816,431	11.72%	100.00%

The following are details of the Investment Portfolio of the Trust as at December 31, 2018, by nature of underlying property.

Nature of Underlying Property	Number of Mortgage Investments	Outstanding Balance (\$)	Weighted Average Interest Rate	Percentage of Total Investments
Residential	72	430,916,636	11.64%	93.31%
Retail	4	15,642,230	11.40%	3.39%
Office	1	11,369,880	12.54%	2.46%
Commercial	1	3,887,685	8.69%	0.84%
Total	78	461,816,431	11.72%	100.00%

The following are details of the Investment Portfolio of the Trust as at December 31, 2018, by location of underlying property.

Location of Underlying Property	Number of Mortgage Investments	Outstanding Balance (\$)	Weighted Average Interest Rate	Percentage of Total Investments
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¹ Trez Capital Yield Trust US (Canadian \$) Sub-trust is a wholly owned subsidiary of the Trust that directly holds the Investment Portfolio.

Texas	49	333,629,516	11.47%	72.24%
Florida	13	81,313,860	12.11%	17.61%
North Carolina	5	26,759,684	11.96%	5.80%
Georgia	1	5,675,383	10.74%	1.23%
Arizona	2	4,696,562	13.75%	1.02%
Washington	2	4,484,796	11.46%	0.97%
Tennessee	1	1,565,111	14.00%	0.34%
Oregon	1	1,356,679	10.50%	0.29%
New York	1	1,266,570	8.95%	0.27%
Colorado	1	524,378	11.00%	0.11%
South Carolina	1	363,607	14.36%	0.08%
Pennsylvania	1	180,285	12.58%	0.04%
Total	<u>78</u>	<u>461,816,431</u>	<u>11.72%</u>	<u>100.00%</u>

Recent Developments

Amendments to the Declaration of Trust

On August 14, 2018 Unitholders approved two amendments to the Declaration of Trust which had the effect of:

1. Removing certain administrative reporting requirements of the Manager to the passive Trustee; and
2. Confirming the Trust's ability to invest in Mortgages through subsidiaries controlled by and for the benefit of the Trust. This amendment will specifically allow the Trust to participate in certain U.S. loan sharing arrangements whereby the third part loan share partner requires the Mortgage to be contributed to a U.S. domiciled subsidiary of the Trust that holds legal or beneficial title to such Mortgage.

Monthly Distributions

On January 1, 2019, the Trust moved from quarterly to monthly distributions as described in "Distribution Policy". This will provide investors with a more frequent stream of cash flows on their invested capital.

Changes in Accounting Policy (IFRS 9)

Effective January 1, 2018, the Trust adopted IFRS 9 Financial Instruments ("IFRS 9") which replaced IAS 39 Financial Instruments: Recognition and Measurement ("IAS 39"). The standard set out requirements for recognizing and measuring financial assets and financial liabilities. It also replaced the IAS 39 "incurred loss" model with an "expected credit loss" (ECL) model. The Trust recognized adjustments to opening net assets attributable to holders of redeemable units as at January 1, 2018, the date of adoption, to reflect the application of the new requirements of IFRS 9. The total impact to opening net assets attributable to holders of redeemable units was a decrease of \$739,802. The adjustment to net assets attributable to holders of redeemable units was comprised of a decrease of \$427,707 relating to changes in the provision for credit losses for 2018. The total provision for mortgage losses at December 31, 2018 as a result of IFRS 9 was \$1,167,509.

Loans in Default

As at December 31, 2018, the Trust had one mortgage that was past due or in default with a carrying value of \$3,251,940 (2017 – nil).

Mortgages that are in default are not provided against if they are fully secured and collection efforts are reasonably expected to result in repayment of principal plus all associated costs and accrued interest.

OBJECTIVES AND POLICIES

Business Objective

The business objective of the Trust is to preserve invested capital and generate a steady stream of income to investors by investing in a diversified portfolio of Mortgage Investments, Mortgage Participations, Mezzanine Loans and Equity Investments within the United States. Specifically, the Trust will make prudent investments to generate attractive returns in order to permit monthly distributions to Unitholders.

Investment Strategies

The Trust Investments will be focused primarily in Texas but will expand into other growth states in the U.S.. The Mortgage Broker will use its well-established lending strategies and competitive advantages, namely (i) flexible structure, (ii) terms, speed and certainty of execution, and (iii) its ability to generate proprietary deal flow to identify and execute on attractive investment opportunities. The Trust is a source of funding for the Mortgage Broker's mortgage lending business.

Mortgages

In general, the Trust will generate income through a rate of interest, payable either periodically throughout the term of the Mortgages or upon their expiration. Mortgages may have a first, second or subsequent ranking and may grant security for more than 75% of the value of the Real Property mortgaged, which is higher than leverage permitted by conventional bank lending practices. The interests in Mortgages will be acquired by the Originators or Mortgage Broker from third parties or will be new loans originated by the Originators or Mortgage Broker.

Equity Real Property Investments

The Trust will make either direct or indirect equity investments in Real Property. In direct Equity Investments, the developer and financier will typically earn a preferred rate of return on their respective advances after repayment of the invested capital. The remaining proceeds are then split on a pre-determined, negotiated basis. Indirect Equity Investments, or Mortgage Participations, earn a return from two sources – an agreed upon interest rate as well as participation in the profits of the sale of the Real Property.

Mezzanine Loans

The Trust may make loans that are secured by the developer's interest in the entity that is developing the Real Property. Mezzanine financing can take several forms, but most commonly it involves extending credit to the partners or other equity holders of the borrower and taking a pledge of such parties' equity interests (including the right to distributions of income). The Trust will earn a higher rate of return than that of a first Mortgage on the real estate commensurate with the greater risk of an equity loan.

Investment Restrictions

Pursuant to the Declaration of Trust, the following are the investment restrictions applied by the Trust in selecting Investments:

- (a) The Trust will not invest in any Mortgage (often referred to as a Deed of Trust in the United States) or interest in Real Property where the Manager or an Affiliate of the Manager holds a prior charge or other security interest on the underlying Real Property which forms the security of such Mortgage.
- (b) The Trust will not invest in Real Property, except pursuant to an Equity Investment or a Mortgage Participation. However, subject to review of environmental issues, the Trust may indirectly hold Real Property acquired as a result of foreclosure where such foreclosure was necessary to protect

an Investment as a result of a default by the mortgagor. The Trust will use its reasonable best efforts to dispose of such Real Property acquired on foreclosure.

- (c) The Trust will not invest in a loan to the directors or officers of the Manager, but the Trust may invest in a Mortgage or Mortgage Participation when the borrower is an entity owned in whole or in part, or controlled, by the Manager or its Affiliates and the Trust may make an Equity Investment in Real Property owned, directly or indirectly, in whole or in part, by the Manager or its Affiliates, in each case on the following conditions:
 - (i) the investment must be on the same terms as, and must not be for an amount greater than, the amount either borrowed from or invested by, parties who are not Affiliates of the Manager, or in which the Manager or its Affiliates have no financial interest, who rank pari passu in the investment with the Trust;
 - (ii) the profit from any joint venture must not be included in calculating the Incentive Fee paid to the Manager in respect of the investment;
 - (iii) the aggregate amount of all such investments must not exceed 20% of the net assets of the Trust at the time each investment is considered for approval; and
 - (iv) all such investments will be reviewed by the Credit Committee of the Board of Governors after the investments are made as part of its normal review of the Trust's compliance with its investment restrictions to ensure that the foregoing investment restrictions set out herein have been met.
- (d) Except as provided in paragraph (c) above, the Trust will not make loans to, nor invest in Real Property owned by the Manager or its Affiliates, nor make loans to the directors or officers of the Manager.
- (e) The Trust may, at the discretion of the Manager, make investments in Mortgages through one or more corporations, trusts or persons, the shares or interests of which may be directly or indirectly owned or controlled by or for the benefit of the Trust and which corporation, trust or person shall hold equity, limited partnership or other interests in the entity that holds legal or beneficial title to such Mortgages;
- (f) The Trust will not invest in or hold any asset which in any way does not qualify as a "qualified investment" for a trust governed by a Deferred Plan, unless the Trust qualifies as a "mutual fund trust" under the Tax Act.
- (g) The Trust will not invest in any asset, or conduct its affairs in a way, that would disqualify the Units as a "qualified investment" for a trust governed by a Deferred Plan.
- (h) The Trust will not make any Equity Investments until the Trust has not less than \$50,000,000 in net assets.
- (i) The Trust will not invest more than 20% of its net assets in Equity Investments.
- (j) The Trust will not invest more than 10% of its net assets in Mezzanine Loans.

The Manager may, in its discretion, from time to time, impose additional investment restrictions on the Trust.

INDUSTRY AND SECTOR OVERVIEW

U.S. Economy

The Federal Reserve's decision to delay additional short-term interest rate increases marked a notable shift in central bank policy, in response to growing evidence that global economic conditions were softening, especially in the China and EMEA. U.S. statistics certainly made the case that Q4 was an inflection point in the economy, as recent downward revisions indicated an annual GDP growth rate of 2.2%, compared to 4.2% just two quarters earlier (Source: Oxford Economics). With GDP tracking below 2% growth in Q1, investors appeared to be on heightened alert for recession clues: growth and inflation expectations were subdued, prompting long-term government bond yields to fall over the course of the quarter, and leading to an inverted yield curve in late March (Source: Oxford Economics).

Despite the history of the inverted yield curve as a harbinger of recession, we believe that there are reasons to believe that growth will remain positive. Inflation is subdued in the advanced economies, while central banks have moved quick to reverse bias toward tightening. China and the Euro area have enacted recent monetary and fiscal boosts to prevent a decline in growth.

In addition, U.S. labour markets remain on solid footing, evidenced by a strong 196,000 job increase in March and an unemployment rate that held steady at 3.8% (Source: US Bureau of Statistics). The March employment data does not change our view of a relatively weak Q1, but positive U.S. growth for all of 2019. Healthy but non-accelerating wage gains, along with low inflation levels, will continue to give the Fed the ability to hold off on continued rate hikes while the global economy goes through a soft patch. This will support market fundamentals and investment activity across property types. We do believe the Fed may readopt a mild bias toward tighter monetary policy by the end of the year, however.

Indeed, the U.S. economy faces some headwinds which are likely to cause growth to fall short of impressive performance in 2018: a maturing labour market, where labour force availability is becoming increasingly scarce, and the waning effects of the Tax Cuts and Jobs Act on business investment and consumer spending. On the positive side, a final resolution to U.S. – China trade dispute could provide a welcome boost to business confidence and trade. On balance, we believe that growth will remain positive, with the best opportunities focused on the strong secondary markets of the West and Southeast, where expanding technology and business services industries will benefit from favorable demographics and stronger than average labor force growth.

U.S. Real Estate

Even prior to the capital market volatility that emerged in late 2018, many commercial real estate buyers appeared to take a step back to evaluate deal assumptions and prospects for future growth. While Q4 remained a quite active quarter for transactions, the effect of the renewed investor caution became more apparent in Q1. According to preliminary figures from Real Capital Analytics, Q1 2019 commercial transactions were down some 22% from year earlier levels.

However, despite increases in mortgage rates that took place over the latter half of 2018, cap rates have remained firm, generally moving sideways over the past year – a trend that appeared to remain in place during Q1 2019 (Source: Real Capital Analytics). Capital remains plentiful for equity and debt, and investors remain active in value-added and transitional property deals. Secondary markets have gained the attention of larger investors, as these markets offer competitive yields and a more compelling growth story at this point of the cycle.

The nation's strong job market over the year has boosted the demand for office and residential space, and the rapid shift toward e-commerce has kept industrial demand at unexpectedly high levels and pushed availability rates to their lowest levels in decades (Source: CBRE). In general, however, we have seen a moderating in vacancy declines and rent increases in recent quarters, as supply and demand conditions become more balanced. For instance, the Q1 2019 national office vacancy rate held steady at 12.5%, according to CBRE.

While for-sale housing affordability remains challenging for some households, the recent decline in mortgage rates appears to have improved home buyer conditions and provided a much-needed jolt to new home sales. In February,

the month's supply inventory of homes for sale has fallen to just over 6 months – from a peak of over 7 months in October – indicating that the market has moved back quickly toward balance (Source: National Association of Realtors). With the prospect favourable job and wage gains – and continued low mortgage rates – we are cautiously optimistic on residential market performance for the remainder of 2019.

While commercial transaction activity was off to a slow start in Q1, we believe that momentum is likely to improve over the course of 2019. The recent decline in benchmark interest rates, coupled with favourable spreads will remain attractive to borrowers. Commercial real estate fundamentals remain solid, and will continue to benefit from a more moderate, yet still favourable economic expansion.

Overview of the State of Texas

The Texas housing markets present a notable opportunity for investment in lot development. Historically, Texas' four major markets (the "Main Texas Markets") – Houston, Dallas-Fort-Worth, Austin and San Antonio – have been dynamic housing growth markets. Texas' central location in the U.S., lack of state income tax, pro-growth attitude and affordability attracted numerous corporate relocations to the state. These factors remain in place today. From April 1, 2010 to July 1, 2018 the population in Texas grew by 3.56 million to 28.7 million residents, representing an increase of 14.1% (Source: United States Census Bureau).

The Mortgage Broker has partnered with a DFW-based group with over 50 years of land acquisition and development experience in the Texas real estate industry. The focus of the team is primarily on providing financing to residential lot developers in the Main Texas Markets (specifically Dallas-Fort-Worth and Houston) with loan-to-value ratios ranging between 49% and 75% and attractive rates of interest between 10% and 13%.

Dallas-Fort-Worth ("DFW")

DFW finished 2018 with 35,044 annual new home starts, representing a 3.2% year-over-year increase from 2017, as builders exercise caution given housing affordability has proven to be challenging (Source: Residential Strategies, Fourth Quarter 2018). Although inventory levels have increased from prior year they still remain at an acceptable level and are in line with buyer demand thereby warranting further development (Source: Residential Strategies, Fourth Quarter 2018). At the end of Q4 2018, there were 67,260 vacant developed lots on the ground with the lot supply at a 23-month supply whereas Residential Strategies considers a 24-month supply to be balanced (Source: Residential Strategies, Fourth Quarter 2018). DFW's overall finished vacant inventory remains healthy at 2.28 month supply compared to the 2.0 to 2.5 month range considered balanced (Source: Residential Strategies, Fourth Quarter 2018).

Over the past seven years, house prices in DFW are up almost 65% although much of this occurred during the period from 2014 to 2017 when year-over-year increases were over 10% per year (Source: Residential Strategies, Fourth Quarter 2018). The most recent reading from Case Shiller for November 2018 shows that year-over-year price increases for DFW were up only 3.99%, below the US 20 City Composite average of 4.68% (Source: Residential Strategies, Fourth Quarter 2018). As demand for new homes still exists, buyers are motivated with modest price discounting which is helping to move inventory.

In order to deal with affordability concerns builders are working to create new value product lines which will help reduce home prices and deliver more attainable product to the market (Source: Residential Strategies, Fourth Quarter 2018). Additionally, with the Fed Chairman signaling the central bank's key interest rate was near neutral this helped ease concerns of further mortgage rate hikes and the growing concerns of affordability (Source: Residential Strategies, Fourth Quarter 2018). The 30-year mortgage rate lowered by about 50 basis points to the current level of 4.46% which is in line with mortgage rates during the spring of 2018 (Source: Residential Strategies, Fourth Quarter 2018).

Furthermore, demand for housing remains robust as job formation remains strong and demographics indicate a growing need for the affordable priced product being in the range of \$250K-\$350K (Source: Residential Strategies, Fourth Quarter 2018). In DFW, 116,400 net new jobs were created in 2018 with 858,300 jobs created over the past 9 years (Source: Residential Strategies, Fourth Quarter 2018). The unemployment rate in the region sits at 3.3% compared to 3.6% in Texas overall, both of which are below the 4% level considered to be 'full employment'

(Source: Residential Strategies, Fourth Quarter 2018). In fact, DFW has been under the 4% level for the past 22 months (Source: Residential Strategies, Fourth Quarter 2018). With continued strong job growth and mortgage rate pressures eased it is expected that buyer demand will accelerate, especially for the affordably priced product which builders are working to deliver to the market.

Houston

Houston finished 2018 with 30,146 annual new home starts, the second highest level in the country only behind DFW, with a 10.4% increase over prior year (Source: CBRE, Market Analysis, 2019). Annual new home closings for 2018 came in at 27,938 (Source: CBRE, Market Analysis, 2019). At the end of Q4 2018, there were 45,105 vacant developed lots on the ground or an 18-month supply (Source: CBRE, Market Analysis, 2019). Finished vacant homes inventory is at 2.2 months of supply below the 3.0 months identified as equilibrium by Metrostudy (Source: CBRE, Market Analysis, 2019). Overall, the lot inventory indicates further development is warranted.

Builders and developers are increasingly offering a wider product offering including a greater share of more moderately priced attainable product (\$300K and below) with growth in these product lines expected to continue into 2019 (Source: CBRE, Market Analysis, 2019). Annual new home starts volume continues to be greatest in the below \$300K range with a focus on delivering affordable product as affordability continues to be the big story for 2019 (Source: CBRE, Market Analysis, 2019).

In Houston, 108,300 net new jobs were created in 2018 with 625,400 jobs created over the past 9 years (Source: Residential Strategies, Fourth Quarter 2018). With job growth remaining strong over the past year, housing starts have continued to increase to meet unfulfilled demand.

Overview of the Southeastern U.S.

With the migration of talent and international trade activity to the Southeastern U.S. robust growth is expected to continue presenting an attractive opportunity for real estate development and investment. The persistently strong growth is fueled by economic opportunities coupled with affordability and a favourable climate which provide the potential for a high quality of life (Source: CBRE, 2019 Southeast U.S. Real Estate Market Outlook). The Southeastern U.S. is driven by tourism, technology, manufacturing and logistics with Atlanta, Tampa, Nashville, Raleigh-Durham and Charlotte emerging with strengthening technology sectors (Source: CBRE, 2019 Southeast U.S. Real Estate Market Outlook). The four notable cities in the region by population consist of Atlanta, GA (5.9 million), Tampa, FL (3.1 million), Miami, FL (2.7 million) and Charlotte, NC (2.6 million) (Source: CBRE, 2019 Southeast U.S. Real Estate Market Outlook).

The Mortgage Broker has partnered with a Florida based commercial real estate lending group with vast experience lending across commercial and multi-residential real estate asset classes. Additionally, in early 2019, the operations expanded with the opening of an office in Atlanta, Georgia to support the robust opportunities in this market.

Atlanta

Atlanta is seeing the benefits of company relocation and expansion activity with recent announcements including Inspire Brands, BlackRock, Salesforce, Starbucks and Pandora, fueling both job and population growth in the region (Source: CBRE, 2019 Southeast U.S. Real Estate Market Outlook, Atlanta). Additionally, Atlanta is the distribution hub for the Southeast with the world's largest passenger airport as well as the Port of Savannah, a major US seaport, both of which are undergoing expansion projects (Source: CBRE, 2019 Southeast U.S. Real Estate Market Outlook, Atlanta).

Robust job and population growth is leading to construction activity making it a leading market for commercial real estate investment and development. In particular, the multifamily market is expected to maintain a healthy balance between supply and demand with the affordability of the market providing an opportunity for future rent growth (Source: CBRE, 2019 Southeast U.S. Real Estate Market Outlook, Atlanta Multifamily). The outlook for the office and industrial markets also remains strong with high levels of tenant activity and continual rent increases being seen (Source: CBRE, 2019 Southeast U.S. Real Estate Market Outlook, Atlanta Office & Industrial).

Tampa

Tampa has historically experienced steady growth driven by the professional and business services and trade, transportation and utilities sectors with further diversification into financial services allowing Tampa to establish a global footprint (Source: CBRE, 2019 Southeast U.S. Real Estate Market Outlook, Tampa). Three Fortune 500 and seven Fortune 1000 financial services companies are headquartered in Tampa Bay (Source: CBRE, 2019 Southeast U.S. Real Estate Market Outlook, Tampa). The region also boasts the status of being in the top ten metros in the U.S. for net migration from 2010-2017 (Source: CBRE, 2019 Southeast U.S. Real Estate Market Outlook, Tampa). With population and job growth continuing in the region opportunities for commercial real investment and development remain robust.

Miami

Miami-Dade County is a gateway market which continues to attract international capital and trade, spurring activity in construction and finance (Source: CBRE, 2019 Southeast U.S. Real Estate Market Outlook, Miami). With its international ties, the region has experienced an economic boost and a more diversified economic base (Source: CBRE, 2019 Southeast U.S. Real Estate Market Outlook, Miami). The labour market has grown by 13.9% and added 144,000 jobs over the past five years and continues to attract talent with three higher education institutions located in the region (Source: CBRE, 2019 Southeast U.S. Real Estate Market Outlook, Miami). With expected continued job growth, positive outlooks remain for the commercial and multifamily real estate markets in Miami (Source: CBRE, 2019 Southeast U.S. Real Estate Market Outlook, Miami).

Charlotte

Charlotte is the second largest banking center after New York City and it has established itself as a major U.S. financial center (Source: CBRE, 2019 Southeast U.S. Real Estate Market Outlook, Charlotte). The combination of affordability and high quality of life has resulted in economic expansion and explosive population growth (Source: CBRE, 2019 Southeast U.S. Real Estate Market Outlook, Charlotte). With increased investment activity in the market, real estate development activity continues to remain strong.

Mortgage Lending Industry

Traditional U.S. financial institutions have particularly underserved borrowers who require funding in the transition phase of the investment process, including construction, development and lease-up financing. The traditional financial institutions do not typically provide financing to this market due to the short-term nature of the Mortgages, the limited size of the loans and the perceived higher risk profile of such loans. Additionally, the conservatism in underwriting criteria at the banks has resulted in constraints on a loan-to-cost or loan-to-value basis which has created a void in financing to qualified real estate developers and investors. The Trust benefits from this transition phase where investors need interim funding to add value to a property prior to obtaining long-term financing. With a limited supply of financing available in the transitional phase of real estate investments, borrowers are often willing to pay higher interest rates of approximately 800 to 1000 basis points over the corresponding U.S. Government 3-year bond yields for these short-term Mortgages. Once the transitional phase of the underlying property is complete, the properties can be refinanced with longer-term, lower interest Mortgage loans from traditional U.S. financial institutions.

Overall, the Mortgage Broker believes that the above factors have created an opportunity for non-financial institution lenders to charge premium interest rates for high quality Mortgage loans which, prior to the credit crisis, were available at relatively low conventional rates from a variety of financial institutions, both domestically and globally. The Manager believes that this reduction of available Mortgage capital has contributed to the increased number of attractive investment opportunities available to the Trust.

Overview of the Real Estate Sectors in Which the Trust May Invest

The investment real estate market is comprised of residential (single family homes, apartments, duplexes, townhomes, condominiums, residential lots, retirement residences and student residences), office, retail, hotel and

industrial real estate, as well as development land. Real estate investors or developers typically are either large institutional investors, such as pension funds, and public companies, or smaller entrepreneurial investors, such as privately managed and commingled investment funds and individuals. Most investors and developers in the U.S. real estate industry require (or benefit from) some form of financing to acquire, develop or re-position real property or a portfolio of real property. The Trust will focus on providing financing for land servicing, multi-residential real estate and select hotel loans.

Development Land

The Trust will mainly focus its investment activity on land servicing Mortgages, which normally are used to finance the acquisition of the land and the installation and construction thereon of roads, drainage and sewage systems, utilities, recreational facilities and similar improvements. Land servicing loan advances are made pursuant to a stipulated schedule after an inspection and review of the project's progress by the lender or its agent and the furnishing of reports by professional engineers, architects or quantity surveyors. In some instances, land servicing loans may be made to finance the acquisition of more land than will be improved immediately, or land on which development is contemplated at a later date. Developers seeking financing for small housing projects in developed areas have fewer financing options as the small scale of these types of projects are of limited appeal to the larger financial institutions. Land servicing loans are generally for terms of 12 months to 36 months. The Mortgage Broker will generally not consider loans against development land where zoning has not been completed.

Residential

Residential real estate primarily consists of single family homes, apartments, duplexes, townhomes, condominiums, residential lots, retirement residences and student residences. The Mortgage Broker's focus is on the multi-residential for-rent and for-sale housing market wherein multiple housing units are contained within a single building or complex as is characteristic of apartment buildings, duplexes, townhome residences and condominium towers. The Mortgage Broker does not generally provide financing on single family homes. In particular, the Trust concentrates primarily on major metropolitan centers and the affordable housing segment, with projects targeted at first-time or move-up home buyers, for which the greatest levels of disequilibrium in supply versus demand exists. The demand in residential real estate is driven by various community characteristics including security, access to public transportation, education, and well-maintained infrastructure.

The rental apartment asset class is considered to have consistently high demand and a relatively low level of risk despite the considerable tenant turnover. The impact of turnover to the investor's profitability is often low as the turnover is spread across a large tenant base. In rental, residential leases rates can change annually, as compared to alternative sectors that generally lock in rental rates for longer-term leases (5 to 10 years). Residential properties also require less capital expenditure in order to continue ongoing operations and generate income.

In addition to lending against residential rental properties, the Trust may also participate in residential for-sale product loans such as for strata duplexes, townhome and condominium projects. For construction loans, the focus is on loans where the developer has secured substantial pre-sale deposits in advance of construction. The Mortgage Broker's preference is for wood-frame, lower storey affordably priced development projects whereby there is lower execution risk and less speculative investors. The Mortgage Broker primarily pursues residential for-sale loans in major metropolitan centers with developed markets.

Hotel

The Mortgage Broker will look for new investment opportunities in hotel real estate on a selective basis. Hotel buildings offer a place to stay for guests at a variable daily room rate and are generally located in primary or secondary urban zones often with close proximity to employment centers, conventions, entertainment venues and sporting events. Hotels can be either full-service, select service or limited-service, offering guests a variety of services and amenities depending on their budgets and needs.

The Mortgage Broker classifies hotels into three principal types:

1. Full-Service Hotels – Offer guests a full-suite of services and amenities to ensure total fulfilment of guests' needs including features such as swimming pools, fitness centres, conference rooms, laundry services, room service, in-house restaurants and so on. These hotels are often considered luxury with higher average daily room rates.
2. Limited-Service Hotels – Offer guests the minimum services and are meant to accommodate the budget conscious traveller. These hotels have the lowest operating costs as they do not have high fixed overhead as they require a limited staff to provide the basic requirements to guests.
3. Select Service Hotels - Offer guests services in between that of full-service hotels and limited-service hotels. Select service hotels provide the features of limited-service hotels along with select amenities, facilities, and services of full-service hotels, usually on a more limited and budgeted scale.

The Mortgage Broker's focus is on limited-service and select service hotels from nationally recognized flag carriers in major U.S. markets that exhibit high growth and balanced supply/demand metrics. The Mortgage Broker's preference is for these hotels as the limited-service and select service sector is less volatile than the full-service sector and functions at higher gross operating profit margins primarily due to the lower labour costs associated with operating with less service options.

Types of Mortgages

The Trust will focus on Short Term Mortgages to qualified real estate investors and developers. Mortgages may be first ranking, a junior position in a first ranking Mortgage, subsequent ranking or a blanket Mortgage. Short Term loans typically bear higher rates of interest than other financing. A sale of the property or a debt refinancing will often provide sufficient proceeds to repay the Mortgage.

Mortgages will generally finance Real Property development and construction. Development Mortgages are typically loans secured against development lands prior to development or with existing buildings that are slated for redevelopment in the short term. In either case, the majority of the value of the asset is in the underlying land. Development Mortgages are frequently used to assist in funding site acquisitions, predevelopment costs, and costs associated with servicing sites with infrastructure. Construction loans are used to finance the construction of Real Property. Often, construction loans contain features such as interest reserves where repayment ability may be based on an event that can occur only once the project is built, and/or interest-only payments, and in either case often become due upon completion of the project. Construction loans are variable-rate, and often require special monitoring and guidelines to ensure that the project is completed and that repayment can begin to take place.

Types of Investments

The Manager anticipates that an Equity Investment formed to carry out real estate development in the United States will typically be conducted through a multi-tiered partnership structure. Funds from the Trust will be invested in a Canadian partnership which will "check the box" to be treated as a corporation for U.S. purposes. This partnership will concurrently invest in an Equity Investment limited partnership with the third party developer. Mortgage Participation loans are typically secured on the property. The agreed interest rate is paid during the term of the loan and the participation paid when the Real Property is sold and profits ascertainable. Such investments will be structured based on Canadian and U.S. income tax considerations. See "Income Tax Considerations". Additionally, loans may be made that are secured by the developer's interest in the entity that is developing the real estate. Such mezzanine financing can take several forms, but most commonly it involves extending credit to the partners or other equity holders of the borrower and taking a pledge of such parties' equity interests (including the right to distributions of income).

DISTRIBUTIONS

Monthly Distributions

The Trust will make a distribution to each Unitholder of record of each calendar month end on a monthly basis. For each month end (other than the month ending December 31), the Manager will distribute an amount it deems appropriate. Such monthly distributions will be paid in arrears by the 10th day following the month to which the distribution relates.

The distribution to be made in respect of the December 31 year end (the "**Final Year End Distribution**") will equal 100% of the Trust's Taxable Income, as defined herein, for the applicable Series, less non-capital losses incurred in the year or prior years and carried forward, if any, less any reserves that the Manager deems appropriate and any previous distributions made in that year.

The Final Year End Distribution will be made in two payments. The first payment for the Final Year End Distribution will be made by the 10th day following the year end in an amount determined in the same manner as the month end distributions. The second payment, if any, for the Final Year End Distribution will be paid in arrears not later than March 15 following the year end in an amount equal to any amount payable in excess of the distributions previously paid. Pursuant to the terms of the Declaration of Trust, the Manager has consistently determined that Unitholders of record on December 31 of each year shall be entitled to the Final Year End Distribution.

Subject to a Unitholder's election to receive distributions in Units, distributions by the Trust will be paid in cash. If the Trust has Taxable Income for which it has not received cash the Trust may make distributions of such Taxable Income in Units. Such a distribution would be followed by a consolidation of the Units to maintain the Net Asset Value per Unit at \$10.00. Payment of income by the distribution of Units can result in Unitholders having a tax liability without a corresponding distribution of cash to pay that tax liability.

A Unitholder holding a Unit will only be entitled to a proportionate share based on the proportion that the number of days between the date of the first issuance of such Unit and the last day of the calendar month bears to the total number of days in such calendar month. Subscribers of Units who do not hold such Units throughout a month will receive reduced distributions in respect of such month based on the number of the days in the month that the Units were held. In respect to second payment of the Final Year End Distribution, a Unitholder will only be entitled to a proportionate share based on the portion that the number of days between the date of first issuance of such Unit and the last day of the calendar year bears to the total number of days in such calendar year. Subscribers of Units who not hold such Units through a year will receive reduced distributions in respect of the second payment of the Final Year End Distribution based on the number of the days in the year that the Units were held.

