

## FORM 45-106 F2

### Offering Memorandum for Non-Qualifying Issuers

**Date:** April 30, 2017

**The Issuer**

Name: Northern Alliance Trust (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, to the limited extent prescribed by National Instrument 45-106 Prospectus Exemptions.

### The Offering

Securities offered: Series A and B Trust units ("Units").

Price per security: \$5.00 per Unit.

Minimum/Maximum offering: There is no minimum offering or maximum offering. Prior offerings have raised \$2,107,225.80.

Payment terms: Bank draft or certified cheque on closing.

Proposed closing date(s): The offering of Units herein is a continuous offering. Closings may occur from time to time as subscriptions are received and accepted by the Trust.

Tax consequences: There are important tax consequences to these securities. See "Income Tax Considerations".

Selling agent: Yes. Commissions are authorized to arm's length and non-arm's length sellers/finders. The Trust is a "connected issuer" to Northern Alliance Financial Corporation (the "Manager"), as defined in NI 33-105 Underwriting Conflicts. The Manager is a registered Exempt Market Dealer within the Provinces of British Columbia and Alberta. The Trust is a connected issuer to the Manager, in its capacity as EMD, because several directors of the Manager hold Units in the Trust, and are promoters of the Trust. See "Compensation Paid to Sellers and Finders" and "Summary of Declaration of Trust".

### Resale restrictions

The Trust is not a reporting issuer or equivalent in any jurisdiction. You will be restricted from selling your securities for an indefinite period. See "Resale Restrictions".

### 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 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.*

**Offering:** The Offering hereunder is a continuous offering of Series A and B Units. There is no minimum offering amount. There is no maximum offering amount. See “Plan of Distribution”. A subscriber whose subscription is accepted will become a Unitholder of the Trust.

**Subscription Price:** The subscription price per Unit is \$5.00.

**Prior Offerings:** Pursuant to prior offerings, 421,445.17 Units were sold, yielding proceeds of \$2,107,225.80. See “Capital Structure – Prior Sales and Redemptions”.

**Minimum Subscription:** There is a minimum subscription of 100 Units (\$500). Residents of certain provinces may be restricted in the amount they can invest when relying on this Offering Memorandum. See “Plan of Distribution”.

**Investment Objectives:** The Investment Objective of the Trust is to make investments through the Sub Trust in order to provide investors a steady income stream while preserving their invested capital. The Manager has been created by its principals to carry on a diversified lending business. The Trust is a source of funding for the Manager’s mortgage lending business. The Manager and the Trust are entities which are an evolution of the previous business activities, and a key component of the current business activities, of the principals of the Manager. The Manager will use its ability to make and execute lending decisions promptly to develop its lending business and has formed the Trust to allow it to invest in certain loans.

The Manager will seek to diversify the Investment Portfolio. The Manager will focus its business on loans secured by Mortgages registered against Real Property, but when the Trust becomes a “mutual fund trust” (see “Income Taxes and RRSP Eligibility”) it will also make loans secured by Equipment Leases and will make Short Term Loans. After the Trust becomes a mutual fund trust, Mortgage Investments may, from time to time, comprise all of the Investment Portfolio, but no less than 50% of the Investment Portfolio, while Equipment Leases will comprise no more than 50% of the Investment Portfolio, and Short Term Loans will comprise no more than 50% of the Investment Portfolio.

Mortgage Investments will generate income through a rate of interest, which is typically payable periodically throughout the term of the Mortgages. All Mortgages will be secured by Real Property, comprised primarily of single family residential property, but will also be secured by commercial property. The Mortgages will generally be second ranking Mortgages, but will also include first Mortgages.

The Sub Trust may also make investments in Equipment Leases, primarily related to commercial motor vehicles and industrial/commercial equipment.

The Sub Trust may invest in Short Term Loans consisting mostly of short term secured business loans with no more than a one year term and secured by daily cash flow.

**Series:**

Units are issuable in series (“Series”). 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 Manager may, at any time and from time to time, authorize the Trust to issue additional Series without the authorization of Unitholders, provided such new Series are within the investment objectives of the Trust and do not create a priority or preference over existing Series. Each Series will share in the same pool of Investments and Authorized Interim Investments on an equal pro rata (or “pari passu”) basis. See “The Declaration of Trust and Description of Units”.

All Series have the same investment objective, strategies and restrictions but differ with respect to one or more of their features, such as fees, expenses or distributions, as set out in this Offering Memorandum.

Series A Units will be entitled to quarterly distributions in priority to the quarterly distributions payable to other Unitholders (the “Preferred Return”) at a rate which has been set by the Manager at 6.0% per annum and will be reset by the Manager after every quarterly distribution. There is no guarantee that monies will be available to pay the Preferred Return, but any amounts outstanding under the Preferred Return must be paid before the Manager’s Incentive Fee is paid (see “Manager’s Fees” below).

Series B Units will receive a quarterly distribution equal to the balance of distributable cash remaining after the Preferred Return has been paid to the Series A Units and the Incentive Fee has been paid to the Manager.

**Distribution Policy:**

The Trust will make a distribution to each Unitholder of a Series on a quarterly basis. For each quarter ending March 31, June 30, September 30, the Manager will distribute an amount it deems appropriate. Such quarterly distributions (for March 31, June 30, and September 30) will be paid in arrears on the 30<sup>th</sup> day following the quarter to which the distribution relates. The distribution to be made in respect of the December 31 year end will equal 100% of the Trust’s net income and net realized capital gains of the Series, less non-capital losses carried forward, if any, for the year, less any reserves that the Manager deems appropriate and any previous distributions made in that year. The year end distribution will be made in two payments. The first payment for the year end will be made on the 30<sup>th</sup> day following the year end in an amount determined in the same manner as the March, June and September distributions. The final payment for the year end will be paid in arrears not later than April 15 following the year end in an amount equal to any amount payable in excess of the distributions previously paid.

Subject to a Unitholder’s election to receive distributions partially or wholly in Units, distributions by the Trust will be paid in cash. In each Fiscal Year, distributions will be proportionate to the number of days the Units have been issued and outstanding in the quarter to which the distribution relates. Unitholders who redeem their Units prior to a quarter end will not participate in distributions for that calendar quarter. A Unitholder who wishes to receive distributions partially or wholly in Units must complete the distribution reinvestment plan enrolment form provided by the Manager.

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."

**Redemption by Unitholder:**

In order to protect the interests of the remaining Unitholders in the Trust and to discourage short term trading, Unitholders will be subject to a short term trading deduction. Subject to the restrictions below, Units are redeemable at the demand of the Unitholders, up to 90 days after receipt by the Manager of written notice from the Unitholder, at a Redemption price equal to:

- (i) at any time up to the first anniversary of their issuance, 95% of the Subscription Price; and
- (ii) thereafter, the short term trading deduction will be reduced by 1% on each anniversary of the original subscription date, so that after the fifth anniversary of the subscription date such Units will be redeemed at the Subscription Price.

The Manager may waive the short term trading deduction, on a case by case basis, in its discretion and 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 Units issued and outstanding at such time, in any one calendar month, or 25% of the Units issued and outstanding in any fiscal year.

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 365 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 365 day period until the Manager declares the suspension at an end.

**Loan Sharing:**

The Manager may arrange for third parties to share in a loan on a pari passu or junior basis. See "Business of the Trust – Loan Sharing".

**Closing:**

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

**Manager Fees:**

The Manager will be entitled to receive an annual fee equal to 2.5% of the Average Annual Gross Asset Value plus up to 0.5% of any interest payments made by borrowers (the “Administration Fee”). As well, the Manager will be entitled to receive an annual fee (the “Incentive Fee”) equal to 10% of the Incentive Fee Revenue of the Trust. The Administration Fee is paid monthly, in arrears in twelve instalments and is to be estimated and paid within 30 days following the end of each such month, except the payment due for the month ending December 31<sup>st</sup> will be determined taking into consideration the previous payments made on an estimated basis and will be paid not later than February 1 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. The Manager may, in its sole discretion, waive fees payable to it from time to time.

See “Directors, Management, Promoters and Principal Holders - Fees”.

**Brokerage Fees:**

The Manager will originate Investments on behalf of the Trust and the Manager will undertake its customary due diligence review of the proposed investment. The Manager may earn originating fees, commitment fees and renewal fees from borrowers on loans it originates for the Trust. Such fees will be paid by the borrower.

See “Directors, Management, Promoters and Principal Holders - Fees”.

**Sales and Trailer Fees:**

The Trust will pay a sales fee (the “Sales Fee”) to registered dealers, of up to 5.0% of the Subscription Price of the Units, payable at the time of the initial investment. Sales Fees may be paid to the Manager and its Affiliates and owners and employees of the Manager. In addition, the Manager will receive a one-time fee of 0.5% of the Subscription Price of the initial Unit purchase for each investor, provided that no Sales Fee is payable to a third party registered dealer. The Trust may also pay a servicing (or “trailer”) fee equal to 1.0% per annum of the Subscription Price of the Units (the “Trailer Fee”) to qualified referral partners and dealers, payable quarterly in arrears. The amount of the Trailer Fee will be deducted from distributions to Unitholders whom have agreed to pay a Trailer Fee to their sales agent. See “Plan of Distribution”; “Organization and Management Details of the Trust - Fees and Expenses”.

**Use of Proceeds:**

It is intended that the net subscription proceeds will be invested in Investments. 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 the Investments as soon as possible. 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 I of the Tax Act on its Taxable Income to the extent it is distributed to its Unitholders. However, in certain circumstances where the Trust has Investments that are not exclusively Mortgages, 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 taxable income, Unitholders will be required to include the Taxable Income distributed to them by the Trust. Distributions not included in taxable 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.

**Eligibility for Investment**

At present, the Trust is a “quasi-mutual fund trust” under the Income Tax Act (Canada) and as such is only permitted to invest in assets which qualify as a “qualified investment” for a trust governed by a Deferred Plan. However, the Trust intends to qualify as a “mutual fund trust” pursuant to the provisions of the Tax Act prior to March 31, 2018, at which time the Trust’s permitted investments are expanded. **Investments in Equipment Leases and Short Term Loans are not permitted investments for a “quasi-mutual fund trust”, but are permitted investments for a “mutual fund trust”. However, if the Trust qualifies as a “mutual fund trust” on or before March 31, 2018, such investments are treated as qualified investments from the inception of the Trust. The Manager has determined not to permit the Trust to make investments in Equipment Leases and Short Term Loans until the Trust qualifies as a mutual fund trust.** See “Income Taxes and RRSP Eligibility” and “Risk Factors”.

**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”.

**Residency Requirement:**

A majority of Unitholders must be residents of Canada. Privately-held Canadian corporations owned by non-residents of Canada may subscribe for and hold Units. The Trustee may force a transfer or redemption of Units of a non-resident if required to maintain the status of the Trust as a quasi-mutual fund trust or mutual fund trust. See “Terms of Units - Forced Redemption Upon Non-Residency”.

**Risk Factors:**

**This Offering is not suitable for investors who cannot afford to assume any significant risks in connection with their investments. An investment in Units entails a number of risks. Please see “Risk Factors”, where such risks are more fully described.**

**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.*

**“Administration Fee”** means a fee to be paid to the Manager pursuant to the Declaration of Trust, consisting of an annual fee, as estimated quarterly, equal to 2.5% of the Average Annual Gross Asset Value of the Trust as of the date same is calculated plus up to 0.5% of any interest payments made by borrowers during such period;

**“Affiliate”** or **“Affiliates”** has the same meaning as in the B.C. Securities Act;

**“Auditor(s)”** means the firm of Chartered Accountants from time to time appointed as auditor(s) of the Trust;

**“Authorized Interim Investments”** means cash and guaranteed investment certificates issued by a Canadian chartered bank;

**“Average Annual Gross Asset Value”** means, for a particular Fiscal Year, the average value of all assets held by the Trust at the Calculation Date and valued in accordance with the Valuation Policy;

**“Business Corporation Act”** means collectively the Business Corporations Act (British Columbia) and Business Corporations Act (Alberta), with all amendments thereto in force from time to time and any statutes that may be passed which have the effect of supplementing or superseding such statute;

**“B.C. Securities Act”** means the *Securities Act* (British Columbia), with all amendments thereto in force from time to time and any statutes that may be passed which have the effect of supplementing or superseding such statute;

**“Book Value”** means, in respect of the Trust, the lower of cost and fair value of the Total Assets of the Trust less all outstanding liabilities as determined and set out in the balance sheet as at the relevant Valuation Day;

**“Book Value per Unit”** means the amount obtained by dividing the Book Value as of a particular date by the total number of Units outstanding on that date;

**“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 March, June, September and December;

**“Compass”** means Verico Compass Mortgage Group Ltd.;

**“Credit Committee”** means the credit committee established by the Manager for the review of Investments to be funded by the Trust;

**“Credit Facility”** means the operating facility from Canadian Western Bank to the Trust in the principal sum of \$1,000,000;

**“Declaration of Trust”** means the declaration of trust made as of May 1, 2015, as amended and restated as of July 1, 2015, as further amended and restated as of May 27, 2016, made by the Trustee, creating the Trust under the laws of the Province of British Columbia;

**“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 three calendar quarters, the 30<sup>th</sup> day of the month following the Calculation Date for such calendar quarter and for the calendar quarter ending December 31, the Distribution Payment Date will be not later than the following March 15;

**“DRIP”** means the distribution reinvestment plan adopted by the Manager;

**“EMD”** means a registered Exempt Market Dealer, as such term is defined in NI 31-103.

**“Equipment Lease”** or **“Equipment Leases”** means a loan secured by the sale and lease back of equipment;

**“Fiscal Year”** means each such consecutive period of twelve (12) months commencing on January 1, and ending on December 31, except for the first such period, which will commence on the formation of the Trust;

**“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 Net Realized Capital Gains of the Trust for that period prior to the deduction of the Incentive Fee payable for that period and after the deduction of the Administration Fee;

**“Investment Portfolio”** means, at any one time, the portfolio of Investments held by the Trust at that time;

**“Investments”** means, collectively, Mortgage Investments, Equipment Leases and Short Term Loans;

**“LTV”** means loan to value ratio;

**“Manager”** means Northern Alliance Financial Corporation, a company validly existing under the laws of the Province of British Columbia;

**“Manager’s Fees”** means, collectively, the Administration Fee and the Incentive Fee;

**“Mortgage”** or **“Mortgages”** means a mortgage, 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 Investment”** means an investment by the Trust in a Mortgage;

**“Net Income”** of the Trust for a calendar year is equal to the Trust’s income for the year that would be determined under the Tax Act if:

- a) no amount were included or deducted in respect of capital gains and capital losses;
- b) there were no gross-up in respect of taxable dividends from corporations resident in Canada; and
- c) no amounts were deducted in respect of amounts that have been paid to or became payable to Unitholders;

**“Net Realized Capital Gains”** of the Trust for a calendar year is equal to twice the amount, if any, by which the Trust’s taxable capital gains for the year exceed the sum of:

- a) the Trust’s allowable capital losses for the year;
- b) the Trust’s net capital losses for prior years which the Trust is permitted to deduct in computing its taxable income for the year; and
- c) expenses of the Trust that would otherwise be deductible in arriving at the Trust’s taxable income for the year, to the extent determined by the Manager,

provided that if there is a change to the inclusion rate in respect of capital gains for purposes of the Tax Act (which inclusion rate is expressed as a percentage of capital gains realized, the two times factor will thereafter equal the reciprocal of the new percentage and other amounts referred to in this definition will be adjusted, to the extent necessary;

“**Net Revenue**” means, for a particular month, Net Income and Net Realized Capital Gains determined in accordance with International Financial Reporting Standards;

“**NI 31-103**” means National Instrument 31-103, *Registration Requirements, Exemptions and Ongoing Registrant Obligations* as published by the Canadian Securities Administrators;

“**NI 45-106**” means National Instrument 45-106, *Prospectus Exemptions*, as published by the Canadian Securities Administrators;

“**Nominee**” means Northern Alliance Holding Company Ltd.;

“**Offering**” means the offering of Series A and B 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, or approved by at least 50% of the votes cast by Unitholders 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;

“**Preferred Return**” means an amount payable to holders of Series A Units at a rate per annum which has been initially set by the Manager at 6.0% per annum. The preferred return distribution is calculated quarterly and reset quarterly and is non-cumulative after the distribution quarter and is non-interest bearing;

“**Real Property**” means land, rights or interest in land (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;

“**Sales Fee**” means a fee to EMDs of up to 5.0% of the Subscription Price payable at the time of the initial investment;

“**Securities Authorities**” means the securities commissions of each of the provinces and territories of Canada;

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

“**Series A Units**” means a Series, designated as Series A;

“**Series B Units**” means a Series, designated as Series B;

“**Short Term Loan**” or “**Short Term Loans**” means, collectively, a loan to a business with a term of not more than one year, secured by daily cash flow;

“**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);

“**Sub Trust**” means Northern Alliance Subsidiary Trust, a unit trust whose units are wholly owned by the Trust;

**“Subscription Price”** means \$5.00 per Unit;

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

**“Taxable Income”** of the Trust for a year means the “taxable income” of the Trust (as that term is defined in the Tax Act) determined 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 title “Termination of the Trust”;

**“Total Assets”** means the aggregate 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 and other sales agents, as permitted, in an amount equal to 1.0% per annum of the Subscription Price, payable in arrears;

**“Trust”** means Northern Alliance Trust, 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 Barry Bernhardt, the trustee named under the Declaration of Trust;

**“Unanimous Resolution”** means a resolution consented in, 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;

**“Unitholder”** means a holder of Units and fractions thereof;

**“Valuation Date”** means any day on which 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 Book Value per Unit; and

**“Valuation Policy”** means the policy of the Manager, as described under the heading “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” 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. 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”.