Unitholders who redeem their Units prior to a month end or year-end will not participate in distributions for that calendar month or the Final Year End Distribution, as the case may be.

The Trust intends to distribute all of the Taxable Income of the Trust to Unitholders, so that the Trust will not be liable to pay income tax pursuant to the Tax Act during any year. Distributions to Unitholders in excess of the Taxable Income of the Trust, will generally result in a reduction in the adjusted cost base of the Units to the Unitholder. See "Income Tax Considerations".

On each monthly distribution, 0.0833% (1.00% annually) of such distribution is deducted from the distribution otherwise payable to Series A Unitholders, in order to provide the funds available to pay the Trailer Fee. If at any Distribution Payment Date there are insufficient funds to pay the Trailer Fee from the distribution otherwise payable to Series A Unitholders, the Manager will redeem a sufficient number of Units from each Series A Unitholder to pay the Trailer Fee payable by such Series A Unitholder.

The Manager will be paid the Management Fee at the same time that distributions are made to Unitholders on a monthly basis. The Incentive Fee will be paid at the same time as the final year end payment to Unitholders. See "Directors, Management, Promoters and Principal Holders – Manager's Fees".

To the extent distributions are calculated in respect of a period and payable at the end of such period, if for any reason, including the termination of the Trust, such period is not completed or such amounts are no longer payable, then the distribution will be pro-rated to the end of the shortened period and be payable at the end of such shortened period.

If, on a Distribution Payment Date, the Trust does not have cash in an amount sufficient to pay the cash distribution to be made on such Distribution Payment Date, the Manager may, in its discretion, borrow sufficient funds on such terms as it deems appropriate to make such cash distributions. In the event that the Manager is unable to, or determines that it is not in the best interests of the Trust and the Unitholders to borrow funds in order to make a distribution wholly in cash, the distribution payable to the Unitholders on such Distribution Payment Date may, at the option of the Manager and subject to the provision of an officers' certificate and to the approval of the Trustee, include a distribution of additional Units (at \$10.00 per Unit) having a value equal to the cash shortfall. If the Manager determines that the value of a Unit is materially different than \$10.00, in which case each additional Unit shall be issued at such different value. The distribution of Units shall be subject to the requirements of the applicable Securities Authorities and if not permitted, distributions will be made in cash. The Manager may, in exceptional circumstances, consolidate the number of outstanding Units after a distribution of additional Units, so that each Unitholder holds the same number of Units held before the distribution of additional Units.

The Trust has adopted a distribution reinvestment plan (the "**DRIP**"), pursuant to which Unitholders are entitled to elect to have all distributions of the Trust automatically reinvested in additional Units. A Unitholder who wishes to receive distributions in Units must complete the distribution reinvestment plan enrolment form provided by the transfer agent. No brokerage commission will be payable in connection with the purchase of Units under the DRIP and all administrative costs will be borne by the Trust. Unitholders resident outside of Canada will not be entitled to participate in the DRIP. Upon ceasing to be a resident of Canada, a Unitholder must terminate his or her participation in the DRIP.

Distribution on Termination of the Trust

On the termination of the Trust, the assets of the Trust will be liquidated and the proceeds distributed in the following order:

- (a) to pay the liabilities of the Trust (including unpaid fees and expenses of the Manager) and to establish reserves for the contingent liabilities of the Trust; and
- (b) to redeem the Units on a pro rata basis from the Unitholders.

MATERIAL AGREEMENTS

The following is a list of agreements, which are material to this Offering and to the Trust, all of which are in effect:

- (a) the Master Asset Transfer Agreement dated December 31, 2016 between the Trust, the US Trust and Trez Capital Yield Trust US (Canadian \$) Sub-Trust, pursuant to which the Reorganization was implemented;
- (b) the Declaration of Trust made as of December 8, 2016, creating the Trust under the laws of the Province of British Columbia. For details, see the heading "Summary of Declaration of Trust"; and
- (c) the Mortgage Broker Agreement dated December 8, 2016, among the Manager, the Mortgage Broker and the Trust with respect to the provision of services by the Mortgage Broker to the Trust. For details, see the heading "Directors, Management, Promoters and Principal Holders – The Mortgage Broker Agreement".

Copies of all agreements referred to above may be inspected during normal business hours at the principal office of the Manager, 1700-745 Thurlow Street, Vancouver, British Columbia, V6E 0C5.

SUMMARY OF DECLARATION OF TRUST

Meetings of Unitholders and Resolutions

The Trustee may, at any time, convene a meeting of the Unitholders and will be required to convene a meeting on receipt of a request in writing of the Manager or of Unitholders holding, in aggregate, 50% or more of the Units outstanding (or in the case of a Series meetings, of that Series).

Any matter to be considered at a meeting of Unitholders, other than certain matters requiring the approval of Unitholders by Special Resolution or Unanimous Resolution, as discussed below, will require the approval of Unitholders by Ordinary Resolution. A quorum for any meeting convened to consider such matter will consist of two or more Unitholders present in person or by proxy and representing not less than 5% of the Units (or of that Series) outstanding on the record date. If a quorum is not present at a meeting within 30 minutes after the time fixed for the meeting, the meeting, if convened pursuant to a request of Unitholders, will be cancelled, but otherwise will be adjourned to another day, not less than 10 days later, selected by the Manager and notice will be given to the Unitholders of such adjourned meeting. The Unitholders present at any adjourned meeting will constitute a quorum.

Each Unitholder is entitled to one vote per Unit held.

Matters Requiring Unitholder Approval

The following matters require approval by Ordinary Resolution and shall be deemed approved, consented to or confirmed, as the case may be, upon the adoption of such Ordinary Resolution:

- (a) matters relating to the administration of the Trust for which the approval of the Unitholders is required by policies of the securities regulatory authorities in effect from time to time;
- (b) subject to the requirements for a Special Resolution and a Unanimous Resolution, any matter or thing stated herein to be required to be consented to or approved by the Unitholders; and
- (c) any matter which the Manager or Trustee considers appropriate to present to the Unitholders for their confirmation or approval.

Each of the following actions requires approval by Special Resolution, the terms of which shall specify the date upon which the proposed action shall be undertaken and the party who shall undertake the action:

- (a) the amendment of the Declaration of Trust (except as provided under "Amendments to the Declaration of Trust" below) or changes to the Trust, including the investment objectives of the Trust (for greater certainty, the establishment of a new Series, provided same are within the investment objectives of the Trust, will not require Unitholder approval);
- (b) an increase in the fees payable to the Manager;
- (c) the removal of the Trustee;
- (d) the appointment of a new trustee;
- (e) the termination of the Manager;
- (f) subject to the right of the Manager to do so, the termination of the Trust; and
- (g) a reorganization, restructuring, merger (other than a Permitted Merger (as defined below)), de-merger, spin-off with, or transfers of all or substantially all of its assets to, another entity or other similar transactions including, without limitation, by way of cancelling, exchanging, distributing

or otherwise directly or indirectly transferring Units or a Series of Units for securities of another entity or for cash consideration.

Notwithstanding the foregoing, any amendment to the Declaration of Trust which would have any of the following effects requires approval by Unanimous Resolution, the terms of which shall specify the date upon which the proposed amendment shall be undertaken and the party who shall undertake the amendment:

- (a) a reduction in the interest in the Trust of any Unitholder (other than a reduction arising through an issuance of additional Units);
- (b) a reduction in the amount payable on any outstanding Units of the Trust upon liquidation of the Trust;
- (c) an increase in the liability of any Unitholder; or
- (d) the alteration or elimination of any voting rights pertaining to any outstanding Units of the Trust.

Amendments to the Declaration of Trust by the Manager

Subject to the restrictions described under "Matters Requiring Unitholder Approval" above, any provision of the Declaration of Trust may be amended, deleted, expanded or varied by the Trustee without the consent of the Unitholders:

- (a) remove any conflicts or other inconsistencies which may exist between any terms of the Declaration of Trust and any provisions of any law or regulation applicable to or affecting the Trust;
- (b) make any change or correction in the Declaration of Trust which is of a typographical nature or is required to cure or correct any ambiguity or defective or inconsistent provision, clerical omission, mistake or manifest error contained herein;
- (c) bring the Declaration of Trust into conformity with applicable laws, including the rules and policies of Securities Authorities or with current practice within the securities or investment fund industries provided that any such amendment does not adversely affect the rights, privileges or interests of Unitholders;
- (d) maintain, or permit the Manager to take such steps as may be desirable or necessary to maintain, the status of the Trust as a "mutual fund trust" and a "unit trust" for the purposes of the Tax Act or to respond to amendments to the Tax Act or to the interpretation thereof;
- (e) permit the Manager to rectify, repair or correct any matter, action, transaction or document that it reasonably determines is oppressive or unfairly prejudicial to, or that unfairly disregards, the interest of any Unitholder or series of Unitholders, provided that the Manager shall have delivered to the Trustee such written certification and opinion of counsel as the Trustee may require confirming the basis upon which the Manager has determined that such rectification, repair or correction is necessary and appropriate under the circumstances, and that the Trustee shall be entitled to rely upon such certification and opinion without further inquiry in connection with any approval or confirmation or execution of any document by the Trustee;
- (f) effect a Permitted Merger (as defined below); and
- (g) if the amendment is not a material change which adversely affects the pecuniary value of the interest of any Unitholder in the Trust.

The Declaration of Trust may also be amended by the Trustee without the consent of the Unitholders for the purpose of changing the Trust's taxation year-end as permitted under the Tax Act or providing the Trust with the right to acquire Units from any Unitholder for the purpose of maintaining the status of the Trust as a "mutual fund trust" for purposes of the Tax Act.

Notwithstanding the above or any other provision herein, no confirmation, consent or approval will be sought or have any effect and no Unitholder will be permitted to effect, confirm, consent to or approve, in any manner whatsoever, where the same increases the obligations of or reduces the compensation payable to or protection provided to either the Manager, Board of Governors or the Trustee or which terminates the Manager, except with the prior respective written consent of the Manager, Board of Governors or the Trustee, as the case may be.

Any matter affecting a particular Series alone or affecting such Series differently than other Series requires a separate vote of the Unitholders of such Series. The Manager may not, without the approval by Special Resolution of the Unitholders of the affected Series:

- (a) create a Series which will be entitled to a preference over that Series; or
- (b) abrogate, affect or alter any rights, privileges, restrictions or conditions attaching to that Series.

Permitted Mergers

The Manager may, without obtaining Unitholder approval, merge the Trust (a "Permitted Merger") with another fund or funds, provided that:

- (a) the fund(s) with which the Trust is merged must be managed by the Manager or an Affiliate of the Manager (the "**Affiliated Trust(s)**");
- (b) Unitholders are permitted to redeem their Units at a redemption price equal to the Subscription Price, less any costs of funding the redemption, including commissions, prior to the effective date of the merger;
- (c) the funds being merged have similar investment objectives as set forth in their respective declarations of trust, as determined in good faith by the Manager and by the manager of the Affiliated Trust(s) in their sole discretion;
- (d) the Manager must have determined in good faith that there will be no increase in the management expense ratio borne by the Unitholders as a result of the merger;
- (e) the merger of the funds is completed on the basis of an exchange ratio determined with reference to the redemption value per unit of each fund; and
- (f) the merger of the funds must be accomplished on a tax-deferred rollover basis for unitholders of each of the funds.

Reporting to Unitholders

The Trust will furnish to Unitholders such financial statements as are from time to time required by applicable law to be furnished by the Trust, including prescribed forms needed for the completion of Unitholders' tax returns under the Tax Act and equivalent provincial or territorial legislation. As required by applicable securities laws, these financial statements and reports will include financial information relating to the Trust. The audited annual financial statements of the Trust will be audited by the Trust's Auditor in accordance with IFRS. The Manager will ensure that the Trust complies with all applicable reporting and administrative requirements.

No Certificates

An investor who purchases Units will receive a customary confirmation from the registered dealer from or through whom Units are purchased in accordance with the book-based system. No physical paper certificates for Units will be issued.

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 Trust 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 Trust, 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 Trust (to the extent that claims cannot be satisfied by the Trust). It is intended that the Trust'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 Trust to contain an express statement that liability under such contract or commitment is limited to the value of the assets of the Trust.

Under the *Income Trust Liability Act*, Unitholders are not liable, as beneficiaries of a trust, for any act, default, obligation or liability of the Trustee. This statute has not yet been judicially considered and it is possible that reliance on the statute by a Unitholder could be successfully challenged on jurisdictional or other grounds. Unitholders who are resident in jurisdictions which have not enacted legislation similar to the British Columbia legislation may not be entitled to the protection of the British Columbia legislation. As a general rule, the Mortgage Broker, when making investments for the Trust, contracts as principal and therefore, subject to contract, the Mortgage Broker is liable for all obligations incurred in carrying out such investments for the Trust. Legal title will be held in the name of a subsidiary of the Mortgage Broker and the Trust's legal entitlement thereto held pursuant to participation agreements. As well, in conducting its affairs, the Trust has acquired and will be acquiring Mortgage investments, subject to existing contractual obligations. The Manager will use all reasonable efforts to have any such obligations, other than leases, modified so as not to have such obligations become binding upon any of the Unitholders.

However, in cases where the Manager is unable to obtain written agreement that a material obligation assumed by the Trust is not binding upon the Unitholders personally, there is a risk that if the claims made in respect thereof are to be satisfied by the Trust, a Unitholder will be held personally liable for the obligations of the Trust. Such risk is believed by the Manager to be very limited since, as indicated above, the Manager intends to act in all transactions as principal and not as agent for the Trust or the Unitholders.

In case of claims made against the Trust, which do not arise out of contracts, for example, claims for taxes or claims in tort, personal liability may also arise against Unitholders. However, in accordance with prudent real estate practice, the Manager will maintain insurance in respect of the above-mentioned perils and in amounts sufficiently large as to protect the Trust against any foreseeable non-contractual liability. The Manager intends to cause the operations of the Trust to be conducted, with the advice of counsel, in such a way, as far as possible, as to avoid any material risk of liability to Unitholders for claims against the Trust. In the event that a Unitholder should be required to satisfy any obligation of the Trust, such Unitholder will be entitled to reimbursement from any available net assets of the Trust.

Termination of the Trust

The Trust does not have a fixed Termination Date. However, the Trust may be terminated at any time upon not less than 90 days' written notice by the Trustee provided that the prior approval of Unitholders has been obtained by Special Resolution at a meeting of Unitholders called for that purpose ; provided, however, that the Manager may, in

its discretion, on 60 days' notice to Unitholders, terminate the Trust without the approval of Unitholders if, in the opinion of the Manager:

- (a) it would be in the best interests of the Trust and the Unitholders to terminate the Trust;
- (b) the Manager determines to terminate the Trust in connection with a Permitted Merger; or
- (c) it is no longer economically feasible to continue the Trust.

Upon termination, the net assets of the Trust will be distributed to Unitholders on a pro rata basis in proportion to the number of the Units held by each Unitholder. Immediately prior to the termination of the Trust, including on the Termination Date, the Trustee will, to the extent possible, convert the assets of the Trust to cash and after paying or making adequate provision for all of the Trust's liabilities, distribute the net assets of the Trust to the Unitholders as soon as practicable after the Termination Date and 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 Manager may, in its discretion, defer the Termination Date for up to 90 days if the Manager provides written notice of such deferral to the Unitholders at least 30 days prior to the Termination Date and advises the Trust that the Manager deems it important or is unable to convert all of the Trust's assets to cash and that it would be in the best interests of the Unitholders to do so.

If the Manager receives a Redemption notice or is required to make a redemption for an amount exceeding the book value per Unit, the Manager may, in its discretion, give notice to terminate the Trust as of a Termination Date which precedes the intended date of such Redemption or Redemptions.

The Declaration of Trust will be terminated immediately following the occurrence of a Termination Event. On such termination, the Trust Property will be distributed. Each of the following events is a "Termination Event":

- (a) the Manager is, in the opinion of the Board of Governors, in material default of its obligations under the Declaration of Trust and such default continues for 30 days from the date that the Manager receives written notice of such material default from the Board of Governors, unless the Manager is taking steps to remedy such default and such default is remedied within 120 days from the date of such notice and there is no reasonable basis for believing that such default cannot be remedied within such 120 day period;
- (b) the Manager has been declared bankrupt or insolvent or has entered into liquidation or winding up, whether compulsory or voluntary (and not merely a voluntary liquidation for the purposes of amalgamation or reconstruction);
- (c) the Manager makes a general assignment for the benefit of creditors or otherwise acknowledges its insolvency; or
- (d) the assets of the Manager have become subject to seizure or confiscation by any public or governmental authority.

CALCULATION OF BOOK VALUE

Valuation Policy

The Manager will value the assets of the Trust in accordance with the following policy (the "**Valuation Policy**"):

The Manager will calculate the book value of the Units and book value per Unit in Canadian dollars on each Valuation Date in accordance with the Valuation Policy as set out in the Declaration of Trust. In determining the Net Asset Value for such purpose, net assets will be calculated in accordance with the Declaration of Trust and will follow the significant accounting policies disclosed in the audited financial statements of the Trust for the period ended December 31, 2018, except modified as follows.

The Trust's functional currency is the US dollar. The Trust is using the Canadian dollar as its presentation currency. All assets and liabilities are translated using the exchange rate at the reporting date. Revenue and expenses are translated using the average rate for the period. Equity accounts are translated using the historical rate. Under IFRS, the translation differences from the Trust's functional currency of U.S. dollars to the presentation currency of Canadian dollars are recorded in accumulated other comprehensive income (loss) on the audited statements. Such foreign exchange translation differences will be allocated to the net asset value calculation for the purposes of the Valuation policy.

Effective January 1, 2018, the Trust has adopted International Financial Reporting Standard 9 *Financial Instruments* ("IFRS 9"). The Trust continues to classify its investments in Mortgages as financial instruments measured at amortized cost by using the effective interest method, less any expected credit losses. Expected credit losses on performing investments in mortgages classified under IFRS 9 as Stage 1 and Stage 2, which are not related to a specific credit impaired or defaulted mortgage will be removed from the net asset value calculation for the purposes of the Valuation Policy. No adjustment to the net asset value calculation will be made for expected credit losses related to a specific investment in a credit impaired defaulted mortgage.

Due to the aforementioned IFRS accounting policies, the Net Asset Value of the Trust as calculated for financial reporting purposes per the audited IFRS statements may be different than the transactional Net Asset Value of the Trust.

Book Value of the Trust

The Manager will calculate the book value of the Units and book value per unit in Canadian dollars as at each Valuation Date in accordance with the Valuation Policy.

Book value per Unit

The "book value per Unit" on a particular date shall be the quotient obtained by dividing the book value of the Units on such date by the total number of Units outstanding at the end of such date (for greater certainty, after giving effect to all issuances, purchases, redemptions and consolidations of Units occurring, or deemed to occur, on such date).

The book value per Unit will be calculated by the Manager as at each Valuation Date. The most recently calculated book value per Unit will be available to the public upon request and will be posted at www.trezcapital.com.

For information concerning the Redemption of Units, see "Securities Offered – Unitholder's Right to Redeem" and "Risk Factors – Restrictions on Redemption".

Reporting of Book Value

The book value per Unit is included in the quarterly report of the Trust that is available to the public upon request by contacting the Manager at info@trezcapital.com or by calling toll free 1-877-689-0821.

Suspension of Redemptions

For a period of not more than 180 days, the Manager may suspend the Redemption of Units, for or during a period during which the Manager determines that conditions exist which render impractical the sale of the assets of the Trust or impair the ability of the Manager to determine the value of the assets held by the Trust. The Manager may from time to time limit or suspend redemptions and/or terminate the Trust when the Redemption price exceeds the book value per Unit.

Differences from International Financial Reporting Standards

For the purpose of determining the net asset value per unit of the Trust in connection with the purchase and redemption of units, the net asset value of the assets of the Trust is determined in accordance with the valuation policy described above. However, for the purpose of the financial statements for the Trust, net assets will be calculated in accordance with IFRS.

For the purpose of calculating net assets for financial reporting purposes, IFRS requires the unrealized gains and losses resulting from foreign exchange translation from the Company's functional currency of U.S. dollars to the presentation currency of Canadian dollars to be recorded in other comprehensive income (loss), instead of being allocated to net assets attributable to unit holders.

For the purpose of reconciling the net asset value per unit of the Trust determined in accordance with the valuation policy described above, to the net assets calculated under IFRS, the following reconciliation is performed: accumulated other comprehensive income (loss) determined under IFRS is added to the net assets attributable to unit holders determined under IFRS.

DIRECTORS, MANAGEMENT, PROMOTERS AND PRINCIPAL HOLDERS

Trez Capital Fund Management Limited Partnership (the Manager)

Pursuant to the terms and conditions of the Declaration of Trust, the Manager is the manager and portfolio advisor of the Trust. In performing its services, the Manager will, at all times, on the terms and conditions of the Declaration of Trust, be subject to the continuing and ultimate authority of the Unitholders. The head office of the Manager is located at 1700-745 Thurlow Street, Vancouver, British Columbia, V6E 0C5. Trez Capital Fund Management Limited Partnership is a limited partnership formed under the laws of British Columbia on August 11, 2011.

Trez Capital Group

Trez Capital Group Limited Partnership operates principally through four limited partnerships. Trez Capital Fund Management Limited Partnership is registered as an exempt market dealer, investment fund manager and portfolio manager (restricted to buying and selling Mortgages and interests in Mortgages) under applicable securities legislation. See "Business of the Trust – Regulatory Changes". Trez Capital Limited Partnership is registered as a mortgage broker in British Columbia, Alberta and Ontario. Trez Capital Asset Management Limited Partnership is registered as a mortgage administrator in Ontario and a mortgage broker in British Columbia. Trez Capital US Limited Partnership was formed to hold certain investments in the United States.

Duties and Services to be Provided by the Manager

The Manager employs a conservative and risk-averse approach to real estate-based investments. The Manager has taken the initiative in founding and organizing the Trust and, accordingly, may be considered to be a "promoter" of the Trust within the meaning of the securities legislation of certain provinces of Canada.

Subject to the terms of the Declaration of Trust, the Manager will be responsible for managing the business and administration of the Trust. The Manager has coordinated the organization of the Trust and will manage the ongoing business and administration of the Trust and will monitor the investment portfolio of the Trust. The Manager will be responsible for ensuring that the net proceeds of this Offering are invested as described under "Use of Available Funds" and in accordance with the investment objectives of the Trust. Funds of the Trust will not be commingled with the Manager's funds, or with any other funds.

The Manager has exclusive authority to manage the operations and affairs of the Trust and to make all decisions regarding the business of the Trust, and has authority to bind the Trust. The Manager may, pursuant to the terms of the Declaration of Trust, delegate its powers to third parties where it deems it advisable. The Manager is required to exercise its powers and discharge its duties honestly, in good faith and in the best interests of the Trust and to exercise the degree of care, diligence and skill that a reasonably prudent professional manager would exercise in comparable circumstances.

The Manager's duties include, without limitation, appointing the registrar and transfer agent for the Trust, appointing the bankers of the Trust, valuing the assets of the Trust, calculating the income and capital gains of the Trust, authorizing all contractual arrangements relating to the Trust, providing or causing to be provided services in respect of the Trust's daily operations, distributing or causing to be distributed Units, ensuring compliance with applicable securities legislation, preparing and filing or causing to be prepared and filed all requisite returns, reports and filings,

providing all requisite office accommodation and associated facilities and services, providing or causing to be provided to the Trust all other administrative and other services and facilities required by the Trust and maintaining or causing to be maintained complete records of all transactions in respect of the investment portfolio of the Trust.

Directors and Officers

The name and municipality of residence of each of the directors and senior officers of the general partner of the Manager, the office held by them and principal occupation in the last five years are as follows:

Name and Municipality	Office	Principal Occupation	Year First Became a Director/Officer
Morley Greene, B.A., LLB Vancouver, B.C.	Chairman, Chief Executive Officer and Director	Business Executive	1997 ⁽¹⁾
Gregory Vorwaller, BA Vancouver, B.C.	President	Business Executive	2015 ⁽¹⁾
Robert Perkins, B. Comm. Vancouver, B.C.	Managing Director and Director	Business Executive	2000 ⁽¹⁾
Alexander (Sandy) Manson, B. Comm., CPA, CA West Vancouver, B.C.	Chief Financial Officer and Director	Business Executive	2006 ⁽¹⁾
Ken Lai, B. Comm., CPA, CA Richmond, B.C.	Vice-President, Loan Administration and Director	Business Executive	2005 ⁽¹⁾

⁽¹⁾ Refers to the date the individual first became a director or officer of Trez Capital Corporation.

Each director is appointed for a one-year term, with their term of office to expire at the next annual general meeting of the shareholders of the Manager.

As at March 31, 2019, the directors and senior officers of Trez Capital Fund Management Limited Partnership, own or control, directly or indirectly, 134,269 Units or 0.26% of the issued and outstanding Units.

Principal Occupations and Biographies

Morley Greene is Chairman, Managing Partner and Director of the general partner of the Manager. Prior to that, he had been Chairman and President of Trez Capital Corporation since May 30, 2009. Prior to that, he had been President and Chief Executive Officer of Trez Capital Corporation since August 1997. For approximately two years prior to establishing the Mortgage Broker, Mr. Greene acted as counsel to Samoth Capital Corporation (now called Sterling Centrecorp), a company listed on The Toronto Stock Exchange. From September 1991 to 1995, Mr. Greene was in private law practice.

Gregory Vorwaller is President of the general partner of the Manager. Prior to that, he held a number of senior executive positions at prominent financial and real estate services firms, where he lead and built businesses encompassing investment sales, mortgage brokerage and investment banking to market leading positions. Most recently he served as Executive Vice President and Global Head of Cushman & Wakefield, prior to which he served as the President and Chief Operating Officer of CBRE's Global Capital Markets business line. In each capacity, Greg developed a reputation for leading from the front line, working with teams and clients throughout the U.S., Canada, Europe and Asia Pacific in developing and executing business plans which resulted in the advancement of the key strategic initiatives of each firm. Mr. Vorwaller is also a director of Trez Capital Mortgage Investment Corporation ("TCMIC") and Trez Capital Senior Mortgage Investment Corporation ("TCSMIC").

Robert Perkins is Managing Partner and Director of the general partner of the Manager. Prior to that, he had been Vice President – Mortgage Funds of Trez Capital Corporation since July 2000 and became Executive Vice-President on June 1, 2006. He is registered as a sub-mortgage broker under the *Mortgage Brokers Act* (British Columbia). He has a mandate to identify, analyze, underwrite and fund new Mortgages. From 1986 to April 2000, Mr. Perkins was a Principal of Montrose Realty Corporation, the B.C. licensed lending and real estate arm of Montrose Mortgage Corporation, which has placed and administers a \$1.2 billion commercial mortgage portfolio on behalf of various pension funds, life insurance companies, banks and private clients. From 1984 to 1986, Mr. Perkins was a Financial Analyst in the Controller's Department of the Hong Kong Bank of Canada/Bank of B.C., now HSBC Bank Canada.

Alexander (Sandy) Manson is Chief Financial Officer and Director of the general partner of the Manager. Prior to that, he had been the Chief Financial Officer of Trez Capital Corporation since February 2006. Mr. Manson has been a CPA, CA since 1982 and has over thirty years of experience in finance and accounting. From January 2001 through December 2005, Mr. Manson was the Chief Financial Officer for Autostock International, an international autoglass replacement company with 2,000 employees based in Burnaby B.C. which operated the "Speedy Glass" stores in Canada and the United States. Prior to that, he was the Chief Financial Officer for Coast Mountain Hardwoods (1997 –2000), a lumber company based in Ladner, B.C. Mr. Manson is responsible for all finance and administrative operations of the Mortgage Broker. Mr. Manson is also an officer and director of TCMIC and TCSMIC.

Ken Lai is Vice-President, Loan Administration and Director of the general partner of the Manager. Prior to that, he had been Vice President, Loan Administration of Trez Capital Corporation since June 1, 2006 and has been with Trez Capital Corporation since August 2002, after relocating from Hong Kong. Mr. Lai is a CPA, CA with more than 20 years' experience in the areas of finance and accounting. He previously worked for an international public accounting firm, and has many years of commercial experience in real estate and investment companies.

Manager's Fees

Pursuant to the Declaration of Trust, the Series A and Series F Management Fee, being an annual amount equal to 1.5% of the Proportionate Share of the Series A Units and the Series F Units of the Average Annual Gross Total Assets (calculated by using a simple moving average of the month end value of the assets held by the Trust), is payable to the Manager by the Trust in each Fiscal Year. The Series I Management Fee, being an annual amount equal to a percentage to be negotiated by the Manager and the Unitholder of the Proportionate Share of the Series I Units of the Average Annual Gross Total Assets (calculated by using a simple moving average of the month end value of the assets held by the Trust), is payable to the Manager by the Trust in each Fiscal Year. The Proportionate Share of the Series A Units, the Series F Units and the Series I Units of the Annual Gross Assets of the Trust, in respect of each monthly distribution will be determined by the Proportionate Share of Units of each Series existing at the end of such monthly period. On each monthly distribution, the Series A and Series F Management Fee will be deducted from the monies otherwise payable to the Series A Unitholders, the Series F Unitholders and the Series I Management Fee will be deducted from the monies otherwise payable to the Series I Unitholders and the Series I Unitholders. As well, an Incentive Fee, being an annual amount equal to 10% of the Incentive Fee Revenue of the Trust, is payable to the Manager by the Trust in each Fiscal Year.

The Management Fee is paid monthly in arrears 10 days following the end of each month, except the payment due for the month ended December 31st will be determined taking into consideration the previous payments made on an estimated basis and will be paid in two payments, the first by the 10th day following the end of the month and the second payment, if any, not later than March 15 following that quarter. The Incentive Fee is paid at the same time as the final year end payment to Unitholders. The Trust will be obligated to pay any applicable GST or other taxes on such fees.

Expenses of the Trust

The Trust pays for all expenses incurred in connection with its operation and administration. It is expected that the operating expenses of the Trust will include, without limitation: preparing, mailing and printing expenses for periodic reports to Unitholders and other Unitholder communications including marketing and advertising expenses; fees payable to the Trustee; fees payable to accountants, the Auditors, legal advisors and any other professional consultants as required; ongoing regulatory fees, licensing fees and other fees; external bookkeeping fees and the

costs associated with FundSERV; any costs associated with the hedging program; fees payable for banking charges, including set-up costs, service and other fees and interest expense on borrowings; any mortgage broker fees chargeable to the Trust; any reasonable out-of-pocket expenses incurred by the Manager or its agents in connection with their ongoing obligations to the Trust; any additional fees payable to the Manager for the performance of extraordinary services on behalf of the Trust; any taxes payable by the Trust or to which the Trust is subject; interest expenses; expenses relating to portfolio transactions; any expenditures that may be incurred upon the termination of the Trust; and fees payable to members of the Board of Governors. Such expenses also will include expenses of any action, suit or other proceeding in which or in relation to which the Manager is entitled to indemnity by the Trust. The Trust will also be responsible for any extraordinary expenses which it may incur from time to time.

The Trust will be subject to an independent audit and report to the Trustee, and the Manager will provide full access to its books and records for such purpose.

Trez Capital Limited Partnership (the Mortgage Broker)

The Trust is a source of funding for the Mortgage Broker's mortgage lending business. The Mortgage Broker acts as the Trust's loan underwriter, adviser and syndicator. To conduct its operations primarily in the state of Texas and other select regions in the U.S., the Mortgage Broker and John Hutchinson have formed Trez Texas to act as loan originator for the Trust. To conduct its operations primarily in the state of Florida and the southeastern U.S., the Mortgage Broker and Brett Forman have formed Trez Florida to act as loan originator for the Trust. See "**The Mortgage Broker's Operations**", "**Mortgage Broker Regulation**". Trez Capital Corporation, the predecessor to the Mortgage Broker, and subsequently the Mortgage Broker, have been in the business of originating, underwriting, servicing and syndicating Mortgage loans since 1997.

Mortgage Broker Agreement

The Mortgage Broker has entered into the Mortgage Broker Agreement with the Trust. Pursuant to the Mortgage Broker Agreement, the Mortgage Broker acts as the Trust's loan underwriter, adviser and syndicator.

The Mortgage Broker is required to service the Investments in the same manner, and with the same care, skill, prudence and diligence, with which it services and administers similar Mortgage loans and Real Property investments for other similar third-party portfolios. It must also exercise reasonable business judgment in accordance with applicable law to maximize recovery under the Investment Portfolio without regard to any other relationship that the Mortgage Broker or any of its Affiliates may have with borrowers. The Mortgage Broker Agreement also requires the Mortgage Broker to administer deposits and trust accounts for reserves under deposit trust agreements in respect of the Investment Portfolio in accordance with the standard of care applicable to its servicing duties under the Mortgage Broker Agreement.

The Mortgage Broker is permitted to invest (for the benefit of its clients, other than the Trust) in the Investment Portfolio. Similarly, the Mortgage Broker will offer the Trust the opportunity to invest with its other clients. This provides the Trust with an increased opportunity to reduce risk through syndication.

The Mortgage Broker Agreement provides that the Mortgage Broker will not have any liability to the Trust or Unitholders of the Trust for taking any action or refraining from taking any action in good faith or for errors in judgment, unless caused by the willful misfeasance, dishonesty, bad faith or negligence of the Mortgage Broker. The Mortgage Broker Agreement has a term which ends on the termination of the Trust.

The Mortgage Broker will continue as Mortgage Broker until the dissolution of the Trust or the happening of any of the following:

- (a) the Mortgage Broker may resign if the Trust or the Manager is in breach or default of the provisions of the Mortgage Broker Agreement and, if capable of being cured, any such breach or default has not been cured within 30 days of notice of such breach or default to the Trust or the Manager, as applicable;

- (b) the Mortgage Broker becomes bankrupt or insolvent;
- (c) termination of the Mortgage Broker Agreement by the Trust in the event that the Mortgage Broker is in material breach or default of the provisions of the Mortgage Broker Agreement and, if capable of being cured, any such breach or default has not been cured within 30 days of notice of such breach or default to the Mortgage Broker;
- (d) the Mortgage Broker no longer holds the licenses, registrations or other authorizations necessary to carry out its obligations hereunder and is unable to obtain them within a reasonable period after their loss;
- (e) the Mortgage Broker resigns as Mortgage Broker of the Trust and terminates the Mortgage Broker Agreement upon not less than 120 days written notice to the Trust; or
- (f) termination of the Mortgage Broker Agreement by mutual agreement of the parties.

The Mortgage Broker's Operations

Trez Capital Corporation, the predecessor to the Mortgage Broker, commenced operations in September 1997 in order to raise a pool of capital for investment in Mortgages, primarily in the commercial and multi-unit residential markets. Since inception, the Mortgage Broker and its predecessor have funded 1,346 loans totalling over \$8.6 billion. The Mortgage Broker currently is one of the largest non-bank providers of Mortgages in Canada with approximately \$3.0 billion in assets under administration, of which approximately \$2.5 billion is invested in Mortgages.

The entities established by the Mortgage Broker are income trusts, mortgage investment corporations, limited partnerships, corporations and corporate management companies. The variety of investment vehicles provides investors with varying degrees of risk and potential return, as well as mechanisms to accommodate both residents and non-residents of Canada. Since 1997, the Mortgage Broker and its predecessor have taken the initiative in forming 26 mortgage investment funds. All of these offerings have been conducted pursuant to exemptions from applicable prospectus requirements, except TG Income Trust, TG Income Trust II, and TG Income Trust III which were offered by prospectus in the Provinces of British Columbia and Alberta, and TCMIC and TCSMIC which have been offered by prospectus throughout Canada, except Quebec. As a result of the worldwide credit crisis which occurred in 2008, two investment funds, Harvard High Yield Investments Inc. and Mickey II LLC, which are managed by affiliates of the Mortgage Broker and had invested in Mortgages in the United States, were unable to meet their obligations to holders of their debt instruments and entered into a compromise arrangement with such holders whereby they agreed to accept a significantly lesser amount in one instance and significantly reduced interest rate in the other.

Both TCMIC and TCSMIC trade on the Toronto Stock Exchange and both appointed special committees of their respective board of directors on September 28, 2015 to consider alternatives to address their share price trading at a discount to the book value per share. On June 16, 2016, it was announced that an orderly winding-up plan was approved by the shareholders of each of TCMIC and TCSMIC at the annual and special meeting of shareholders; the orderly wind-up is in progress as of the date of this offering memorandum. TCMIC and TCSMIC represent less than 1.15% of the assets under management by the Manager and its Affiliates, and therefore the outcome of this decision is not expected to have a material impact on the Manager's operations or any of its privately managed mortgage pools, including the Trust.

Due Diligence Procedures and Risk Reduction

Due diligence procedures, undertaken prior to funding Investments, have resulted in an excellent track record of return of principal and interest to the investors. Since the inception of the Mortgage Broker and its predecessor, out of approximately 1,346 Mortgages, or \$8.6 billion, funded by the Mortgage Broker and its predecessor, the realized losses on these Mortgages aggregate less than 0.7%. The Mortgage Broker believes its core strategy of lending

primarily on traditional commercial real estate (including multi-family), in major markets and with multiple-contingent exit strategies has proved successful. See "Risk Factors".

The Mortgage Broker reduces the risks associated with defaulting Mortgages through extensive initial due diligence and careful monitoring of its Mortgage portfolio, active communication with borrowers and the institution of aggressive enforcement procedures on defaulting Mortgages. All properties are evaluated on the basis of location, quality, source of repayment, prospectus for value-add, and cash flow profile. In addition, the creditworthiness of the borrower is reviewed and personal covenants are often obtained from the principals of the borrower. See "Business of the Trust – Investment Process".

The Mortgage Broker monitors the performance of the Investment portfolio, including tracking the status of outstanding payments due and maturity dates, progress of construction projects, pay down requirements from sales and the calculation and assessment of other applicable charges. Each member of management of the Manager and the Mortgage Broker has extensive knowledge and understanding of the Mortgage and real estate industries that has enabled him or her to make prudent investment decisions and identify sound investment opportunities.

The Mortgage Broker intends to restrict investors' risk exposure by diversifying its portfolio geographically. The Manager has identified that certain regions in the southeastern and southwestern U.S., and in part of the western U.S., have much stronger local-level economies than in other parts of the country with a marked imbalance between the demand and supply sides of the real estate market in those areas, leading to a positive environment for real estate development. As a result the Trust intends to make the majority of its U.S. Mortgage investments in those regions. See "Business of the Trust – Mortgage Portfolio of the Trust as at December 31, 2018".

Although the Mortgage Broker also intends to restrict investors' risk exposure by diversifying its portfolio by borrowers, the Trust currently at December 31, 2018 has 20.51% of its Mortgage Portfolio by number of Mortgages and 19.13% of its Mortgage Portfolio by dollar amount of Mortgages advanced to one borrower. The Mortgage Broker is well aware of this concentration, but the borrower involved has an exemplary track record in terms of loan repayment. As well, the loan to value ratio of the properties securing the Mortgages is approximately 70.28%. The Mortgage Broker allocates participation in Mortgages based on the Mortgage Broker's assessment of the investor's risk tolerance and any investment restrictions placed upon an investor.

To manage and diversify risk, the Mortgage Broker may syndicate a Mortgage investment with one or more investors, including the Trust and other investment entities formed by the Mortgage Broker. Mortgages can be syndicated at a lower interest rate in a more secure senior position. Syndication may be on a *pari passu* basis or on a basis where parties are subordinated to the Trust. In some instances, the Mortgage Broker may syndicate a Mortgage to different parties at different rates, but never on interest or priority terms more favourable than those offered to the Trust. Syndication of Mortgages is done to provide a dilution of risk of default of any one Mortgage among a number of entities and individuals. The syndication process also facilitates the ability to provide a more secure senior portion of a Mortgage to a lower risk entity, with progressively higher risk / higher return junior portions to those with higher risk tolerances.

Mortgage Broker Regulation

Mortgage brokers in Canada are regulated by provincial mortgage brokers legislation. As the Trust is not and will not be registered under the provincial mortgage brokers legislation, the Trust cannot engage directly in the business of lending money secured in whole or in part by Mortgages, and must therefore conduct its Mortgage investment activities under contract with the Mortgage Broker. The Mortgage Broker, which performs mortgage broker services on behalf of the Trust pursuant to the Mortgage Broker Agreement, is currently registered under the *Mortgage Brokers Act* (British Columbia), the *Real Estate Act* (Alberta) and the *Mortgage Brokerages, Lenders and Administrators Act* (Ontario) in order to permit it to carry on the activities contemplated in the Mortgage Broker Agreement.

The registrar under provincial mortgage brokers legislation regulates the mortgage broker industry, and has the power to grant or renew registration, the power to revoke registration and the power to investigate complaints made regarding the conduct of registered mortgage brokers. Under provincial mortgage brokers legislation, there are several requirements a mortgage broker must meet in order to obtain or maintain its registration. Generally, a

mortgage broker's registration may be suspended or cancelled if it is party to a harsh or unconscionable transaction, or it has conducted its business in a manner that is contrary to the public interest.

The Office of the Registrar of Mortgage Brokers at the Financial Institutions Commission regulates the mortgage brokering and lending activities of mortgage investment entities (MIEs) under the *Mortgage Brokers Act*. The Registrar and the *Mortgage Brokers Act* do not regulate the capital raising and investment marketing activities of MIEs which are subject to securities legislation and regulation. Further information can be found at FICOMM's website: <http://www.fic.gov.bc.ca/pdf/mortgagebrokers/mb-13-0011.pdf>.

The Mortgage Broker is not licensed as a mortgage broker or lender in the United States. There are no licensing requirements in Texas, Florida, or the other select U.S. regions in which the Mortgage Broker engages in the business of lending (except for banks and savings and loan institutions) for originating loans and lending funds in respect of commercial loans (a loan that is not for "personal, family or household purposes"), or the Mortgage Broker operates under an exemption in those limited regions with licensing requirements.

Directors and Senior Officers of the Mortgage Broker

The directors and senior officers of the general partner of the Mortgage Broker are the same as the directors and officers of the general partner of the Manager. See "Directors and Officers of the Manager".

Dean Kirkham is the Chief Credit Officer of the Mortgage Broker. Mr. Kirkham joined Trez in March, 2016. He is responsible for ensuring strong portfolio quality by managing the Mortgage Broker's credit risk policies and guidelines through changes in the business and or market developments, providing guidance on appropriate loan structures and adjudicating loan submissions. He provides oversight of the portfolio through ongoing oversight of key credit metrics.

Mr. Kirkham began his career with ABN AMRO's investment bank in Amsterdam and later New York. He spent the last 12 years at the Bank of Montreal in a variety of senior commercial banking and credit risk management roles, including, Vice President Credit Risk Management for Western Canada and, most recently, Regional Vice President Commercial Banking. Mr. Kirkham earned a Bachelor of Science from the University of British Columbia and an MBA from the Schulich School of Business at York University.

The Mortgage Broker's Operations in Texas

In September 2010, the Mortgage Broker began making loans in the state of Texas. The Mortgage Broker's activities in connection with the Trust primarily in the state of Texas and other select regions in the U.S. are conducted through Trez Texas, of which an Affiliate of the Mortgage Broker is the majority limited partner and John Hutchinson is the minority limited partner. Trez Texas will originate loans primarily in Texas and other areas as it finds suitable opportunities for referral to, and approval by, the Mortgage Broker and will receive originating fees, commitment fees and renewal fees from borrowers. Trez Texas will only refer investment opportunities to the Trust for consideration where such investments fall within the objectives or investment policies of the Trust.

Directors and Officers of Trez Texas

The name and municipality of residence of each of the directors and senior officers of the general partner of Trez Texas, the office held by them and principal occupation in the last five years are as follows:

Name and Municipality	Office	Principal Occupation	Year First Became a Director/Officer
Morley Greene, B.A., LLB Vancouver, B.C.	President	Business Executive	2013
John D. Hutchinson Coppell, Texas	Vice President	Business Executive	2012

Alexander (Sandy) Manson, CPA., CA West Vancouver, B.C.	Vice President, Finance Secretary Treasury	Business Executive	2012
Fred Phillips Sunnyvale, Texas	Vice-President	Business Executive	2013

Principal Occupations and Biographies

For the biographies of Morley Greene and Alexander (Sandy) Manson, see "Trez Capital Group Limited Partnership" (the "**Manager**").

John D. Hutchinson is currently the Vice President of the general partner of the Originator. Between January 1, 1996 and December 31, 2009, Mr. Hutchinson was President of the Dallas Division of The Ryland Group, Inc., a major developer, builder and marketer of residential housing in the United States. In January 1995, Mr. Hutchinson served as President of Perry Homes, Inc., a regional home builder with offices in Houston and San Antonio, Texas. Between 1993 and 1995, Mr. Hutchinson was Vice President and General Counsel of Hillwood Development, a Dallas, Texas based mixed-use real estate development firm controlled by the Perot family. Between 1978 and 1993, Mr. Hutchinson was engaged in the full time practice of law in Dallas, Texas. Immediately prior to going into the real estate business in 1993, Mr. Hutchinson was a partner with the Dallas law firm of Hughes and Luce, LLP which subsequently merged into the national law firm of K&L Gates, LLP.

During his nearly 14 years as President of Ryland's Dallas Division, Mr. Hutchinson was responsible for the operations of the division and oversaw the construction of more than 11,000 homes and the development of 4,000 residential lots. At various times, the Dallas Division had over 200 employees and produced revenues of over \$175,000,000 annually.

Frederick S. Phillips is currently the Vice-President of the general partner of the Originator. From August 1993-November 2011, Mr. Phillips was Vice President of Land Acquisition and Development for Ryland Homes Dallas division. Mr. Phillips was responsible for all aspects of the land process for one of the largest homebuilders in Dallas and the United States. From 1992-1993, Mr. Phillips was a partner in a Dallas custom homebuilding operation. From 1983-1991, Mr. Phillips was a construction supervisor, new home sales counsellor, and director of land and development for Gemcraft Homes, a publicly traded South region homebuilder. Mr. Phillips has personally supervised the acquisition, entitlement, engineering, and development of lots for new home communities in Dallas-Ft. Worth, San Antonio, Houston, Atlanta, and Oklahoma City.

The Mortgage Broker's Operations in Florida

On April 19, 2016, the Mortgage Broker began making loans in the state of Florida through a new partnership with Forman Capital LLC, from Boynton Beach, Florida. The Mortgage Broker's activities in connection with the Trust in the state of Florida and the southeastern U.S. are conducted through Trez Florida, of which an Affiliate of the Mortgage Broker and Brett Forman are equal limited partners. Trez Florida will originate loans primarily in Florida and the southeastern U.S., and other areas as it finds suitable opportunities, for referral to, and approval by, the Mortgage Broker and will receive originating fees, commitment fees and renewal fees from borrowers. Trez Florida will only refer investment opportunities to the Trust for consideration where such investments fall within the objectives or investment policies of the Trust.

Officers of Trez Florida

The name and municipality of residence of each of the senior officers of the general partner of Trez Florida, the office held by them and principal occupation in the last five years are as follows:

<u>Name and Municipality</u>	<u>Office</u>	<u>Principal Occupation</u>	<u>Year First Became a Director/Officer</u>
Brett D. Forman Delray Beach, FL	President	Business Executive	2016
Alexander (Sandy) Manson, CPA, CA West Vancouver, B.C.	Secretary	Business Executive	2016

Principal Occupations and Biographies

For the biography of Alexander (Sandy) Manson, see "Trez Capital Fund Management Limited Partnership (the Manager)".

Brett D. Forman is currently the President of the general partner of Trez Florida. Mr. Forman founded Forman Capital, a Florida based, commercial bridge lender for development and construction, senior stretch first mortgages and special situation loans nationwide, in 2004, and spearheaded its successful growth since inception. In 2016, Forman Capital, LLC entered a partnership with Trez Capital Group, LP to form Trez Forman Capital Group, LP in April of that year. Prior to founding Forman Capital, Mr. Forman was a Principal at Sylvan Ventures, LP (a joint venture between Apollo Advisors and Sylvan Learning Systems), a \$350M venture capital firm and also spent 5 years in the retail business as President & COO of FEI, Inc. and County Seat Stores.

Mr. Forman currently serves as Chairman on the Foundation Board of the Achievement Centers for Children and Families in Delray Beach, FL. He holds a Bachelor of Science in Economics and a concentration in Real Estate Finance from The Wharton School of the University of Pennsylvania.

Originators' and Mortgage Broker's Fees

The Mortgage Broker and Originators will receive originating fees, commitment fees and renewal fees on Mortgages it originates for the Trust. These fees will generally be paid by the borrowers, but in some instances, may be deducted from interest payments otherwise payable to the Trust. The Mortgage servicing fees payable to the Mortgage Broker are commensurate with fees paid to other entities providing similar services as the Mortgage Broker and which have been negotiated at arm's length. In addition to such fees, the Mortgage Broker is entitled to retain any overnight float interest on all accounts maintained by the Mortgage Broker in connection with its originating and servicing of the Trust's Mortgage investments. In some instances where the Trust agrees to participate in a loan which has a low brokerage fee, a portion of the brokerage fee may be deducted from interest payments otherwise payable to the Trust. In the case of Mortgages, or interests in Mortgages, which have been purchased by the Mortgage Broker from third parties either on its own behalf or on behalf of the Trust, such fees may also be deducted from interest payments otherwise payable to the Trust, or may be paid directly by the Trust as a result of the difference between the purchase price paid by the Mortgage Broker and the purchase price paid by the Trust. The brokerage fees charged to the Trust in such instances will vary depending on the size of the transaction and the amount of any fees otherwise payable to the Mortgage Broker.

Under the Mortgage Broker Agreement, the Mortgage Broker is responsible for all employment and other expenses of its personnel, rent and other office expenses of the Mortgage Broker. The Manager will pay any fees or expenses of the Mortgage Broker.

The Board of Governors

The Declaration of Trust provides that a Board of Governors be appointed for the Trust to consist of at least four members, whose mandate is to identify and establish procedures for resolving situations where there exists a conflict or potential conflict between the interests of the Manager and the Mortgage Broker on the one hand and the interests of the Unitholders on the other hand as well as in connection with certain other stated matters such as the Trust's annual audit. The Board of Governors will act at all times, and ensure the actions of the Manager and the Trustee are at all times, in accordance with the best interests of the Trust and the Unitholders. The members of the Board of Governors are Steve Mathiesen (Chairman), Stewart Robertson, Dale Belsher and Andrew Huntley. The members of

the Board of Governors receive compensation from the Trust. The members of the Board of Governors also constitute the board of governors of TG Income Trust II, TG Income Trust III, Bison Income Trust II, Trez Capital Yield Trust, Trez Capital Yield Trust US and Trez Capital Prime Trust. The fees paid to the members of the Board of Governors are paid in respect of their services to all of the foregoing trusts. Currently, the Chairman of the board receives a total of \$78,750 per annum, the Chairman of the Credit Committee receives \$55,125, the Chairman of the Audit Committee receives \$52,500 and the other Board member receives \$42,000 per annum. The fees are allocated to the funds as a fixed minimum plus a percentage based on their respective total assets. The Board of Governors will from time to time, in respect of the Trust:

- (a) identify and establish procedures for resolving situations where there exists a conflict or potential conflict between the interests of the Manager and the Mortgage Broker on the one hand and the interests of the Unitholders on the other hand and review any conflicts of interest referred to it by the Manager for review and for both of these purposes an Independent Review Committee has been appointed;
- (b) approve every material contract of the Trust referred to it by the Manager for review which may raise a conflict of interest, including any agreement between the Trust or the Trustee, the Manager;
- (c) meet with the Manager from time to time, on a not less than quarterly basis, to review the investments in Mortgages made by the Manager on behalf of the Trust, in order to confirm that such investments comply with the investment objectives of the Trust and for this purpose a Credit Committee has been appointed;
- (d) review and approve annual financial statements provided to Unitholders for the purpose of advising the Trustee, the Manager and the Mortgage Broker on any matters pertaining to the Trust as a result of such review and for this purpose an Audit Committee has been appointed;
- (e) review compliance by the Trust with its investment restrictions;
- (f) appoint Auditors and fix their remuneration, and meet with them at least annually;
- (g) approve the giving of indemnities to the Trustee, the Manager or the Mortgage Broker or any of their Affiliates, or their respective directors, officers or employees;
- (h) receive the resignation of the Trustee and select and appoint a successor trustee; and
- (i) provide such other assistance to the Trustee as the Trustee or Unitholders may reasonably request from time to time.

A member of the Board of Governors must, among other things, be independent of both the Manager and the Trustee and their respective Affiliates and shall not be an employee of any of them. Any member of the Board of Governors who has any material interest in a material contract or transaction with the Trust must disclose in writing to the other Board members and to the Manager the nature and extent of his interest and may not vote upon or sign any resolution dealing with such material contract or transaction.

Each member of the Board of Governors and the Independent Review Committee is appointed for a term of not less than one year and not more than three years and will hold office until his successor has been appointed or until his appointment has terminated or such person revokes his consent. The terms of office of members of the Board of Governors may be staggered. In the event of the death, removal, resignation, bankruptcy or other incapacity of a member of the Board of Governors, the Board of Governors will fill a vacancy on the Board of Governors as soon as practicable. A member of the Board of Governors whose term has expired, or will soon expire, may be reappointed by the members of the Board of Governors. A member of the Board of Governors may not be reappointed for a term or terms of office that, if served, would result in the member serving on the Independent Review Committee for longer than six years, unless the Manager agrees to the reappointment.

The Board of Governors

The nature and extent of the experience of the members of the Board of Governors and their principal occupations are as follows:

Stewart J.L. Robertson has served on the board of directors of a number of public companies, and was a board and audit committee member of Sterling Centrecorp Inc., a formerly TSX listed company which was in the business of acquiring and managing shopping centres. He is the president of the Crerar Group of Companies. The Crerar Group is an owner of and lender to the commercial real estate business in Canada and the U.S., with holdings including office, apartment, warehousing, and retail buildings. Mr. Robertson also consults on structured Mortgage and corporate acquisitions to various real estate entities.

Dale Belsher is a Chartered Professional Accountant, CA and served as Chief Financial Officer for Glentel Inc., a Burnaby-based retailer of telecommunications solutions, from 2001 to 2010. Prior to joining Glentel, Dale was Vice President, Finance and CFO for Norsat International Inc., a publicly traded, Burnaby-based satellite communications technology company. Prior to moving to British Columbia in 1983, Dale was Vice President, Finance and Controller of Denro Developments Inc., a family-owned real estate development firm. Denro was a land and multi-family residential development company based in Regina, Saskatchewan. Denro was one of the first Canadian real estate development companies to develop property in and around Phoenix, Arizona.

Steve Mathiesen (Chairman) was a corporate and securities lawyer for more than 30 years and is now a corporate director. Until 2011, he was a partner at the national law firm, McMillan LLP, focusing on mergers and acquisitions, financings, and corporate matters. He is currently on the board of several private and public companies. He holds an LL.B from the University of British Columbia, a BA in Economics and Commerce from Simon Fraser University, the ICD.D designation from the Institute of Corporate Directors and is a non-practicing member of the Law Society of B.C.

Andrew Huntley has spent the bulk of his 35 year career involved in commercial real estate finance. He retired from AIMCo in 2015 as SVP Mortgage Investments having been responsible for a commercial Mortgage portfolio in excess of \$3 billion. He has negotiated complex transactions in all sectors and throughout North America and Western Europe. Prior to AIMCo Mr. Huntley was a partner with the Toronto based Murray & Company. He has extensive community Board experience including Chairing the Board of Northlands in Edmonton. He holds a BSc. from the University of Alberta; an MBA from the Ivey School of Business at the University of Western Ontario and the ICD.D designation.

The Audit Committee

The Declaration of Trust provides that the Manager will appoint an Audit Committee consisting of a minimum of three persons, whose mandate is to meet with the Auditors and review and recommend approval of financial statements sent to Unitholders. The members of the Audit Committee are: Dale Belsher (Chairman), Steve Mathiesen and Andrew Huntley.

The Credit Committee

The Declaration of Trust provides that the Manager will appoint a Credit Committee consisting of at least four persons, whose mandate is to meet with the Manager from time to time, on a not less than quarterly basis, to review the investments in Mortgages made by the Manager on behalf of the Trust, in order to confirm that such investments comply with the investment objective and investment policies of the Trust. The members of the Credit Committee are: Stewart Robertson (Chairman), Dale Belsher, Steve Mathiesen and Andrew Huntley.

The Independent Review Committee

The Declaration of Trust provides that the Manager will appoint an Independent Review Committee. The Independent Review Committee has been established to review situations where a reasonable person would consider the Manager or an entity related to the Manager, to have an interest that may conflict with the Manager's ability to

act in good faith and in the best interests of the Trust. The members of the Independent Review Committee are: Steve Mathiesen (Chairman), Stewart Robertson, Dale Belsher and Andrew Huntley.

The Independent Review Committee will:

- (a) review and provide input to the Manager with respect to the written policies and procedures of the Manager related to conflict of interest matters;
- (b) review and approve every conflict of interest matter; and
- (c) perform any other function required by applicable securities legislation.

Members of the Independent Review Committee are not compensated separately for their participation on this committee. They are compensated as members of the Board of Governors. See "The Board of Governors".

Penalty, Sanctions and Bankruptcy

While Mr. Mathiesen was a director of CMC Metals Ltd. ("CMC"), a cease trade order was issued by the BC Securities Commission on September 3, 2009 against CMC pending filing a technical report and clarifying disclosure, which order was revoked January 15, 2010.

The Trustee

Computershare Trust Company of Canada is the trustee of the Trust pursuant to the terms and conditions set out in the Declaration of Trust. The address of the Trustee is 510 Burrard Street, 3rd Floor, Vancouver, British Columbia, V6C 3B9.

The powers, authorities and responsibilities of the Trustee are limited to those expressly set forth in the Declaration of Trust. The Trustee is responsible for holding Trust Property in safekeeping and investing moneys from time to time forming part of Trust Property as directed by the Manager. The Trustee may also sell, encumber or otherwise dispose of Trust Property as directed by the Manager and may borrow money as directed by the Manager.

The Trustee or any successor trustee may resign upon 60 days' notice (or such shorter time as may be agreed to by the Trustee and the Manager) to Unitholders and to the Manager, or may be removed by the Manager on 60 days' notice if approved by Special Resolution. In the event that the Trustee resigns or is removed or becomes incapable of acting or if for any cause a vacancy occurs in the office of the Trustee, a successor trustee will forthwith be appointed by the Manager to fill such vacancy. Forthwith following such appointment of a successor trustee, the Trustee will execute and deliver such documents as the Manager may require for the conveyance of any property of the Trust held in the Trustee's name, will account to the Manager for all property of the Trust which the Trustee holds as trustee and shall thereupon be discharged as trustee.

The Declaration of Trust provides that the Trustee will be liable in carrying out its duties under the Declaration of Trust as a result of its willful misconduct, bad faith, negligence or disregard of its obligation to act honestly, in good faith and in the best interests of the Trust and Unitholders or to exercise the degree of care, diligence and skill that a reasonably prudent trustee would exercise in comparable circumstances. In addition, the Declaration of Trust contains other customary provisions limiting the liability of the Trustee.

The Trustee will receive fees from the Trust for acting as trustee of the Trust, and will be reimbursed by the Manager for all expenses and liabilities, which are properly incurred by the Trustee in connection with the activities of the Trust.

Policies and Procedures of the Manager

Pursuant to its internal policies and procedures, the Manager and its directors, officers and employees are required to devote as much of their time and attention to the business and affairs of the Trust as they consider necessary and appropriate under the then prevailing circumstances.

The Manager is also required to ensure fairness in the allocation of investment opportunities among its mortgage investment entities. For such purpose, all mortgage investment entities that have investment objectives that are compatible with a particular investment opportunity are required, when practicable, to participate pro rata in that opportunity based upon, among other things, the relative importance of the investment opportunity to the fulfillment of each mortgage investment entity's objectives and the relative amount of assets under management in each mortgage investment entity. An assessment of the relative importance of an investment opportunity to the fulfillment of a mortgage investment entity's objectives is dependent upon a number of factors including alternative investment opportunities, present holdings of the same, or similar, investments, geographic and industry sector considerations and the liquidity of the mortgage investment entity.

For purposes of new Mortgage investment opportunities, the Manager identifies those mortgage investment entities that have investment objectives that are compatible with the Mortgage investment opportunity and ranks them in order of the relative importance that each mortgage investment entity places on such investment opportunity for the purpose of fulfilling its investment objectives. If such an investment opportunity meets more than one mortgage investment entity's objectives, it is considered first for the mortgage investment entity that places the highest level of importance on the investment opportunity. If two or more mortgage investment entities rank equally in terms of the importance they place on the investment opportunity, each mortgage investment entity generally will participate pro rata in the investment opportunity.