### **OM MARKETING MATERIALS**

Any “OM marketing materials” (as that term is defined in NI 45-106) related to each distribution under this Offering Memorandum and delivered or made reasonable available to a prospective Unitholder before the termination of the distribution is, and is deemed to be, incorporated by reference into this Offering Memorandum. Notwithstanding the foregoing, OM marketing materials incorporated by reference as described above are no longer incorporated by reference, and no longer form part of this Offering Memorandum, to the extent to which such materials have been superseded by a statement or statements contained in (i) an amendment to the Offering Memorandum, or an amended and restated Offering Memorandum, or (ii) subsequent OM marketing materials delivered to or made reasonably available to a prospective Unitholder.

### **MARKET AND INDUSTRY DATA**

Unless otherwise indicated, the market and industry data contained in this Offering Memorandum is based upon information from independent industry and government publications. While the Manager believes this data to be reliable, market and industry data is subject to variation and cannot be verified due to limits on the availability and reliability of raw data, the voluntary nature of the data gathering process and other limitations and uncertainties inherent in any statistical survey. Neither the Trust nor the Manager has independently verified the accuracy or completeness of such information contained herein.

## USE OF AVAILABLE FUNDS

### Funds

	Assuming \$5,000,000 Offering	Assuming \$30,000,000 Offering
A. Amount to be Raised by this Offering	\$5,000,000 <sup>(1)</sup>	\$30,000,000 <sup>(1)</sup>
B. Selling Commissions and Fees	\$250,000 <sup>(2)</sup>	\$1,500,000 <sup>(2)</sup>
C. Estimated Offering Costs (legal, accounting)	\$20,000 <sup>(3)</sup>	\$20,000 <sup>(3)</sup>
D. Available Funds (D = A – (B + C))	\$4,730,000	\$28,480,000
E. Additional sources of funding required	\$1,000,000	\$1,000,000
F. Working Capital Deficiency	\$2,087,000 <sup>(4)</sup>	\$2,087,000 <sup>(4)</sup>
G. Total (G = (D + E) - F)	\$3,643,000	\$27,393,000

<sup>(1)</sup> There is no minimum offering amount. There is no maximum offering amount. The sums of \$5,000,000 and \$30,000,000 have been used for illustrative purposes.

<sup>(2)</sup> This assumes a 5% commission.

<sup>(3)</sup> The Trust will pay the expenses of this Offering.

<sup>(4)</sup> As at March 31, 2017. This includes Mortgage Investments with a maturity date of one year or less from March 31, 2017.

### Use of Available Funds

The Net Subscription Proceeds will be invested as set out in “Objectives and Policies–Investment Policies”. Pending 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.

<i>Description of use of available funds listed in order of priority:</i>	<i>\$5,000,000 Offering<sup>(1)</sup></i>	<i>\$30,000,000 Offering<sup>(1)</sup></i>
A. Management Fees (2.5%)	\$125,000 <sup>(2)</sup>	\$750,000 <sup>(2)</sup>
B. Professional Fees, Licensing Fees and Trustee Fees	\$40,000	\$80,000
C. Miscellaneous Administration Costs (estimated)	\$20,000	\$80,000
D. Marketing and Business Development	\$10,000	\$50,000
E. Loan Investments	\$3,448,000	\$26,433,000
F. Available Funds: F = A+B+C+D+E	\$3,643,000	\$27,393,000

<sup>(1)</sup> There is no minimum offering amount. There is no maximum offering amount. The sums of \$5,000,000 and \$30,000,000 have been used for illustrative purposes.

<sup>(2)</sup> This amount is exclusive of the 0.5% fee calculated on any interest payments made by borrower which is payable to the manager, the one-time fee of 0.5% of the subscription price of an initial unit purchased by an investor, which is payable to the manager and the Incentive Fee payable to the manager.

## 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 May 1, 2015 (the “Declaration of Trust”). Investments will be made through the Sub Trust, a wholly owned subsidiary trust of the Trust. The principal place of business of the Trust is located at #101 2205 Louie Drive, West Kelowna, British Columbia, V4T 3C3. 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 by the Unitholder at their Subscription Price, subject to a short term trading discount, rather than based on their net asset value or market value. Redemptions are processed 90 days after receipt by the Manager of written notice from the Unitholder. 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 Mortgages, undertaking the lending transactions described herein and to borrow funds. For investment restrictions, see “Income Taxes and RRSP Eligibility” and “Risk Factors”.

The beneficial interest in the assets of the Trust is divided into trust units issued in Series. The Trust may issue Units in Series. Only Series A and Series B 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 and do not create a preference or priority over existing Units. 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.

Barry Bernhardt is the trustee of the Trust (“Trustee”) pursuant to the Declaration of Trust. Northern Alliance Financial Corporation is the manager and mortgage broker of the Trust (“Manager”) under the Declaration of Trust. The principal place of business of the Manager is located at #101 2205 Louie Drive, West Kelowna, British Columbia, V4T 3C3. The registered office of the Manager is 221 – 3011 Louie Drive, West Kelowna, British Columbia, V4T 3E3.

Mortgages are registered in the name of the Nominee, a wholly owned subsidiary of the Manager, which will carry on no other business than holding title to Mortgages, and enforcing Mortgages, in its name on behalf of the Sub Trust. In this regard, the Nominee and the Sub Trust have entered into a bare trust agreement, setting out the terms of the arrangement and relationship whereby the Nominee will hold such Mortgages and enforce such Mortgages on behalf of the Sub Trust.

There is a risk that a Unitholder could be held personally liable for claims arising out of any obligations, liabilities and activities of the Trust and the Trustee. 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 obligations or claims. **Notwithstanding the foregoing, to the extent that claims and obligations cannot be satisfied by the Trust and the Trust Property, a Unitholder could be held personally liable.**

### The Trust’s Business

The Manager and the Trust are entities which are an evolution of the previous business activities, and a key component of the current business activities, of the principals of the Manager. The Manager, Northern Alliance Financial Corporation, has been established by the principals of the Manager to be engaged in making loans in various sectors. The principals of the Manager have extensive experience in private lending, mortgage brokerage and currently own and operate Verico Compass Mortgage Group Ltd. The Manager also acts as the mortgage broker and manager for “Canada the One Mortgage Investment Corporation” (see “Directors, Management, Promoters and Principal Holders – Northern Alliance Financial Corporation” and “Strategic Alliances Created by the Manager for Mortgage Lending”). The Manager has created the Trust for the purpose of allowing the Trust to



invest in a portfolio of Mortgages, Equipment Leases and Short Term Loans. The Trust is a source of funding for the Manager's mortgage lending business.

### *Private Lending*

Private lending, regardless of whether it involves Mortgages, Equipment Leasing or Short Term Loans for commission advances, is an industry that is established and needed in Canada. Banks are required to have rigid lending practices in order to minimize default and obtain insurance financing from CMHC. This rigidity causes an opportunity in the private lending sector. The borrowers are often challenged in at least one of the "Five C's" of credit:

- *Character:* Borrowers may have poor credit for a number of reasons. Typical reasons include divorce, business issues, forgotten credit lines, and unpaid bills.
- *Capacity:* The borrower's ability to pay for the loan must be assessed.
- *Collateral:* The lender must determine where the property located is, the type of neighbourhood, and the condition and type of property.
- *Capital:* The lender must determine the amount of equity the borrower has in the property, normally described as the "LTV" (loan to value ratio).
- *Conditions:* The lender must determine the conditions of the loan, such as the interest rate and amount of principal that can be charged to the borrower.

Private lending underwriting can be assessed using other risk analysis than that used by the banks. The private lending industry is less price sensitive than the institutional lending industry. When individuals or companies are declined because they don't qualify for a loan, they become less concerned about the cost and more concerned about getting the loan done.

### *Mortgage Lending Sector*

A brief description of the various market sectors for Mortgage loans follows.

#### A. Re-financing

The most common form of Mortgage loan is made in respect of the refinancing of a single family home, townhome, condominium or other residence. In many cases, owners who do not qualify for loans from traditional lenders such as banks, trust companies and credit unions obtain such financing from private lenders such as the Trust. In some cases, the borrowers are non-residents, who are less likely to qualify under a traditional lender's guidelines. Other borrowers are "asset rich", and are seeking to consolidate debt or restore their credit rating.

#### B. Acquisition Financing

Acquisition financing is generally provided in connection with the purchase of a property. The principal amount, repayment term, amortization period, interest rate and other terms of the acquisition financing are determined based upon the tenant profile, net operating income, property condition, and covenant of the borrower. Acquisition financing typically involves an amount of up to 75% - 80% LTV. In these circumstances, an opportunity exists to provide "top up" financing for owners of revenue-producing properties with strong, stable tenants and operating income.

#### C. Development Loans

A development loan is normally used to finance the acquisition of land and the installation and construction thereon of roads, drainage and sewage systems, utilities, and similar improvements. Development 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, development loans may be made to finance the acquisition of more land than will be improved immediately, or land, the

development of which is contemplated at a later date. Take-out commitments are sometimes a prerequisite to the granting of a development loan.

#### D. Take-Out Financing

Take-out financing is provided to an owner, generally of revenue-producing properties, for the purposes of repaying existing development loans or construction loans. Take-out financing is also provided in cases where an existing long-term acquisition loan is coming due. Take-out financing is generally underwritten based on the same criteria as for acquisition financing, as described above.

#### E. Construction Financing

Construction financing typically involves the borrower granting a short term Mortgage designed to last the period of construction for the house or commercial building. The Mortgage is advanced in tranches calculated by the progress of the construction. Typically construction financing rates are higher than typical Mortgage rates due to the risk involved in having a half-built project.

#### *Private Mortgage Lending Market*

Banks and institutional lenders have very rigid guidelines when dealing with borrowers. Many applicants fall out of the bank's parameters due to credit, income, property, and other factors. These clients often need to find a source of alternative lending for their Mortgage. Private Mortgage lending serves this sector. The purpose of a second Mortgage is to provide a short term financial solution for the borrower.

The Mortgage industry is a growing market. Housing prices continue to creep upward in most of Canada and the country's population is growing. There are three levels of Mortgage services: Banks, Sub-prime lenders, and private lenders. The banks and subprime lenders secure most of the Mortgage opportunities and CMHC or Genworth Insurance typically backs them. Rates are lower and risk of foreclosure is low as well.

According to Statistics Canada (see <http://www5.statcan.gc.ca/cansim/a26?lang=eng&id=1760069>), Table 176-0069- Residential Mortgage credit, outstanding balances of major private institutional lenders, Bank of Canada, the total institutional residential Mortgage balance outstanding is \$1,365 billion. If we assume that Mortgages are split equally based on population and Alberta and BC hold 25% of the population, there is \$341 billion in outstanding Mortgages in Alberta and BC. According to the Private Mortgage Lender's Forum (an association of private mortgage lenders located in Calgary, Alberta) the balance of private Mortgages with their members in Alberta and BC is approximately \$1.8 billion and estimates the entire Alberta and BC private lending market is \$5 billion in residential Mortgages. Using these assumptions, the private Mortgage industry holds less than 1.5% of the Western Canadian Mortgage market.

Based on the experience of the principals of the Manager, private lending markets in the 1990's and 2000's, up to 2008, were robust and despite occasional market corrections, participants were able to consistently return 10% and higher to their investors. After 2008, returns to investors dropped to 5-10%, as available investor cash increased and prime rate decreased.

#### *Mortgage Lending by the Trust*

The Trust may make loans or invest in, finance or purchase Mortgages, either on its own or on a syndicated basis with other lenders, relating to any and all types of Real Property. In identifying investment opportunities, the Trust will primarily focus on existing residential, multi-family, commercial, industrial and investment properties. All Mortgages will comply with the investment policies of the Trust set out below. Loans will often be short term and, in most cases will be secured by second or subsequent ranking Mortgages. In some instances, loans will be secured by collateral Mortgage security over other properties. Where appropriate and in most cases, title insurance will be obtained for Mortgages. Any title insurance policies will be held in the name of the Nominee and not the Trust.

During the coming year of the Trust's operation, the Manager intends to focus on loans secured by Mortgages against Real Property in British Columbia and Alberta. The target market will be second Mortgages with LTV's up to 90%

LTV. Mortgages will have an average loan amount of \$50,000. The term of the Mortgages will generally be approximately 12 months. All Mortgages will be secured by Real Property. An investment by the Trust in a second Mortgage does not allow the Manager to have control over administering the first Mortgage should a default occur. However, the Trust may buy out the position of the first Mortgage or maintain payments so that the second Mortgage forecloses with priority. This will allow the Trust to control legal expenses and foreclosure strategy.

The Manager anticipates that the borrowers it will deal with will fall outside typical bank or institutional lending requirements as a result of their credit history, income or the nature of the property to be secured. Borrowers are generally willing to pay higher interest rates for such short term Mortgages. The Manager will use its ability to make and execute lending decisions promptly.

The Trust has the Credit Facility with Canadian Western Bank, and uses the Credit Facility (structured as a line of credit) to provide working capital and to bridge timing differences resulting from Mortgage loan maturities and new Mortgage loan funding. Currently the principal amount of the Credit Facility is \$1,000,000. The Trust may seek increases in the principal amount of the Credit Facility in the future, as the need arises.

In general, Mortgages will generate income through a rate of interest, which is typically payable monthly throughout the terms of the Mortgages. The Manager intends to maintain a balanced portfolio of Mortgages with staggered maturity dates. See "Objectives and Policies - Investment Restrictions".

Mortgage interest rate pricing varies with market demand and the Bank of Canada prime rate. As money becomes more available in the marketplace, the supply increases and rates decrease. Bank rates are currently around 3% for a five year fixed closed Mortgage. However, the business sector in which the Manager is competing has higher rates than what the bank offers.

Based on the experience of the Principals, a competing private mortgage lender would charge approximately 7-9% interest for a residential first mortgage with a 75% LTV and approximately 10-12% interest for a second mortgage with a 75% LTV. Second mortgages above 75% LTV range from 10% to 18% (as of November 2015). The Manager proposes to provide first and second mortgages at competitive rates: first mortgages with a 75% LTV at 6-9% interest, second Mortgages up to 80% LTV at 9-14% interest, and second mortgages above 80% LTV and below 90% LTV at 14-18% interest.

The Manager will generally adopt a 25 year amortization for all Mortgages but will adjust the amortization rate up or down depending on the loan. On request, the Manager may consider arranging an "interest only" mortgage up to 80% LTV. If the borrower's financial situation changes and secures bank refinancing, banks are capped at 80% LTV, and therefore the loan can be paid in full if the loan remains below 80% LTV. Above 80% LTV, the Manager may reduce the amortization in order to get the loan principal down to 80% LTV over time. The risk of having an interest-only loan is that the capital is not paid down and it is more difficult for the borrower to payout or refinance the loan.

The private mortgage lending market has many lenders that focus on first and second Mortgages with LTVs of up to 75%. Although these Mortgages appear to be less risky, they are more competitive to obtain, so a lower interest rate is achieved for the Mortgage. Also, fewer first Mortgages are placed, thus resulting in less diversification in the portfolio. As well, since first Mortgages are often for larger amounts than second Mortgages, more money is at risk on each loan. There are fewer competitors in the second Mortgage market and the Manager believes, based on previous experience of its principals in this sector, that there are ample opportunities to realize a high return.

#### *Strategic Alliances Created by the Manager for Mortgage Lending*

The Manager has established connections in the mortgage brokerage industry and the Manager believes that brokers will send mortgage applications to the Manager based on their past relationships with the principals of the Manager.

Verico Compass Mortgage Group Ltd. ("Compass") is owned by the principals of the Manager and is an active mortgage brokerage located in Victoria, Vancouver, Kelowna, West Kelowna, Calgary and Edmonton and is strategically positioned in the ReMax office in West Kelowna.

Verico Compass Mortgage Group (Compass) is an independently owned mortgage brokerage founded in 2009 by Dean Larson and Dave McKitrick and based in Western Canada with its head office located in Kelowna BC. Compass is part of the Verico network, which is one of the largest networks of mortgage brokerages in Canada. Since 2009, Compass has arranged approximately 3000 Mortgage loans worth approximately \$750,000,000. It employs 39 mortgage brokers and has gross revenue of approximately \$3,000,000 per year.

Both the Manager and Compass will employ vertical integration in their marketing strategy. For example, a mortgage broker in Compass who identifies the need for a private lender will pass the client to the Manager. If the Manager receives an institutional quality Mortgage, it will pass it on to Compass.

The Manager has also created a strategic alliance with Calvert Home Mortgage Investment Corporation (“Calvert”) to administer the Mortgage portfolio. Calvert has been in operation for approximately 35 years and is an industry leader in Alberta. The Manager will pay the fees of Calvert and such fees will not be borne by the Trust.

The Manager has agreed to provide mortgage administration services to Canada the One Mortgage Investment Corporation (“CTOMIC”). CTOMIC is related to the Trust because Dave McKitrick is a director of CTOMIC and a director and officer of the Manager. Currently CTOMIC is not operational but plans to be operational in 2017. Mortgage opportunities and investors will be provided by CTOMIC directors – but Mr. McKitrick is not required to provide mortgage opportunities or investors in order to prevent a conflict of interest with the Trust.

In addition to CTOMIC, the Manager has agreed to provide mortgage administration services to SYB Easy Finance Ltd. (“SYB”). SYB is related to the Trust because Dave McKitrick is a director of SYB and a director and officer of the Manager. Currently SYB is not operational but plans to be operational in 2017. Mortgage opportunities and investors will be provided by SYB directors – but Mr. McKitrick is not required to provide mortgage opportunities or investors in order to prevent a conflict of interest with the Trust.

In all cases, any Mortgage loan opportunities identified by the Manager will be provided firstly to the Trust. If the Mortgage loan opportunity does not fit into the Trust’s underwriting criteria, or if the Trust does not have sufficient funds to invest in the Mortgage, then the Mortgage loan opportunity will be offered to CTOMIC and SYB on an alternating basis.

#### *Loan Sharing*

If a Mortgage Investment is determined by the Manager to be too large for the Trust, the Manager may arrange for third parties to share in the loan on a pari passu basis.

#### *Equipment Leasing Sector*

There are three different areas in the Equipment Leasing industry that lenders focus on, termed “Prime”, “Near Prime” and “Sub Prime”. These areas can be described as follows:

- Prime is serviced primarily by banks and institutional lenders, and targets low risk, low return, and highly liquid equipment. Typical lease rates range from 5-8%.
- Near Prime is serviced by a handful of individuals and private lenders, and focuses on lease opportunities that are rejected by the institutions. In this situation, often the lessee has challenged or shallow credit and/or the equipment is less liquid. Typical lease rates range from 12-18%.
- Sub Prime is serviced by a few individuals and private lending companies and provides leasing to high risk individuals and equipment. Typically, the lessee has even more challenged or shallow credit and the equipment is less liquid. Typical lease rates range from 18-25%.

According to the latest statistics from Statistics Canada, which can be viewed at [www23.statcan.gc.ca/imdb/p2SV.pl?Function=getSurvey&SDDS=2441](http://www23.statcan.gc.ca/imdb/p2SV.pl?Function=getSurvey&SDDS=2441) - Commercial and industrial machinery and equipment rental and leasing, November 22, 2016):

“Operating revenues for the commercial and industrial machinery and equipment rental and leasing industry decreased by 3.0% in 2015 to \$11.6 billion. This coincided with a decline in the oil industry, which is a major client of heavy machinery rental and leasing services.

Rental and leasing firms operating in energy-based provincial markets had a challenging 2015. After experiencing double-digit growth from 2013 to 2014, Alberta's operating revenue decreased by 10.3% to \$5.2 billion. Saskatchewan (-3.9%) and Newfoundland and Labrador (-1.8%) also reported lower operating revenues compared with 2014. Ontario continued its period of strong growth since 2012, with operating revenues increasing by 9.8% to \$2.8 billion in 2015. Firms in Alberta continued to generate the largest share of industry operating revenues (44.4%) in 2015, which was down from the 48.1% share recorded in 2014. Ontario remained the second largest market with a 24.2% share, followed by British Columbia (11.4%) and Quebec (10.9%).

Operating expenses for the industry declined 0.3% to \$10.1 billion in 2015, as the operating profit margin fell from 15.9% in 2014 to 13.6% in 2015.

During the same period, salaries, wages, commissions and benefits were down 0.9% to \$2.4 billion. They were the largest component of operating expenses of this industry at 23.6%, followed closely in terms of relative importance by amortization and depreciation (19.5%) and the cost of goods sold (18.4%). The cost of goods sold includes the procurement of equipment to rent and lease. Shares of the top three expenses have remained fairly stable over the years.

Sales to other businesses accounted for 89.7% of total sales in 2015, while sales to individuals and households accounted for 4.4%. Sales to government, non-profit organizations and clients outside the country made up the remainder.”

There is limited data available for 2016, but due to the economic changes, there was an overall decrease in the Commercial and Industrial Machinery and Equipment Rental and Leasing Services Price Index, third quarter – year to year of 3.9%. This index has shown a decline for the last 8 quarters. The Manager will continue to monitor this sector and will make a strategic decision whether to pursue leasing as an option once the Trust qualifies as a mutual fund trust.

Commercial leasing clients retain their operating capital by transferring ownership of key equipment to the leasing company and making regular lease payments to use the equipment. The lease payment is typically less than a loan for the same piece of equipment, as the leasing company estimates the residual value of the equipment over the term of the lease, and only requires the capital to be paid down to the residual value. In comparison, a loan requires the capital to be paid down fully over the term of the loan. Additionally, since the equipment is being rented, 100% of the lease payments can be considered an expense in contrast to a loan, where only the interest portion can be considered an expense.

The key success factor for a leasing company is that it is knowledgeable about the industry that it is serving and that it understands the equipment that it is leasing. As well, it is preferable to focus on specific industries and equipment in order to reduce risk. Leasing companies face challenges by being exposed to particular industries. For example, if a leasing company focuses on oil and gas equipment and the oil and gas industry goes into decline, there is potential for leases to go into arrears. As well, most equipment, vehicles, trailers are transient, so there is risk that the equipment cannot be claimed in repossession if it cannot be found. GPS and other tracking methods reduce, but do not eliminate, this risk.

Based on the experience of the Manager, there is a very clear opportunity in the “Near Prime” leasing market. The “Prime” market is saturated with banks and trust companies, but they have very stringent parameters for their borrowers. If a lessee falls just slightly outside the parameters of those institutions, he is often forced to go directly to a “Sub-Prime” lender. The opportunity falls in between the parameters of the institutions and the exorbitant price of the “Sub-Prime” lenders. The Manager has identified only two competitive “Near Prime” lenders in the western Canadian market and three competitive “Near Prime” lenders in the eastern Canadian market.

### *Equipment Leasing by the Trust*

The Manager intends to provide financing for borrowers for the purchase of equipment, typically industrial and commercial vehicles and equipment. Typically, Equipment Lease clients will be similar to Mortgage clients as they fall out of the institutional lender's parameters because of failing to meet one or more of the Five C's of credit. The Manager will purchase the vehicle or other equipment for the borrower and then lease it to the borrower. The Equipment Lease terms are generally expected to be approximately 60 months. Average lease amounts are expected to be approximately \$50,000.

Although there are similarities in underwriting a leasing contract by analyzing the five C's of credit, the collateral analysis is very different. Most equipment and vehicles are mobile (unlike mortgage-backed securities) and it is imperative that the Manager can find the equipment and vehicles in the case of non-payment. To do this, the Manager will undertake to place GPS monitors on mobile units. Repossession will occur with 60 days and the unit will be liquidated immediately in case of non-payment.

Leasing rates are similar to the structure of Mortgage rates - the banks provide the lowest rates (Prime) at 6%, Near Prime rates are between 12% and 16% and Sub-Prime rates are between 16% and 25%. The Manager will compete in the Near Prime market and will charge 12%-16% interest.

Currently, there is a shortage of Near Prime lenders in Alberta and BC. The Manager will focus on the Near Prime market since there is a demand, and it fits the Manager's established risk profile which includes slightly bruised customer credit and liquid equipment that is considered essential in the day to day operations of the lessee. The Manager will target heavy equipment, commercial vehicles and fleet leasing. Equipment that will be considered will have a value ranging from \$5,000-\$200,000, bear a serial number, generate income for the business, and be liquid. Equipment to be considered includes but is not limited to:

- Light and heavy duty trucks
- Trailers
- Construction equipment
- Manufacturing equipment and machinery
- Commercial vehicles (fleet or for business use)
- Highway tractor and trailers
- Cranes/ hoists and lifts and production equipment (lathe and tooling).

### *Strategic Alliances Created by the Manager for Equipment Leasing*

The Manager will target leasing clients through its alliance with Enviro-Plus Business Services Corp., an established leasing brokerage based in Edmonton. Once a steady leasing business is established, the Manager will expand to other brokerages and direct clients.

### *Short Term Loan Sector*

The Trust will invest in Short Term Loans that will primarily consist of commission advance loans and short term business loans.

The concept behind a commission advance business is simple. Once a real estate purchase is executed with conditions lifted, almost all of these purchases are completed. Contracts are in place and commitments are established, reducing the possibility that the agreement will fail. The lender will make a loan to the agent as an advance on the expected commission payable to the agent after paying any monies owing to the agent's sponsoring brokerage. Commission advance costs are relatively high, resulting in an annual percentage rate (APR) of 25% or higher. Commission advance notes will be secured by a Mortgage registered against the borrower's home if the purchase falls through and the commission is no longer available to the agent.

Agent commission advance has been active for many years, but in the past few years more have become established and user friendly through the web. Web applications create a quick response time and greatly reduced paper work.

Interest rates typically have been over 30% per annum. There is no statistical data available to estimate the size of the market. As well, most realtors are not willing to disclose if they are using a commission advance company as there is negative stigma attached to it.

The critical success factors for the commission advance program are speed of turnaround and ease of application. Most of the potential competitors of the Manager stress these two points. The Manager will leverage direct marketing and marketing via the Internet to target western Canadian real estate agents. It is critical that an effective on-line application form is established and quickly provides funds to the agent. Issues facing the agent commission advance include obtaining information in a timely fashion and security of the contract. It is also critical that an effective commission advance recovery system is in place in case the real estate sale falls through. Efficiency in operations is also critical since the loans are small and short term and although there is a higher gross return, the net return can be smaller if there is too much underwriting and administration involved.

The Manager has identified five national competitors in the commission advance industry. Two are western and three are eastern Canadian based. However, in this industry location is less important because applications are done on line. However, it is important that the lender develops relationships with real estate brokerages and develops solid relationships with the management and with agents. Broker owners often provide this service to their agents but many are not interested or do not have funds available. The Manager believes that there is market share available for an aggressive, efficient, company willing to forge relationships with brokerages.

The other Short Term Loan opportunity that the Manager will pursue is that of small business loans. These loans will be offered in cases where the business may have security, receivables, or consistent enough sales numbers to generate predictable cash flow to ensure repayment of the loans. The Manager will focus on businesses which can assign their accounts receivable to secure repayment of the loan.

For example, a retailer could repay the advance daily using a smaller percentage of credit and debit card sales. There are no fixed payments – they “ebb and flow” with the sales trends of the business and give flexibility to manage cash flow, particularly during a slow season. The security for the Manager is the ability to have the payments directly forwarded from the credit card account, and the Manager can predict repayment based on consistent sales history. The payments are made based on cash flow, as opposed to the profitability of the borrower.

#### *Short Term Loans by the Trust*

Initially, the Manager intends to make short term commission advance loans to realtors. These loans are typically \$5,000-\$15,000 and have a one to three months term. Rates and fees are relatively high on a percentage basis, however on a small loan amount, the fees appear reasonable as a fixed cost. The strategy of this program is to have many loans revolving regularly. Key success factors are simplicity of the application and speed of delivering money to the borrower. Security is through an assignment of the real estate purchase contract and the lender establishes first claim on commissions that are sent to the brokerage when the contract is executed on the completion date.

When underwriting commission advance loans, the focus point is the validity of the purchase contract. All loans will only be advanced with contractual approval of the real estate agent's brokerage. The contract will direct the brokerage to forward the appropriate amount to the Trust when the property purchase contract closes and the commission is paid to the brokerage. The major risk associated with these types of loans is the risk that the underlying real estate purchase transaction fails to close. At that point, the loan will be demanded in full, but it is highly unlikely that the agent will be able to pay the loan. Options will be provided to the agent that include: immediate payout; extension of the existing loan with interest payment in advance – typically this would be where the loan is transferred to another property contract closing or a leasing agreement for personal property. If all fails, a caveat will be secured on the agent's personal property or collection proceedings will be brought against the respective agent. This could result in a delay of payments of income to Unitholders or result in a loss of part or all of a Unitholder's principal investment in the Trust.

Competitors have established unique types of pricing. Typically, terms are simplified so that all realtors can understand them and rates are designed to maximize profits for the short term.

The Manager determined that the range of pricing for competitors results in a 25% to 37% annual interest rate. The Manager will provide rates on the lower end of the range, as it will use its funds for Mortgages and Equipment Leases if there are no Short Term Loans available.

The Manager will also target short term business loans. Typically these loans will be one year in term and repaid based on the cash flow of the borrower, not the net income. Although profitability is considered during underwriting, the number of transactions and daily cash flow will be a major factor. Additional Short Term Loans such as receivable financing will also be considered. Loans will range from \$10,000 to \$100,000 and the loan will be designed to fit the cash flow of the borrower to help ensure successful repayment.

There are only a few competitors in this industry currently although it is expected that more will join the industry due to the past success of US and Canadian firms. The Manager has determined that interest rates range from 25% to 42% with lender fees in addition to the rate.

Communication and business development will be done mainly through advertisement and web promotion.

#### *Strategic Alliances Created by the Manager for Short Term Loans*

Real Estate Agents will be targeted with direct marketing and web access. As well, the sales person will develop relationships with brokerages since the brokerage has to agree to the administering the service for their Agent. Real Estate clients will be shown the value of short term advances in certain situations. Targeted real estate agent clients have cash flow issues and may not have a steady flow of deals.

The Manager will leverage its relationship with Compass to establish new clients in the Real Estate Agent Commission Advance market (see “Strategic Alliances Created by the Manager for Mortgage Lending”). Once this market is established, the Manager will target related Short Term Lending markets.

Mr. Shillington, an officer of the Manager, co-owns and operates the Re/Max offices in Kelowna and West Kelowna and is well connected with brokers throughout Western Canada. It is expected that this network will provide enough deal flow to launch the division.

#### **Investment Process**

The Trust has retained the services of the Manager to provide advice to the Trust with respect to determining whether or not to make Investments. The Manager will identify potential transactions principally through a network of existing business contacts, repeat borrowers and its reputation. The Manager seeks out, reviews and presents to the Trust, Investment opportunities which are consistent with the investment and operating policies and objectives of the Trust and services such Investments on behalf of the Trust.