Promoters

Trez Capital Fund Management Limited Partnership, the Manager, Trez Capital Limited Partnership and the Mortgage Broker are the promoters of the Trust by reason of their initiative in forming and establishing the Trust and taking steps necessary for the public distribution of the Units. The directors and officers of the Manager and the Mortgage Broker are set out above. Affiliates and associates of the Manager and the Mortgage Broker may receive a portion of the Sales Fee. Neither the Manager nor the Mortgage Broker will receive any benefits, directly or indirectly from the issuance of the Units other than as described in this Offering Memorandum.

Principal Holders of the Trust

To the knowledge of the Manager, no person directly or indirectly beneficially owns or controls 10% or more of the Units as of March 31, 2019.

CAPITAL STRUCTURE

Structure

The Trust is an investment unit trust formed under the laws of the Province of British Columbia. The following are the details of the outstanding securities of the Trust at April 1, 2019:

Description of Security	Number Authorized to be Issued	Price per Security	Number Outstanding as at December 31, 2018	Number Outstanding as at April 1, 2019	Number Outstanding after \$1,000,000 Offering	Number Outstanding after \$20,000,000 Offering
Series A Units	Unlimited	\$10	3,294,112	3,784,812		
Series F Units	Unlimited	\$10	27,914,432	31,128,588		
Series I Units	Unlimited	\$10	14,301,211	16,485,881		
Total			45,509,755	51,399,281	51,499,281	53,399,281

Prior Sales and Redemptions

Pursuant to prior offerings, the following Units were sold for the 12 month period ending April 30, 2019:

Description of Security	Number of Securities Issued	Price per Security	Total Funds Received
Series A (C\$) Units	1,183,752	\$10.00	\$11,837,521
Series F (C\$) Units	14,784,964	\$10.00	\$147,849,638
Series I (C\$) Units	2,887,450	\$10.00	\$28,874,500
			\$188,561,659

Pursuant to prior offerings, the following Units were redeemed for the 12 month period ending April 30, 2019:

Description of Security	Number of Securities Redeemed	Price per Security	Total Funds Paid
Series A (C\$) Units	282,981	\$10.00	\$2,829,812
Series F (C\$) Units	2,335,685	\$10.00	\$23,356,846
Series I (C\$) Units	-	\$10.00	\$-
			\$26,186,658

The following table details redemptions outstanding:

	Year end December 31, 2017		Year end December 31, 2018		Period end March 31, 2019	
	Units	\$	Units	\$	Units	\$
Series A (C\$) Units						
Units at beginning of period	1,435,940	14,359,404	2,321,193	23,214,791	3,294,112	32,875,993
Redemptions	58,224	582,243	190,065	1,900,651	114,659	1,146,589
Redemptions outstanding	0	0	0	0	4,703	47,025
	Year end December 31, 2017		Year end December 31, 2018		Period end March 31, 2019	
	Units	\$	Units	\$	Units	\$
Series F (C\$) Units						
Units at beginning of period	7,815,599	78,155,990	16,547,497	165,495,429	27,914,432	278,607,717
Redemptions	893,982	8,939,818	1,812,472	18,124,718	788,891	7,888,908
Redemptions outstanding	0	0	41,073	10,729	110,365	1,103,647
	Year end December 31, 2017		Year end December 31, 2018		Period end March 31, 2019	
	Units	\$	Units	\$	Units	\$
Series I (C\$) Units						
Units at beginning of period	5,888,420	58,884,200	9,937,485	99,387,223	14,301,211	142,729,554
Redemptions	0	0	0	0	0	0
Redemptions outstanding	0	0	0	0	0	0

SECURITIES OFFERED

Description of the Units Offered

Investments in the Trust are represented by Units. The Trust is permitted to have an unlimited number of Series of a single class of Units, having such terms and conditions as the Manager may determine. Each Unit represents an undivided beneficial interest in the net assets of the Trust. The Manager, in its discretion, determines the number of Series of Units and establishes the attributes of each Series, including investor eligibility, the designation and currency of each Series, the initial closing date and initial offering price for the first issuance of Units of the Series, any minimum initial or subsequent investment thresholds, any minimum redemption amounts or minimum account balances, fees and expenses of the Series, sales or redemption charges payable in respect of the Series, redemption rights, convertibility among Series and any additional Series specific attributes.

The Trust may issue additional Units from time to time. Unitholders do not have any pre-emptive rights whereby additional Units proposed to be issued are first offered to existing Unitholders. The price or the value of the consideration for which Units may be issued will be determined by the Manager.

Each Unit of a Series entitles the holder to the same rights and potential liabilities as a holder of any other Unit of such Series and no Unitholder of a Series is entitled to any privilege, priority or preference in relation to any other Unitholders of such Series. Each Unitholder is entitled to one vote for each Unit held and, subject to an adjustment in a Unit's proportionate share as a result of the date of first issue of a Unit in the first Fiscal Year, is entitled to participate equally with respect to any and all distributions made by the Trust in respect of such Series, including distributions of Taxable Income (which they are required to receive their share of) and the non-taxable portion of net realized capital gains, if any. On termination, the Unitholders of record holding outstanding Units are entitled to receive all of the assets of the Trust remaining after payment of all debts, liabilities and liquidation expenses of the Trust up to an amount equal to the Subscription Price of such Units. See "Termination of the Trust".

Series

The Manager may create one or more new Series without Unitholder approval (provided same are within the investment objectives set out in the Declaration of Trust). Before the issue of a new Series, the Manager will execute a supplemental Declaration of Trust creating the new Series and the terms and investment objectives relating thereto. Any new Series created by the Manager shall:

- (a) be designated by letter or letters or letters and numbers; and
- (b) have Series' rights (including the rights of Redemption) established by the Manager.

No Series may have priority over any other Series, provided that the calculation of distributions and the Redemption price for each Series may differ.

The Trust is authorized to issue an unlimited number of redeemable non-transferable units of beneficial interest in Series, each of which represents an equal, undivided interest in the net assets of the Trust. The Trust is currently authorized to issue Series A Units, Series F Units and Series I Units. Fractional Units will not be issued.

Three Series of Units of the Trust are offered under this Offering Memorandum:

Series A Units are designed for investors who are not eligible to purchase Series F Units. Series A Units pay a Trailer Fee.

Series F Units are designed for investors who are enrolled in a dealer sponsored fee-for-service or wrap program and who are subject to an annual asset based fee rather than commissions on each transaction or, at the discretion of the Manager, any other investor for whom the Manager does not incur distribution costs.

Series I Units are generally only available to investors who make large investments in the Trust. Series I investors typically pay a negotiated management fee. See "Directors, Management, Promoters and Principal Holders – Manager's Fees". A negotiated service fee may be payable by investors to a dealer who sells Series I Units. The Manager does not pay any sales commission to a dealer who sells Series I Units.

Units will be issued in Canadian dollars. To be eligible to purchase Series I Units, investors must enter into an agreement with the Manager. This agreement will set out, among other things, the amount to be invested and the service fee payable to the dealer, if any. If the investor did not qualify to hold Series I Units when the investor originally purchased them, or is no longer eligible to hold Series I Units, the dealer must tell the Manager to switch the investor's Units into Series A Units and Series F Units or to redeem them. The Manager also retains the right, at its sole discretion, to redeem or switch the Series I Units into Series A Units or Series F Units if the Manager determines that the investor is not eligible to hold Series I Units.

All Units of the same Series are entitled to participate pro rata: (i) in any payments or distributions made by the Trust to the Unitholders of the same Series; and (ii) upon liquidation of the Trust, in any distributions to Unitholders of the same Series of net assets of the Trust attributable to the Series remaining after satisfaction of outstanding liabilities of such Series. The book value per Unit will reflect the foreign exchange differential between Canadian dollars and U.S. dollars.

Outstanding Units of any Series may be subdivided or consolidated in the Manager's discretion. The Manager may re-designate Units of a Series as Units of any other Series.

Hedging

The Trust may invest in US dollar denominated Mortgage loan investments. In order to mitigate the adverse effects of currency exchange fluctuations, the Trust will undertake currency hedging transactions. US dollar denominated loan investments are typically hedged by way of forward foreign exchange swaps with maturities of approximately one month, or such other term determined by the Manager for the maximum benefit of Unitholders. There are costs relating to entering into such hedging transactions, which include the interest rate differential between the Canadian and U.S. interest rates. These costs are borne by the Trust.

The cost of hedging is allocated to all Series.

Purchases

All advances and payments by investors with respect to their invested amounts will be made in Canadian dollars. The Manager will then convert the Canadian dollars into United States dollars and enter into a hedge against the foreign currency risk with respect to the amount of the investment.

Redemptions

At the time of redemption, the Manager will unwind the hedge and all payments of principal will be converted from United States dollars into Canadian dollars and made to the investors in Canadian dollars.

Interest payments

All payment of interest will be made in Canadian dollars. The determination of the amount of any such Canadian dollar interest will be computed based on the United States dollar interest received and then converted at the applicable spot rate (as reasonably determined by the Trust) in effect on the date such interest payment is made.

Margin calls

Any margin calls required to support the open hedging contracts will be made through the cash flows of the Trust and will not be advanced directly from Unitholders.

No Transfer of Units

Units are not transferable, except by operation of law (such as death or bankruptcy of a Unitholder) or in circumstances where the Manager deems it appropriate to do so in its absolute discretion. As well, securities laws will restrict, and may prohibit, transfer of Units. To dispose of Units, a Unitholder must have them redeemed. No transfer of Units will be effective or recognized by the registrar and transfer agent of the Trust unless and until a transfer form in the form prescribed in the Declaration of Trust has been duly completed and signed by the Unitholder, as transferor, and by the transferee and delivered to the registrar and transfer agent. The transferee, by executing the transfer form: (i) acknowledges that he or she agrees to be bound by the terms of the Declaration of Trust and is liable for all obligations of a Unitholder; (ii) makes certain representations and warranties that the transferee is not a "non-resident" for purposes of the Tax Act and is not a "non-Canadian" for purposes of the Investment Canada Act and that the transferee will maintain such status during such time as Units are held by the transferee; and (iii) irrevocably ratifies and confirms the power of attorney given to the Manager pursuant to the transfer form. Pursuant to the provisions of the Declaration of Trust, when the transferee has been registered as a Unitholder, the transferee will be subject to the obligations and entitled to the rights of a Unitholder thereunder.

Liquidity

There is no market through which the Units may be sold. No market is expected to develop. Investors may find it difficult or impossible to sell their Units. However, Unitholders may exercise their right of Redemption. See "Unitholders' Right to Redeem". There are no assurances, however, that funds will be available to permit the Manager to honour requests for Redemption. A Redemption Notice for an amount exceeding the book value of the Units may cause the Manager to delay redemption and ultimately to terminate the Trust. See "Summary of Declaration of Trust - Termination of the Trust".

Consolidation and Subdivision

Units may be consolidated or subdivided by the Trustee at the direction of the Manager. As well, the Manager may issue and consolidate Units of different Series at different rates, or to the exclusion of other Series, in order to make adjustments for foreign exchange fluctuations.

Unitholder's Right to Redeem

Units may be surrendered to the Manager by entering a request for redemption, which may be entered on the FundSERV network where Units were purchased through that network. A Unitholder is entitled to, at any time, or from time to time, redeem ("**Redemption**") all or any of the Unitholder's Units in increments of not less than \$1,000, by giving 30 days' written notice to the Manager (the "**Redemption Payment Date**"), which notice shall be irrevocable and shall contain a clear request that a specified number of Units be redeemed or the dollar amount which the Unitholder requires to be paid. If a Unitholder, after Redemption, holds Units with a value of less than \$1,000, the Unitholder must redeem all of his or her investment. The Manager may, in its absolute discretion, redeem the Units of the Unitholder if such Units have a value of less than \$1,000. The form of notice may be obtained from the Manager. Payment will be made using the FundSERV network where Units were purchased through that network.

Suspension of Redemptions

The Manager also may from time to time suspend Redemptions and/or terminate the Trust when the Redemption price exceeds the book value per Unit. The Manager is not obligated to accept Redemption notices for amounts exceeding, in aggregate, 5% of the book value of the Trust at such time, in any one calendar month.

The Manager may suspend the Redemption of Units, or postpone the day of payment or right of Redemption, for a period of not more than 180 days, for or during any period during which the Manager determines that conditions exist which render impractical the sale of the assets of the Trust or impair the ability of the Manager to determine the value of the assets held by the Trust. Any such suspension shall take effect at such time as the Manager specifies and

thereafter there shall be no redemption of Units during the 180-day period until the Manager declares the suspension at an end.

The suspension may apply to all requests for Redemption received prior to the suspension but as to which payment has not been made, as well as to all requests received while the suspension is in effect. All Unitholders making such requests will be advised by the Manager of the suspension and that the Redemption will be effected at a price determined on the first Business Day following the termination of the suspension. All such Unitholders will have and will be advised that they have the right to withdraw their requests for Redemption. The suspension will terminate in any event on the first day on which the condition giving rise to the suspension has ceased to exist, provided that no other condition under which a suspension is authorized then exists. To the extent not inconsistent with official rules and regulations promulgated by any government body having jurisdiction over the Trust, any declaration of suspension made by the Trustee or Manager will be conclusive.

Short Term Trading

In order to protect the interests of the remaining Unitholders in the Trust and to discourage short-term trading in the Trust, Unitholders will be subject to a short-term trading deduction. If a Unitholder redeems Units during the first year after purchasing Units, the Trust will deduct and retain, for the benefit of the remaining Unitholders in the Trust, 1% of the Subscription Price of the Units being redeemed.

Redemption at the Demand of the Manager

At no time may non-residents of Canada and/or partnerships that are not Canadian partnerships within the meaning of the Tax Act (or any combination thereof) (collectively, "non-residents") be the beneficial owners of a majority of the Units (on a number of Units or on a fair market value basis), and the Manager shall inform the Registrar and Transfer Agent of the Trust of this restriction. The Manager may require declarations as to the jurisdictions in which a beneficial owner of Units is resident and, if a partnership, its status as a Canadian partnership. If the Manager becomes aware, as a result of requiring such declarations as to beneficial ownership or otherwise, that the beneficial owners of 40% of the Units then outstanding (on a number of Units or on a fair market value basis) are, or may be, non-residents, or that such a situation is imminent, the Manager may make a public announcement thereof. If the Manager determines that more than 40% of the Units (on a number of Units or on a fair market value basis) are beneficially held by non-residents, or that such a situation is imminent, the Manager may send a notice to such non-resident Unitholders, chosen in inverse order to the order of acquisition or in such manner as the Manager may consider equitable and practicable, requiring them to dispose of their Units or a portion thereof within a specified period of not less than 30 days. If the Unitholders receiving such notice have not disposed of the specified number of Units or provided the Manager with satisfactory evidence that they are not non-residents within such period, the Manager may, on behalf of such Unitholders, redeem such Units at the Subscription Price and, in the interim, shall suspend the voting and distribution rights attached to such Units. Upon such Redemption, the affected holders shall cease to be beneficial holders of Units and their rights shall be limited to receiving the net proceeds of Redemption of such Units.

If at any Distribution Payment Date there are insufficient funds to pay the Trailer Fee from the distribution otherwise payable to Series A Unitholders, the Manager will redeem a sufficient number of Units from each Series A Unitholder to pay the Trailer Fee payable by such Series A Unitholder.

SUBSCRIPTION FOR UNITS

The Units are conditionally offered if, as and when subscriptions are accepted by the Trust and subject to prior sale. There is no minimum or maximum offering. Subscriptions for Units will be received by the Trust subject to rejection or allotment in whole or in part and the right is reserved to close the subscription books at any time without notice.

Every person who subscribes for Units will be required to complete and deliver to the Trust a subscription in the form which can be found at www.trezcapital.com, together with payment of the subscription price in the manner therein described.

Subscriptions received will be subject to rejection or allotment by the Trust in whole or in part in the Manager's sole discretion. The Trust is not obliged to accept any subscription. If a subscription is not accepted, the Trust will promptly return to the subscriber the Subscription Agreement and the money comprising such subscription. Confirmation of acceptance of a subscription will be forwarded to the subscriber or, if applicable, to the relevant registered dealer by the Trust. The Trust reserves the right to close the subscription books at any time without notice.

SUBJECT TO THE FOREGOING, ALL SUBSCRIPTION DOCUMENTS SHOULD BE REVIEWED BY PROSPECTIVE SUBSCRIBERS AND THEIR PROFESSIONAL ADVISERS PRIOR TO SUBSCRIBING FOR UNITS.

Subscription Procedure

Subscribers may subscribe for Units in this Offering by delivering the following documents to the Trust at the address shown in the Subscription Agreement:

- (a) an executed Subscription Agreement; and
- (b) a cheque, bank draft, FundSERV settlement or wire transfer made payable to "Trez Capital Yield Trust US (Canadian \$)" in the amount of the subscription price for the Units.

The Trust will hold subscription funds in trust until midnight on the second Business Day after the day on which it received a signed Subscription Agreement. After this, the Trust will hold the subscription funds in trust pending a closing under this Offering.

The Trust may collect, use and disclose individual personal information in accordance with the privacy policy of the Trust and will obtain consent to such collection, use and disclosure from time to time as required by its policy and the law.

The Trust anticipates that there will be multiple closings. The Trust may close any part of this Offering on any date as it may determine in its sole business judgment. The Trust reserves the right to accept or reject in whole or in part any subscription for Units and the right to close the subscription books at any time without notice. Any monies for subscription that are not accepted will be promptly returned after it has been determined not to accept the investment. At a closing of this Offering, the Trust will provide direct subscribers with a confirmation of their subscription for Units, provided the Subscription Price has been paid in full. A subscriber who purchases Units through a registered dealer will receive a customer confirmation from the registered dealer from or through which the Units were purchased.

Subscribers should carefully review the terms of the Subscription Agreement for more detailed information concerning the rights and obligations of subscribers and the Trust. Execution and delivery of a Subscription Agreement will bind subscribers to the terms thereof, whether executed by Subscribers or by an agent on their behalf. Subscribers should consult with their own professional advisors. See "Risk Factors".

Qualified Unitholders

The Manager is offering for sale an unlimited number of Units on a continuous basis in each of the Provinces of Canada and Territories by way of private placement.

The offering is being conducted:

- (a) in all the Provinces and Territories, pursuant to the exemptions from the prospectus requirements afforded by Sections 2.3, 2.9 and 2.10 of National Instrument 45-106 – *Prospectus Exemptions* ("NI 45-106"); and section 73.3 of the *Securities Act* (Ontario).

The exemption pursuant to Section 2.3 of NI 45-106 is available for distributions to investors purchasing as principal and who are "accredited investors" as defined in NI 45-106 and section 73.3 of the *Securities Act*

(Ontario). Certain accredited investors will be required to sign a risk acknowledgement in the form attached as Appendix B to the Subscription Agreement.

The exemption pursuant to Section 2.10 of NI 45-106 is available for distributions to investors purchasing as principals where (i) the trade in a security that has an aggregate acquisition cost to the investor of not less than \$150,000, paid in cash at the time of acquisition, and (ii) the investor is not an individual.

The exemption pursuant to Section 2.9 of NI 45-106 is available for distributions only to investors purchasing as principals, who receive this Offering Memorandum prior to signing the Subscription Agreement and who sign a risk acknowledgement in the form attached as Appendix A to the Subscription Agreement.

In Manitoba, Northwest Territories, Nunavut, Prince Edward Island and Yukon, an investor must qualify as an "eligible" investor to purchase more than \$10,000 of Units when relying on the Offering Memorandum exemption. In the provinces of Alberta, New Brunswick, Nova Scotia, Ontario, Quebec and Saskatchewan, investors relying on the Offering Memorandum exemption must complete the schedules in the Risk Acknowledgement Form attached to the Subscription Agreement. Depending on the circumstances of each investor in those provinces, certain investment limits will apply to all Units acquired under the Offering Memorandum exemption as follows:

- in the case of a "non-eligible" investor that is an individual, the acquisition cost of all Units acquired by the purchaser under the Offering Memorandum exemption in the preceding 12 months cannot exceed \$10,000;
- in the case of an "eligible" investor that is an individual, the acquisition cost of all Units acquired by the purchaser under the Offering Memorandum exemption in the preceding 12 months cannot exceed \$30,000;
- in the case of an "eligible" investor that is an individual and that receives advice from a portfolio manager, investment dealer or exempt market dealer that the investment above \$30,000 is suitable, the acquisition cost of all Units acquired by the purchaser under the Offering Memorandum exemption in the preceding 12 months cannot exceed \$100,000.

The foregoing exemptions relieve the Trust from the provisions of the applicable securities laws of each of the Provinces of Canada and the Northwest Territories, Yukon and Nunavut, which otherwise would require the Trust to file and obtain a receipt for a prospectus. Accordingly, prospective investors for Units will not receive the benefits associated with a subscription for securities issued pursuant to a filed prospectus, including the review of material by securities regulatory authorities.

The Manager is registered as an exempt market dealer in various provinces of Canada, which allows the Manager, on behalf of the Trust, to offer the Units for sale directly to the investors. The Trust may also use qualified dealers or brokers to sell Units and may enter into non-exclusive agency agreements with such brokers or dealers in connection with such sales. Depending on provincial requirements, brokers or dealers used by the Trust may be required to be registered as exempt market dealers pursuant to National Instrument 31-103 – Registration Requirements, Exemptions and Ongoing Registrant Obligations of the Canadian Securities Administrators.

Acceptance of Subscriptions

Subscriptions received are subject to rejection or allotment in whole or in part by the Manager on behalf of the Trust generally within 30 days of their receipt by the Manager. The minimum subscription is 500 Units (\$5,000). The Manager reserves the right to close the subscription books at any time without notice. Confirmation of the acceptance of a subscription will be forwarded by the Manager to the investor. The Manager is not obligated to accept any subscriptions, and will reject any subscription which the Manager considers to be not in compliance with applicable securities laws and regulations. If any subscription is rejected, the Manager will return to the investor promptly after making the decision to reject the subscription, the Subscription Agreement, any other documentation delivered by the investor, and the subscription funds comprising such subscription.

Subject to the contractual rights of action, and a two day right of withdrawal for certain investors provided for herein, and subject to applicable securities laws, the investor's subscription may not be withdrawn, cancelled,

terminated or revoked by the investor for a period of 30 days from the date of receipt of the subscription by the Manager, unless previously accepted by the Manager.

Units will be issued to an investor if a Subscription Agreement substantially in the form prescribed by the Manager from time to time is received by the Trust and accepted by the Manager and if payment of the subscription price is made by cheque or bank draft. Units will be issued at a price of \$10.00, subject in all cases to the minimum investment levels described above. An investor who subscribes for Units by executing and delivering a Subscription Agreement will become a Unitholder after the Manager accepts such subscription and the Trust has received the subscription price.

Additional Investments

The minimum additional subscription is \$1,000 or such greater amount as may be otherwise required to comply with applicable securities laws or as may be prescribed by the Manager.

No Unit Certificates

Certificates evidencing ownership of the Units will not be issued to a Unitholder.

FINANCIAL STATEMENTS

Attached to this Offering Memorandum are the audited financial statements of the Trust for the year ended December 31, 2018.

INCOME TAX CONSIDERATIONS

In the opinion of Thorsteinssons LLP, tax counsel to the Trust, the following is a fair summary of the principal Canadian federal income tax considerations generally relevant to individual investors who, for purposes of the Tax Act, are resident in Canada, deal at arm's length with the Trustee and Manager and beneficially hold their Units as capital property.

This summary is based on the current provisions of the Tax Act and the regulations under it, all publicly announced proposals to amend the Tax Act and its regulations, and the published administrative practices of the Canada Revenue Agency. It is assumed that all amendments will be passed as proposed. This summary is also based on the assumptions that (i) none of the Investments will be a "tax shelter investment" within the meaning of section 143.2 of the Tax Act; (ii) the Trust will not acquire any Investment that would cause the Trust to become a SIFT trust within the meaning of subsection 122.1(1) of the Tax Act; (iii) none of the Investments will be property that would be "taxable Canadian property" within the meaning of the Tax Act (without reference to paragraph (b) thereof); and (iv) none of the Investments will be an interest in an "offshore investment fund property" pursuant to section 94.1 of the Tax Act.

This summary is of a general nature and is not intended to be exhaustive. It does not take into account provincial, territorial or foreign tax laws. **Investors should consult their own tax advisers with respect to all tax consequences in their particular circumstances. No application has been made nor is it intended that any application be made for an advance income tax ruling with respect to the tax consequences of acquiring or holding Units in the Trust.**

Status of the Trust

The Minister of National Revenue accepted the Trust for registration as a "registered investment" as a mutual fund trust with effect from January 1, 2017. The Manager and Trustee have advised tax counsel that the Trust continues to meet the requirements to be a "mutual fund trust" as that term is defined under the Tax Act.

Taxation of the Trust

The Trust must pay tax on its Taxable Income for each of its taxation years, except to the extent such amounts are distributed to Unitholders. Losses incurred by the Trust cannot be allocated to Unitholders but may be deducted in computing the taxable income of the Trust in future years in accordance with the Tax Act. The Declaration of Trust requires the Trust to distribute, in cash and Units, all of its Taxable Income each year, so that the Trust will not pay any tax under Part I of the Tax Act.

The Trust is required to include in its income for a taxation year all interest that accrues (or is deemed to accrue) to it to the end of that year (or until the disposition of the indebtedness in the year) or that has become receivable or is received by the Trust before the end of that year, including on a conversion, redemption or repayment on maturity, except to the extent that such interest was included in computing the Trust's income for a preceding year and excluding any interest that accrued prior to the time of the acquisition of the indebtedness by the Trust. Upon the actual or deemed disposition of indebtedness, the Trust will be required to include in computing its income for the year of disposition all interest that accrued on such indebtedness from the last interest payment date to the date of disposition except to the extent such interest was included in computing the Trust's income for that or another taxation year and such interest will not be included in the proceeds of disposition for purposes of computing any gain or loss.

In the event the Trust ceases to qualify as a mutual fund trust under the Tax Act, and a Unitholder is a "designated beneficiary" of the Trust in a taxation year of the Trust, the "designated income" of the Trust for that taxation year will be subject to tax under Part XII.2 of the Tax Act at the current rate of 40%. A portion of the Part XII.2 tax paid by the Trust will, if the Trust makes a designation in its tax return, be credited against tax otherwise payable by Unitholders who are not designated beneficiaries of the Trust. A "designated beneficiary" is defined in the Tax Act to include non-residents of Canada, certain tax-exempt entities and certain trusts. "Designated income" is defined in the Tax Act to include, generally, taxable capital gains from the disposition of taxable Canadian property, and income from Canadian businesses and real estate. The Manager and the Trustee do not expect that the Trust will earn designated income.

To the extent the Trust's investments include assets denominated in currencies other than Canadian dollars, the cost and proceeds of disposition of such assets, income and any other relevant amounts must be determined for purposes of the Tax Act in Canadian dollars, and the Trust may therefore recognize gains or losses by virtue of fluctuations in the value of foreign currencies relative to Canadian dollars. To the extent the Trust derives income or gains from investments in countries other than Canada, the Trust may be liable to pay income or profits tax to such countries and the utilization of credits or deductions in respect of foreign tax so paid is subject to special rules and restrictions under the Tax Act. Each taxable Unitholder will generally be entitled to a tax credit for any foreign taxes paid by the Trust in respect of the Unitholder's share of income from foreign sources.

The Tax Act imposes tax on trusts that are "specified investment flow-through trusts" or "SIFT trusts". In order to qualify as a SIFT trust, a trust must meet three conditions: it must be resident in Canada; investments in the trust must be listed or traded on a stock exchange or other public market; and the trust must hold one or more "non-portfolio properties". As units of the Trust are not listed or traded on a stock exchange or other public market, the Trust is not a SIFT trust and will not be liable to tax under the Tax Act as such.

If the Trust ceases to qualify as a mutual fund trust and holds at the end of any month property that is not a "qualified investment" for the type of Deferred Plan that holds Units, the Trust will be liable for a penalty tax under Part X.2 of the Tax Act equal to 1% of the fair market value of such property at the time of its acquisition. The Declaration of Trust prohibits the Trust from holding any property that would cause the Units of the Trust to cease to be "qualified investment" for a Deferred Plan.

Taxation of Unitholders

Each Unitholder will be required to include in computing the Unitholder's income for a particular year the portion of the Taxable Income of the Trust for the year distributed in cash and Units to the Unitholder (including any amounts distributed on the redemption of Units). Each year the Trust will advise each Unitholder of the share of the Taxable Income of the Trust distributed to that Unitholder.

Any amount distributed to a Unitholder in a year in excess of the Taxable Income of the Trust is not included in computing the Unitholder's income for the year. Under the Tax Act, the Trust is permitted to deduct in computing its income for a taxation year an amount that is less than the amount of its distributions for the calendar year in which such taxation year ends. This will enable the Trust to utilize, in a taxation year, losses from prior years. The amount distributed to a Unitholder but not deducted by the Trust will not be included in the Unitholder's income. However, the payment of any such excess amount, other than as proceeds of disposition of a Unit or a part thereof, will reduce the adjusted cost base to the Unitholder of the Unitholder's Units except to the extent that such amount relates to the non-taxable portion of the net realized capital gains of the Trust distributed to the Unitholder. If the amounts deducted from the adjusted cost base of the Unit exceed the adjusted cost base of the Unit, the excess is deemed to be a capital gain realized by the Unitholder. The adjusted cost base of the Unit is then reset to nil.

As the Trust will generate its income principally from interest on mortgages on U.S. real estate, it is unlikely that the Trust will receive dividends or that it will realize capital gains (the Trust will treat gains or losses on currency conversions between Canadian and U.S. dollars as being on income account). However, if the Trust receives dividends or capital gains, the Trust intends to make designations under the Tax Act so that taxable dividends received from taxable Canadian corporations, and net realized capital gains distributed to Unitholders will retain their character when distributed to Unitholders. Distributed amounts that retain their character as taxable dividends on shares of taxable Canadian corporations will be subject to the normal gross-up and dividend tax credit rules in the Tax Act applicable to individuals. The Trust will carry out hedging transactions in respect of Investments denominated in currencies other than Canadian dollars which are intended to reduce gains or losses resulting from fluctuations in the value of foreign currencies relative to Canadian dollars.

The Trust intends to make a designation under the Tax Act so that income from foreign sources will retain its character when distributed to Unitholders. Each taxable Unitholder will generally be entitled to a tax credit for any foreign taxes paid by the Trust in respect of that unitholder's share of income from foreign sources.