#### *Due Diligence Procedures and Risk Reduction*

Once an investment opportunity is determined by the Manager to be satisfactory based on an initial review, the Manager performs comprehensive due diligence on the underlying assets.

The Manager manages the risks associated with Investments through initial due diligence and careful monitoring of its Investment Portfolio, active communication with borrowers and the prompt institution of enforcement procedures on defaulting loans. All properties or equipment are evaluated on the basis of location, quality, source of repayment, prospects for value additions and cash flow profile. In addition, the creditworthiness of the borrower is reviewed and personal covenants are generally obtained from the principals of a corporate borrower. Once funded, the Manager regularly monitors the status of each Mortgage, Equipment Lease or Short Term Loan, as applicable. The Manager monitors the performance of the Investment Portfolio, including tracking the status of outstanding payments due and due dates, and the calculation and assessment of other applicable charges. Each member of management of the Manager 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.



The Manager intends to restrict its investors' risk exposure by diversifying its portfolio geographically and by creating an Investment Portfolio containing many small second loans. As a result, the stability of the Trust is expected to increase, as it is less likely that the loss of one of the loans will significantly affect the Trust. The Manager anticipates that the Investment Portfolio will suffer losses in the range of 2-3% of the total capital invested in the Trust on an annual basis on impaired loans of which recovery of principal and any accrued but unpaid interest is not possible.

As well, the Trust is diversified over three different industries. The Mortgage industry and the Equipment Leasing industry are not tied together, so it is likely that when one industry is slow, the other could be strong or vice versa. It is also expected that the Short Term Loan (real estate agent commission advance) division will increase when the Mortgage division decreases. The Manager will seek to diversify its Investment Portfolio. Prior to the Trust qualifying as a mutual fund trust, the Trust will only make Mortgage Investments. When the Trust qualifies as a mutual fund trust, Mortgage Investments may, from time to time, comprise all of the Investment Portfolio, but no less than 50% of the Investment Portfolio. Equipment Leases will comprise no more than 50% of the Investment Portfolio. Short Term Loans will comprise no more than 50% of the Investment Portfolio.

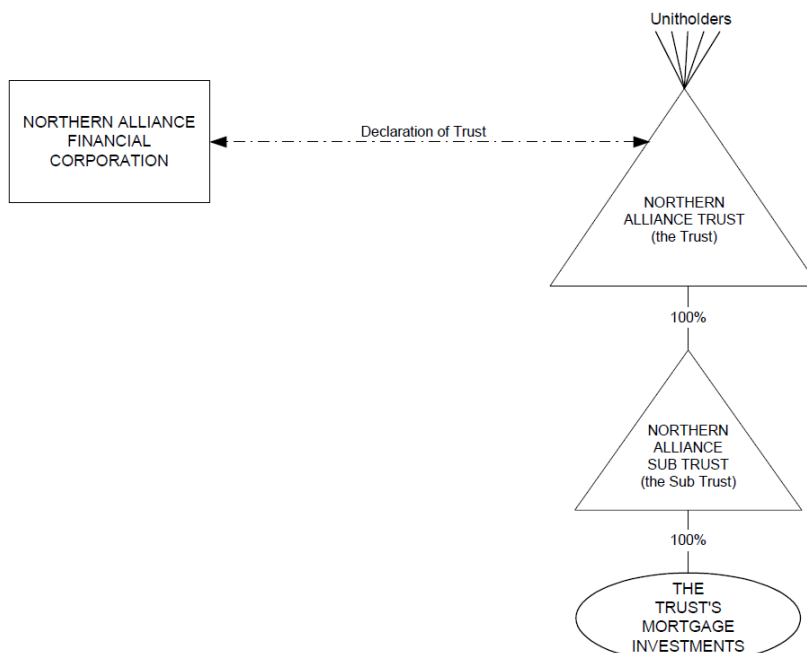
#### *Credit Committee*

The members of the Credit Committee are David McKittrick (CEO and director of the Manager), Dean Larson (COO and director of the Manager), and Cliff Shillington (director of the Manager). The Credit Committee will meet regularly to review new Investment opportunities for the Trust and review the existing Investment Portfolio. The Credit Committee of the Manager will determine whether the investment opportunity is suitable for the Trust, having regard to the Trust's investment objectives, strategies and restrictions and the Manager's goal of maintaining a diversified, fully-invested portfolio for the Trust. Each Investment must be approved by at least two members of the Credit Committee. Please see "Risk Factors - Conflict of Interest".

When a new investment opportunity is presented to it, the Manager will consider the suitability of such opportunity, having regard to the Trust's investment objectives, strategies and restrictions, its current portfolio holdings, and its expected available cash in the near term.

#### **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.



## Mortgage Portfolio

The following are details of the Mortgage Portfolio of the Trust as at March 31, 2017:

Type	Location	Priority	Rate (%)	Terms	Due	Balance	LTV	Notes
Commercial	Calgary	Second	10.50%	P&I	1-Jan-18	157,447.62	50%	Good Standing
Residential	Kelowna	Second	11.00%	P&I	1-Dec-17	134,637.76	70%	Good Standing
Residential	West Vancouver	Second	10.99%	P&I	1-Apr-18	150,000.00	69%	Good Standing
Residential	Vanderhoof	Second	12.50%	P&I	1-Mar-18	36,980.95	60%	Good Standing
Residential	West Kelowna	Third	14.75%	P&I	1-Apr-18	60,000.00	77%	Good Standing
Residential	Langdon	Second	10.00%	Interest Only	1-Jun-17	67,000.00	69%	Good Standing
Residential	Calgary	Second	11.50%	P&I	12-Sep-17	20,814.78	79%	Good Standing
Residential	Penticton	Second	14.00%	P&I	1-Apr-17	44,770.91	76%	Good Standing
Residential	Westbank	Second	12.00%	P&I	1-Jan-17	36,022.88	75%	Foreclosure
Residential	Langley	Second	12.99%	P&I	1-Nov-17	44,891.14	54%	Good Standing
Residential	Calgary	Second	11.00%	P&I	26-Mar-17	23,082.08	80%	Good Standing
Residential	Calgary	Second	9.99%	P&I	1-Feb-18	119,811.72	75%	Good Standing
Residential	Calgary	Second	10.50%	P&I	1-Sep-17	59,690.22	75%	Good Standing
Residential	Penticton	Second	12.50%	P&I	1-Jan-18	63,964.81	76%	Good Standing
Residential	Peachland	Second	11.99%	P&I	1-Sep-17	19,919.11	79%	Good Standing
Residential	West Kelowna	Second	14.50%	P&I	1-Oct-17	44,474.04	80%	Good Standing
Residential	Nanaimo	Second	10.99%	P&I	1-Sep-17	44,785.45	79%	Good Standing
Residential	Calgary	Second	10.50%	P&I	1-Dec-17	65,643.93	76%	Good Standing
Residential	Kelowna	Second	11.00%	P&I	1-Aug-17	87,083.54	75%	Good Standing
Residential	Prince George	Second	12.99%	Interest Only	1-Apr-18	93,000.00	70%	Good Standing
Residential	Calgary	Second	13.75%	P&I	1-Apr-17	187,996.47	84%	Foreclosure
Residential	Kelowna	Second	11.99%	P&I	1-Sep-17	105,397.55	73%	Good Standing
Residential	West Kelowna	Second	13.50%	P&I	1-Jul-17	49,394.32	80%	Good Standing
Residential	Calgary	Second	9.50%	P&I	1-Nov-17	38,832.47	52%	Good Standing
Residential	Calgary	Second	13.50%	P&I	1-Jan-18	44,780.95	78%	Good Standing
Residential	Calgary	Second	12.50%	P&I	1-Jan-18	29,953.17	74%	Good Standing
Residential	Calgary	Second	15.00%	P&I	1-Dec-17	24,965.87	74%	Good Standing
Residential	Calgary	Second	9.99%	Interest Only	1-Mar-18	100,000.00	72%	Good Standing
Residential	Armstrong	Second	12.99%	Interest Only	1-Apr-18	124,500.00	75%	Good Standing
Residential	Edmonton	Second	11.25%	P&I	1-Feb-18	105,864.76	73%	Good Standing
Residential	West Kelowna	Second	12.99%	P&I	1-Jul-17	198,463.49	65%	Good Standing

As of March 31, 2017, Northern Alliance Trust had funded 31 Mortgages totalling \$2,384,169.99

## OBJECTIVES AND POLICIES

### Investment Objective

The investment objective of the Trust is to provide investors a steady income stream while preserving their invested capital. In order to achieve this objective, the Trust, through the Sub Trust, will initially invest in a diversified portfolio of Mortgages and when it qualifies as a mutual fund trust under the Tax Act, it will invest, through the Sub Trust, in Equipment Leases and Short Term Loans as well and will buy or sell such investments. Specifically, the

Trust will make prudent investments to generate attractive returns in order to permit quarterly distributions to Unitholders.

### **Investment Restrictions**

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

- a) The Sub Trust will not invest in any Mortgage 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, except where the Manager holds such prior charge or security interest on behalf of a third party.
- b) The Sub 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.
- c) Until such time as the Trust itself qualifies as a “mutual fund trust”, the Sub Trust will invest only in Mortgages on the security of Real Property situated within Canada or in such other assets which qualify as a “qualified investment” for a trust governed by a Deferred Plan.
- d) Until the Trust becomes qualified as a “mutual fund trust”, the Sub Trust will not invest in Real Property, but may hold Real Property acquired as a result of foreclosure where such foreclosure was necessary to protect the interests of the Sub Trust as a result of a default by the mortgagor. The Sub Trust will use its reasonable best efforts to dispose of such Real Property acquired on foreclosure.
- e) All loans will be secured by either Mortgages, Equipment Leases, or will be Short Term Loans.
- f) Mortgage Investments may, from time to time, comprise all of the Investment Portfolio, but no less than 50% of the Investment Portfolio, while Equipment Leases will comprise no more than 50% of the Investment Portfolio, and Short Term Loans will comprise no more than 50% of the Investment Portfolio.
- g) The Sub Trust may co-invest in a Mortgage with syndicate partners. The Trust may also sell single loans, or a portfolio of loans, to third parties at cost or Book Value.
- h) After the Trust has gross assets of not less than \$5,000,000 in Investments, no more than 10% of the Trust Property will be invested in any single loan.
- i) To the extent that, from time to time, the funds of the Trust are not invested in loans, they will be held in Authorized Interim Investments.

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

### *Investment Policies and Guidelines*

In order to accomplish the above noted goals and objectives, the Trust will comply with the following policies and guidelines with respect to the investment of the Net Subscription Proceeds. These policies and guidelines are consistent with the provisions of the Tax Act and real estate legislation which apply to quasi-mutual fund trusts and mutual fund trusts generally. The following are the investment criteria that the Manager will apply when selecting loans in which the Trust will invest:

- 1. The LTV of Mortgages will not exceed 90%.
- 2. The Credit Committee will review all Investments to be made by the Trust.

3. Sources of repayment and ability to repay will be fully assessed.
4. Market values of the Real Property being mortgaged will be confirmed by a third party appraisal or property tax assessment.
5. Interest rates will reflect the level of risk and market conditions.
6. Commitment letters will be issued for every loan approval.
7. All security documentation will be prepared by a reputable law firm on the Manager's list of approved solicitors.
8. All security will be in place and registered as appropriate prior to the disbursement of any loan funds.
9. All funding conditions precedent set out in the commitment letter will be satisfied prior to any disbursement of loan funds unless specifically waived in writing by the Manager.

The Trust may purchase Mortgage loans from portfolios that the Manager may identify, provided that such Mortgage loans meet the Trust's guidelines and policies as set out above. The Trust may pay cash for such Mortgage loans or may issue Units in payment of the purchase price of such Mortgage loans. The Trust may acquire partial undivided interests in Mortgage loans, from the Manager or its affiliates or from other parties.

If, due to a change in the provisions of the Tax Act or other legislation applicable to the Trust, any of the foregoing restrictions require amendment in order to comply with such change in legislation, the Manager may make such change and such change will be binding on the Trust, Manager and Trustee. In addition, the foregoing restrictions may be changed at any time (so long as such change complies with applicable legislation) if the change is determined by the Manager to be required in order to ensure that the Trust remains competitive in the making of the loans being undertaken in the marketplace at the time of such change and is in the best interests of the Trust.

### **Investment Strategies**

The Manager will use its ability to make and execute lending decisions promptly to identify and execute on attractive investment opportunities.

#### *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 will generally be second or subsequent ranking, will generally be registered on title to residential Real Property and may grant security for between 65% and 90% of the value of the Real Property mortgaged, which is higher than leverage permitted by conventional bank lending practices. First Mortgages, commercial and construction loans will be considered to diversify the portfolio of the Trust.

#### *Equipment Leases*

The Trust will target industrial and commercial vehicles and equipment. The term of the loans will be five years and payments will be received on a monthly basis. New vehicle lending can be as high as 100% of the value of the vehicle. Depending on the equipment, up to 80% of the value of the equipment will be leased for used and 90% for new.

#### *Short Term Loans*

Realtors and business owners wishing to use this service will pay for the service in the form of a fee at the time of funding of the loan. For commission advance, if the purchase and sale transaction affecting the Real Property does not close on the expected date, additional charges will be assessed to the borrower. Up to 100% of a realtor's commission on the sale or purchase of Real Property will be advanced. Once the Real Property purchase or sale is finalized and the realtor's commission is sent to the brokerage, the realtor's commission will pay out the loan. In the case of borrowers of the Trust who are business owners, payments will be made based on sale transactions for the

company and will be repaid more slowly or more quickly based on the cash flow of the business. The projected term is one year to fully repay the loan.

## **DISTRIBUTIONS**

### **Quarterly Distributions**

The Trust will make a distribution to each Unitholder of a Series on a quarterly basis. For each quarter ending March 31, June 30 and September 30, the Manager will distribute an amount it deems appropriate. Such quarterly distributions (for March 31, June 30 and September 30) will be paid in arrears on the 30<sup>th</sup> day following the quarter to which the distribution relates. The distribution to be made in respect of the December 31 year end will equal 100% of the Trust's net income and net realized capital gains of the Series for the year, less any reserves that the Manager deems appropriate and any previous distributions made in that year. The year end distribution will be made in two payments. The first payment for the year end will be made 30 days following the year end in an amount determined in the same manner as the March, June and September distributions. The final payment for the -year end 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.

Subject to a Unitholder's election to receive distributions partially or wholly in Units, distributions by the Trust will be paid in cash. A Unitholder who wishes to receive distributions partially or wholly in Units must complete the distribution reinvestment plan (DRIP) enrolment form provided by the Manager.

The aggregate amount required to pay any Trailer Fees will be deducted from the monies otherwise distributable to Unitholders. The Manager will be paid the Administration Fee 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.

In each Fiscal Year of the Trust, with respect to each Unit, the Unitholder holding such Unit will only be entitled to a proportionate share based on the proportion that the number of days between the date of first issue of such Unit and the last day of the calendar quarter bears to the aggregate total number of days in such calendar quarter all Units are issued and outstanding. By allocating distributions made by the Trust in the aforementioned manner, early subscribers of Units are compensated for the fact that later subscribers would otherwise share in distributions of the Trust made after the date of their subscription despite the fact that early subscribers contributed to the Trust at an earlier date. Subscribers of Units who do not hold such Units throughout a quarter will receive reduced distributions in respect of such quarter. In each Fiscal Year, distributions will be proportionate to the number of days the Units have been issued and outstanding in the quarter to which the distribution relates. Unitholders who redeem their Units prior to a quarter end will not participate in distributions for that calendar quarter.

The Trust intends to distribute all of the net income and net realized capital gains, if any, 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. If distributions to Unitholders are in excess of the net income and net realized capital gains, if any, of the Trust, it will generally result in a reduction in the adjusted cost base of the Units to the Unitholder. See "Income Taxes and RRSP Eligibility".

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 \$5.00 per Unit) having a value equal to the cash shortfall. If the Manager determines that the value of a Unit is materially different than \$5.00, 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. No brokerage commission are payable in connection with the purchase of Units under the DRIP and all administrative costs will be borne by the Trust.