On a redemption or other disposition of Units, including a redemption of Units on the termination of the Trust, the Unitholder will realize a capital gain (or capital loss) equal to the amount by which the proceeds of disposition, net of any reasonable costs of disposition, exceed (or are less than) the adjusted cost base to the Unitholder of those Units immediately before the disposition. All relevant amounts must be determined in Canadian dollars at the appropriate exchange rate for the particular transaction. The adjusted cost base of a Unit is equal to the total adjusted cost base of all of the Unitholder's Units divided by the number of Units held. If the Unitholder acquires Units of the same Series at separate times, the cost of each Unit in that Series owned by the Unitholder will be determined by averaging the cost of those Units acquired with the adjusted cost base of the Units of the same Series then owned by the Unitholder. Any additional Units acquired by a Unitholder, including in satisfaction of a distribution, have an initial cost to the Unitholder equal to the value of the Units or the amount of the distribution so satisfied, as the case may be. Generally, the total adjusted cost base of Units in the same Series will be equal to the total cost of all Units in the Series acquired by the Unitholder minus the adjusted cost base of Units in the Series previously redeemed or otherwise disposed of and the amount by which the adjusted cost base of Units in the Series is required to be reduced on account of distributions made by the Trust to the Unitholder, as described above. Unitholders are responsible for tracking their adjusted cost base.

One-half of any capital gain realized by a Unitholder on the disposition of Units must be included in the Unitholder's income as a taxable capital gain. One-half of a capital loss is an allowable capital loss, which may be deducted from taxable capital gains realized by the Unitholder in the year. Allowable capital losses of a Unitholder that exceed taxable capital gains of the Unitholder's in a year may be carried back three years or forward indefinitely and deducted against net taxable capital gains realized by the Unitholder in those earlier or later years, to the extent and in the circumstances specified in the Tax Act.

Any consolidation of Units is not a taxable event to a Unitholder. The adjusted cost base of the Unitholders' consolidated Units will be equal to the result obtained when the adjusted cost base of a Unitholder's Units immediately prior to the time of consolidation is divided by the number of Units the Unitholder holds immediately after consolidation.

The Tax Act provides for an alternative minimum tax applicable to individuals (including certain trusts and estates) resident in Canada, which is computed by reference to an adjusted taxable income amount. Eighty percent of capital

gains (net of capital losses) and the actual amount of taxable dividends (not including any gross-up) are included in adjusted taxable income. Any additional tax payable by an individual under the minimum tax provisions may be carried forward and applied against certain tax otherwise payable in any of the seven immediately following taxation years; however this carry forward amount will only be creditable in a particular year to the extent that the individual's tax payable for the year, calculated without reference to the minimum tax provisions, exceeds the tax payable under the minimum tax provisions for the year. Amounts distributed by the Trust that are taxable dividends from taxable Canadian corporations or the taxable portion of net realized capital gains, and capital gains realized on the disposition of Units, may result in the Unitholder being liable to alternative minimum tax, or increase the Unitholder's liability for alternative minimum tax.

Investment by Deferred Plans

Units of the Trust will constitute a "qualified investment" under the Tax Act for Deferred Plans so long as the Trust qualifies as a mutual fund trust for purposes of the Tax Act.

Even if the Units are qualified investments for Deferred Plans, the Units of the Trust will be a "prohibited investment" for Unitholders who hold Units in tax-free savings accounts, registered retirement savings plans, registered retirement income funds, registered disability savings plans and registered education savings plans if, among other things, the holder has a "significant interest" in the Trust. A Unitholder will have a significant interest in the Trust if the Unitholder, either alone or together with persons and partnerships with which the Unitholder does not deal at arm's length, holds interests in the Trust that have a fair market value of at least 10% of the value of all the beneficial interests in the Trust. The interest of a Unitholder who holds less than 10% of the beneficial interests in the Trust cannot be a prohibited investment.

Prospective Unitholders should consult with their own tax advisors as to whether units of the Trust would be prohibited investments under the Tax Act in their particular circumstances.

COMPENSATION PAID TO SELLERS AND FINDERS

Selling Commissions

The Trust and the Manager do not charge a fee or commission when investors purchase Units of the Trust.

The Trust will pay a Trailer Fee to registered dealers in respect of the Series A Units, payable monthly in arrears. The amount of the Trailer Fee will be deducted from distributions to Series A Unitholders.

Investors should note that authorized brokers, dealers or advisors may charge investors an upfront selling commission (estimated to be up to 5% of the Subscription Price) at the time of purchase of Units, which may reduce the amount of money invested in the Trust.

Short Term Trading Deduction

In order to protect the interest of the remaining Unitholders in the Trust and to discourage short-term trading in the Trust, Unitholders will be subject to a short-term trading deduction. If a Unitholder redeems Units of the Trust within one year of purchasing such Units, the Trust will deduct and retain, for the benefit of the remaining Unitholders in the Trust, 1% of the Subscription Price of the Units being redeemed.

Dealer Compensation

As set out under "Selling Commissions" above, brokers, dealers or advisors selling Units of the Trust may charge investors a commission at the time of purchasing Units, which will reduce the amount of money invested in the Trust.

The Trust will pay an investor's authorized broker, dealer or advisor Trailer Fees as compensation for ongoing advice and service in respect of Series A Units. The Trailer Fees are accrued monthly and are paid monthly at the

current annual rate of 1.0% of the Subscription Price per Unit of the Series A Units held by clients of the authorized broker, dealer or advisor. The Trailer Fee is calculated based on the Subscription Price of the Units for each calendar month. The Trailer Fee will not be paid if the Units are redeemed. Trailer Fees are calculated monthly and payable, on or about 10 days following the last day of each calendar month. The amount of the Trailer Fee will be deducted from distributions otherwise payable to Series A Unitholders. The Trust may, from time to time, pay the Trailer Fee more frequently than monthly, in which event the Trailer Fee will be pro-rated for the period to which it relates.

Investors who purchase Series I Units through a dealer, pay their dealer a negotiated service fee and a lower Management Fee is paid to the Manager by the Trust.

Selling commissions and Trailer Fees payable by the Trust may be modified or discontinued by the Manager at any time. The Manager may, at its discretion, negotiate, change the terms and conditions of, or discontinue the Trailer Fee with brokers, dealers and advisors. Brokers, dealers or advisors qualifying for a Trailer Fee in respect of the Trust for the first time must contact the Manager in writing to arrange the first payment. Payments thereafter are made automatically as long as the broker, dealer or advisor continues to qualify.

RISK FACTORS

The purchase of Units involves a number of risk factors. An investor should reach a decision to invest in the Trust after careful consideration with his or her advisors as to the suitability of an investment in the Trust in light of its investment objective and the information set out in this Offering Memorandum. The Manager does not make any recommendation as to the suitability of the Trust for investment by any person. All prospective Unitholders should consider an investment in the Trust within the overall context of their investment policies. Investment policy considerations include, but are not limited to, setting objectives, defining risk/return constraints and considering time horizons. This Offering is not suitable for investors who cannot afford to assume moderate risks in connection with their investments. In addition to the factors set forth elsewhere in this Offering Memorandum, prospective investors should consider the following factors.

Return on Units Determined By Reference to Investment Portfolio

Unitholders' returns will be determined by the returns generated by the Investment Portfolio. The return on the Units may decrease as well as increase. The Trust makes no representation as to any return that a Unitholder will earn on the Units and there can be no assurance that information on the Mortgage Broker or the Investment Portfolio set out in this Offering Memorandum will be, in any respect, indicative of how they will perform (either in terms of profitability, volatility or low correlation with other investments) in the future.

Changes in Real Estate Values

The Investments will be direct or indirect investment in Real Property or be secured by Real Property, which can fluctuate in value. The value of real estate is affected by general economic conditions, local real estate markets, the attractiveness of the property to tenants where applicable, competition from other available properties, fluctuations in occupancy rates, operating expenses and other factors. The value of income-producing real property may also depend on the credit worthiness and financial stability of the borrowers and/or the tenants. Changes in market conditions may decrease the value of the secured property and reduce the cash flow from the property, thereby affecting the ability of the borrower to service the debt and/or repay the loan based on the property income. In particular, disruptions to the credit and financial markets worldwide and local economic disruptions in areas where the borrowers of the Mortgage loans are located may adversely affect the value of the real estate on which the Mortgage loans are secured and the ability of the borrowers to repay the Mortgage loans and thereby negatively affect the Trust's business.

A substantial decline in value of real property provided as security for a Mortgage may cause the value of the property to be less than the outstanding principal amount of the Mortgage loan. Foreclosure by the Trust on any such Mortgage loan might not provide the Trust with proceeds sufficient to satisfy the outstanding principal amount of the Mortgage loan.

While independent appraisals are generally required before the Trust may make any Mortgage Investments, the appraised values provided, even where reported on an "as is" basis, are not necessarily reflective of the market value of the underlying real property, which may fluctuate. In addition, the appraised values reported in independent appraisals may be subject to certain conditions, including the completion of construction, rehabilitation, remediation or leasehold improvements on the real property providing security for the loan. There can be no assurance that these conditions will be satisfied and if, and to the extent they are not satisfied, the appraised value may not be achieved. Even if such conditions are satisfied, the appraised value may not necessarily reflect the market value of the Real Property at the time the conditions are satisfied.

Concentration and Composition of the Investment Portfolio

Given the concentration of the Trust's exposure to Mortgages and Real Property Investments, the Trust will be more susceptible to adverse economic or regulatory occurrences affecting Real Property than a mortgage investment entity that holds a diversified portfolio of securities. 20.51% of the Trust's Mortgage Portfolio by number of Mortgages and 19.13% of the Trust's Mortgage Portfolio by dollar amount relate to Mortgages granted to one borrower. Given the concentration of the Trust's exposure to this borrower, the Trust will be more susceptible to adverse financial circumstances affecting this borrower than a mortgage investment entity that does not have its Mortgage investments concentrated with a small number of borrowers. Investments in Real Property and Mortgages are relatively illiquid. Such illiquidity will tend to limit the Trust's ability to vary the Investment Portfolio promptly in response to changing economic or investment conditions.

The investment objectives and investment restrictions of the Trust permit the assets of the Trust to be invested in a broad spectrum of Mortgages and Real Property investments. Therefore, the composition of the Investment Portfolio may vary widely from time to time, subject to the investment objectives and investment restrictions of the Trust. The Investments will initially be concentrated by location of the properties, type of property, or other factors resulting in the Trust Investments being less diversified than at other times. As a result, the returns generated by the Investment Portfolio and Real Property investments may change as its composition changes.

No Market

There is no market for the Units and a market for the Units is not expected to develop. Units will not be transferable, except by operation of law (such as the death or bankruptcy of a Unitholder) or in circumstances where the Manager deems it appropriate to do so in its absolute discretion. As well, securities laws will restrict, and may prohibit, transfer of Units. See "Resale Restrictions".

Investments Not Guaranteed or Insured

There can be no assurance that the Investments will result in a guaranteed rate of return or any return to Unitholders or that losses will not be suffered on one or more Investments. Moreover, at any point in time, the interest rates being charged for Mortgages and returns projected from Real Property are reflective of the general level of interest rates and, as interest rates fluctuate, it is expected that the aggregate yield on Mortgage investments and value of Real Property will also change.

A Mortgage borrower's obligations to the Trust or any other person are not guaranteed by the Government of Canada, the government of any province or any agency thereof nor are they insured under the *National Housing Act* (Canada). In the event that additional security is given by the borrower or a third party or that a private guarantor guarantees the Mortgage borrower's obligations, there is no assurance that such additional security or guarantee will be sufficient to make the Trust whole if and when resort is to be had thereto. Further, Units are not "deposits" within the meaning of the *Canadian Deposit Insurance Corporation Act* (Canada) and are not insured under the provisions of that act or any other legislation.

Lack of Liquidity

An impairment of liquidity within the financial markets, such as the extraordinary credit crisis which commenced in 2008, could affect the ability of the Trust's borrowers to refinance and pay out Mortgages when due. Various real

estate markets in the United States are still affected by the credit crisis. If a similar crisis were experienced, the Manager expects an impairment of liquidity will occur within the financial markets and this lack of liquidity may require that the Trust suspend the Redemption of its Units.

Subordinate and Non-Conventional Financing

Subordinate financing (such as a second ranking Mortgage investment), which will be carried on by the Trust, is generally considered a higher risk than first ranking financing. As such, Mortgages will be secured by a charge, which may be in a first, but at times subsequent, ranking position upon or in the underlying real estate. When a charge on Real Property is in a position other than first ranking, it is possible for the holder of a prior charge on the Real Property, if the borrower is in default under the terms of its obligations to such holder, to take a number of actions against the borrower and ultimately against the Real Property in order to realize the security given for his loan. Such actions may include a foreclosure action, or an action forcing the Real Property to be sold. A foreclosure action may have the ultimate effect of depriving any person having other than a first ranking charge on the Real Property of the security of the Real Property. If an action is taken to sell the Real Property and sufficient proceeds are not realized from such sale to pay off all creditors who have prior charges on the Real Property, the holder of a subsequent charge may lose his investment or part thereof to the extent of such deficiency unless he can otherwise recover such deficiency from other property owned by the debtor.

As well, the Trust may take a junior position in a first Mortgage. See "Mortgage Tranching". The senior portion in the Mortgage will be given priority for payment in return for receiving less interest than the stipulated rate of the Mortgage thereby increasing the risk to the junior position for potential full recovery of its interest and principal in the event of default. Additionally, if a foreclosure action is taken to sell the Real Property and sufficient proceeds are not realized from such sale to pay off all creditors who have a first ranking charge on the Real Property, the holder of a junior charge may lose his investment or part thereof to the extent of such deficiency unless he can otherwise recover such deficiency from other property owned by the debtor.

The Trust may make investments in Mortgages where the aggregate of all Mortgages registered against the underlying real property exceeds 75% of the value of the Real Property which is mortgaged, which exceeds the investment limit for conventional bank Mortgage lending.

Degree of Leverage

The Trust's degree of leverage could have important consequences to Unitholders. For example, the degree of leverage could affect the Trust's ability to obtain additional financing in the future for working capital, capital expenditures, or other general purposes, making the Trust more vulnerable to a downturn in business or the economy in general.

Sensitivity to Interest Rates

It is anticipated that the market price for the Units and the value of the Investment Portfolio at any given time may be affected by the level of interest rates prevailing at such time. The Trust's income will consist primarily of interest payments on the Mortgages comprising the Investment Portfolio. If there is a decline in interest rates (as measured by the indices upon which the interest rates of the Trust's Investments are based), the Trust may find it difficult to originate additional Investments bearing rates sufficient to achieve the targeted payment of distributions on the Units at the rates previously achieved by the Trust. There can be no assurance that an interest rate environment in which there is a significant decline in interest rates would not adversely affect the Trust's ability to maintain distributions on the Units at a consistent level. As well, if interest rates increase, the value of the Trust's Investment Portfolio may be negatively affected.

Fluctuations in Capitalization Rates

As interest rates fluctuate in the lending market, generally so too do capitalization rates which affect the underlying value of real estate. As such, when interest rates rise, generally capitalization rates should be expected to rise. Over

the period of investment or development, gains and losses at the time of disposition can occur due to the increase or decrease of these capitalization rates.

Severe Weather Conditions and Natural Disasters

The occurrence of unpredictable and severe weather conditions may have adverse impacts on the Trust's investments and financial condition. Severe weather conditions and natural disasters may negatively impact, among other things, land values, rates of default, capitalization rates, foreclosure rates and insurance costs and may require rehabilitation costs for damaged properties or cause delays in the completion of projects that may directly or indirectly be part of the Trust's Investment Portfolio.

Joint Ventures

The Trust may invest in or be a participant in joint ventures and partnerships in Real Property with third parties. A joint venture or partnership involves certain additional risks which could result in additional financial demands, increased liability and a reduction in the Trust's control over the Real Property and its ability to sell its interests in the Real Property within a reasonable time frame.

Fixed Costs and Increased Expenses

Certain significant expenditures, including development costs, property taxes, maintenance costs, Mortgage payments, insurance costs and related charges, must be made throughout the period of ownership of Real Property regardless of whether a property is producing any income. If the Trust is unable to meet Mortgage payments on any property, losses could be sustained as a result of the mortgagee's exercise of its rights of foreclosure or sale.

Cross-Border Risk

All of the Trust's Investments are, and will continue to be, made in the U.S. The Trust may face cross-border risks, including risks relating to political policy changes, staffing and managing cross-border Investments, tariffs and other trade barriers, differing and potentially adverse tax implications, increased and conflicting regulatory compliance, and challenges caused by distance and cultural difference.

Tax Matters

The return on the Unitholder's investment in Units is subject to changes in Canadian federal and provincial tax laws, tax proposals, other governmental policies or regulations and governmental, administrative or judicial interpretation of the same. To the extent the Trust earns income in the United States, it is also exposed to changes in U.S. federal and state tax laws, tax proposals, other governmental policies or regulations and governmental, administrative or judicial interpretation of the same. There can be no assurance that tax laws, tax proposals, policies or regulations, or the interpretation thereof, will not be changed in a manner which will fundamentally alter the tax consequences to Unitholders acquiring, holding or disposing of Units.

If the Trust ceases to qualify as a mutual fund trust or a registered investment Units may cease to be qualified investments for Deferred Plans. This could result in Deferred Plans which hold Units becoming liable for a penalty tax under the Tax Act.

Payment of income by the distribution of Units, for example on payment of non-cash items such as foreign exchange gains, can result in Unitholders having a tax liability without a corresponding distribution of cash to pay that tax liability. There can be no assurance that the hedging transactions the Trust proposes to carry out will eliminate gains or losses resulting from fluctuations in the value of foreign currencies relative to Canadian dollars.

Hedging

The Trust enters into hedging transactions relating to subscriptions in Canadian dollars being converted into U.S. dollars to manage the risks from changes in currency conversion. Hedging instruments allow the Manager to

mitigate, but not eliminate, the potential effects of the variability in cash flow from fluctuations in currency conversion. The Manager's hedging strategy and future hedging transactions will be determined at its discretion. Hedging of U.S. dollar investments may not perfectly offset fluctuations in the Canadian-U.S. dollar exchange rate.

The Value of the Canadian Dollar Against the U.S. Dollar Will Affect the Trust's Results and Distributions

Substantially all of the net assets of the Trust are denominated in U.S. dollars. The Trust's revenues are also earned in U.S. dollars. The Trust raises funds primarily in Canada from the sale of Units in Canadian dollars and invests indirectly through the Manager in assets, using U.S. dollars. When the Canadian dollar decreases in value against the U.S. dollar, the value of the Trust's assets increases, and the value of the Trust's hedges generally decrease, when valued in Canadian dollars. There would generally also be a corresponding foreign exchange gain or loss in the Trust's income for accounting purposes and its Taxable Income for Canadian income tax purposes.

Risks Related to Mortgage Extensions and Mortgage Defaults

The Manager may from time to time deem it appropriate to extend or renew the term of a Mortgage loan past its maturity, or to accrue the interest on a Mortgage loan, in order to provide the borrower with increased repayment flexibility. The Manager generally will do so if it believes that there is a very low risk to the Trust of not being repaid the full principal and interest owing on the Mortgage loan. In these circumstances, however, the Trust is subject to the risk that the principal and/or accrued interest of such Mortgage loan may not be repaid in a timely manner or at all, which could affect the cash flows of the Trust during the period in which it is granting this accommodation. Further, in the event that the valuation of the asset has fluctuated substantially due to market conditions, there is a risk that the Trust may not recover all or substantially all of the principal and interest owed to the Trust in respect of such Mortgage loan.

When a Mortgage loan is extended past its maturity, the loan can either be held over on a month-to-month basis, or renewed for an additional term at the time of its maturity. Notwithstanding any such extension or renewal, if the borrower subsequently defaults under any terms of the loan, the Manager has the ability to exercise its Mortgage enforcement remedies in respect of the extended or renewed Mortgage loan. In addition, as a result of potential declines in real estate values, in particular given the current economic environment, there is no assurance that the Trust will be able to recover all or substantially all of the outstanding principal and interest owed to the Trust in respect of such Mortgages by exercising its Mortgage enforcement remedies. Should the Trust be unable to recover all or substantially all of the principal and interest owed to the Trust in respect of such Mortgage loans, the book value of the Trust would be reduced, and the returns, financial condition and results of operations of the Trust could be adversely affected.

Foreclosure and Related Costs

One or more borrowers could fail to make payments according to the terms of their loans, and the Trust could therefore be forced to exercise its rights as mortgagee. The recovery of a portion of the Trust's assets may not be possible for an extended period of time during this process and there are circumstances where there may be complications in the enforcement of the Trust's rights as mortgagee. Legal fees and expenses and other costs incurred by the Trust in enforcing its rights as mortgagee against a defaulting borrower are usually recoverable from the borrower directly or through the sale of the mortgaged property by power of sale or otherwise, although there is no assurance that they will actually be recovered. In the event that these expenses are not recoverable they will be borne by the Trust.

Furthermore, certain significant expenditures, including property taxes, capital repair and replacement costs, maintenance costs, Mortgage payments, insurance costs and related charges must be made through the period of ownership of real property regardless of whether the property is producing income or whether Mortgage payments are being made. The Trust may therefore be required to incur such expenditures to protect its investment, even if the borrower is not honouring its contractual obligations.

The Trust intends to hold any foreclosure property through a wholly-owned U.S. corporate subsidiary to prevent the Trust from having a "permanent establishment" in the U.S. for income tax treaty purposes. If the

Trust were to be treated as having a permanent establishment in the United States, the income tax consequences to the Trust could be materially and adversely affected.

Reliance on the Manager/Mortgage Broker

The Trust will be highly dependent upon the good faith, experience and judgment of the directors and officers of the Manager and the Mortgage Broker to manage the business and affairs of the Trust. The loss of services of key personnel of the Manager and/or Mortgage Broker could adversely affect the Trust. Unitholders have no right to take part in the management of the Trust.

Very Limited Role of the Board of Governors

The role of the Board of Governors is generally advisory in nature and it does not involve itself in the day to day management of the Trust. Its duties differ from those of the board of directors of a corporation. Its responsibilities are limited to those expressly set forth in the Declaration of Trust and substantially all powers, authorities and responsibilities in respect of the Trust are those of the Manager.

Restrictions on Redemption

Conditions may arise which would cause the Manager to suspend the Redemption of Units, or postpone the day of payment or right of Redemption, for a period of not more than 180 days, for or during a period during which the Manager determines that conditions exist which render impractical the sale of the assets of the Trust or impair the ability of the Manager to determine the value of the assets held by the Trust. If the Manager receives a Redemption Notice or is required to make a Redemption for an amount exceeding the Redemption price per Unit, the Manager may, in its discretion, suspend redemptions or give notice to terminate the Trust as of the Termination Date which precedes the intended date of such Redemption. See "Securities Offered – Unitholder's Right to Redeem".

Nature of Units

The Units share certain attributes common to equity securities. The Units represent an undivided interest in the assets of the Trust. However, Unitholders will not have the statutory rights normally associated with ownership of shares of a corporation including, for example, the right to bring "oppression" or "derivative" actions.

Potential Conflicts of Interest

The Manager is required to satisfy a standard of care in exercising its duties with respect to the Trust. However, neither the Manager nor its officers, directors, Affiliates, or employees are required to devote all or any specified portion of their time to their responsibilities relating to the Trust. The Manager and its officers, directors, employees and Affiliates may undertake financial, investment or professional activities which give rise to conflicts of interest with respect to the Trust.

Certain inherent conflicts of interest arise from the fact that the Manager may carry on investment activities for other clients (including other mortgage investment entities managed by the Manager) or on a proprietary basis in which the Trust will have no interest. Future investment activities by the Manager, including the establishment of other mortgage investment entities, may give rise to additional conflicts of interest.

The Manager also may engage in the promotion, management or investment management or other services in relation to other investment products, vehicles or any other fund or trust. These competing vehicles may have investment policies similar to those of the Trust or entities through which they make investment allocations and the Manager may be compensated in a different manner in respect of those vehicles. The Manager will follow procedures designed to ensure an appropriate allocation of available investment opportunities among the Trust and competing vehicles.

Where there is a material risk of damage to the Trust arising from any conflict of interest, this conflict will be managed to prevent the conflict from adversely affecting the interests of the Trust, including by reference to the Trust's Independent Review Committee.

Availability of Investments

The ability of the Trust to make investments in accordance with the objectives of the Trust will depend upon the availability of suitable investments. The Trust will compete with individuals, trusts and institutions for the investment in the financing of real properties. Many of these competitors have greater resources than the Trust or operate with greater flexibility.

Fees and Transaction Costs

The Trust will be subject to the payment of various fees, including those of the Mortgage Broker. See information within the section entitled "Directors, Management, Promoters and Principal Holders – Manager's Fees; Expenses of the Trust".

Possible Personal 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 Trust 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 Trust, 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 Trust (to the extent that claims cannot be satisfied by the Trust). It is intended that the Trust'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 Trust to contain an express statement that liability under such contract or commitment is limited to the value of the net assets of the Trust.

Under the *Income Trust Liability Act*, Unitholders are not liable, as beneficiaries of a trust, for any act, default, obligation or liability of the Trust. This statute has not yet been judicially considered and it is possible that reliance on the statute by a Unitholder could be successfully challenged on jurisdictional or other grounds. Unitholders who are resident in jurisdictions which have not enacted legislation similar to the British Columbia legislation may not be entitled to the protection of the British Columbia legislation. In any event, the Manager considers that the risk of any personal liability of Unitholders is minimal in view of the size of the anticipated equity of the Trust, the nature of its activities and the requirement of the Trust that any written contract or commitment of the Trust (except where such inclusion is not reasonably possible) include an express limitation of such liability.

CONFLICTS OF INTEREST AND INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

General

Purchasers of the Units will be required to rely upon the judgment, honesty and good faith of the Manager. Persons who are not willing to rely thereon should not purchase any of the Units offered hereby.

An Independent Review Committee has been established for the Trust. The mandate of the Independent Review Committee is to consider, and to recommend or approve, the Manager's proposed course of action in response to conflict of interest matters that are referred to it by the Manager. The Independent Review Committee has adopted a written charter that prescribes its mandate, its responsibilities and functions and the policies and procedures that govern its activities. A conflict of interest matter is any situation where a reasonable person would consider the

Manager, or any person related to the Manager, to have an interest that may conflict with the Manager's ability to act in good faith in the best interests of the Trust. Please see "Directors, Management, Promoters and Principal Holders – The Board of Governors – Independent Review Committee" for a description of the members of the Independent Review Committee.

Although the Independent Review Committee is required to review same (see "The Board of Governors"), there may be situations in which the individual interests of the Manager may conflict with those of the Trust or its Unitholders. The Manager will make any decision involving the Trust or the Unitholders in accordance with its duty to deal honestly and in good faith.

The Mortgage Broker or its Affiliates may also earn brokerage fees from placing Mortgages against properties and performing due diligence review proceedings.

The Manager and the Mortgage Broker are Affiliates and transactions between them have not been, and will not be, negotiated or conducted at arm's length.

Other Competing Activities of the Manager and its Affiliates

The Manager is not in any way limited or affected in its ability to carry on business ventures for its own account and for the account of others and may be engaged in the ownership, acquisition and operation of businesses, which compete with the Trust. In addition, the Manager and its Affiliates have established and may establish in the future other trusts or other investment vehicles which have or may have investment objectives that are the same as or similar to those of the Trust and to act as adviser and/or Manager to such Trusts. However, the Declaration of Trust includes a covenant of the Manager to exercise its powers in good faith and in the best interests of the Trust, and in connection therewith, to exercise that degree of care, diligence and skill that a reasonably prudent manager would exercise in comparable circumstances.

The Manager may also establish or acquire an interest in one or more mortgage brokerage businesses (see "**Risk Factors - Conflicts of Interest**"), and such business may recommend investments for the Trust which, if taken, will entitle such businesses to a brokerage fee. The Trust is not committed to make any investment with such mortgage brokerage businesses.

The Manager, the Mortgage Broker or their Affiliates will determine the amount of any brokerage or due diligence fees they may charge. In the case of Mortgages which are originated by the Mortgage Broker, such fees will generally be paid by the borrower. In some instances where the Trust agrees to participate in a loan which has a low brokerage fee, a portion of the brokerage fee may be deducted from interest payments otherwise payable to the Trust. In the case of Mortgages which have been purchased by the Mortgage Broker from third parties, such fees may also be deducted from interest payments otherwise payable to the Trust, or may be paid directly by the Trust, as a result of the difference between the purchase price paid by the Mortgage Broker and the purchase price paid by the Trust. The brokerage fees charged to the Trust in such instances will vary depending on the size of the transaction and the amount of any fees otherwise payable to the Mortgage Broker. Such fees will generally be paid by the borrower, but may be deducted from monies paid by borrowers in respect of existing Mortgages which have been purchased from third parties.

AUDITORS

The Auditor of the Trust is KPMG LLP, whose address is 777 Dunsmuir Street, Vancouver, British Columbia, V7Y 1K3.

REGISTRAR AND TRANSFER AGENT

Trez Capital Limited Partnership acts as registrar and transfer agent for all transactions.

LEGAL AND TAX MATTERS

Certain legal matters in connection with the issuance and sale of Units offered hereunder will be passed upon on behalf of the Trust by Bennett Jones LLP and in respect of income tax matters, by Thorsteinssons LLP, Tax Lawyers.

CONTINUOUS REPORTING OBLIGATIONS TO INVESTORS

As the Trust is not a "reporting issuer" as defined in the *Securities Act* (British Columbia), the continuous reporting requirements of those acts do not generally apply to the Trust. The Trust will, however, on or before March 31 in each calendar year, provide to each Unitholder all information required to file Canadian income tax returns and will provide to each Unitholder annual audited financial statements, together with notice as to how the proceeds raised pursuant to this Offering Memorandum have been used, in accordance with Form 45-106F16.

RESALE RESTRICTIONS

The Units will be subject to a number of resale restrictions, including a restriction on trading. Investors will not be able to trade the securities unless they comply with an exemption from the prospectus and registration requirements under securities legislation.

Unless permitted under securities legislation, an Investor must not trade the Units without the prior written consent of the regulator in Manitoba unless:

- (a) the Trust has filed a prospectus with the regulator in Manitoba with respect to the Units which have been purchased and the regulator in Manitoba has issued a receipt for that prospectus; or
- (b) the Investor has held the securities for at least 12 months.

The regulator in Manitoba will consent to a trade if the regulator is of the opinion that to do so is not prejudicial to the public interest.

PURCHASERS' CONTRACTUAL AND STATUTORY RIGHTS OF ACTION

Securities legislation in certain of the provinces of Canada provides investors (known as statutory rights), or requires investors to be provided (known as contractual rights) with, in addition to any other rights they may have at law, a remedy for rescission or damages where this Offering Memorandum and any amendment thereto contains a Misrepresentation; however, such remedies must be exercised by the purchaser within the time limit prescribed by the securities legislation. As used herein, except where otherwise specifically defined, "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 a statement in this Offering Memorandum not misleading in light of the circumstances in which it was made. Purchasers of Units should refer to the applicable provisions of the securities legislation of their provinces for the particulars of these rights or consult with a legal advisor. The contractual rights of action described below will be provided to investors in their Subscription Agreements.