#### **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.

#### **DEVELOPMENT OF THE BUSINESS**

The Trust officially commenced business on August 1, 2015. The Trust was seeded with \$500,000 in investment funds, which funds were invested into Mortgage loans. Additional Unitholders have subscribed for Units since that time and the Trust has been growing at a moderate rate through to the present. Only one redemption has been processed since inception and as of the date of this Offering Memorandum, the Trust has 30 investors with total equity invested equal to \$2,107,225.80.

In September 2016, the Trust began its first foreclosure on a larger Mortgage with a principal amount owing of \$187,000. The five properties appeared to have a relatively large amount of equity at the beginning of the foreclosure, but ended up having much less due to the real estate depreciation in Calgary and due to the condition of the homes in foreclosure. Based on the information available as at the date of this Offering Memorandum, the foreclosure properties are anticipated to sell by the end of May, 2017 and all capital and interest owed to Unitholders as well as fees owed to the Manager are expected to be fully recovered.

In December 2016, the Trust was approved for the Credit Facility provided by Canadian Western Bank. The Credit Facility allows the Manager to deploy all investment equity consistently and leverage the Credit Facility to the maximum amount. It is anticipated that the “rate spread” between Canadian Western Bank’s interest rate and the Trust’s deployed interest rate is between 6% and 7%. This is expected to provide additional income for the Trust.

#### **LONG-TERM OBJECTIVES**

The Trust’s long-term objective is to acquire sufficient Investments through the Sub Trust to provide the holders of the Series A Units with a return that is superior to term deposits, guaranteed investment certificates and money market funds, with due consideration to preservation of capital. The Trust’s other objective is to provide Series B Unitholders with a higher return than Series A Units, since the Series A Units receive their distribution first out of the quarterly profit of the Trust. Other than the short term costs identified below, the Trust does not anticipate any significant costs associated with ongoing operations. As funds are brought into the Trust, the Trust will continue to invest the funds in accordance with its investment policies. See “Objectives and Policies” located above.

#### **SHORT-TERM OBJECTIVES AND THE INTENTIONS TO ACHIEVE THEM**

The principal short-term objectives are to focus on completing the Offering and investing the net proceeds into approved Investments, which at this time are comprised entirely of Mortgage Investments. The following table sets out the objectives, the timelines and the expected costs to complete the short-term objectives for the next twelve months:

What Must Be Done and How It Will Be Accomplished	Target Completion Date	Cost To Complete
Continue to seek Mortgage Investment opportunities based on the Trust's Investment policies and to earn acceptable yields from its existing Investment Portfolio. In order to facilitate the growth of its Investment Portfolio and the yields that it produces, the Trust's goal over the next 12 months is to raise a further \$5,000,000 in equity capital to permit it to continue to invest in new Mortgage Investments.	No later than the earlier of the Maximum Offering being subscribed for or April 30, 2018.	\$20,000 for legal, accounting and audit expense. \$100,000 representing fees payable to the Manager <sup>(1)</sup>

**Notes:**

- (1) This assumes the maximum amount of the Offering is raised. This amount excludes the 0.5% fee calculated on any interest payments made by borrower which is payable to the Manager, the Incentive Fee payable to the Manager and the one-time fee of 0.5% of the Subscription Price of an initial Unit purchased by an Investor, which is payable to the Manager. The amount also excludes any Sales Fees payable to arm's length EMDs and the Manager, and Trailer Fees the Trust intends to pay to arm's length EMDs. See "Summary of Declaration of Trust - Manager's Fees" and "Compensation Paid to Sellers and Finders" for a summary of all fees paid to the Manager and EMDs in connection with the Offering.

### INSUFFICIENT FUNDS

The funds available as a result of the Offering either may not or will not be sufficient to accomplish all of the Trust's proposed objectives and there is no assurance that alternative financing will be available.

### MATERIAL AGREEMENTS

The following is a list of agreements, which are material to this Offering and to the Trust, all of which are or will be in effect by the initial Closing:

- a) the Declaration of Trust made as of May 1, 2015, as amended and restated as of July 1, 2015, as further amended and restated as of May 27, 2016, creating the Trust under the laws of the Province of British Columbia. For details, see the heading "Summary of the Declaration of Trust".
- b) the Declaration of Trust made as of May 1, 2015, creating the Sub Trust under the laws of the Province of British Columbia. For details, see the heading "Summary of the Declaration of Trust".

Copies of the agreement referred to above may be inspected during normal business hours at the principal office of the Manager, 101 2205 Louie Drive, West Kelowna, British Columbia, V4T 3C3.

### SUMMARY OF DECLARATION OF TRUST

#### Northern Alliance Financial Corporation

Pursuant to the terms and conditions of the Declaration of Trust, the Manager is the manager 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 101 2205 Louie Drive, West Kelowna, British Columbia, V4T 3C3. The Manager is a company formed under the laws of British Columbia on October 22, 2014.

The Manager is registered as a mortgage broker and an EMD in the Provinces of British Columbia and Alberta.

#### Duties and Services to be Provided by the Manager

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 pursuant to the terms of the Declaration of Trust. The Manager will be responsible for ensuring that the net proceeds of this Offering are invested as described under “Use of Proceeds” 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.

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.

### **Manager’s Fees**

Pursuant to the Declaration of Trust, the Administration Fee, being an annual amount equal to 2.5% of the Average Annual Gross Asset Value plus up to 0.5% of any interest payments made by borrowers, is payable to the Manager by the Trust in each Fiscal Year. On each quarterly distribution, the Administration Fee will be deducted from the monies otherwise payable to the 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 Administration Fee is paid monthly in arrears in twelve instalments and is estimated and paid following the end of each month, except the payment due for the month ended December 31<sup>st</sup> will be determined taking into consideration the previous payments made on an estimated basis and will be paid in two payments, the first within 30 days following December 31 and the second payment not later than April 15. 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.

The Manager will receive originating fees, commitment fees, renewal fees and other miscellaneous fees from borrowers in Mortgage loans.

### **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 the transfer agent and registrar for performing certain financial, record-keeping, reporting and general administrative services; fees payable to accountants, the auditors and legal advisors; ongoing regulatory fees, licensing fees and other fees; external bookkeeping fees; 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; and any expenditures that may be incurred upon the termination of the Trust. 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. See “Organization and Management Details of the Trust”.

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.

### **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 Manager. The Manager, which performs mortgage broker services on behalf of the Trust, is currently registered under the *Mortgage Brokers Act* (British Columbia) and the Real Estate Act (Alberta) in order to permit it to carry on the activities contemplated in the Declaration of Trust.

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 and the Real Estate Council of Alberta regulates the mortgage brokering and lending activities of mortgage investment entities (MIEs) under the *Mortgage Brokers Act* and *Real Estate 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.**

You can find further information at FICOM’s website, located at: [www.fic.gov.bc.ca/pdf/mortgagebrokers/mb-13-001.pdf](http://www.fic.gov.bc.ca/pdf/mortgagebrokers/mb-13-001.pdf).

### **The Trustee**

Barry Bernhardt 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 #14 12<sup>th</sup> Street SW, Medicine Hat, AB, T1A 4T3.

The powers, authorities and responsibilities of the Trustee are limited to those expressly set forth in the Declaration of Trust.

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 wilful misconduct, bad faith, gross negligence or fraud. 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.

### **Promoter**

Northern Alliance Financial Corporation, the Manager, is the promoter of the Trust by reason of its 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 are set out above. Affiliates and associates of the Manager may receive a portion of the Sales Fee. The Manager will not 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 (Investment of more than 20,000 Units)**

Hong Guo (Chen), owns 103,377 Series A Units.

Quintana Holdings Ltd, owns 21,108 Series A Units and 21,480 Series B Units.

Cliff Shillington, a director of the Manager, owns 40,000 Series A Units.

Dave McKittrick, a Director of the Manager, owns 25,189 Series B Units.

Julie Rowat owns 23,862 Series B Units

### **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; and
- f) subject to the right of the Manager to do so, the termination of the Trust.

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 the last paragraph of “Meetings of Unitholders and Resolutions” 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) effect a Permitted Merger (as defined below); and
- f) 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 or the Trustee or which terminates the Manager, except with the prior respective written consent of the Manager 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 (including interim unaudited and annual audited financial statements) and other reports including the management's discussion and analysis 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 International Financial Reporting Standards. The auditor will be asked to report on the fair presentation of the annual financial statements in accordance with International Financial Reporting Standards. The Manager will

ensure that the Trust complies with all applicable reporting and administrative requirements, including preparing and issuing unaudited interim financial statements.

### **No Certificates**

An investor who purchases Units will receive a customer 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**

There is a risk that a Unitholder could be held personally liable for claims arising out of any obligations, liabilities and activities of the Trust and the Trustee. 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 obligations or claims. **Notwithstanding the foregoing, to the extent that claims and obligations cannot be satisfied by the Trust and the Trust Property, a Unitholder could be held personally liable.**

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.

Legal title to Investments will be held in the name of a subsidiary of the Manager and the Trust's legal entitlement to Mortgages will be held pursuant to a bare trust agreement entered into between the Sub Trust and the Nominee. As well, in conducting its affairs, the Trust will be acquiring Investments, subject to existing contractual obligations. The Manager will use all reasonable efforts to have any such obligations 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 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 (the "Termination Date"); 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;
- c) the Book Value per Unit is less than the Redemption Price of the Units; or
- d) 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 up to an amount equal to the Subscription Price 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 (up to the Subscription Price) as soon as practicable after the date of termination or 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 of such Units, 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 redemption.

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 holders of not less than 50% of the issued and outstanding Units, expressed by written notice, 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 such Unitholders, 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.

During the period after the giving of notice, the right of Unitholders to require payment for all or any of their Units will be suspended and the Manager will make appropriate arrangements for converting the investment of the Trust into cash. 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 and to establish reserves for the contingent liabilities of the Trust;
- b) to repay to the Manager or its Affiliate, as applicable, all amounts payable in connection with any loan advanced by the Manager or Affiliate to the Trust to acquire Mortgage loans;
- c) to pay any Management Fee owing;
- d) to pay any Preferred Return owing;
- e) to pay the Subscription Price of Series A Units to Series A Unitholders;

- f) to pay to the Incentive Fee; and
- g) to pay the balance to the Series B Unitholders, pro rata in accordance with the number of Units held by each Unitholder.

### **Valuation Policy**

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

#### *Mortgages:*

Each Mortgage investment will be valued at its unpaid principal balance including accrued interest, unless in the opinion of the Manager, its fair value is less than the principal amount thereof.

#### *Authorized Interim Investments:*

Authorized Interim Investments such as cash, bonds and guaranteed investment certificates, and other assets will be valued at fair value.

#### *Income and expense recognition:*

Interest income from Mortgages, bonds, debentures, notes and other receivables will be recorded for accounting purposes on the accrual basis. All material expenses or liabilities (including fees payable to the Manager) of the Trust will be calculated on an accrual basis. Recording of interest income will cease on Mortgages in default if the Manager determines there is some reasonable doubt as to the ultimate collectability of principal and interest. Fees associated with Mortgage lending transactions are deferred and amortized over the term of the Mortgage. Realized gains and losses from investment transactions will be calculated on a cost basis.

#### *Foreign currency conversion:*

Income, expense and investment transactions in foreign currencies will be converted into Canadian dollars at the rate of exchange prevailing at the dates of such transactions. Foreign currency assets and liabilities will be converted into Canadian dollars at the closing exchange rates.

The Book Value of each Unit will be computed by the Manager as at the close of business on a Valuation Day. The number of Units, the Book Value of the assets of the Trust and the amount of the liabilities of the Trust will be calculated by the Manager in the manner described in the Declaration of Trust.

## INTERESTS OF DIRECTORS, MANAGEMENT, PROMOTERS AND PRINCIPAL HOLDERS

The following are the names and residence of the current directors, officers, promoters and principal holders of the Manager, their respective management experience and any of their holdings of securities of the Trust as of the date of this Offering Memorandum.

Name and municipality of principal residence	Positions held (e.g., director, officer, promoter and/or principal holder) and the date of obtaining that position <sup>(1)</sup>	Actual and anticipated compensation paid by the Corporation or related parties for the year ended December 31	Number and percentage of securities of the issuer held prior to completion of the Minimum Offering <sup>(2)</sup>	Number and percentage of securities of the issuer held after completion of the Maximum Offering <sup>(2)</sup>
David Jack McKitrick Calgary, Alberta	President and Chief Executive Officer and Director since 2015	2016 Nil 2017 Nil	25,189 Series B Units (2.52%)	25,189 Series B Units (0.42%)
Dean Keith Larson West Kelowna, BC	Chief Operating Officer, Vice President - Mortgages and Directors since 2015	2016 Nil 2017 Nil	N/A	N/A
Clifford Maurice Shillington Kelowna, BC	Director since 2015	2016 Nil 2017 Nil	40,000 Series A Units (4.0%)	40,000 Series A Units (0.7%)

### Notes:

(1) The directors and officers of the Manager do not receive any compensation for acting in these capacities.

(2) There is no minimum offering amount. There is no maximum offering amount. The sums of \$5,000,000 and \$30,000,000 have been used for illustrative purposes.

Each director or officer 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.

### *Principal Occupations and Biographies*

#### **Dave McKitrick: President, Chief Executive Officer and Director**

Mr. McKitrick is responsible for ensuring the efficient structure and operation of the Manager. He has an Engineering Degree from the University of Saskatchewan, an MBA and over 25 years of management experience.

As an engineer, Mr. McKitrick focused on systems and structures and specialized in environmental engineering and water treatment. After graduating with an MBA from the University of Alberta, he became the president of Simmax Energy, an alternative energy corporation backed by Trans Alta and based in Edmonton, Alberta. Simmax Energy purchased ten cogeneration power plants in California and Mr. McKitrick was instrumental in closing the purchase, setting up the company, hiring staff and launching the company in California. He designed all processes, passed all regulatory requirements and set up an operational schedule for all the plants.

On returning to Canada in 2005, Mr. McKitrick became the Chief Operating Officer for Alta West Mortgage Capital Corporation (“Alta West”). He was put in charge of operations and systems to increase the efficiency of the mortgage lending operation. As part of his improvements, he implemented “The Mortgage Office” as the official



software for the company and implemented it into all parts of the business. As part of his vision, he developed and implemented a fully integrated spreadsheet system that calculated rates, produced a mortgage commitment and disclosure, produced an instruction sheet for the lawyer to complete the mortgage and investor summary sheets. Mr. McKitrick was responsible for foreclosure and arrears as well as investor relations and management.

As the industry became more regulated by the securities commissions, he redesigned the operations of the company and coordinated the education of staff through the Canadian Securities Institute.

Alta West was registered as an Exempt Market Dealer, Investment Fund Manager and Restricted Portfolio Manager in 2010. Mr. McKitrick was responsible for maintaining those registrations and ensuring compliance with applicable regulations. In 2010, Mr. McKitrick was given the position of Vice President of the Private Mortgage Lender's Forum in Alberta to ensure that industry members were fully aware of compliance issues and regulatory changes.

By 2009, Mr. McKitrick was fifty percent owner of Alta West. He and his business partner grew the company by more than three times to reach \$90 Million under management. Mr. McKitrick sold his shares in 2014 and founded Northern Alliance Financial Corporation and Northern Alliance Trust. He is responsible for all aspects of the business.

#### **Dean Larson: Chief Operating Officer and Director**

Dean Larson has over 20 years of management, sales, and business operation experience. He has a history of ownership and management of various businesses in the technology sector. Mr. Larson managed sales teams of more than 20 people, and was the lead in successfully putting together strategic multimillion-dollar contracts between some of North America's largest technology companies including Bell HP/Compaq, IBM, and Cisco.

Mr. Larson has been a mortgage broker in British Columbia for eight years. For the past 5 years he has been building and managing Compass, a successful mortgage brokerage with offices and agents in Alberta and British Columbia. Mr. Larson was a key part of the sales management team for Alta West from 2009 to 2014 and was in charge of business development in British Columbia. Mr. Larson has been an active board member for many business organizations and charities.

In 2014, Mr. Larson founded Northern Alliance Financial Corporation and Northern Alliance Trust. He is responsible for operations and investor relations.

#### **Cliff Shillington: Director**

Cliff Shillington was born in Saskatchewan and raised in Edmonton graduating from the University of Alberta with degrees in Canadian History and Education. He was first licensed as a real estate agent in 1973 and opened his first real estate office in Stony Plain, Alberta in 1978. Cliff later joined RE/MAX in 1985 as a sales associate and became Managing Broker of RE/MAX Edmonton later that same year. In 1986, Cliff purchased RE/MAX Saskatoon where he built it from a struggling franchise of 13 associates to 62 within two years and obtained the largest market share in the city.

In 1990 he joined RE/MAX Western Canada after selling his office to take on a corporate role where he became the Senior Vice President and Regional Director until he was transferred to the RE/MAX International Head Office in Denver, Colorado in 2000 to become Vice President of International Global Operations. In this role, Cliff was responsible for all international expansion, supervision and services to all countries outside of the United States.

After five years of travelling the world and expanding the RE/MAX brand from 30 to 54 countries, Cliff returned home to Kelowna in 2005 to utilize his extensive experience in his own RE/MAX franchise once again. RE/MAX Kelowna has consistently placed number one with a 32% plus market share in Kelowna, ranked as the number one RE/MAX office in British Columbia and is among the top ten offices within the entire RE/MAX network of over 7,000 offices worldwide. Cliff is recognized as an industry leader and innovator and was recently awarded the Broker Owner of the Year by RE/MAX International.

In 2014, Mr. Shillington founded Northern Alliance Financial Corporation and Northern Alliance Trust. He is responsible for overseeing the strategic development and profitability of the Corporation and Trust.

## PENALTIES, SANCTIONS AND BANKRUPTCY

There have been:

- a) no penalties or sanctions (e.g. fines, penalties, enforcement orders, etc.);
- b) no cease trade orders that have been in effect for a period of more than 30 consecutive days; and
- c) no declarations of bankruptcy, voluntary assignment in bankruptcy, proposals under any bankruptcy or insolvency legislation, proceedings, arrangements or compromises with creditors, or appointments of receivers, receiver managers or trustees,

that were imposed or in effect at any time during the past 10 years against or with respect to any of the directors, officers or control persons of the Trust and Manager or any issuer of which any of above individuals and companies were a director, senior officer or control person at the relevant time.

## LOANS

As of the date of this Offering Memorandum, there are no debentures or loans outstanding, to or from any of the directors, management, promoters or principal shareholders of the Trust or Manager.

## CAPITAL STRUCTURE

The following are the details of the outstanding securities of the Trust at March 31, 2017:

Description of security	Number authorized to be issued	Price Per Security	Number Outstanding as at March 31, 2017	Number Outstanding after Minimum Offering	Number Outstanding after Maximum Offering
Series A Units	Unlimited	\$5.00	177,469.00	n/a	n/a
Series B Units	Unlimited	\$5.00	243,976.17	n/a	n/a

## LONG-TERM DEBT

As at the date hereof the Trust has no long-term debt. The Trust does not contemplate issuing any debt securities under this Offering.

## PRIOR SALES AND REDEMPTIONS

### A UNITS

Date of Issuance A UNITS	Number of Securities Issued	Price per Security	Total Funds Received
2017-01-01	40,000.00	\$5.00	\$500,000.00
2017-01-01	20,000.00	\$5.00	\$100,000.00
2017-01-01	100,000.00	\$5.00	\$500,000.00
2017-01-01	4,000.00	\$5.00	\$20,000.00
2017-03-01	5,000.00	\$5.00	\$25,000.00

<b>Date of Issuance A UNITS</b>	<b>Number of Securities Issued</b>	<b>Price per Security</b>	<b>Total Funds Received</b>
2017-01-31	2,000.00	\$5.00	\$10,000.00
REDEMPTION: 2017-12-07	(60,000.00)	\$5.00	(\$300,000.00)

**Prior Sales and Redemptions – B UNITS**

<b>Date of Issuance B UNITS</b>	<b>Number of Securities Issued</b>	<b>Price per Security</b>	<b>Total Funds Received</b>
2015-09-21	2,000.00	\$5.00	\$10,000.00
2016-07-13	10,000.00	\$5.00	\$50,000.00
2015-09-24	4,885.80	\$5.00	\$24,429.00
2015-09-30	12,063.20	\$5.00	\$60,316.00
2015-10-29	4,000.00	\$5.00	\$20,000.00
2015-11-09	20,000.00	\$5.00	\$100,000.00
2015-11-13	6,839.40	\$5.00	\$34,197.00
2015-11-09	14,965.20	\$5.00	\$74,826.00
2015-12-10	10,000.00	\$5.00	\$50,000.00
2016-01-12	8,000.00	\$5.00	\$40,000.00
2016-05-24	11,555.00	\$5.00	\$57,775.00
2016-07-22	6,000.00	\$5.00	\$30,000.00
2016-08-05	2,000.00	\$5.00	\$10,000.00
2016-09-07	10,000.00	\$5.00	\$50,000.00
2016-10-01	4,921.00	\$5.00	\$24,605.00
2016-10-01	17,474.00	\$5.00	\$87,370.00
2016-10-12	9,675.45	\$5.00	\$48,377.25
2016-10-12	8,902.60	\$5.00	\$44,513.00
2016-10-18	2,000.00	\$5.00	\$10,000.00
2016-10-07	5,000.00	\$5.00	\$25,000.00
2016-10-07	5,000.00	\$5.00	\$25,000.00
2017-02-16	2,000.00	\$5.00	\$10,000.00
2016-10-21	10,000.00	\$5.00	\$50,000.00
2016-11-14	6,000.00	\$5.00	\$30,000.00
2017-01-31	1,316.58	\$5.00	\$6,582.88
2016-12-09	4,000.00	\$5.00	\$20,000.00
2017-03-01	5,000.00	\$5.00	\$25,000.00
2017-02-20	23,862.40	\$5.00	\$119,312.00
2017-02-20	1,861.42	\$5.00	\$9,307.10
2017-03-02	4,000.00	\$5.00	\$20,000.00

<b>Date of Issuance B UNITS</b>	<b>Number of Securities Issued</b>	<b>Price per Security</b>	<b>Total Funds Received</b>
2017-03-03	2,058.80	\$5.00	\$10,294.00
NO REDEMPTION			

## **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 and provided that the new Series do not create a priority or preference over existing Series). 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.

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 and Series B Units. Fractional Units will be issued if required.

Two Series of Units of the Trust are offered under this Offering Memorandum.

**Series A Units** are entitled to receive the Preferred Return, but do not share in the balance of any Net Revenue, and pay a Sales Fee in an amount up to 5.0% of the Subscription Price of such Units payable at

the time of initial investment, and the Manager may pay an annual trailer fee on behalf of the Trust of up to 1.0% of the Subscription Price of such Units. The Preferred Return has been set by the Manager at 6.0% per annum calculated quarterly and will be reset after every quarterly distribution.

**Series B Units** are entitled to receive the balance of Net Revenue, after payment of the Preferred Return and the Incentive Fee, and pay a Sales Fee in an amount up to 5.0% of the Subscription Price of such Units, payable at the time of the initial investment and the Manager may pay an annual trailer fee on behalf of the Trust of up to 1.0% of the Subscription Price of such 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.

### **No Transfer of Units**

Units are not transferable, except by operation of law (for example, a death or bankruptcy of a Unitholder) or in circumstances where the Manager deems it appropriate to do so in its absolute discretion. 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 “The Declaration of Trust and Description of Units - Redemption of Units”. 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 the Declaration of Trust - Termination of the Trust”.

### **Consolidation and Subdivision**

Units may be consolidated or subdivided by the Trustee.

### **Unitholder’s Right to Redeem**

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 \$5,000, by giving written notice to the Manager of a specified number of Units to be redeemed or the dollar amount which the Unitholder requires to be paid. The Redemption proceeds are payable by the Trust 90 days after receipt of such written notice. Any Redemption must include Units with a value of not less than \$5,000. If a Unitholder, after Redemption, holds Units with a value of less than \$5,000, 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 \$5,000. The form of notice may be obtained from the Manager.

### **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 Units issued and outstanding at such time, in any one calendar month, or 25% of the Units issued and outstanding in any fiscal year.

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 365 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 365 day period or until the Manager declares the suspension at an end.

Any 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 shall 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 shall have and shall be advised that they have the right to withdraw their requests for Redemption. The suspension shall 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 shall be conclusive.

### **Short Term Trading**

In order to protect the interests of the remaining Unitholders in the Trust and to discourage short term trading, Unitholders will be subject to a short term trading deduction. Subject to the restrictions below, Units are redeemable at the demand of the Unitholders, 90 days after receipt by the Manager of a written notice from the Unitholder, at a Redemption price equal to:

- (i) at any time up to the first anniversary of their issuance, 95% of the Subscription Price; and
- (ii) thereafter, the short term trading deduction will be reduced by 1% on each anniversary of the original subscription date, so that after the fifth anniversary of the subscription date such Units will be redeemed at the Subscription Price.

The Manager may waive the short term trading deduction, on a case by case basis, in its discretion and may from time to time suspend Redemptions and/or terminate the Trust when the Redemption price exceeds the Book Value per Unit.

### **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.

## **SUBSCRIPTION FOR UNITS**

The Units are conditionally offered if, as and when Subscriptions are accepted by the Trust and subject to prior sale. 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 set forth as Schedule “A” to this Offering Memorandum, 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 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, in the form provided with this Offering Memorandum; and
- b) a cheque or bank draft made payable to “Northern Alliance Trust” 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.

Provided the minimum offering amount has been achieved, 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 deliver to Subscribers certified copies of or, if requested, original certificates representing fully paid and non-assessable Units, provided the subscription price has been paid in full.

Subscribers should carefully review the terms of the Subscription Agreement accompanying this Offering Memorandum 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, other than the Yukon Territory, by way of private placement.

The offering is being conducted:

- a) in all the Provinces and Territories, other than Quebec, pursuant to the exemptions from the prospectus requirements afforded by Sections 2.3, 2.9 and 2.10 of NI 45-106; and
- b) in the Province of Quebec pursuant to the exemptions from the prospectus requirements afforded by Sections 2.3 and 2.10 of NI 45-106.

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, if an individual, who sign a risk acknowledgement in the form of Appendix B to the Subscription Agreement.

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.

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 CDN\$150,000, paid in cash at the time of acquisition, and (ii) the investor is not an individual.

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. In the provinces of Alberta, New Brunswick, Nova Scotia, Ontario 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 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 British Columbia and Alberta, 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 EMDs pursuant to NI 31-103, published by 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 within 30 days of their receipt by the Manager. The minimum subscription is 100 Units (\$500). 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 within 30 days 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 \$5.00 per Unit, 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 \$5,000 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.

## **INCOME TAXES AND RRSP ELIGIBILITY**

Based on the advice of Thorsteinssons LLP, the advisors to the Manager, the following is a summary of the material Canadian federal income tax considerations to holders of Units offered pursuant to this Offering Memorandum who are individuals or corporations resident in Canada, who deal at arm's length with the Corporation and who hold units as capital property, all within the meaning of the Tax Act.

No application has been made for an advance income tax ruling with respect to the investment described in this Offering Memorandum, nor is it intended that any application be made.

**You should consult your own professional advisers to obtain advice on the income tax consequences that apply to you.**

### **Income Tax Consequences**

The following summary outlines the principal Canadian federal income tax consequences to a Subscriber who is resident in Canada of investing in Units. The income tax consequences will not be the same for all Subscribers but will vary depending on a number of factors, including: (i) the province in which the Subscriber resides or carries on business; (ii) whether the Units acquired by the Subscriber will be characterized as capital property; (iii) whether the Subscriber is an individual, trust or corporation; (iv) the nature and amount of the Subscriber's income from other sources; and (v) whether the Units are purchased by, or contributed or sold by the Subscriber to, the Subscriber's

registered retirement savings plan (“RRSP”), registered retirement income fund (“RRIF”), registered education savings plan (“RESP”), registered disability savings plan (RDSP), deferred profit sharing plan (“DPSP”), or tax-free savings account (“TFSA”). The following discussion of the income tax consequences of an investment in Units is, therefore, of a general nature only, is not intended to constitute an exhaustive analysis of those income tax consequences and should not be interpreted as legal or tax advice to any particular Subscriber.

Each prospective Subscriber should obtain independent tax advice as to both the federal and provincial income tax consequences of an investment in Units.

This summary is based on the current provisions of the Tax Act, the regulations to the Tax Act (the “Regulations”), all specific amendments to the Tax Act proposed by or on behalf of the Minister of Finance for Canada prior to the date hereof, and the current published administrative practices of the Canada Revenue Agency (“CRA”), and it assumes that those specific amendments will be enacted substantially as proposed, although no assurance in this regard can be given. This summary does not otherwise take into account or anticipate any changes in laws whether by judicial, governmental or legislative decision or action nor does it take into account provincial or foreign income tax legislation or considerations.

### *Introduction*

This summary focuses on the Tax Act’s requirements for investments in the Trust to be qualified for RRSP, RRIF, RESP, RDSP, DPSP, and TFSA purposes. The determination of whether or not the Units will qualify depends on whether the Trust meets the definition of a “mutual fund trust” as defined in the Tax Act or would otherwise meet the definition of a “quasi-mutual fund trust” if certain prescribed conditions were not met. Hence, the central focus of the summary is whether the basic requirements to become a quasi mutual fund trust have been met and if so, whether the Trust’s proposed investments will disqualify it from being held by RRSPs, RRIFs, RESPs, RDSPs, DPSPs and TFSAs.

### *Requirements for Becoming a Mutual Fund Trust*

#### A. Definition of Mutual Fund Trust

In order for the Trust to meet the definition of a mutual fund trust, the following requirements must be met:

- a) the Trust must be a “unit trust” resident in Canada.
- b) the Trust’s only undertaking must be:
  - i) the investing of its funds in property (other than real property or an interest in real property);
  - ii) the acquiring, holding, maintaining, improving, leasing or managing of any real property (or interest in real property) that is capital property of the Trust; or
  - iii) any combination of the activities described in subparagraphs (i) and (ii);
- c) the Trust must comply with prescribed conditions relating to the number of its Unitholders, dispersal of ownership of its units and public trading of its units; and
- d) the Trust must not be maintained primarily for the benefit of non-residents.

#### B. Unit Trust Resident in Canada

For a trust to qualify as a “unit trust” it must be an *inter vivos* trust, with the interest of Unitholder described by reference to units of the Trust. The Trust is an *inter vivos* trust under which the interest of each beneficiary is described by reference to units. The residence of a trust is a question of fact. However, the Trust will generally be considered to reside where the central management and control of the Trust is exercised. The Trustee is a taxable

Canadian corporation which is resident of Canada for the purposes of the Tax Act, and will exercise control over the Trust's assets. Hence the Trust should be resident in Canada for the purposes of the Tax Act and thus meet the requirement of being resident in Canada.

#### C. Redeemability of Units

The units of a "unit trust" must meet certain prescribed conditions regarding redeemability. In the view of the Manager, the provisions of the Declaration of Trust (see "Securities Offering – Unitholder's Right to Redeem") relating to the redemption of Units comply with the redemption requirement necessary for a "unit trust". If the Trust fails to meet the redemption on demand test or the investment restrictions (depending on whether the Trust is an open ended unit trust or a closed ended unit trust), the Trust would not meet the definition of a "unit trust". As a result, the Trust would fail to meet the definition of a "qualified investment" for RRSP, RRIF, RESP, RDSP, DPSP and TFSA purposes because the Trust fails to meet the "registered investment" definition in the Tax Act (see discussion below under the heading "Qualified Investment Status").

#### D. Restricted Activities of Mutual Fund Trust

In order for the Trust to meet the definition of a "mutual fund trust", the activities of the Trust must be restricted to (i) the investing of its funds in property, (ii) the acquiring, holding, maintaining, improving, leasing or managing of any real property (or interests in real property) that is capital property of the Trust, or (iii) some combination of the foregoing. Hence, a mutual fund trust is permitted to invest its funds in shares, debt obligations and in real property as long as the real property is capital property to the Trust. Investment in real property for the purposes of development and resale is not permitted. However, the CRA has commented that, in its view, investment in real property that will be developed and thereafter held as capital property would be acceptable.

The Declaration of Trust includes provisions which restrict the type of the Trust's investments in such manner that this requirement should be met.