The following is a summary of the rights of the rescission or damages, or both, available to investors under the securities legislation of the provinces of Canada. Such rights will be expressly conferred upon investors in the Subscription Agreement to be executed by investors in connection with the offering of securities hereunder.

Two Day Cancellation Right

You can cancel your agreement to purchase these securities. To do so, you must send a notice to the Manager by midnight on the second Business Day after you sign the agreement to buy the securities.

Rights for Investors in British Columbia

If an Investor is (i) resident in British Columbia; (ii) not an "accredited investor", as defined in NI 45-106, and (iii) not purchasing, as principal, a sufficient number of Units such that the aggregate Subscription Price to the Investor is not less than \$150,000, then if there is a misrepresentation in this Offering Memorandum, the Investor will have a statutory right of action for damages against the Trust and every director of the Manager at the date of this Offering Memorandum and every person who signs this Offering Memorandum. The Trust has granted an identical contractual right of action in the Subscription Agreement to Investors resident in British Columbia who are "accredited investors" or purchasing a sufficient number of Units such that the aggregate Subscription Price is not less than \$150,000.

Alternatively, the Investor may elect to exercise a right of rescission against the Trust in which case the Investor will have no right of action for damages against the Trust or the Manager.

If applicable, the statutory right to sue is available to an Investor whether or not the Investor relied on the misrepresentation. However, there are various defences available to the Trust and the Manager or entities that an Investor have a right to sue, including if it can be proven that the Investor knew of the misrepresentation when the Investor purchased the securities in an action for damages, the amount an Investor may recover will not exceed the price that the Investor paid for his securities and will not include any part of the damages that the Trust or the Manager prove does not represent the depreciation in value of the securities resulting from the misrepresentation.

If an Investor intends to rely on the rights described above, the Investor must do so within strict time limitations. An Investor must commence his action to cancel the agreement within 180 days after he signed the agreement to purchase the securities. The Investor must commence his action for damages within the earlier of 180 days after learning of the misrepresentation and 3 years after he signed the agreement to purchase the securities.

The foregoing summary is subject to the express provisions of the Securities Act (British Columbia) and the rules and the regulations thereunder and reference is made thereto for the complete text and provisions. Investors should refer to those provisions for the particulars of these rights or consult with a lawyer.

Rights for Investors in Alberta

If an Investor is (i) resident in Alberta; (ii) not an "accredited investor", as defined in NI 45-106, and (iii) purchases the Units during the period of distribution, then he shall be deemed to have relied on a representation contained in this Offering Memorandum, if it was a misrepresentation at the time of purchase, the Investor shall have a right of action for damages against the Trust but may elect (while still the owner of any of the Units purchased) to exercise a right of rescission against the Trust, in which case he shall have no right of action for damages against the Trust, provided that:

- (a) the Trust will not be held liable under this right of action if the Trust proves that the Investor purchased the Units with knowledge of the misrepresentation;
- (b) in an action for damages, the Trust will not be liable for all or any portion of such damages that it proves do not represent the depreciation in value of the Units as a result of the misrepresentation relied upon; and
- (c) in no case will the amount recoverable under this right of action exceed the price at which the Units were sold to the Investor.

The Trust has granted an identical contractual right of action in the Subscription Agreement to Investors resident in Alberta who are "accredited investors".

In Alberta, no action may be commenced to enforce such right of action unless the right is exercised:

- (a) in the case of an action for rescission, not later than 180 days from the date the Investor purchased the Units; or
- (b) in the case of any action, other than an action for rescission, the earlier of: (A) 180 days from the day that the Investor first had knowledge of the facts giving rise to the cause of action, or (B) one year from the day the Investor purchased the Units.

The foregoing summary is subject to the express provisions of the Securities Act (Alberta) and the rules and regulations thereunder and reference is made thereto for the complete text and provisions. If an Investor is resident in Alberta, he should refer to those provisions for the particulars of these rights or consult with a legal adviser.

Rights for Investors in Ontario

If this Offering Memorandum, together with any amendment hereto, delivered to an Investor of Units resident in Ontario contains a Misrepresentation and it was a Misrepresentation at the time of purchase of the Units by such Investor, the Investor will be deemed to have relied upon the Misrepresentation and will, as provided below, have a right of action against the Trust for damages or, while still the owner of the Units purchased by that Investor, for rescission, in which case, if the Investor elects to exercise the right of rescission, the Investor will have no right of action for damages against the Trust, provided that:

- (a) the right of action for rescission or damages will be exercisable by an Investor resident in Ontario, only if the Investor gives notice to the Trust, not later than 180 days for Investors resident in Ontario, after the date on which the payment is made for the Units, (or after the initial payment was made for the securities, where payments subsequent to the initial payment are made pursuant to a contractual commitment assumed prior to or concurrently with the initial payment), that the Investor is exercising this right; and, with respect to Investors resident in Ontario an action is commenced to enforce such right (i) in the case of an action for rescission not more than 180 days after the date of purchase; or (ii) in the case of an action for damages not more than the earlier of 180 days following the date the Investor first had knowledge of the Misrepresentation or three years after the date of purchase;
- (b) the Trust will not be liable if it proves that the Investor purchased the Units with knowledge of the Misrepresentation;
- (c) in the case of an action for damages, the Trust will not be liable for all or any portion of the damages that it proves does not represent the depreciation in value of the Units as a result of the Misrepresentation relied upon;
- (d) in no case will the amount recoverable in any action exceed the price at which the Units were sold to the Investor; and
- (e) the rights of action for rescission or damages are in addition to and without derogation from any other right the investor may have at law.

Rights for Investors in Saskatchewan

The *Securities Act, 1988* (Saskatchewan) (the "**Saskatchewan Act**") provides that if this Offering Memorandum or any amendment hereto contains a Misrepresentation, a purchaser of Units pursuant to this Offering Memorandum is deemed to have relied on the Misrepresentation, if it was a Misrepresentation at the time of purchase, and has a statutory right of action for damages or rescission against the Trust and a statutory right of action for damages against every promoter and director of the Trust at the time this Offering Memorandum or any amendment hereto was sent or delivered, every person or company whose consent has been filed respecting the offering, but only with respect to reports, opinions or statements that have been made by them, every person who or company that signed this Offering Memorandum or any amendment hereto and every person who or company that sells Units on behalf

of the Trust under this Offering Memorandum or any amendment hereto. These rights of action are subject to certain limitations, including that:

- (a) no person or company will be liable if it proves that the Investor purchased the Units with knowledge of the Misrepresentation; and
- (b) in an action for damages, no person or company will be liable for all or any portion of the damages that he, she or it proves do not represent the depreciation in value of the Units as a result of the Misrepresentation relied on.

The Saskatchewan Act also provides that where any advertising or sales literature (as such terms are defined therein) disseminated in connection with the offering of Units contains a Misrepresentation, a purchaser who purchases Units referred to in that advertising or sales literature is deemed to have relied on the Misrepresentation, if it was a Misrepresentation at the time of purchase, and has a statutory right of action for damages or rescission against the Trust and a statutory right of action against every promoter or director of the Trust at the time the advertising or sales literature was disseminated and every person who or company that, at the time the advertising or sales literature was disseminated, sells Units on behalf of the Trust in the offering with respect to which the advertising or sales literature was disseminated. These rights of action are subject to certain limitations, including that:

- (a) no person or company will be liable if it proves that the purchaser purchased the Units with knowledge of the Misrepresentation; and
- (b) in an action for damages, no person or company will be liable for all or any portion of the damages that he, she or it proves do not represent the depreciation in value of the Units as a result of the Misrepresentation relied on.

In addition, the Saskatchewan Act provides that, where an individual makes a verbal statement to a prospective Investor of Units that contains a Misrepresentation relating to the Units and the verbal statement is made either before or contemporaneously with the purchase of the Units, the Investor is deemed to have relied on the Misrepresentation, if it was a Misrepresentation at the time of purchase, and has a statutory right of action for damages against the individual who made the verbal statement. This right is subject to certain limitations, including:

- (a) no individual will be liable if he or she proves that the Investor purchased the Units with knowledge of the Misrepresentation; and
- (b) in an action for damages, no individual will be liable for all or any portion of the damages that he or she proves do not represent the depreciation in value of the Units as a result of the Misrepresentation relied on.

An Investor of Units from a vendor trading in contravention of the Saskatchewan Act, the regulations thereunder or a decision of the Saskatchewan Securities Commission may elect to void the contract and to recover all monies or other consideration paid by him to the vendor pursuant to such trade.

An Investor of Units to whom this Offering Memorandum or any amendment hereto was not delivered prior to such purchase has a right of action for rescission or damages against the Trust or any dealer who failed to deliver this Offering Memorandum or any amendment hereto prior to such purchase.

No action to enforce the foregoing rights may be commenced:

- (a) in the case of an action for rescission, more than 180 days after the date of purchase of the Units; or
- (b) in the case of an action for damages, 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 purchase of the Units.

Rights for Investors in Manitoba

Securities legislation in Manitoba provides that Investors of Units pursuant to this Offering Memorandum shall have, in addition to and without derogation from any other right or remedy they may have at law, the following contractual right of action for damages and/or rescission against the Trust if this Offering Memorandum or any amendment hereto contains a Misrepresentation. However, such rights must be exercised within the prescribed time limits described below.

Each Investor of Units pursuant to this Offering Memorandum will not be bound by the contract for the purchase of the Units if the person or company from whom the Units were purchased or his agent receives written or telegraphic notice evidencing the Investor's intention not to be bound not later than midnight on the second Business Day after receipt or deemed receipt by the Investor or his agent of this Offering Memorandum and has the right to rescind the contract for the purchase of the Units, while the holder thereof, if this Offering Memorandum or any amendment hereto, as of the date of receipt or deemed receipt, contains a Misrepresentation. No action to enforce this right may, however, be commenced by the Investor after the expiration of the later of (i) 180 days from the date of receipt or deemed receipt of this Offering Memorandum or any amendment hereto by the Investor or any agent of the Investor, or (ii) the date of the contract for the purchase of the Units.

If this Offering Memorandum or any amendment hereto contains a Misrepresentation, the Investor also has a right of action for damages against every person or company who signed either of the certificates required in this Offering Memorandum and against every director who, on the date this Offering Memorandum or any amendment hereto was signed, was a director of the person or company who signed such certificates for any loss or damage that the Investor has sustained as a result of the purchase of the security, unless it is proved:

- (a) that this Offering Memorandum or any amendment hereto was delivered to the Investor without the director's knowledge or consent;
- (b) that, after the delivery of this Offering Memorandum to the Investor and before the purchase of the Units by the Investor, on becoming aware of any false statement in this Offering Memorandum or any amendment hereto, the director withdrew his consent to the delivery of this Offering Memorandum to prospective Investors and gave reasonable public notice of such withdrawal and of the reason therefore;
- (c) that, with respect to every false statement, the director has reasonable grounds to believe and did believe that the statement was true;
- (d) that where such false statement was that of any expert, the director had no reasonable grounds to believe that the expert who made the statement in this Offering Memorandum or any amendment hereto or whose report or valuation was produced or fairly summarized therein was not competent to make such statement, valuation or report; or
- (e) that, with respect to every false statement purporting to be a statement made by an official person or contained in what purports to be a copy of or extract from a public official document, it was a correct and fair representation of the statement or copy or extract from the document;

but no action to enforce these rights of action for damages against signatories of certificates in this Offering Memorandum or their directors may be commenced by the Investor within the earlier of 180 days after learning of the misrepresentation and two years after the Investor signed the agreement to purchase the Units.

Rights for Investors in New Brunswick

Where this Offering Memorandum contains a Misrepresentation, an Investor who purchases the Units offered by this Offering Memorandum during the period of distribution shall be deemed to have relied on the Misrepresentation if it was a Misrepresentation at the time of purchase, and, the Investor has a right of action for damages or rescission against the Trust. If the Investor elects to exercise a right of rescission against the Trust, then the Investor shall have no right of action for damages against the Trust.

No person or company is liable if the person or company proves that the Investor purchased the Units with knowledge of the Misrepresentation.

In an action for damages, the defendant is not liable for all or any part of the damages that the defendant proves does not represent the depreciation in value of the Units resulting from the Misrepresentation.

In no case shall the amount recoverable exceed the price at which the Units were offered.

In the case of an action for rescission, no action may be commenced more than 180 days from the day of the transaction that gave rise to the cause of action. In the case of an action for damages, no action may be commenced more than the earlier of: (i) 1 year from the day that the Investor first had knowledge of the facts giving rise to the cause of action, or (ii) 6 years from the day of the transaction that gave rise to the cause of action.

Rights for Investors in Nova Scotia

Section 138 of the *Securities Act* (Nova Scotia) provides that if this Offering Memorandum, together with any amendment thereto, or any record incorporated by reference in, or deemed incorporated into, this Offering Memorandum or any amendment thereto, or any advertising or sales literature (as defined in the *Securities Act* (Nova Scotia)) in respect of the Units, contains a Misrepresentation, any Investor to whom this Offering Memorandum is sent or delivered who purchases the Units referred to in this Offering Memorandum, or such amendment or record, and any Investor who purchases Units referred to in such advertising or sales literature, is deemed to have relied on that Misrepresentation if it was a Misrepresentation at the time of purchase and has, subject as hereinafter provided, a statutory right of action for damages against the Trust at the date of this Offering Memorandum, and subject to additional defences against the directors of the Trust and every person who signed this Offering Memorandum (and the liability of such persons and companies is joint and several with respect to the same cause of action), or the Investor may elect instead to exercise a statutory right of rescission against the Trust in which case the Investor has no right of action for damages against the Trust at the date of this Offering Memorandum, any director or any person who signed this Offering Memorandum, provided that:

- (a) no action shall be commenced to enforce the right of rescission or damages created under Section 138 of the *Securities Act* (Nova Scotia) more than 120 days after the date payment was made for the Units (or after the date on which initial payment was made for the Units where payments subsequent to the initial payment are made pursuant to a contractual commitment assumed prior to, or concurrently with, the initial payment);
- (b) no person or company is liable under Section 138 of the *Securities Act* (Nova Scotia) if the person or company proves that the Investor purchased the Units with knowledge of the Misrepresentation;
- (c) no person or company, other than the Trust, is liable under Section 138 of the *Securities Act* (Nova Scotia) if the person or company proves that:
 - (i) this Offering Memorandum, or the amendment to this Offering Memorandum, was sent or delivered to the Investor without the person's or company's knowledge or consent and that, on becoming aware of its delivery, the person or company gave reasonable general notice that it was delivered without the person's or company's knowledge or consent;

- (ii) after delivery of this Offering Memorandum, or the amendment thereto and before the purchase of the Units by the Investor, on becoming aware of any Misrepresentation in this Offering Memorandum, or the amendment thereto, or any record incorporated or deemed incorporated by reference herein, the person or company withdrew the person's or company's consent to this Offering Memorandum, or amendment to this Offering Memorandum, or such record, and gave reasonable general notice of the withdrawal and the reason for it; or
- (iii) with respect to any part of this Offering Memorandum, or amendment thereto, or any record incorporated or deemed to be incorporated by reference herein, purporting to be made on the authority of an expert, or to be a copy of, or an extract from a report, an opinion or a statement of an expert, the person or company had no reasonable grounds to believe and did not believe that there had been a Misrepresentation, or that the relevant part of this Offering Memorandum, or amendment thereto, or such record, did not fairly represent the report, opinion or statement of the expert, or was not a fair copy of, or extract from, the report, opinion or statement of the expert;
- (d) no person or company, other than the Trust, is liable under Section 138 of the *Securities Act* (Nova Scotia) with respect to any part of this Offering Memorandum, or amendment thereto or any record incorporated or deemed incorporated by reference therein, not purporting to be made on the authority of an expert, or to be a copy of or an extract from, a report, opinion or statement of an expert, unless the person or company failed to conduct a reasonable investigation to provide reasonable grounds for a belief that there had been no Misrepresentation, or believed that there had been a Misrepresentation;
- (e) in an action for damages under Section 138 of the *Securities Act* (Nova Scotia), the defendant is not liable for all or any part of the damages that the defendant proves does not represent the depreciation in value of the Units resulting from the Misrepresentation;
- (f) the amount recoverable by a plaintiff under Section 138 of the *Securities Act* (Nova Scotia) may not exceed the price at which the Units were offered under this Offering Memorandum or amendment thereto.

General

The foregoing summaries are subject to the express provisions of the *Securities Act* (British Columbia), the *Securities Act* (Alberta), the *Securities Act* (Ontario), *The Securities Act, 1988* (Saskatchewan), the *Securities Act* (Manitoba), the *Securities Act* (New Brunswick) and the *Securities Act* (Nova Scotia), and the regulations, rules and policy statements thereunder and reference is made thereto for the complete text of such provisions.

The rights of action described herein are in addition to and without derogation from any other right or remedy that the Investor may have at law.

Consolidated Financial Statements
(Expressed in Canadian dollars)

**TREZ CAPITAL YIELD TRUST US
(CANADIAN \$)**

Year ended December 31, 2018



KPMG LLP
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Canada
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Fax (604) 691-3031

INDEPENDENT AUDITORS' REPORT

To the Directors of Trez Capital Yield Trust US (Canadian \$)

We have audited the consolidated financial statements of Trez Capital Yield Trust US (Canadian \$) (the Entity), which comprise:

- The consolidated statement of financial position as at December 31, 2018;
- the consolidated statement of comprehensive income (loss) for the year then ended;
- the consolidated statement of changes in net assets attributable to holders of redeemable units for the year then ended;
- the consolidated statement of accumulated other comprehensive income for the year then ended;
- the consolidated statement of cash flows for the year then ended;
- and notes to the consolidated financial statements, including a summary of significant accounting policies.

(Hereinafter referred to as the “financial statements”).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at December 31, 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the “***Auditors' Responsibilities for the Audit of the Financial Statements***” section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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



Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards (IFRS), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion;
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;



- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern;
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG LLP

Chartered Professional Accountants

Vancouver, Canada
March 29, 2019

TREZ CAPITAL YIELD TRUST US (CANADIAN \$)

Consolidated Statement of Financial Position
(Expressed in Canadian dollars)

December 31, 2018 with comparative information for 2017

	Notes	2018	2017
Assets			
Cash and cash equivalents		\$ 31,425,163	\$ 7,563,473
Restricted cash		4,410,607	7,561,283
Foreign currency derivatives	10	-	3,018,708
Investments in mortgages	4	481,032,025	278,579,934
Investments in joint ventures	5	-	3,224,071
Investments held at fair value	6	25,811,345	16,238,698
Promissory notes receivable	8	2,649,628	1,296,162
Due from related party		4,730	-
Accounts Receivable		2,212,624	-
Other assets		2,220,374	420,978
		\$ 549,766,496	\$ 317,903,307
Equity			
Accumulated other comprehensive income		\$ 144,483	\$ (35,695)
Liabilities and Net Assets Attributable to Holders of Redeemable Units			
Bank indebtedness	12	\$ 66,270,157	\$ 2,705,235
Accounts payable and accrued liabilities		3,069,243	1,264,883
Foreign currency derivatives	10	2,553,503	-
Mortgage syndication liabilities	4(a)	15,394,337	21,802,545
Management and incentive fees payable	11(a)	2,855,511	925,321
Due to related parties		52,941	-
Distributions payable to holders of redeemable units	7(b)	5,213,057	3,143,575
		95,408,749	29,841,559
Redeemable units, representing net assets attributable to holders of redeemable units	7	454,213,264	288,097,443
		\$ 549,622,013	\$ 317,939,002
Total liabilities and net assets attributable to holders of redeemable units and equity			
		\$ 549,766,496	\$ 317,903,307
Redeemable units, representing net assets attributable to holders of redeemable units:			
	7		
CDN Series A		\$ 32,875,993	\$ 23,214,791
CDN Series F		278,607,717	165,495,429
CDN Series I		142,729,554	99,387,223
		\$ 454,213,264	\$ 288,097,443

The accompanying notes are an integral part of these financial statements.

Approved on behalf of the Board of the General Partner of the Manager,
Trez Capital Fund Management Limited Partnership:

"Alexander Manson"
(Signed) Alexander Manson
Director

"Ken Lai"
(Signed) Ken Lai
Director

TREZ CAPITAL YIELD TRUST US (CANADIAN \$)

Consolidated Statement of Comprehensive Income (Loss)
(Expressed in Canadian dollars)

Year ended December 31, 2018, with comparative information for 2017

	Notes	2018	2017
Revenue:			
Interest income		\$ 43,006,915	\$ 25,415,138
Interest expense on mortgage syndication liabilities		(837,183)	(496,203)
		42,169,732	24,918,935
Expenses:			
Commissions		1,763,910	1,274,415
Management and incentive fees	11(a)	6,625,490	3,388,926
Foreign exchange loss		3,070,627	1,976,883
General and administrative		2,791,552	979,250
Provision for mortgage losses	4 (c)	427,707	-
		14,679,286	7,619,474
Equity earnings from investment in joint ventures	5	220,341	587,504
Fair value gains on embedded derivatives		-	1,228,930
Realized fair value gains on investments held at fair value	6	1,972,840	-
Unrealized fair value gains on investments held at fair value	6	3,163,270	54,547
Income from operations		32,846,897	19,170,442
Financing costs:			
Interest expense		3,236,107	277,060
Distributions to holders of redeemable units	7(b)	29,790,968	18,857,687
		33,027,075	19,134,747
Net income (loss) attributable to holders of redeemable units, from operations			
		(180,178)	35,695
Other comprehensive income:			
Translation adjustment to arrive at presentation currency of Canadian dollars	2(c)	180,178	(35,695)
Total comprehensive income attributable to holders of redeemable units			
		\$ -	\$ -

The accompanying notes are an integral part of these consolidated financial statements.

TREZ CAPITAL YIELD TRUST US (CANADIAN \$)

Consolidated Statement of Changes in Net Assets Attributable to Holders of Redeemable Units
(Expressed in Canadian dollars)

Year ended December 31, 2018, with comparative information for 2017

	2018	2017
Balance, beginning of the year	\$ 288,097,443	\$ 10
Impact of adopting IFRS 9 (note 15)	(739,802)	-
Net income (loss) attributable to holders of redeemable units	(180,178)	35,695
Contributions and redemptions:		
Issuance of units	175,417,548	138,843,633
Reinvestment of distributions on redeemable units	11,643,622	7,340,571
Redemptions	(20,025,369)	(9,522,061)
Transfer of units as part of reorganization	-	151,399,595
	167,035,801	288,061,738
Balance, end of year	\$ 454,213,264	\$ 288,097,443

The accompanying notes are an integral part of these consolidated financial statements.

TREZ CAPITAL YIELD TRUST US (CANADIAN \$)

Consolidated Statement of Cash Flows
(Expressed in Canadian dollars)

Year ended December 31, 2018, with comparative information for 2017

	2018	2017
Cash provided by (used in):		
Operating activities:		
Net income (loss) for the year	\$ (180,178)	\$ 35,695
Items not involving cash:		
Interest income, net of interest expense on syndications	(42,169,732)	(24,918,935)
Equity earnings from investments in joint ventures	(220,341)	(642,051)
Realized fair value gains on investments held at fair value	(2,656,990)	(1,228,930)
Unrealized fair value gains on investments held at fair value	(3,163,270)	-
Unrealized foreign exchange	(32,281,178)	289,733
Promissory note receivable	(1,353,466)	-
Accounts Receivable	(2,212,624)	-
Distributions to holders of redeemable units	29,790,968	18,857,687
Unrealized gain on forward currency derivatives	5,572,211	(3,921,672)
Interest received	18,245,862	7,986,570
Changes in non-cash operating working items:		
Restricted cash	3,150,676	(4,298,285)
Other assets	(1,799,396)	(70,312)
Management and incentive fees payable	2,357,897	(195,295)
Accounts payable and accrued liabilities	1,804,360	(679,138)
	(25,115,201)	(8,784,933)
Investing activities:		
Transfer of cash as part of Reorganization	-	4,503,207
Funding of investments in mortgages	(456,788,907)	(235,507,731)
Repayments on investments in mortgages	297,173,487	142,567,055
Distributions from joint ventures	3,730,546	3,661,250
Contributions to investments held at fair value	1,934,317	(16,184,151)
	(153,950,557)	(100,960,370)
Financing activities:		
Distributions paid on redeemable units	(16,077,864)	(11,111,318)
Issuance of units	175,417,548	138,843,633
Redemption of units	(20,025,369)	(9,522,061)
Due to related parties	48,211	-
Increase (decrease) in bank indebtedness	63,564,922	(901,488)
	202,927,448	117,308,766
Increase in cash and cash equivalents	23,861,690	7,563,463
Cash and cash equivalents, beginning of year	7,563,473	10
Cash and cash equivalents, end of year	\$ 31,425,163	\$ 7,563,473

The accompanying notes are an integral part of these consolidated financial statements.

TREZ CAPITAL YIELD TRUST US (CANADIAN \$)

Notes to Consolidated Financial Statements

(Tabular amounts expressed in Canadian dollars, unless otherwise indicated)

Year ended December 31, 2018

1. Nature of business:

Trez Capital Yield Trust US (Canadian \$) (the "Trust") is an unincorporated trust established under the laws of British Columbia pursuant to a Declaration of Trust dated December 8, 2016 (the "Declaration of Trust").

Trez Capital Fund Management Limited Partnership is the Trust's manager (the "Manager"), Trez Capital Limited Partnership is the mortgage broker (the "Mortgage Broker") and Computershare Trust Company of Canada is the trustee (the "Trustee") of the Trust.

The Trust has been created for the purpose of generating a stream of income from interests acquired in a portfolio of mortgages related to any and all types of real property and from limited equity profit sharing arrangements through limited partnerships within the United States ("U.S.").

The principal place of business of the Trust is located at 1700 - 745 Thurlow Street, Vancouver, British Columbia, V6E 0C5.

2. Basis of preparation:

(a) Statement of compliance:

The consolidated financial statements of the Trust have been prepared in compliance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The consolidated financial statements were authorized for issue by the Board of Governors on March 29, 2019.

(b) Basis of measurement:

These consolidated financial statements have been prepared on the historical cost basis, except for embedded derivative instruments, investments held at fair value, and foreign currency derivatives which are measured at fair value.

(c) Functional and presentation currency:

The Trust's functional currency is the U.S. dollar. Foreign currency monetary assets and liabilities are translated into U.S. dollars at the rate of exchange prevailing at the balance sheet date. Non-monetary assets and liabilities are translated at historical exchange rates.

The Trust is using the Canadian dollar as its presentation currency. All assets and liabilities are translated using the exchange rate at the reporting date. Revenue and expenses are translated using the average rate for the period. Equity accounts are translated using the historical rate. The translation differences from the Trust's functional currency of U.S. dollars to the presentation currency of Canadian dollars are recorded in other comprehensive income.

TREZ CAPITAL YIELD TRUST US (CANADIAN \$)

Notes to Consolidated Financial Statements

(Tabular amounts expressed in Canadian dollars, unless otherwise indicated)

Year ended December 31, 2018

2. Basis of preparation (continued):

(d) Use of estimates and judgments:

The preparation of financial statements requires the Manager to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

The significant estimates and judgments used in determining the recorded amount for assets and liabilities in the financial statements are related to investment in mortgages. In making estimates, the Manager relies on external information and observable inputs where possible supplemented by internal analysis as required. Estimates and judgments related to allowance for credit losses for investments in mortgages have been revised following adoption of IFRS 9 Financial Instruments ("IFRS 9"), effective January 1, 2018 as follows:

(i) Investments in mortgages:

The Trust is required to make an assessment of the impairment of investments in mortgages. Under the previous standard (IAS 39 Financial Instruments: Recognition and Measurement ("IAS 39")) prior to January 1, 2018, investments in mortgages were considered to be impaired only if objective evidence indicated that one or more events ("loss events") had occurred after its initial recognition, that would have a negative effect on the estimated future cash flows of that asset. IFRS 9 replaces the 'incurred loss' model in IAS 39 as of January 1, 2018 with a forward looking 'expected credit loss' (ECL) model which is applied to investments in mortgages that are classified as amortized cost. The new expected credit loss model is further explained in note 3(h)(iii). The estimation of future cash flows includes assumptions about local real estate market conditions, market interest rates, availability and terms of financing, underlying value of the security and various other factors. These assumptions are limited by the availability of reliable comparable market data, economic uncertainty and the uncertainty of future events. Accordingly, by their nature, estimates of impairment are subjective and may not necessarily be comparable to the actual outcome. Should the underlying assumptions change, the estimated future cash flows could vary by a material amount.

(ii) Investments at fair value:

Included in the investments at fair value are investment interests in Special Purpose Entities. These allow the Trust to participate in loan sharing arrangements with third party US based financial institutions. The Trust estimates the value of these investments based on expected future interest income at a stipulated rate. Should the underlying assumptions around interest rates change, the estimated future cash flows and income could vary affecting fair value.

TREZ CAPITAL YIELD TRUST US (CANADIAN \$)

Notes to Consolidated Financial Statements

(Tabular amounts expressed in Canadian dollars, unless otherwise indicated)

Year ended December 31, 2018

3. Significant accounting policies:

(a) Basis of presentation:

The Trust has interests in a number of development joint ventures, which are accounted for using the equity method. The Trust has interests in a number of development investments, which are accounted for at fair value.

The Trust holds investments in other trusts and limited partnerships for the purpose of investing in real estate development projects. In certain cases, the Trust's investments are held through intermediary holding entities.

Where the Trust has assessed that it has joint control over the investees, the investments are initially recognized at cost and are adjusted thereafter for the post-acquisition change in the Trust's share in the investee's net assets. The Trust's share of investee's profit or loss is included in the Trust's consolidated statement of comprehensive income (loss).

The consolidated financial statements comprise the financial statements of the Trust and subsidiaries controlled by the Trust. Control exists when the Trust is exposed to, or has rights to, variable returns from its involvement with the entity, and has the ability to affect those returns through its power over the entity. The financial statements of the subsidiaries are consolidated from the date that control commences and continue to be consolidated until the date that control ceases.

The consolidated financial statements reflect the financial position, results of operations and cash flows of the Trust and its subsidiaries. Intra-group transactions and balances are eliminated in preparing the consolidated financial statements.

Non-controlling interests represent the portion of profit or loss and net assets of consolidated subsidiaries not held by the Trust and are presented separately in the consolidated statement of comprehensive income (loss) and within equity in the consolidated statement of financial position.

The Trust owns and consolidates the following material subsidiaries:

	Province of incorporation	Percentage of ownership
Trez Capital (2018) Nominee LP	British Columbia	100%

The principal business activity of Trez Capital (2018) Nominee LP is investment in mortgages.