#### E. Ownership of Units

The Trust must comply with "prescribed conditions" relating to the number of its Unitholders, dispersal of ownership of its units and public trading of its units at a particular time in order to qualify as a mutual fund trust. In essence, in order for the Trust to qualify as a mutual fund trust at a particular time, the Trust must have at least 150 beneficiaries each of whom holds a block of Units with an aggregate fair value of not less than \$500, and the Units must have been qualified for distribution to the public by way of a prospectus or similar disclosure document, such as an offering memorandum.

Upon the Trust achieving at least 150 Unitholders each holding a block of Units with an aggregate fair value of \$500 or more, the Trust can qualify as a mutual fund trust. If the Trust does not have the requisite number of Unitholders, the Trust will apply to be registered investment as a "quasi mutual fund trust" (see discussion below under "Qualifying Investment Status Prior to the Trust Becoming a Mutual Fund Trust").

#### F. Non-Resident Ownership of Trust Units

The final requirement of a trust maintaining its mutual fund trust status is that the Trust not be primarily held for the benefit of non-resident persons. The term "primarily" is generally interpreted to mean greater than 50%. Under the terms of the Declaration of Trust, no non-resident persons are permitted to hold units of the Trust. Accordingly, this test should be met.

#### *Qualified Investment Status*

Under the Regulations, an investment in a trust that meets the definition of a "mutual fund trust" is a qualified investment for a Deferred Plan. Accordingly, when the Trust meets all of the requirements to be a mutual fund trust, as discussed above, an investment in Units of the Trust will be a qualified investment for Deferred Plans.

**At its initial stages, the Trust will not qualify as a mutual fund trust because it is expected to initially have less than 150 Unitholders. As a result, the Trust will have to rely on other provisions in order for its Units to be a qualified investment for a Deferred Plan. A trust which has fewer than 150 Unitholders will qualify for investment by a Deferred Plan by holding only “prescribed investments” for such type of plan or fund. The Trust intends to comply with these provisions by limiting its investments to Mortgages of real property in Canada until such time as it meets the distribution and minimum number of beneficiary requirements to qualify as a mutual fund trust.**

Therefore, for the period where the Trust has fewer than 150 Unitholders holding the requisite block of units, as long as the Trust invests in Mortgages that are fully secured by real property in Canada and are not made to an annuitant, a beneficiary, an employer or a subscriber under the governing plan of the plan trust (including persons not dealing at arm’s length with such persons), the secured mortgage investments should meet the definition of a qualified investment for Deferred Plans.

Investments in Equipment Leases and Short Term Loans are not permitted investments for a “quasi-mutual fund trust”, but are permitted investments for a “mutual fund trust”.

#### *Taxation of the Trust and Unitholders*

The Trust will not pay tax on the net income and net realized capital gains that are distributed to Unitholders (pursuant to the terms of the Declaration of Trust), provided the Trust has no non-resident or other designated beneficiaries. The Declaration of Trust prohibits the issue of Units to non-resident or other designated beneficiaries. Losses incurred by the Trust cannot be allocated to Unitholders but may be deducted by the Trust in future years. As a registered investment for Deferred Plans, the Trust will also be liable for a penalty tax if, generally speaking, at the end of a month, the Trust holds property that is not a qualified investment for the type of Deferred Plan that holds Units. The Declaration of Trust prohibits the Trust from holding property which is not a qualified investment for a Deferred Plan.

In computing their taxable income, Unitholders will be required to include the income and the taxable portion of capital gains distributed to them by the Trust. Distributions not included in taxable income, other than the untaxed one-half of 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, respectively. One-half of a capital gain must be included in a Unitholder’s 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 (adjusted to reflect the appropriate inclusion rate) available for carry back three years or forward indefinitely and applied against taxable capital gains realized in those earlier or later years.

#### **Status of the Trust**

The Manager and Trustee have advised tax counsel that the Trust at all time will meet the conditions to be a “mutual fund trust” as that term is defined under the Tax Act, other than the conditions relating to number of unitholders and dispersal of ownership. Once the Trust meets the conditions relating to number of unitholders and dispersal of ownership and hence is a mutual fund trust for purposes of the Tax Act, the Trust will apply to the Minister of National Revenue for registration as a “mutual fund trust”.

#### **Taxation of the Trust**

The Trust must pay tax on its net income and net realized capital gains 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 by 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 net income and net realized capital gains each year, so that the Trust will not pay any tax under Part I of the Tax Act.

In the event the Trust fails to qualify as a mutual fund trust under the Act, or ceases to qualify as a mutual fund trust under the Act once it has so qualified, 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 of 36% under Part XII.2 of the Tax Act. 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 in any event.

### **Taxation of Unitholders**

Each Unitholder will be required to include in computing the Unitholder’s income for a particular year the portion of the net income, and the taxable portion of net realized capital gains, 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 net income and taxable portion of net realized capital gains of the Trust distributed to that Unitholder.

Any amount in excess of the net income and the taxable portion of net realized capital gains of the Trust that is distributed to a Unitholder in a year is not included in computing the Unitholder’s income for the year. 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 his or her 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 adjusted cost base of the Unit is reduced to a negative amount as a result of this reduction, the negative amount will be a capital gain to 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, it is unlikely that the Trust will receive dividends or that it will realize capital gains. However, if the Trust receives income 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.

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. 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. 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.

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.

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 is a registered investment 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 accounts and registered retirement income funds 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 (together with persons with whom the Unitholder does not deal at arm's length) cannot be a prohibited investment.

**Not all securities are eligible for investment in a Deferred Plan. Prospective Unitholders who plan to own Units in a Deferred Plan should consult with their own tax advisors to obtain advice on the eligibility of these securities for the Plan in question.**

## **COMPENSATION PAID TO SELLERS AND FINDERS**

### **Selling Commissions**

The Trust and the Manager do not charge a fee or commission to investors when investors purchase Units of the Trust, except the Trust may pay, on an investors behalf, a Sales Fee of up to 5% of the Subscription Price of the Units to arm's length EMDs, payable at the time of initial investment. Sales Fees paid by the Trust may also be paid to the Manager and its Affiliates and owners and employees of the Manager. In addition, the Manager will receive a one-time fee of 0.5% of the Subscription Price of the initial Unit purchase for each investor, which fee is paid for by the Trust. Selling commissions payable by the Trust may be modified or discontinued by the Manager at any time.

Any Sales Fees paid in the above manner by the Trust will reduce the amount of money invested in the Trust. Selling commissions may be modified or discontinued by the Manager at any time.

### **Dealer Compensation**

The Trust may pay an investor's authorized broker, dealer or advisor Trailer Fees. The Trailer Fees are accrued monthly and are paid quarterly at the current annual rate of 1.0% of the Subscription Price per Unit of the 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 quarter. The Trailer Fee will not be paid if the Units are redeemed. Trailer Fees are calculated monthly and payable, on or about 30 days following the last day of each calendar quarter. The amount of the Trailer Fee will be deducted from distributions otherwise payable to Unitholders. The Trust may, from time to time, pay the Trailer Fee more frequently than quarterly, in which event the Trailer Fee will be pro rated for the period to which it relates.

Sales Fees 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. This is a speculative investment. An investor should reach a decision to invest in the Trust after careful consideration with his or her advisors as to the suitability of 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 lose their entire investment. In addition to the factors set forth elsewhere in this Offering Memorandum, prospective investors should consider the following factors.

### **No Guaranteed Return**

Although investments in Mortgages and other loans and leases will be carefully chosen by the Manager, there is no representation made by the Manager that such investments will have a guaranteed return to Unitholders, or any return at all, nor that losses will not be incurred by the Trust in respect of such investments. The Trust may not earn sufficient revenues to pay the Preferred Return or the distribution to Series B Unitholders. The Book Value of the Units may decline if the Trust is unable to cover its expenses. **This is a speculative investment. This offering is not suitable for investors who cannot afford to lose their entire investment.**

### **Short Operating History**

Both the Manager and the Trust are newly formed entities with minimal history, revenues or profits. There is a risk that the principals of the Manager will be unable to successfully develop their business plan.

### **Risks Associated with Redemptions**

The payment in cash by the Trust of the redemption price of Units will reduce the amount of cash available to the Trust for the payment of distributions to the Unitholders, as the payment of the amount due in respect of redemptions will take priority over the payment of cash distributions.

The Trust will endeavour to make all redemption payments in cash, and expects that due to the short term nature of the Loans it generally will be in a position to do so. However, the total cash amount available for the payment of the redemption price of Units by the Trust is limited in any twelve month period to 5.0% of the aggregate subscription price of all Units that were issued and outstanding at the start of such twelve month period. Therefore, there can be no assurance that Unitholders will be able to redeem any or all of their Units for cash payment when they wish to do so.

### **Dilution**

The number of Units the Trust is authorized to issue is unlimited and the Manager has the sole discretion to issue additional Units. The proceeds of this Offering may not be sufficient to accomplish all of the Trust's proposed objectives. In addition to alternate financing sources, the Trust may conduct future offerings of Units in order to raise the funds required which will result in a dilution of the interests of the holders of Units in the Trust and the income or loss from the Trust.

### **Pool Offering**

There is no guarantee that the Trust will identify loans which meet its intended investment criteria. Investors will be relying on the good faith and expertise of the principals of the Manager and their principals in identifying and accepting potential investment opportunities for the Trust. Depending on the return achieved on such investments, the Unitholders' return on their investment in the Units will vary.

### **Concentration and Composition of the Investment Portfolio**

The Investment Portfolio will be invested primarily in Mortgage Investments. Given the concentration of the Trust's exposure to the mortgage lending sector, the Trust will be more susceptible to adverse economic or regulatory occurrences affecting that sector than an investment fund that is not concentrated in a single sector.

Investments in Mortgages are relatively illiquid. Such illiquidity will limit the Trust's ability to vary its Investment Portfolio promptly, if at all, in response to changing economic or investment conditions.

### **Nature of Mortgage Backed Investments**

The Trust's investments in Mortgage Investments will be secured by real estate, the value of which can fluctuate. 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, which may then depend on the credit worthiness of any tenants of borrowers leasing the real property secured by the Mortgage Investment. Changes in market conditions may decrease the value of the secured property and reduce the cash flow from the property, thereby impacting on the ability of the borrower to service the debt and/or repay the Mortgage loan. In particular, recent economic disruptions in Alberta may adversely affect the value of Alberta real estate secured by a Mortgage Investment and the ability of the borrowers to repay the Mortgage Loans, and thereby negatively impact the Trust's business and hence the value of the Units.

A decline in value of Real Property provided as security for a Mortgage included in the Investment Portfolio may cause the value of the Real Property to be less than the outstanding principal amount of the Mortgage loan. Foreclosure by the Trust on any such Mortgage loan generally would not provide the Trust with proceeds sufficient to satisfy the outstanding principal amount of the Mortgage loan.

Where independent appraisals are 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 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.

### **Equipment Leases and Short Term Loans**

Equipment Leases and Short Term Loans will not have the benefit of being secured by Mortgages registered against Real Property. Motor vehicles and equipment are subject to the risks that they may become damaged or be moved to locations making them difficult to recover in the event of a default. Short Term Loans to realtors and mortgage brokers will be secured by an assignment of the contract pursuant to which the commission is to be paid, but if the transaction which is the subject of the commission does not close, no commission is payable and the Trust may have difficulty in obtaining payment of the loan. Business loans will be paid first from the day to day revenue transactions of the business so the business has no ability to stop payments unless they stop using electronic forms of payment (Visa, debit, etc.). If the business becomes bankrupt, it will be difficult for the Trust to obtain payment for the loan.



### **Sensitivity to Interest Rates**

It is anticipated that the market value of the Investment Portfolio at any given time will be affected by the level of interest rates prevailing at such time. The Trust's income will consist primarily of interest payments on Mortgage Investments 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 Mortgage Investments are based), the Trust may find it difficult to arrange additional Mortgage Investments bearing rates sufficient to achieve the targeted Preferred Return. There can be no assurance that an interest rate environment in which there is a significant change in interest rates would not adversely affect the Trust's ability to maintain distributions on the Series B Units at a consistent level.

### **Availability of Investments**

The ability of the Trust to make investments in accordance with its investment policies will depend upon the availability of suitable investments. The Trust will compete with individuals, partnerships, companies, trusts and institutions for the investment in the financing of real properties, equipment leasing and real estate commission loans. Many of these competitors have greater resources than the Trust or operate with greater flexibility.

### **Subordinate and Non-Conventional Financing**

Mortgages held by the Trust will primarily be second priority mortgages and may be third priority mortgages. Mortgages ranking subsequent to a first charge are generally considered a higher risk than first position mortgages since they are subject to the interests of prior charge holders. When a charge on a real property is in a position other than first-ranking on a real property, 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 the security of the real property. In some cases, the Trust may acquire a first-ranking charge to protect its investment in 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 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.

The Manager intends that the Trust will invest in a diversified portfolio of first, second or third priority Mortgages which, on a portfolio basis, will not exceed 90% of the aggregate appraised values of the real property securing the Mortgages, which will therefore exceed the investment limit for conventional Mortgage lending.

### **Borrower Profile**

Some of the Trust's Mortgage Investments will be comprised of loans made to individuals who are involved in bankruptcy proceedings, who are the subject of foreclosure proceedings, who have poor credit scores or who are self-employed. The credit risks that these borrower's present may negatively impact their ability to repay a Mortgage loan which could in turn lead to an increased number of defaults in the Trust's Investment Portfolio. For a discussion on the impact Mortgage defaults have on the Corporation please see "Risks Related to Mortgage Extensions and Mortgage Defaults" below.

### **Borrowing and Leverage**

The Trust is subject to the risks associated with debt financing. The Trust may utilize leverage (the borrowing of capital for investing in Investments) from time to time at the discretion of the Manager through the Credit Facility arranged by the Manager with the Canadian Western Bank, an arm's length commercial bank. Under the Credit Facility the Trust may use leverage in aggregate that will not exceed \$1,000,000. The Manager expects that the Trust will utilize leverage to bridge timing differences resulting from loan maturities and new loan origination and for general working capital purposes when required. The Credit Facility will bear interest at a rate equal to the greater of 5.20% per annum and a rate of 2.5% per annum above Canadian Western Bank's prime lending rate, which as of the date hereof is 2.70% per annum. Interest shall be payable without demand on the dates specified by Canadian Western Bank and shall be calculated daily, compounded monthly.

The Trust and the Manager have granted Canadian Western Bank a security interest in the assets of the Trust and the Manager to secure any borrowing under the Credit Facility. This means that the rights of Series A Unitholders to the Preferred Return and the rights of Series B Unitholders to quarterly distributions, and the rights of Unitholders to the return of capital via Redemption will be subordinate to the right of Canadian Western Bank to be repaid any amounts which may be outstanding under the Credit Facility (as well as to the rights of any other creditors of the Trust). As of the date of this Offering Memorandum, the balance owing under the Credit Facility is \$574,835.32.

In the event the Trust cannot meet its obligations with respect to the Credit Facility (such as the payment of interest or the repayment of principal), the Trust may incur substantial costs if the Trust is forced to sell assets to repay either loan or to otherwise protect its Investments while managing its debts. In addition, the Trust may lose some or all of its assets as a result of Canadian Western Bank exercising its rights under its security agreement taken as security in connection with the Credit Facility.

The interest expense incurred in respect of the Credit Facility may exceed the incremental capital gains/losses and income generated by the incremental investments in Investments made with the proceeds of the Credit Facility. Accordingly, any event which adversely affects the value of the Investments (specifically, the Mortgages) would be magnified to the extent that the Credit Facility is employed to purchase such Investments. In addition, the Trust may not be able to renew the Credit Facility on acceptable terms or at all. There can be no assurance that the borrowing strategy employed by the Trust in respect of the Credit Facility will enhance returns.

### **Marketability of Units**

There is currently no market for the Units and it is not anticipated that any market will develop. The Units are not transferable, except: (a) with the approval of the Manager and (b) if required as a result of a Unitholder becoming a non-resident. As well, requirements of securities laws prohibit and restrict transferability of Units. Consequently, holders of Units will not be able to resell their Units. See “Terms of the Trust Units - Forced Redemption Upon Non-Residency” and “Resale Restrictions”.

### **Tax Matters**

The Trust and Unitholders may be adversely affected by changes in income tax laws and other laws, governmental policies or regulations.

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. 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.