Investments over which the Trust does not have significant influence are accounted for at fair value. The Trust holds investments at fair value primarily for the purpose of participating in loan sharing arrangements with US domiciled financial institutions.

TREZ CAPITAL YIELD TRUST US (CANADIAN \$)

Notes to Consolidated Financial Statements

(Tabular amounts expressed in Canadian dollars, unless otherwise indicated)

Year ended December 31, 2018

3. Significant accounting policies (continued):

(b) Cash and cash equivalents:

Cash consists of cash held at financial institutions and cash equivalents include securities with maturities of three months or less when purchased.

(c) Restricted cash:

Restricted cash relates to margin deposits made on foreign currency swap transactions and cash held by a related party.

(d) Promissory notes receivable:

Promissory notes are recorded at amortized cost using the effective interest rate method less any impairment.

(e) Redeemable units:

All units of the Trust are redeemable at the Unitholder's option and have different distribution features between the classes and accordingly are classified as financial liabilities and presented as "net assets attributable to holders of redeemable units" in the statement of financial position. Units redeemed are accounted for in the period during which the redemption is effective. Resultant gains on redemption are recognized in the statement of comprehensive income in the same period.

(f) Revenue recognition:

Interest income is recognized in the statement of comprehensive income in the period in which it is earned on an effective interest rate basis. Interest on impaired financial assets is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

(g) Distributions on redeemable units:

Distributions to Unitholders on each series of redeemable units are made on a quarterly basis, in arrears. The total distributions to be made in respect of the December 31 year end will equal at least 100% of the Trust's taxable income for the year. Distributions on redeemable units are treated as an expense within the consolidated statement of comprehensive income (loss), following the units' classification as liabilities. Distributions are accrued in the period to which they relate.

TREZ CAPITAL YIELD TRUST US (CANADIAN \$)

Notes to Consolidated Financial Statements

(Tabular amounts expressed in Canadian dollars, unless otherwise indicated)

Year ended December 31, 2018

3. Significant accounting policies (continued):

(h) Financial instruments:

(i) Change in Accounting Policy:

Effective January 1, 2018, the Trust adopted IFRS 9 *Financial Instruments* ("IFRS 9") which replaces IAS 39 *Financial Instruments: Recognition and Measurement* ("IAS 39"). IFRS 9 sets out requirements for recognizing and measuring financial assets and financial liabilities. It also replaces the IAS 39 "incurred loss" model with an "expected credit loss" (ECL) model. The Trust has recognized adjustments to opening net assets attributable to holders of redeemable units as at January 1, 2018, the date of adoption, to reflect the application of the new requirements of IFRS 9. The total impact to opening net assets attributable to holders of redeemable units is a decrease of \$739,802. The adjustment to net assets attributable to holders of redeemable units is comprised of a decrease of \$427,707 relating to changes in the provision for credit losses. Refer to note 11 for further details with respect to the impact to the opening statement of financial position at January 1, 2018.

The Trust has elected to not restate the prior period comparative figures as permitted by the transition provisions of IFRS 9. Accordingly, current period results for 2018 have been prepared in accordance with IFRS 9 and the comparative information for 2017 is presented under IAS 39.

(ii) Recognition and classification of financial assets and liabilities:

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities. However, it eliminates the previous IAS 39 categories for financial assets of held to maturity, loans and receivables and available for sale.

The adoption of IFRS 9 has not had a significant effect on the Trust's accounting policies related to financial liabilities. The impact of IFRS 9 on the classification and measurement of financial assets is set out below.

Under IFRS 9, on initial recognition, a financial asset is measured at fair value and subsequently classified as measured at: amortized cost; fair value through other comprehensive income (FVOCI)-debt investment; FVOCI-equity investment; or fair value through profit or loss (FVTPL). The classification of financial assets that are debt instruments under IFRS 9 are generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics.

TREZ CAPITAL YIELD TRUST US (CANADIAN \$)

Notes to Consolidated Financial Statements

(Tabular amounts expressed in Canadian dollars, unless otherwise indicated)

Year ended December 31, 2018

3. Significant accounting policies (continued):

(h) Financial instruments (continued):

(ii) Recognition and classification of financial assets and liabilities (continued):

A financial asset that is a debt instrument is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL.

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The most significant financial asset that is a debt instrument in the Trust is investments in mortgages. The objective of the Trust is to hold these investments and collect the contractual interest payments from the loans. The payments received by the Trust are solely payments of principal and interest; therefore the asset meets the criteria under IFRS 9 to be measured at amortized cost. Other assets such as cash and receivables are also classified at amortized cost. Foreign currency derivatives continue to be classified as FVTPL.

Financial instruments subsequently measured at amortized cost are done so using the effective interest method, less any impairment losses. The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

(iii) Impairment:

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortized cost, contract assets and debt investments at FVOCI. Under IFRS 9, credit losses may be recognized earlier than under IFRS 39.

The Trust's financial assets at amortized cost consist of investments in mortgages, accounts receivable and cash.

TREZ CAPITAL YIELD TRUST US (CANADIAN \$)

Notes to Consolidated Financial Statements

(Tabular amounts expressed in Canadian dollars, unless otherwise indicated)

Year ended December 31, 2018

3. Significant accounting policies (continued):

(h) Financial instruments (continued):

(iii) Impairment (continued):

The Trust measures expected credit losses on each reporting date according to a three stage expected credit loss impairment model:

Performing financial assets:

- Stage 1: From initial recognition of a financial asset to the date on which the asset has experienced a significant increase in credit risk relative to its initial recognition, a loss allowance is recognized equal to the credit losses expected to result from defaults occurring over the 12 months following the reporting date.
- Stage 2: Following a significant increase in credit risk relative to the initial recognition of the financial asset, a loss allowance is recognized equal to the credit losses expected over the remaining lifetime of the asset.

Impaired financial assets:

- Stage 3: When a financial asset is considered credit-impaired and in default it will be classified in stage 3, and a loss allowance equal to credit losses expected over the remaining lifetime of the asset will be recorded.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Trust considers both quantitative and qualitative information that is reasonable and supportable and is relevant and available. There is a presumption in IFRS 9 that credit risk has increased significantly once payments are 30 days past due. However, the Trust's historical experience is that mortgages can become 30 days past due, but be brought up to date by the borrower, therefore other relevant risk factors also needs to be identified for the mortgage to move to Stage 2. Other relevant risk factors considered to identify a significant increase in credit risk are:

- Changes in the financial condition of the borrower;
- Responsiveness of the borrower;
- Current economic conditions: interest rates, housing prices, real estate and employment statistics; and
- Supportable forward looking information: macro-economic factors, such as interest rate forecasts.

Determining whether there has been a significant increase in credit risk since initial recognition, or a subsequent reduction in credit risk back to the level at initial recognition, requires the exercise of significant judgement. Judgement is also required in making assumptions and estimations when calculating the allowance for credit losses, including movements between the three stages and the application of forward looking information.

TREZ CAPITAL YIELD TRUST US (CANADIAN \$)

Notes to Consolidated Financial Statements

(Tabular amounts expressed in Canadian dollars, unless otherwise indicated)

Year ended December 31, 2018

3. Significant accounting policies (continued):

(h) Financial instruments (continued):

(iii) Impairment (continued):

In cases where a borrower experiences financial difficulties, the Trust may grant certain modifications to the terms and conditions of a loan. Modifications may include payment terms, debt consolidation, and forbearance intended to minimize economic loss. The Trust determines the appropriate remediation strategy based on the individual situation. If the Trust determines that a modification of loan terms is substantial, the original asset is derecognized and a new asset is recognized based on the new contractual terms.

Significant increase in credit risk is assessed relative to the risk of default on the date of modification. If the Trust determines that a modification does not result in derecognition, significant increase in credit risk is assessed based on the risk of default at initial recognition of the original asset. The expected cash flows arising from the modified contractual terms are considered when calculating the ECL for the modified asset. For loans that were modified while having a lifetime ECL, the loans can revert to having 12-month ECL after a period of performance and improvement in the borrower's financial condition.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument. 12-months ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months). The maximum period considered when estimating ECLs is the maximum contractual period over which the Trust is exposed to credit risk.

In assessing information about possible future economic conditions, the Trust utilized multiple economic scenarios including the base case, which represents the most probable outcome and is consistent with the Trust's view of the portfolio. The calculation of expected credit losses includes the incorporation of forecasts of future economic conditions. In determining expected credit losses, the Trust has considered key macroeconomic variables that are relevant to each investment type. Key economic variables include GDP and interest rate forecasts. The estimation of future cash flows also includes assumptions about local real estate market values and conditions, availability and terms of financing, underlying value of the security and various other factors. These assumptions are limited by the availability of reliable comparable market data, economic uncertainty and the uncertainty of future events.

Should the underlying assumptions change, the estimated future cash flows could vary. The forecast is developed internally by the Manager of the Trust. The Trust exercises experienced credit judgment to incorporate multiple economic forecasts which are probability-weighted in the determination of the final expected credit loss. The allowance is sensitive to changes in both economic forecast and the probability-weight assigned to each forecast scenario.

TREZ CAPITAL YIELD TRUST US (CANADIAN \$)

Notes to Consolidated Financial Statements

(Tabular amounts expressed in Canadian dollars, unless otherwise indicated)

Year ended December 31, 2018

3. Significant accounting policies (continued):

(h) Financial instruments (continued):

(iv) De-recognition of financial assets and financial liabilities (Under IFRS 9 and IAS 39):

Financial assets:

The Trust derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire; or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred, or in which the Trust neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial assets. Any interest in such transferred financial assets that qualify for de-recognition that is created or retained by the Trust is recognized as a separate asset or liability. On de-recognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognized in other comprehensive income is recognized in the statement of comprehensive income (loss).

The Trust may enter into transactions whereby it transfers mortgage or loan investments recognized on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred mortgage or loan investments or a portion of them.

If all or substantially all risks and rewards are retained, then the transferred mortgage or loan investments are not derecognized. In transactions in which the Trust neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset and it retains control over the asset, the Trust continues to recognize the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

In circumstances where the Trust retains all or substantially all risks and rewards of a transferred mortgage, the transferred mortgage is not derecognized and the transferred mortgage is recognized as a mortgage syndication liability on the statement of financial position.

Financial liabilities:

The Trust derecognizes a financial liability when the obligation under the liability is discharged, cancelled or expired.

TREZ CAPITAL YIELD TRUST US (CANADIAN \$)

Notes to Consolidated Financial Statements

(Tabular amounts expressed in Canadian dollars, unless otherwise indicated)

Year ended December 31, 2018

3. Significant accounting policies (continued):

(i) Financial instruments-prior to January 1, 2018:

(i) Recognition and classification:

The Trust recognizes a financial instrument in its statement of financial position when and only when, it becomes a party to the contractual provisions of the instrument.

Financial instruments are classified as one of five categories: fair value through profit and loss ("FVTPL"), loans and receivables, held-to-maturity, available for sale and other liabilities. Financial instruments are recognized initially at fair value, plus, in the case of financial instruments not at FVTPL, any incremental direct transaction costs. Transaction costs on FVTPL financial instruments are recognized in the profit and loss in the period in which they were incurred.

Financial instruments, excluding net assets attributable to holders of redeemable units, subsequently measured at amortized cost are done so using the effective interest method, less any impairment losses. The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

(ii) Derecognition of financial assets and liabilities:

Derecognition of financial assets is consistent between IFRS 9 and IAS 39. Refer to note 3(h)(iv).

(iii) Impairment:

Mortgage investments are assessed on each reporting date to determine whether there is objective evidence of impairment. A financial asset is considered to be impaired only if objective evidence indicates that one or more loss events have occurred after its initial recognition, that have a negative effect on the estimated future cash flows of that asset.

The Trust considers evidence of impairment for mortgage and loan investments at both a specific asset and collective level. All individually significant mortgage and loan investments are assessed for specific impairment. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identifiable at an individual mortgage level. Mortgage and loan investments that are not individually significant are collectively assessed for impairment by grouping together mortgage and loan investments with similar risk characteristics.

TREZ CAPITAL YIELD TRUST US (CANADIAN \$)

Notes to Consolidated Financial Statements

(Tabular amounts expressed in Canadian dollars, unless otherwise indicated)

Year ended December 31, 2018

3. Significant accounting policies (continued):

(i) Financial instruments-prior to January 1, 2018 (continued):

(iii) Impairment (continued):

In assessing collective impairment, the Trust reviews historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, adjusted for management's judgments as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of specific mortgage investments is calculated as the difference between its carrying amount including accrued interest and the present value of the estimated future cash flows discounted at the investment's original effective interest rate. Losses are recognized in profit and loss and reflected in an allowance account against the mortgage and loan investments. When a subsequent event causes the amount of an impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

For financial assets other than investments in mortgages, the Manager assesses at each reporting date whether a financial asset or group of assets is deemed to be impaired. A financial asset or a group of financial assets is deemed to be impaired, if and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred loss event) and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

(j) Other Changes in Accounting Policies:

Revenue recognition:

The IASB issued IFRS 15, *Revenue from Contracts with Customers* ("IFRS 15") in May 2014. The new standard provides a comprehensive five-step revenue recognition model for all contracts with customers and requires management to exercise significant judgment and make estimates that affect revenue recognition. IFRS 15 is effective from January 1, 2018; it did not have a material effect on the Trust's financial statements, as all revenues were accounted for under other standards, primarily IFRS 9.

(k) Accumulated other comprehensive income:

Accumulated other comprehensive income represents the cumulative translation adjustment of foreign operations whose function currency is in US dollars.

TREZ CAPITAL YIELD TRUST US (CANADIAN \$)

Notes to Consolidated Financial Statements

(Tabular amounts expressed in Canadian dollars, unless otherwise indicated)

Year ended December 31, 2018

3. Significant accounting policies (continued):

(l) Income taxes:

The Trust is a mutual fund trust under the Income Tax Act (Canada). The Trust will allocate to its Unitholders taxable income including taxable capital gains that would otherwise attract Canadian tax in the Trust. Accordingly, no provision for Canadian income taxes will be reflected in the Trust's consolidated financial statements.

The Trust holds certain investments in associates and joint ventures based in the US. Certain of these investments in associates and joint ventures are held by controlled subsidiaries of the Trust that are required to pay income taxes to the US Internal Revenue Service based on a determination of taxable income for US tax purposes. Accordingly, current income tax recognized in the consolidated statement of comprehensive income (loss) is based on the subsidiary's US taxable income for the year. Current tax is determined using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred income taxes are accounted for using the liability method. The liability method requires that income taxes reflect the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities and their tax bases. Deferred income tax assets and liabilities are determined for each temporary difference based on currently enacted or substantively enacted tax rates that are expected to be in effect when the underlying items are expected to be realized. The effect of a change in tax rates or tax legislation is recognized in the period of substantive enactment. Deferred income tax assets, such as non-capital loss carryforwards, are recognized to the extent it is probable that taxable profit will be available against which the asset can be utilized. Deferred income taxes are only recognized with respect to US tax assets and liabilities.

(m) Future accounting changes:

The Trust has reviewed new and revised accounting pronouncements that have been issued but are not yet effective. The Trust closely monitors new accounting standards as well as amendments to existing standards and assesses what impact, if any, they will have on the financial statements. None of the standards issued to date are expected to have a material effect on the financial statements.

(n) Comparative information:

Certain comparative information has been reclassified to conform with the financial statement presentation adopted in the current year.

TREZ CAPITAL YIELD TRUST US (CANADIAN \$)

Notes to Consolidated Financial Statements

(Tabular amounts expressed in Canadian dollars, unless otherwise indicated)

Year ended December 31, 2018

4. Investments in mortgages:

The Trust holds mortgages on the following types of properties:

Property type	2018		2017	
	Number	Amount	Number	Amount
Residential	72	\$ 430,916,636	60	\$ 250,886,025
Retail	4	15,642,230	2	3,090,573
Office	1	11,369,880	-	-
Commercial	1	3,887,685	-	-
	78	461,816,431	62	253,976,598
Mortgage syndications		15,394,337		21,802,545
		477,210,768		275,779,143
Accrued interest		4,988,766		2,800,791
Less: Provision for mortgage losses (note 4(c))		1,167,509		-
Investment in mortgages		\$ 481,032,025		\$ 278,579,934

Property location	2018		2017	
	Number	Amount	Number	Amount
Texas	49	\$ 333,629,516	51	\$ 218,423,396
Florida	13	81,313,860	2	1,656,785
North Carolina	5	26,759,684	1	1,183,671
Georgia	1	5,675,383	1	1,385,705
Arizona	2	4,696,562	2	5,287,908
Washington	2	4,484,796	-	-
Tennessee	1	1,565,111	1	1,849,231
Oregon	1	1,356,679	-	-
New York	1	1,266,570	-	-
Colorado	1	524,378	4	24,189,902
South Carolina	1	363,607	-	-
Pennsylvania	1	180,285	-	-
Total mortgages	78	\$ 461,816,431	62	\$ 253,976,598

TREZ CAPITAL YIELD TRUST US (CANADIAN \$)

Notes to Consolidated Financial Statements

(Tabular amounts expressed in Canadian dollars, unless otherwise indicated)

Year ended December 31, 2018

4. Investments in mortgages (continued):

The following table presents the reconciliation of mortgages for the year ended December 31, 2018:

Investments in mortgages, beginning of year	\$ 278,579,934
IFRS 9 transition adjustment – reclassification of profit participation loans (note 16)	(4,717,130)
IFRS 9 transition adjustment – ECL (note 4(c))	(739,802)
Provision for mortgage investment (loss), net of recoveries (note 4(c))	(427,707)
Funding of investments in mortgages	365,703,031
Interest capitalized to investments in mortgages	21,735,895
Principal payments of investments in mortgages	(297,173,487)
Increase (decrease) in mortgage syndications	(6,408,208)
Accretion income	684,150
Change in accrued interest	2,187,975
Net transfers in	91,085,876
Foreign exchange translation	30,521,498
Investments in mortgages, end of period	\$ 481,032,025

The mortgages are secured by the real property to which they relate, bear interest at a weighted average interest rate of 11.72%.

All mortgages are conventional uninsured mortgages which contain a prepayment option, whereby the borrower may repay the principal and accrued interest, at any time prior to maturity without penalty or yield maintenance.

(a) Mortgage syndication liabilities:

The Trust has entered into certain mortgage participation agreements with third party lenders, whereby, the third party lenders take the senior position and the Trust retains the subordinated position, all of which is secured by first mortgage positions. As a result, the senior lenders' position is recorded as a non-recourse mortgage syndication liability. The interest earned on the transferred participation interests and the related interest expense is recognized in the statement of comprehensive income. The Trust also retains an option, not the obligation, to repurchase the senior position at a price equal to the outstanding principal amount of the senior lenders' share together with accrued interest.

For those investments which have not met the de-recognition criteria, the participation transactions have resulted in the Trust recognizing the participating mortgages and corresponding mortgage syndication liabilities on its statement of financial position. The carrying value, which the Manager believes equates to the fair value, of the transferred assets and corresponding liabilities is \$15,394,337 (2017 - \$21,802,545).

TREZ CAPITAL YIELD TRUST US (CANADIAN \$)

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(Tabular amounts expressed in Canadian dollars, unless otherwise indicated)

Year ended December 31, 2018

4. Investments in mortgages (continued):

(b) Mortgages in default:

As at December 31, 2018, the Trust had one (2017 - nil) mortgage that was past due or in default with a carrying value of \$3,251,940 (2017 - nil).

During 2017, an affiliated company to the Trust foreclosed on the property that was in default in the previous year. The foreclosure occurred due to the borrower's missed mandatory principal payment and their failure to cure that default. The Property consists of 66 Lots that are complete and ready to have homes built on them. The Trust now holds an unsecured interest-free note from the affiliated Company in the amount \$1,285,528 (2017 - \$1,296,162) (note 8).

(c) Provision for mortgage investment loss:

Provision for mortgage losses:

The gross carrying amounts of investments in mortgages and expected credit loss by property type are as follows:

Gross carrying amount	December 31, 2018			Total
	Stage 1	Stage 2	Stage 3	
Property type:				
Residential	\$ 414,378,431	\$ 13,286,265	\$ 3,251,940	\$ 430,916,636
Retail	15,642,230	-	-	15,642,230
Office	11,369,880	-	-	11,369,880
Commercial	3,887,685	-	-	3,887,685
	\$ 445,278,226	\$ 13,286,265	\$ 3,251,940	\$ 461,816,431

Provision for mortgage losses	December 31, 2018			Total
	Stage 1	Stage 2	Stage 3	
Property type:				
Residential	\$ 1,081,507	\$ -	\$ -	\$ 1,081,507
Office	57,755	-	-	57,755
Retail	21,515	-	-	21,515
Commercial	6,732	-	-	6,732
	\$ 1,167,509	\$ -	\$ -	\$ 1,167,509

TREZ CAPITAL YIELD TRUST US (CANADIAN \$)

Notes to Consolidated Financial Statements

(Tabular amounts expressed in Canadian dollars, unless otherwise indicated)

Year ended December 31, 2018

4. Investments in mortgages (continued):

(c) Provision for mortgage investment loss (continue):

The provision for mortgage losses at December 31, 2018 is \$1,167,509. This provision represents management's estimate of the ECLs on mortgages in the company's portfolio that have not experienced a significant increase in credit risk since initial recognition (Stage 1). The ECL was assessed individually for each investment in mortgages and commitments classified as Stage 2 and 3. Management estimated the ECL for these as nil, primarily due to the mortgage collateral held on the mortgages.

The changes in the provision for mortgage losses are shown in the following table.

IFRS 9	December 31, 2018			Total
	Stage 1	Stage 2	Stage 3	
IAS 39 balance, December 31, 2017	\$ -	\$ -	\$ -	\$ -
IFRS 9 transition adjustment (note 3(e))	739,802	-	-	739,802
Provision for mortgage losses:				
Transfers to (from) Stage 1 ⁽¹⁾	\$ -	\$ -	\$ -	\$ -
Transfers to (from) Stage 2 ⁽¹⁾	-	-	-	-
Transfers to (from) Stage 3 ⁽¹⁾	-	-	-	-
Net remeasurement ⁽²⁾	147,874	-	-	147,874
Mortgage advances	541,469	-	-	541,469
Mortgage repayments	(261,636)	-	-	(261,636)
Write-offs	-	-	-	-
	\$ 1,167,509	\$ -	\$ -	\$ 1,167,509

⁽¹⁾ Transfers between stages which are presumed to occur before any corresponding remeasurement of the provision.

⁽²⁾ Net remeasurement represents the change in the allowance related to changes in model inputs or assumptions, including changes in macroeconomic conditions, and changes in measurement following a transfer between stages.

TREZ CAPITAL YIELD TRUST US (CANADIAN \$)

Notes to Consolidated Financial Statements

(Tabular amounts expressed in Canadian dollars, unless otherwise indicated)

Year ended December 31, 2018

4. Investments in mortgages (continued):

(c) Provision for mortgage investment loss (continued):

During the year ended December 31, 2018, the provision for mortgage losses for mortgages classified as Stage 1 increased as a result of the overall increase in the mortgage portfolio.

	Year ended December 31, 2017
IAS 39	
Balance, beginning of year	\$ -
Mortgages settled during the year	-
Provision for mortgage losses	-
Balance, end of year	\$ -

(d) Schedule of maturity of investments in mortgages:

Principal payments are due based on contractual maturities of each loan as follows:

Maturity period	Number	Amount
Past Due	1	\$ 3,251,940
2019	26	118,629,983
2020	32	186,359,923
2021	17	145,566,883
2022 and beyond	2	8,007,702
	78	\$ 461,816,431

TREZ CAPITAL YIELD TRUST US (CANADIAN \$)

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Year ended December 31, 2018

5. Investments in joint ventures:

	Equity investment December 31, 2017	Net contributions (distributions)	Shares of earnings	Impact of foreign exchange translation	Equity investment December 31, 2018
TC/M Oak Creek Trust (a)	\$ 1,250,126	\$ (1,389,223)	\$ 31,022	\$ 108,075	\$ -
TC/LT Conroe Trust (b)	1,973,945	(2,341,323)	189,319	178,059	-
Total	\$ 3,224,071	\$ (3,730,546)	\$ 220,341	\$ 286,134	\$ -

(a) Land development mortgages:

Included in investments in mortgages as at December 31, 2016 in the USD Trust were secured financing arrangements to provide financing to land development projects in Texas. As a result of the Reorganization, the USD Trust no longer consolidates these financing arrangements and the USD Trust and the Trust are now considered to have joint control over this entity and equity accounting is now applied. The joint venture has been assigned title to land lots under the financing arrangement, and the borrower has the option to re-acquire these land lots, based on a fixed pricing schedule. These transactions are considered secured financing arrangements. Mortgages between the Trust and entities in which the joint ventures wholly own that were previously eliminated upon consolidation, are now separately presented as mortgages within investments in mortgages. During 2018, the investment in TC/M Oak Creek Trust was sold.

(b) TC/LT Conroe Trust:

The investment in TC/LT Conroe Trust is a lot development project in Texas for future sale.

Prior to the Reorganization, TC/LT Conroe Trust was consolidated as the USD Trust held 100% of the trust units. As a result of the Reorganization, 56.36% of the trust units in TC/LT Conroe Trust were transferred to the Trust and the USD Trust now holds 43.64% of the trust units in TC/LT Conroe Trust. As a result, the Trust's investment in TC/LT Conroe Trust is now considered a joint venture with the CAD Trust as the Declaration of Trust for TC/LT Conroe Trust requires unanimous consent from all trust unitholders for any significant decisions. During 2018, the investment in TC/LT Conroe Trust was sold.

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Year ended December 31, 2018

6. Investments held at fair value:

The summary below lists the Trust's investments held at fair value, their name, type and percentage of ownership:

	Balance, December 31, 2017	IFRS 9 transition adjustment	Additions to/ (deductions) investments	Unrealized change in fair value	Realized Change in fair value	Impact of foreign exchange translation	Balance, December 31, 2018
TT/M Apartment Fund Blocker LP (a)	\$ 16,238,698	\$ -	\$ (5,282,368)	\$ 2,319,040	\$ -	\$ 1,505,010	\$ 14,780,380
Trez Caldwell Station LP (b)	-	-	2,589,935	19,272	-	1,017	2,610,224
Trez Forman 1624/17 LLC (c)	-	-	6,046,169	301,499	-	15,916	6,363,584
Profit Participation Loans	-	4,717,130	(5,288,053)	523,459	1,972,840	131,781	2,057,157
Total	\$ 16,238,698	\$ 4,717,130	\$ (1,934,317)	\$ 3,163,270	\$ 1,972,840	\$ 1,653,724	\$ 25,811,345

- (a) During 2017, the Trust, through its wholly-owned subsidiary, Trez Capital Yield Trust (US) (Canadian\$) Sub-Trust, made an investment in TT/M Apartment Fund Blocker LP in which it holds a 65.6% interest. TT/M Apartment Fund Blocker LP has entered into two real estate projects in Texas with an established property developer to enable the Trust to benefit from local real estate expertise while pursuing returns from its investments. The two real estate projects are apartment renovation project in Texas for future sale. The lead developer assumes the development risk associated with the project in that cost overruns are to be borne by them. Any additional capital contributions are funded on a pro-rata basis in accordance with the terms of the agreement.
- (b) During 2018, The Trust made an investment in Trez Caldwell Station LP in which it holds a 51.5% interest. Trez Caldwell Station LP is special purpose entity that was created to enable the Trust to enter into loan sharing arrangement with a US domiciled financial institution. The Trust has provided a guarantee in the amount of \$1,000 US dollars relating to bank indebtedness of the special purpose entity.
- (c) During 2018, The Trust along with another related Trez entity made a joint 50-50 investment in Trez Forman 1624/17 LLC in which together they hold 51% interest. Trez Forman 1624/17 LLC is a special purpose entity that was created for sole purpose to allow the Trust to enter a loan sharing arrangement with a US domiciled financial institution. The Trust has provided a guarantee in the amount of \$8,000,000 US dollars relating to bank indebtedness of the special purpose entity.

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7. Redeemable units, representing net assets attributable to holders of redeemable units:

- (a) As at December 31, 2018, the Trust has authorized an unlimited number of Series A, Series F and Series I redeemable, non-transferrable Units. The \$10 Units are issued in Canadian dollars in accordance with the Offering Memorandum of the Trust, dated February 10, 2017.

On January 1, 2017, as part of the Reorganization the USD Trust fully transferred all Canadian dollar denominated units to the Trust.

Total distributions for each Unitholder are determined relative to the proportion of the year the Unitholder was invested in the Trust. The holders of Series A Units, Series F Units and Series I Units (collectively, the “Units”) are entitled to one vote per unit. The Units are redeemable on demand of the Unitholder in stipulated increments. If notice is received by the Manager, the redemption will occur within thirty days subsequent to the receipt of the redemption notice. Redemptions may be subject to a penalty if redeemed prior to first anniversary.

CDN Class A units	2018		2017	
	Number	Amount	Number	Amount
Issued and outstanding, beginning of year	2,321,193	\$ 23,214,791	-	\$ -
Transfer in as part of reorganization	-	-	1,435,940	14,359,404
Impact of adopting IFRS 9	-	(53,547)	-	-
Issued for cash	1,032,722	10,327,220	863,836	8,638,361
Issued for reinvested distributions	130,262	1,302,625	90,843	908,425
Redeemed for cash	(190,065)	(1,900,651)	(58,224)	(582,243)
Transfer between classes	-	-	(11,202)	(112,017)
Increase (decrease) in net assets	-	(14,445)	-	2,861
Issued and outstanding, end of period	3,294,112	32,875,993	2,321,193	23,214,791
Accumulated other comprehensive income	-	11,584	-	(2,861)
IFRS 9 Stage 1 provisions	-	53,547	-	-
	3,294,112	\$ 32,941,124	2,321,193	\$ 23,211,930

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Year ended December 31, 2018

7. Redeemable units, representing net assets attributable to holders of redeemable units:

(a) (continued):

CDN Class F units	2018		2017	
	Number	Amount	Number	Amount
CDN Class F units Issued and outstanding, beginning of year	16,547,497	\$ 165,495,429	1	\$ 10
Transfer in as part of reorganization	-	-	7,815,599	78,155,990
Impact of adopting IFRS 9	-	(453,784)	-	-
Issued for cash	12,283,373	122,833,728	9,075,059	90,750,591
Issued for reinvested distributions	896,034	8,960,336	539,618	5,396,179
Redeemed for cash	(1,812,472)	(18,124,718)	(893,982)	(8,939,818)
Transfer between classes	-	-	11,202	112,017
Increase (decrease) in net assets	-	(103,274)	-	20,460
Issued and outstanding, end of period	27,914,432	278,607,717	16,547,497	165,495,429
Accumulated other comprehensive income	-	82,814	-	(20,460)
IFRS 9 Stage 1 provisions	-	453,784	-	-
	27,914,432	\$ 279,144,315	16,547,497	\$ 165,474,969

CDN Class I units	2018		2017	
	Number	Amount	Number	Amount
Issued and outstanding, beginning of year	9,937,485	\$ 99,387,223	-	\$ -
Transfer in as part of Reorganization	-	-	5,888,420	58,884,200
Impact of adopting IFRS 9	-	(232,471)	-	-
Issued for cash	4,225,660	42,256,600	3,945,468	39,454,680
Issued for reinvested distributions	138,066	1,380,661	103,597	1,035,969
Increase (decrease) in net assets	-	(62,459)	-	12,374
Issued and outstanding, end of period	14,301,211	142,729,554	9,937,485	99,387,223
Accumulated other comprehensive income	-	50,085	-	(12,374)
IFRS 9 Stage 1 provisions	-	232,471	-	-
	14,301,211	\$ 143,012,110	9,937,485	\$ 99,374,849

TREZ CAPITAL YIELD TRUST US (CANADIAN \$)

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Year ended December 31, 2018

7. Redeemable units, representing net assets attributable to holders of redeemable units:

(a) (continued):

CDN Total units	2018		2017	
	Number	Amount	Number	Amount
Issued and outstanding, beginning of year	28,806,175	\$ 288,097,443	1	\$ 10
Transfer in as part of Reorganization	-	-	15,139,959	151,399,595
Impact of adopting IFRS 9	-	(739,802)	-	-
Issued for cash	17,541,755	175,417,548	13,884,363	138,843,633
Issued for reinvested distributions	1,164,362	11,643,622	734,058	7,340,571
Redeemed for cash	(2,002,537)	(20,025,369)	(952,206)	(9,522,061)
Transfer between classes	-	-	-	-
Increase (decrease) in net assets	-	(180,178)	-	35,695
Issued and outstanding, end of period	45,509,755	454,213,264	28,806,175	288,097,443
Accumulated other comprehensive income	-	144,483	-	(35,695)
IFRS 9 Stage 1 provisions	-	739,802	-	-
	45,509,755	\$ 455,097,549	28,806,175	\$ 288,061,748

(b) All series are of the same class and have the same objectives, strategies and restrictions, but differ with respect to one or more of their features, such as fees and distributions. Distributions allocable to each series of units will differ as a result of the deduction of the amounts payable in respect of trailer fees, as defined in the Declaration of Trust, for the Series A Units and the lower administration fee payable in respect of the Series I Units.

The total distribution to be made in respect of the December 31 year end will at least equal 100% of the Trust's taxable income including gains and losses for tax purposes relating to fluctuations of the U.S. dollar relative to the Canadian dollar, as explained in note 9. For the period ended December 31, 2018, the taxable income of the Trust was \$28,756,735 and the Trust has declared distributions totaling \$29,790,968 which is equal to net income prior to distributions on the statement of net income (loss). The difference between distributions declared and taxable income of \$1,034,233 is considered a return of capital for tax purposes. The return of capital arises in part due to timing differences relating to the equity investments.

The fourth quarter distribution declared and payable as at December 31, 2018 was distributed to the Unitholders subsequent to December 31, 2018 as follows:

Paid out in cash	\$ 5,213,057
Reinvested as Trust units	-
Accrued as of December 31, 2018	\$ 5,213,057

TREZ CAPITAL YIELD TRUST US (CANADIAN \$)

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Year ended December 31, 2018

8. Promissory notes receivable:

	2018	2017
Unsecured, interest free promissory note due from a private entity	\$ 1,285,528	\$ 1,296,162
USD demand promissory note due from TC Tuscany Heights Master, LP, bearing interest at 12% per annum	1,364,100	-
Total	\$ 2,649,628	\$ 1,296,162

9. Income taxes:

The Trust qualifies as a mutual fund trust under the Income Tax Act (Canada) (the "Tax Act").

The Trust allocates to its Unitholders taxable income, including foreign exchange gains and losses, that would otherwise attract tax in the Trust. Accordingly, no provision for Canadian income taxes is reflected in its financial statements.

For purposes of the Tax Act, the Trust is required to compute its Canadian tax results using Canadian currency. Where an amount that is relevant in computing the Trust's Canadian tax results is expressed in U.S. dollars, such amount must be converted to Canadian currency, generally using the rate of exchange on the day such amount arose. As a result, the Trust may realize gains and losses for tax purposes by virtue of the fluctuation of the value of the U.S. dollar relative to Canadian dollar. Any net gain realized by the Trust for a particular taxation year may be made payable to Unitholders and is thus required to be included in computing Unitholders' income for Canadian tax purposes.

The Trust holds certain investments in joint ventures based in the US. These investments in associates and joint ventures are held by wholly-owned subsidiaries, which are required to pay income taxes to the US Internal Revenue Service based on their determination of taxable income for US tax purposes. Accordingly, current income tax recognized in the consolidated statement of comprehensive income (loss) is based on the subsidiaries US taxable income for the year. Current tax is determined using tax rates that have been enacted or substantively enacted by the end of the reporting period.

The Trust intends to distribute at least 100% of the Trust's taxable income, including foreign exchange gains/losses for the 2018 fiscal period.

TREZ CAPITAL YIELD TRUST US (CANADIAN \$)

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10. Foreign currency derivatives:

The Trust has put in place steps to mitigate the impacts from fluctuations in foreign exchange as the Trust has entered into foreign exchange contracts to manage most of its foreign exchange exposure. As at December 31, 2018, the Trust was participating in forward exchange contracts to sell Canadian dollars totaling \$449,301,144 (2017 - \$284,807,469). The foreign currency derivatives are marked-to-market on the statement of financial position and the fair value as at December 31, 2018 is a liability of \$2,553,503 (2017 - asset of \$3,018,708). The foreign currency derivatives are entered directly by the Trust with third party financial institutions.

11. Related party transactions and balances:

The Trust invests in mortgages alone or on a participation basis with parties related to the Manager. Title to mortgages is held by nominee corporations as trustee, on behalf of the beneficial owners of the mortgages. In addition, certain duties are performed by the Mortgage Broker.

The Manager and Mortgage Broker are related to the Trust through common control. In cases where mortgages are held on a participation basis:

- The Trust's rights are as outlined in the Declaration of Trust and a Mortgage Participation and Servicing Agreement with the Mortgage Broker.
- Pursuant to this agreement, the Mortgage Broker agrees to administer and service the mortgages on behalf of the Trustee and other investees. The Mortgage Broker acts as the Trust's underwriter, servicer and syndicator.
- The Mortgage Broker performs certain duties including registering the mortgages, arranging for title searches, and holding all title papers and other security documentation related to the mortgages.

(a) Management and incentive fees:

The Trust is managed by the Manager pursuant to the terms and conditions of the Declaration of Trust, a summary of which is set out in the most current Confidential Offering Memorandum. The Manager may, pursuant to the terms of the Declaration of Trust, delegate its power to third parties where it deems advisable.

Each series of units of the Trust is deemed to be entitled to its proportionate share of the average annual gross assets, as defined in the Declaration of Trust. The Manager will be entitled to receive an annual fee (the "Administration Fee") equal to 1.5% of the proportionate share of the Series A Units and the Series F Units of the average annual gross assets and an annual fee equal to 1.15% of the proportionate share of the Series I Units of the average annual gross assets (calculated by using a simple moving average of the month end value of all assets, excluding mortgage syndications, of the Trust) plus applicable taxes, payable quarterly. For each series of units of the Trust, the Manager also receives an additional fee (the "Incentive Fee") equal to 10% of net earnings and capital gains plus applicable taxes but prior to the deduction for the Incentive Fee, payable annually.

TREZ CAPITAL YIELD TRUST US (CANADIAN \$)

Notes to Consolidated Financial Statements

(Tabular amounts expressed in Canadian dollars, unless otherwise indicated)

Year ended December 31, 2018

11. Related party transactions and balances (continued):

(a) Management and incentive fees (continued):

For the year ended December 31, 2018, the Manager has agreed to waive any incentive fees and management fees which would cause distributions of cash to exceed net accounting income prior to distributions. During the year ended December 31, 2018, the Trust incurred management and incentive fees in the amount of \$6,625,490 (2017 - \$3,388,926) after a portion of the incentive fees in the amount of \$2,060,840 (2017 - \$1,849,864) and management fees of nil (2017 - \$86,229) were waived by the Manager in 2018. At December 31, 2018, \$2,855,511 (2017 - \$925,321) in management and incentive fees were owing to the Manager. The Manager retains the right to distribute units to ensure that all taxable income is distributed.

The Manager is responsible for the expenses of the initial offering of units, other than brokerage fees, as well as employment expenses of its personnel, rent and other office expenses. The Manager is not responsible for any taxes payable by the Trust or to which the Trust may be subject. The Trust will reimburse the Manager for all expenses incurred in the management of the Trust except as previously noted.

(b) Other operating expenses:

The Trust will pay for all expenses incurred in connection with its operation and administration. The Trust also will be responsible for commissions and other costs of portfolio transactions, and all liabilities and any extraordinary expenses which it may incur from time to time.

(c) Transfer of investments in mortgages:

The Trust generally invests in an interest in a mortgage at the time the mortgage is funded. However, at any time during the term of the mortgage, it may acquire an interest from or sell its interest in a mortgage to parties related to the Manager, Trustee and Mortgage Broker. Purchases from and sales to related parties are transacted at unpaid principal plus accrued interest due at the date of the transaction which, in the opinion of the Manager, represent the estimated fair values of the related mortgages.

During the year ended December 31, 2018, the Trust purchased investments in mortgages of \$198,468,352 (2017 - \$2,453,341) from, and sold investments in mortgages of \$101,331,168 (2017 - \$35,694,838) to entities under common management.

Included in the mortgages transferred from related entities are nil (2017 - nil) of mortgages that contain profit participation features.

(d) Co-investments in mortgages:

The Trust has invested in a mortgage portfolio with a balance at December 31, 2018 of \$461,816,431 (2017 - \$253,976,598), virtually all of which are made on a participation basis with related funds and parties.

TREZ CAPITAL YIELD TRUST US (CANADIAN \$)

Notes to Consolidated Financial Statements

(Tabular amounts expressed in Canadian dollars, unless otherwise indicated)

Year ended December 31, 2018

12. Bank indebtedness:

	2018	2017
Canadian dollar indebtedness from a bank with maximum indebtedness of \$4,508,404 , bearing interest at 6.5% per annum compounded and payable monthly and with maturity date of January 17, 2018. The full amount was repaid subsequent to 2017 year end.	\$ -	\$ 2,705,235
US dollar indebtedness from a private company with maximum indebtedness of \$100,000,000 US dollars, bearing interest at LIBOR plus 5.25% per annum compounded and payable monthly and with maturity date of April 12, 2021.	66,270,157	-

The Canadian dollar indebtedness requires the Trust to maintain net investment in mortgages plus cash of no less than \$65,000,000.

In 2018, a subsidiary of the Trust, Trez Capital (2018) Nominee LP, has entered into a senior secured term loan facility for available proceeds up to US\$100,000,000, bearing interest at lesser of (i) LIBOR rate plus 5.25% or (ii) maximum rate, defined as the highest lawful and non-usurious rate of interest applicable, and maturing on April 12, 2021 with option to extend to April 12, 2022. As at December 31, 2018, the amount outstanding on the term loan is \$66,270,157. The loan is guaranteed by the Trust and other entities related to the Trust by virtue of common control.

The credit facility has financial tests and other covenants with which the Trust must comply. They are as follows:

- (a) Borrower shall not permit its Net Worth, as tested on the Closing Date and the last Business Day of each calendar month thereafter, to be less than the sum of (a) \$15,000,000, plus (b) fifty percent (50%) of Borrower's net income as of the most recently ended trailing twelve month period, minus (c) the aggregate amount of payments made by Borrower to permanently reduce the Term Loans as of such date.
- (b) The Trust shall not permit its Net Worth, as tested on the Closing Date and the last Business Day of each calendar month thereafter, to be less than the greater of (i) \$100,000,000 and (ii) and amount equal to all of the Trust's outstanding indebtedness (including, without limitation, all guaranties).
- (c) The Trust shall not permit the Debt to Equity ratio to exceed 2.00:1.00 as of the last day of any fiscal quarter.

During the year, the Trust was in compliance with all such covenants.

TREZ CAPITAL YIELD TRUST US (CANADIAN \$)

Notes to Consolidated Financial Statements

(Tabular amounts expressed in Canadian dollars, unless otherwise indicated)

Year ended December 31, 2018

13. Financial instruments and risk management:

(a) Fair values:

The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced liquidation or sale. The carrying value of all of the Trust's financial instruments approximates their fair value.

The carrying values of the investments in mortgages and mortgage syndication liabilities approximate their fair values because the Manager does not expect any significant changes in interest rates or credit risk.

The following table shows a hierarchy for disclosing fair value based on inputs used to value the Trust's assets or liabilities that are measured at fair value or for which fair value disclosure is required. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurements).

The three levels of the fair value hierarchy are as follows:

- Quoted prices (unadjusted) in active markets for identical assets and liabilities (Level 1);
- Inputs other than quoted prices in active markets included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices) (Level 2); and
- Inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

TREZ CAPITAL YIELD TRUST US (CANADIAN \$)

Notes to Consolidated Financial Statements

(Tabular amounts expressed in Canadian dollars, unless otherwise indicated)

Year ended December 31, 2018

13. Financial instruments and risk management (continued):

(a) Fair values (continued):

December 31, 2018	Carrying value			Fair value
	Amortized cost	FVTPL	Other financial liabilities	
Assets not measured at fair value				
Investments in mortgages	\$ 481,032,025	\$ -	-	\$ 481,032,025
Due from related parties	2,217,354	-	-	2,217,354
Cash and cash equivalents	31,425,163	-	-	31,425,163
Restricted cash	4,410,607	-	-	4,410,607
Promissory notes receivable	2,649,628	-	-	2,649,628
Assets measured at fair value				
Investments held at fair value	-	25,811,345	-	25,811,345
Financial liabilities not measured at fair value				
Bank indebtedness	66,270,157	-	-	66,270,157
Foreign currency derivatives	-	2,553,503	-	2,553,503
Mortgage syndication liabilities	15,394,337	-	-	15,394,337
Management fees payable	2,855,511	-	-	2,855,511
Distributions payable to holders of redeemable units	5,213,057	-	-	5,213,057
Accounts payable and accrued liabilities	3,069,243	-	-	3,069,243
Due to related parties	52,941	-	-	52,941

TREZ CAPITAL YIELD TRUST US (CANADIAN \$)

Notes to Consolidated Financial Statements

(Tabular amounts expressed in Canadian dollars, unless otherwise indicated)

Year ended December 31, 2018

13. Financial instruments and risk management (continued):

(a) Fair values (continued):

December 31, 2017	Carrying value			Fair value
	Loans and receivable	FVTPL	Other financial liabilities	
Assets not measured at fair value				
Investments in mortgages	\$ 278,579,934	\$ -	\$ -	\$ 278,579,934
Due from related parties	420,978	-	-	420,978
Cash and cash equivalents	7,563,473	-	-	7,563,473
Restricted cash	7,561,283	-	-	7,561,283
Promissory notes receivable	1,296,162	-	-	1,296,162
Assets measured at fair value				
Foreign currency derivatives	-	3,018,708	-	3,018,708
Investments held at fair value	-	16,238,698	-	16,238,698
Embedded derivatives, included in profit participation mortgages	-	-	-	-
Financial liabilities not measured at fair value				
Bank indebtedness	-	-	2,705,235	2,705,235
Mortgage syndication liabilities	-	-	21,802,545	21,802,545
Management fees payable	-	-	925,321	925,321
Distributions payable to holders of redeemable units	-	-	3,143,575	3,143,575
Accounts payable and accrued liabilities	-	-	1,264,883	1,264,883

The valuation techniques and inputs used for the Trust's financial instruments are as follows:

(i) Investments in mortgages and mortgage syndication liabilities:

There is no quoted price in an active market for the mortgage investments or mortgage syndication. The Manager makes its determination of fair value based on its assessment of the current lending market for mortgage investments of same or similar terms. Typically, the fair value of these mortgage investments approximate their carrying value given the amounts consist of short-term loans that are repayable at the option of the borrower without yield maintenance or penalties. As a result, the fair value of mortgage investments is based on Level 3 inputs.

TREZ CAPITAL YIELD TRUST US (CANADIAN \$)

Notes to Consolidated Financial Statements

(Tabular amounts expressed in Canadian dollars, unless otherwise indicated)

Year ended December 31, 2018

13. Financial instruments and risk management (continued):

(a) Fair values (continued):

(ii) Investments held at fair value:

The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced liquidation or sale. The Company's investments in mortgages and mortgage syndication liabilities are carried at fair value in the financial statements.

The following table shows a hierarchy for disclosing fair value based on inputs used to value the Company's investments. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurements).

The three levels of the fair value hierarchy are as follows:

- Quoted prices (unadjusted) in active markets for identical assets and liabilities (Level 1);
- Inputs other than quoted prices in active markets included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices) (Level 2); and
- Inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

The Trust's assets and liabilities recorded at fair value have been categorized as follows:

2018	Level 1	Level 2	Level 3	Total
Investments held at fair value	\$ -	\$ -	\$ 25,811,345	\$ 25,811,345

2017	Level 1	Level 2	Level 3	Total
Investments held at fair value	\$ -	\$ -	\$ 16,238,698	\$ 16,238,698

There were no transfers between levels during 2018 (2017 - nil).

TREZ CAPITAL YIELD TRUST US (CANADIAN \$)

Notes to Consolidated Financial Statements

(Tabular amounts expressed in Canadian dollars, unless otherwise indicated)

Year ended December 31, 2018

13. Financial instruments and risk management (continued):

(a) Fair values (continued):

A reconciliation of Level 3 assets at December 31, 2018 is as follows:

Investments held at fair value, December 31, 2017	\$ 16,238,698
IFRS 9 transition adjustment	4,717,130
Additions to / (deductions) investments	(1,934,317)
Unrealized change in fair value	3,163,270
Realized change in fair value	1,972,840
Impact of foreign exchange translation	1,653,724
Investments held at fair value, December 31, 2018	\$ 25,811,345

The key valuation techniques used in measuring the fair values of investments in mortgages include:

Valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurement
Investment cost/ Enterprise value	Enterprise value	The estimated fair value would increase / (decrease) if enterprise value is increased (decreased)
Discounted cash flow	Net operating income Discount rate Probability of cash flows	The estimated fair value would increase/ (decrease) with changes in significant unobservable inputs

At December 31, 2018, a 25 basis point increase in the discount rate would decrease the fair value by \$6,266 and a 25 basis point decrease in the discount rate would increase the fair value by \$6,387.

(iii) Foreign currency derivatives:

The Trust has entered into foreign exchange contracts to mitigate the impact from fluctuations in foreign exchange rates. The Manager determines the fair value of foreign currency derivatives with reference to quotations from third party derivative dealers and accepts the amount as fair value for the derivatives. As a result, the fair value of foreign currency derivatives is based on Level 2 inputs.

TREZ CAPITAL YIELD TRUST US (CANADIAN \$)

Notes to Consolidated Financial Statements

(Tabular amounts expressed in Canadian dollars, unless otherwise indicated)

Year ended December 31, 2018

13. Financial instruments and risk management (continued):

(a) Fair values (continued):

(iv) Other financial assets and liabilities:

The carrying values of financial assets and financial liabilities not measured at fair values, such as cash, interest receivable, due from related parties, promissory notes receivable, accounts payable and accrued liabilities, bank indebtedness, mortgage syndication liabilities, management fees payable, and distribution payable to holders of redeemable units approximate their fair values due to the relatively short periods to maturity of these items or because they are receivable or payable on demand.

(v) Net assets attributable to holders of redeemable units:

The Trust routinely redeems and issues redeemable units at the amount equal to the proportionate share of net assets of the Trust at the time of redemption, calculated on a basis consistent with that used in these financial statements. Accordingly, the carrying amount of the net assets attributable to the holders of redeemable units approximates their fair value and are based on Level 2 inputs

There were no transfers between Level 1, Level 2 and Level 3 during the year ended December 31, 2018.

(b) Financial risk management:

The Trust has exposure to the following risks from financial instruments:

- Credit risk;
- Liquidity risk; and
- Market risk.

Management's risk management policies are typically performed as a part of the overall management of the Trust's operations. Management is aware of risks related to these objectives through direct personal involvement with employees and outside parties. In the normal course of its business, the Trust may be exposed to a number of risks that could affect its operating performance. Management's close involvement in operations will help to identify risks and variations from expectations. The Trust has not designated any transactions as hedging transactions to manage risk.

TREZ CAPITAL YIELD TRUST US (CANADIAN \$)

Notes to Consolidated Financial Statements

(Tabular amounts expressed in Canadian dollars, unless otherwise indicated)

Year ended December 31, 2018

13. Financial instruments and risk management (continued):

(b) Financial risk management (continued):

As a part of the overall operation of the Trust, management considers the avoidance of undue concentrations of risk. The risk and the actions taken to manage them include the following:

(i) Credit risk:

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation that it has entered into with the Trust, resulting in a financial loss to the Trust. This risk arises principally from the investments in mortgages, promissory notes, and other receivables. For risk management reporting purposes the Trust considers and consolidates all elements of credit risk exposure (such as loan-to-value, sector risk, location risk, and individual obligor default risk). The Trust manages its credit risk through extensive initial due diligence and careful monitoring of its mortgage portfolio, active communications with borrowers and the institution of aggressive enforcement procedures on defaulting mortgages by its Mortgage Broker, and by matching the cash flow profile of the assets and liabilities. All mortgage investments are approved by the Credit Committee comprised of senior management of the Mortgage Broker. The Mortgage Broker's Credit Committee reviews its policies regarding its lending limits on an ongoing basis. Minimal credit risk also arises from cash deposits. This is mitigated by holding deposits in Canada with major financial institutions.

As at December 31, 2018, the largest mortgage investment in the Trust's mortgage portfolio was \$31,917,633 (2017 - \$22,638,120) which is 7.02% (2017 - 7.92%) of the Trust's net asset value, and 6.91% (2017 - 8.91%) of its mortgage portfolio.

The Trust's maximum credit risk exposure (without taking into account collateral and other credit enhancements) at December 31, 2018 is represented by the respective carrying amounts of the relevant financial assets in the statement of financial position.

(ii) Liquidity risk:

Liquidity risk is the risk of encountering difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

The Trust's liquidity requirements relate to its obligations under its bank indebtedness, loans payable, accounts payable and accrued liabilities, mortgage syndication liabilities, distributions payable to holders of redeemable units, redeemable units, and its obligations to make future advances under its existing mortgage portfolio. Liquidity risk is managed by ensuring that the sum of: (i) availability under the Trust's bank borrowing line; (ii) the sourcing of other borrowing facilities; and (iii) projected repayments under the existing mortgage portfolio, exceeds projected needs (including funding of further advances under existing and new mortgage investments).

TREZ CAPITAL YIELD TRUST US (CANADIAN \$)

Notes to Consolidated Financial Statements

(Tabular amounts expressed in Canadian dollars, unless otherwise indicated)

Year ended December 31, 2018

13. Financial instruments and risk management (continued):

(b) Financial risk management (continued):

(ii) Liquidity risk (continued):

As at December 31, 2018, 25.69% of the Trust's mortgage portfolio, being \$118,629,982, is due on or before December 31, 2019 (2017 - 30.49% or \$77,439,352 due before December 31, 2018). The Trust had one (2017- nil) mortgage with a carrying value of \$3,251,940 (2017 - nil) that was overdue on December 31, 2018.

In Management's opinion, the Trust has sufficient resources to meet its current cash flow requirements.

(iii) Market risk:

Market risk is the risk that changes in market factors, such as interest rates, currency and other price risks will affect the Trust's income or the fair value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposure within acceptable parameters, while optimizing the return.

The Trust's strategy for the management of market risk is driven by the Trust's investment objective which is to invest in a diversified portfolio of mortgages on real property located within the United States that preserves capital and generates returns in order to permit the Trust to pay quarterly distribution to its unit holders.

The Trust's market risk is managed on a regular basis by the Manager in accordance with policies and procedures in place.

(A) Interest rate risk:

Interest rate risk is the risk that the fair value or the future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Trust's interest rate risk is primarily attributable to its return on investments in mortgages relative to its resources to fund the mortgages. As described in note 6, units are redeemable by the unit holders upon 30 days' notice. A significant rise in interest rates may cause unit holders to redeem their Units and could cause a shortfall in funds available to meet such redemptions. The Trust charges a 1% prepayment penalty on redemptions made prior to the first anniversary from the units' issuance.

As at December 31, 2018, all of the Trust's investments in mortgages have a fixed rate of return, therefore an increase or decrease in interest rates would not have had an impact on the Trust's net income. A 0.25% increase or decrease in the interest rates with all other variables held constant would increase or decrease the Trust's income by approximately \$50,499 (2017 - \$38,685) arising from income generated on the Trust's cash deposits.

TREZ CAPITAL YIELD TRUST US (CANADIAN \$)

Notes to Consolidated Financial Statements

(Tabular amounts expressed in Canadian dollars, unless otherwise indicated)

Year ended December 31, 2018

13. Financial instruments and risk management (continued):

(b) Financial risk management (continued):

(iii) Market risk (continued):

(B) Currency risk:

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates. The Trust's functional currency is U.S dollars.

The Trust has put in place steps to mitigate the impacts from fluctuations in foreign exchange on the Trust's obligation to redeem Canadian series units in Canadian dollars as explained in note 9.

(C) Other price risk:

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The Trust is exposed to price risk because of its investment in mortgages. These risks arise from changes in the real estate market and could be local or national in nature. Deteriorating real estate values increase the Trust's risk. The Trust manages these risks by actively maintaining strong borrower relationship and active monitoring of all loans.

14. Capital management:

The Trust considers net assets attributable to holders of redeemable units to be capital, which at December 31, 2018 was \$454,213,264 (2017 - \$288,097,443).

The Trust's objective when managing capital is to maintain its ability to continue as a going concern and ensure that it has sufficient cash resources to invest in mortgages in order to provide a return to its Unitholders. The Trust manages the capital structure and makes adjustments to it in light of changes in economic conditions. In order to maintain or adjust the capital structure, the Trust may issue new units. The Trust is not subject to externally imposed capital requirements and has no legal restrictions on the issue, repurchase or resale of redeemable units beyond those included in the Trust document.

TREZ CAPITAL YIELD TRUST US (CANADIAN \$)

Notes to Consolidated Financial Statements

(Tabular amounts expressed in Canadian dollars, unless otherwise indicated)

Year ended December 31, 2018

15. Transition to IFRS 9:

The following table summarizes the classification and measurement impacts of adopting IFRS 9 as at January 1, 2018.

Comparative periods have not been restated. Measurement differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 relates solely to impairment in the amount of \$739,802 and which has been recognized in net assets attributable to holders of redeemable units as at January 1, 2018. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9.

The following assessments of financial assets that are debt instruments have been made on the basis of the facts and circumstances that existed at the date of initial application:

- The determination of the business model in which a financial asset is held and whether it meets the SPPI test.
- The designation of certain financial assets and financial liabilities as measured at FVTPL.

The Trust has classified its financial instruments as at January 1, 2018 as follows:

Asset/liability	IAS 39, measurement category	IFRS 9 measurement category	IAS 39 carrying amount	Reclassification	Remeasurement	IFRS 9 carrying amount	Note
Cash	Loans and receivables	Amortized cost	7,563,473	-	-	7,563,473	-
Restricted cash	Loans and receivables	Amortized cost	7,561,283	-	-	7,561,283	-
Foreign currency derivatives	FVTPL	FVTPL	3,018,708	-	-	3,018,708	-
Investments in mortgages	Loans and receivables	Amortized cost	278,579,934	(4,717,130)	(739,802) ^(a)	273,123,002	4
Investments in joint ventures	Loans and receivables	Amortized cost	3,224,071	-	-	3,224,071	-
Investments held at fair value	FVTPL	FVTPL	16,238,698	4,717,130 ^(b)	-	20,955,828	6
Promissory notes receivable	Loans and receivables	Amortized cost	1,296,162	-	-	1,296,162	-
Due from related parties	Loans and receivables	Amortized cost	-	-	-	-	-
Other assets	Loans and receivables	Amortized cost	420,978	-	-	420,978	-
Bank indebtedness	Other financial liabilities	Amortized cost	2,705,235	-	-	2,705,235	-
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost	1,264,883	-	-	1,264,883	-
Foreign currency derivatives	FVTPL	FVTPL	-	-	-	-	-
Mortgage syndication liabilities	Other financial liabilities	Amortized cost	21,802,545	-	-	21,802,545	-
Management fees payable	Other financial liabilities	Amortized cost	925,321	-	-	925,321	-
Due to related parties	Other financial liabilities	Amortized cost	-	-	-	-	-
Distributions payable to holders of redeemable units	Other financial liabilities	Amortized cost	3,143,575	-	-	3,143,575	-
Net assets attributable to holders of redeemable units	Other financial liabilities	Amortized cost	288,097,443	-	-	288,097,443	-

^(a) The remeasurement is the result of the adoption of the ECL model under IFRS 9.

^(b) All profit participating loans were reclassified from amortized cost to fair value through profit and loss.

CERTIFICATE OF THE TRUST AND OF THE PROMOTER

The foregoing contains no untrue statement of a material fact and does not omit to state a material fact that is required to be stated or that is necessary to prevent a statement that is made from being false or misleading in the circumstances in which it was made.

This Offering Memorandum does not contain a misrepresentation.

DATED EFFECTIVE this 1st day of May, 2019.

Trez Capital Yield Trust US (Canadian \$)
By its Manager and Promoter, Trez Capital Fund Management Limited Partnership,
by its general partner, Trez Capital Fund Management (2011) Corporation

"Morley Greene"
(Signed) Morley Greene
Chief Executive Officer and Director

"Alexander (Sandy) Manson"
(Signed) Alexander (Sandy) Manson
Chief Financial Officer and Director

**On behalf of the Directors of Trez Capital (2011) Corporation,
the general partner of Trez Capital Limited Partnership**

"Morley Greene"
(Signed) Morley Greene
Director

"Alexander (Sandy) Manson"
(Signed) Alexander (Sandy) Manson
Director

**On behalf of the Directors of Trez Capital Fund
Management (2011) Corporation, the general partner of Trez Capital
Fund Management Limited Partnership**

"Morley Greene"
(Signed) Morley Greene
Director

"Alexander (Sandy) Manson"
(Signed) Alexander (Sandy) Manson
Director