Future changes in the Tax Act may result in the Trust ceasing to meet the requirements for a registered investment as a quasi-mutual fund trust. In such a case, the registration of the Trust may be revoked. If so, Units would cease to be qualified investments for Deferred Plans which could result in Deferred Plans which hold Units becoming liable for a penalty tax.

### **Very Limited Role of the Trustee**

The Trustee does not supervise or monitor the Manager in any respect. The powers, authorities and responsibilities of the Trustee are limited to those expressly set forth in the Declaration of Trust. All other powers, authorities and responsibilities are those of the Manager. The Trustee acts on the basis of instructions from the Manager, without independent investigation.

### **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 Mortgage loans. Moreover, at any point in time, the interest rates

being charged for Mortgages are reflective of the general level of interest rates and, as interest rates fluctuate, it is expected that the aggregate yield on Mortgage investments 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.

### **Distributions**

The funds available for distributions will vary according to, among other things, the value of the Investment Portfolio and the interest earned thereon. Fluctuations in the market value of the Investment Portfolio may occur for a number of reasons beyond the control of the Manager or the Trust. The Trust will depend on revenue generated from the Investment Portfolio. There can be no assurance regarding the amount of revenue that may be generated by the assets comprising the Investment Portfolio. The amount of revenues sufficient to pay the Preferred Return or any distribution to Series B Unitholders will depend upon numerous factors, including the ability of borrowers to make applicable payments under Mortgages comprising the Investment Portfolio, interest rates, unexpected costs, and other factors which may not now be known by or which may be beyond the control of the Trust or the Manager.

### **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. This could affect payments of income and return of capital invested by a Unitholder. Further, in the event that the valuation of the assets of the Trust have 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.

The Trust issues interest-only loans to borrowers, depending on the borrower's requirements and the market competition. The risk of an interest-only loan is that the principal amount of the loan does not decrease as the borrower makes payments over the term of the loan. If the loan goes to foreclosure and is in a loss position, the loan will lose more principal than if the loan was an amortized loan. Typically, less than 20% of the Trust's loans are interest-only.

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. Exercising Mortgage enforcement remedies is a process that requires a significant amount of time to complete, which could adversely affect the cash flows of the Trust during the period of enforcement. In addition, as a result of potential declines in real estate values, in particular given the current economic environment in Alberta due primarily to the low price of crude oil, 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 Net Asset Value of the Trust would be reduced, and the returns, financial condition and results of operations of the Trust could be adversely affected. As at the date hereof, the Trust's Investment Portfolio includes 2 Mortgages in the aggregate amount of \$224,018 which are in default for being over 60 days due. No loss provisions have been taken by the Trust as full recovery is expected. Where losses are incurred or loss provisions are taken the distributions that the Trust otherwise intended to pay its Unitholders are reduced.

## **Foreclosure, Repossession 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.

Expenditures on recovering collateral property for leases could include lawyers, investigators, consultants, mechanics and body repair specialists. As well GPS units and GPS management contracts would be included. In the case of liquidation, costs associated include preparation, commissions, sales, auction fees, and other related expenses.

## **Reliance on the Manager**

**The Manager exercises a very high degree of control over the business, operations and affairs of the Trust and has complete control over the management and administration of the funds of the Trust. As a result, any change in ownership of the Manager, bankruptcy or insolvency proceedings involving the Manager or litigation commenced against the Manager will have a material impact on the Trust and its investments and ultimately could have a material impact on the return of principal and interest associated with a Unitholder's Units.** Although the employees of the Manager who will be primarily responsible for the performance of the obligations owed to the Trust have extensive experience, there is no certainty that such individuals will continue to be employees of the Manager in the future. There is no certainty that the persons who are currently officers and directors of the Manager will continue to act in such capacity. Unitholders will be required to rely on the good faith, expertise and judgment of the individuals comprising the management of the Manager from time to time. Unitholders do not have the right to direct or influence in any manner the business or affairs of the Manager.

## **Competition**

The performance of the Trust depends, in large part, on the Manager's ability to obtain Investment opportunities that offer favourable yields, and the Manager will have to compete with other lenders for these opportunities. Some of these competitors may have greater resources than the Trust or other advantages and may therefore operate with greater flexibility. As a result, the Manager may not be able to obtain Investment opportunities at favourable yields, or at all.

## **Resale Restrictions**

The Units are subject to onerous and indefinite resale restrictions under securities regulations. There is no market through which the Units may be sold and the Trust does not expect that any market will develop pursuant to this Offering or in the future. See "Securities Offered – Unitholder's Right to Redeem".

## **Restrictions on Redemption**

Conditions may arise which would cause 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 365 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”.

### **Potential Liability under Environmental Protection Legislation**

Environmental and ecological legislation and policies have become increasingly important in recent years. Under various laws, as the owner of Real Property, the Trust could become liable for the costs of removal or remediation of certain hazardous or toxic substances released on, from or in one or more of the properties. The failure to remove or remediate such substances, if any, may adversely affect the Trust’s ability to sell such a property or to borrow using a property as collateral. The Trust will require disclosure from all borrowers of environmental reports and studies relating to the real property being Mortgaged and will take standard commercial steps to reduce any risk to the Trust of liability for environmental contamination.

### **Nature of Units**

A Unitholder does not have all of the same protections, rights and remedies as a shareholder would have under the Business Corporation Act. Unlike shareholders of Business Corporation Act corporations, the Trust will not be required to hold annual Unitholder meetings and Unitholders do not have a comparable right of a shareholder to make a proposal at a general meeting of the Trust. The matters in respect of which Unitholder approval is required under the Declaration of Trust are generally less extensive than the rights conferred on the shareholders of a Business Corporation Act corporation. Unitholders do not have recourse to a dissent right under which shareholders of a Business Corporation Act corporation are entitled to receive the fair value of their shares where certain fundamental changes affecting the corporation are undertaken (such as an amalgamation, the sale of all or substantially all of its property, or a going private transaction). Unitholders similarly do not have recourse to the statutory oppression remedy that is available to shareholders of a Business Corporation Act corporation which would apply where the corporation undertakes actions that are oppressive, unfairly prejudicial or disregard the interests of security holders and certain other parties. Shareholders of a Business Corporation Act corporation may apply to a court to order the liquidation and dissolution of the corporation in certain circumstances whereas Unitholders may rely only on the general provisions of the Declaration of Trust which permit the winding-up of the Trust with the approval of an extraordinary resolution of the Unitholders. Shareholders of a Business Corporation Act corporation may also apply to a court for the appointment of an inspector to investigate the manner in which the business of the corporation and its affiliates is being carried on where there is reason to believe that fraudulent, dishonest or oppressive conduct has occurred. The Business Corporation Act also permits shareholders to bring or intervene in derivative actions in the name of the corporation or any of its subsidiaries, with the leave of a court. The Declaration of Trust does not include comparable rights.

### **Indemnification**

The Trustee, the Unitholders and the officers, directors and employees of the Manager are entitled to indemnification and reimbursement out of the Trust Property, except under certain circumstances, from the Trust. Such indemnification obligations could decrease the returns, which would otherwise be available to the Unitholders of the Trust.

### **Effect of Expenses on Returns**

The Trust will bear all expenses related to its operations and such expenses will reduce the actual returns to the Unitholders. Most of the expenses will be paid regardless of whether the Trust produces positive investment returns. If the Trust does not produce significant positive investment returns, these expenses could result in a Unitholder incurring a net loss in its investment. The Trust Units of the Trust are available in more than one series. If the Trust cannot pay the expenses of one series using its proportionate share of the Trust Property, the Trust will be required to pay those expenses out of the other series’ proportionate share of the Trust’s assets. This may lower the investment returns of the other class of Trust Units.

### **Lack of Regulatory Oversight**

The Trust is not a “reporting issuer” or the equivalent under securities legislation and is not subject to the same level of regulatory oversight as applicable to “reporting issuers” (or the equivalent).

### **No Review of Offering Memorandum by Regulatory Authorities**

Investors will not have the benefit of a review of this Offering Memorandum, the Declaration of Trust, or any other documents in relation to the Offering by any regulatory authorities.

### **Conflicts of Interest**

A conflict of interest in the context of this Offering pertains to 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. 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 Manager or its Affiliates may also earn brokerage fees from placing Mortgages against properties, originating other Investments and performing due diligence review proceedings.

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 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, 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 has recently been appointed mortgage administrator of Canada the One Mortgage Investment Corporation and SYB Easy Finance Ltd. Although the Manager will administrate the mortgage investments of each entity, it is not obligated to raise investment money or to provide mortgage opportunities to either entity.

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.

Transactions between the Trust and the Manager and one or more of their affiliates or associates or the officers and directors thereof may be entered into without the benefit of arm’s length bargaining. Therefore, situations may arise in which the Manager may be making determinations which could benefit itself, its affiliates or associates, or its officers or directors to the detriment of the Trust or the Unitholders. Unitholders must rely on the standard of care owed by the Manager to all Unitholders as set out in the Declaration of Trust to prevent over reaching by others in transactions with the Trust.

The Credit Committee is made up of two owners of the Manager and one independent member. There is an inherent conflict of interest for the Manager as it receives a lender fee for every loan that is placed for the Trust. The Manager also receives an Administration Fee based on the assets of the Trust. The Manager is not penalized for loans that are impaired. However, the Manager is responsible for the overall performance of the Trust and must provide a standard of care and fiduciary duty to the Unitholders, as provided for in the Declaration of Trust.

## **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 sections entitled “Manager’s Fees” and “Expenses of the Trust”.

## **Possible Personal Liability of Unitholders**

There is a risk that a Unitholder could be held personally liable for claims arising out of any obligations, liabilities and activities of the Trust and the Trustee. 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 obligations or claims. **Notwithstanding the foregoing, to the extent that claims and obligations cannot be satisfied by the Trust and the Trust Property, a Unitholder could be held personally liable.**

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.

## **AUDITORS**

The auditor of the Trust is Czechowsky, Graham & Hanevelt, Chartered Accountants, #400, 1121 Centre St. North, Calgary, Alberta, T2E 7K6. BDO Canada, LLP, whose address is 620, 903 – 8<sup>th</sup> Avenue SW, Calgary, Alberta T2P 0P7, was the auditor for the Trust until January 1, 2016.

## **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. The Fiscal Year end for the Trust is December 31.

## **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 *National Instrument 45-106* ("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 Cdn\$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***

In the event that 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.

In the event that 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 Quebec***

Where the Offering Memorandum contains a Misrepresentation (as defined under the *Securities Act* (Quebec)), an Investor who purchases Units during the period of distribution has, without regard to whether the Investor relied on the Misrepresentation, a right of action for damages against the Trust or a right of action for rescission against the Trust. If the Investor elects to exercise a right of action for rescission against the Trust, then the Investor shall have no right of action for damages against the Trust.

No person or company is liable hereunder 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) 180 days from the day that the Investor first had knowledge of the facts giving rise to the cause of action, or (ii) 3 years from the day of the transaction that gave rise to the cause of action.

#### ***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*, 1988 (Saskatchewan) and the *Securities Act* (Ontario), the *Securities Act* (Quebec), the *Securities Act* (New Brunswick), 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.

Attached below are the Audited Annual Financial Statements for the year ended December 31, 2015 and Audited Annual Financial Statements for the year ended December 31, 2016.



**CZECHOWSKY, GRAHAM & HANEVELT**  
**CHARTERED ACCOUNTANTS**  
• AN ASSOCIATION OF PROFESSIONAL PRACTICES •

STEVE L. CZECHOWSKY\*  
LOUIS A. GRAHAM\*  
DIANA HANEVELT\*  
INGRID D. ODEGARD\*  
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FAX: 403-263-1749

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## **INDEPENDENT AUDITOR'S REPORT**

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To the Members of Northern Alliance Trust

I have audited the accompanying consolidated financial statements of Northern Alliance Trust, which comprise the consolidated statement of financial position as at December 31, 2015 and the consolidated statements of loss and comprehensive loss, changes in unitholder's equity and cash flow for the period then ended, and a summary of significant accounting policies and other explanatory information.

### **Management's Responsibility for the Consolidated Financial Statements**

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

### **Auditor's Responsibility**

My responsibility is to express an opinion on these consolidated financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

*(continues)*

Independent Auditor's Report to the Members of Northern Alliance Trust *(continued)*

Opinion

In my opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Northern Alliance Trust as at December 31, 2015 and its financial performance and its cash flow for the period then ended in accordance with International Financial Reporting Standards.

The consolidated financial statements for the period ended July 15, 2015 were audited by another accounting firm and are presented for comparative purposes only.

Calgary, Alberta  
March 30, 2016

A handwritten signature in blue ink, appearing to read "C. A. G. G.", is written over the printed name "CHARTERED ACCOUNTANT".

CHARTERED ACCOUNTANT



**Northern Alliance Trust**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
For the period ended December 31, 2015

**Consolidated Financial Statements**

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# Northern Alliance Trust

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Expressed in Canadian Dollars

	December 31, 2015	July 15, 2015
<b>Assets</b>		
<b>Current assets</b>		
Cash	\$ 21,677	\$ -
Loans and interest receivable (Note 6)	926,271	-
Issuance costs	-	38,094
<b>Total assets</b>	<b>\$ 947,948</b>	<b>\$ 38,094</b>
<b>Liabilities and unitholders' equity</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 4,110	\$ 2,445
Due to related parties (Note 5)	52,422	35,665
Distributions payable	7,951	-
<b>Total liabilities</b>	<b>64,483</b>	<b>38,110</b>
<b>Unitholders' equity</b>		
Unit capital	911,715	-
Deficit	(28,250)	(16)
<b>Total unitholders' equity</b>	<b>883,465</b>	<b>(16)</b>
<b>Total liabilities and unitholders' equity</b>	<b>\$ 947,948</b>	<b>\$ 38,094</b>

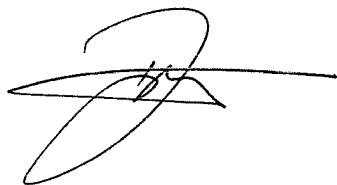
*Signed*

David  
McKittrick

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

**Northern Alliance Trust**  
CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
Expressed in Canadian Dollars

	December 31, 2015	July 15, 2015
<b>Assets</b>		
<b>Current assets</b>		
Cash	\$ 21,677	\$ -
Loans and interest receivable (Note 6)	926,271	-
Issuance costs	-	38,094
<b>Total assets</b>	<b>\$ 947,948</b>	<b>\$ 38,094</b>
<b>Liabilities and unitholders' equity</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 4,110	\$ 2,445
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Distributions payable	7,951	-
<b>Total liabilities</b>	<b>64,483</b>	<b>38,110</b>
<b>Unitholders' equity</b>		
Unit capital	911,715	-
Deficit	(28,250)	(16)
<b>Total unitholders' equity</b>	<b>883,465</b>	<b>(16)</b>
<b>Total liabilities and unitholders' equity</b>	<b>\$ 947,948</b>	<b>\$ 38,094</b>



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

# Northern Alliance Trust

## CONSOLIDATED STATEMENT OF LOSS AND COMPREHENSIVE LOSS

Expressed in Canadian Dollars

For the period ended	December 31, 2015	July 15, 2015
Revenue	\$ 13,268	\$ -
Expenses		
Bank charges	109	16
Interest expense (Note 5)	2,177	-
Management fee (Note 5)	8,984	-
Professional fees	11,420	-
	<u>22,690</u>	<u>16</u>
Net loss and comprehensive loss for the period	\$ (9,422)	\$ (16)

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

# Northern Alliance Trust

## CONSOLIDATED STATEMENT OF CHANGES IN UNITHOLDERS' EQUITY

Expressed in Canadian Dollars

	Number of units	Unit capital	Deficit	Total Unitholders' Equity
<b>Balance at May 1, 2015</b>	-	\$ -	\$ -	\$ -
Loss for the period	-	-	(16)	(16)
<b>Balance at the period ended July 15, 2015</b>	-	-	(16)	(16)
Issuance of Series A Units	120,000	600,000	-	600,000
Issuance of Series B Units	74,753	373,767	-	373,767
Issuance by way of DRIP of Series A Units	187	937	-	937
Issuance by way of DRIP of Series B Units	983	4,911	-	4,911
Issuance costs (Note 5)	-	(67,900)	-	(67,900)
Loss for the period	-	-	(9,422)	(9,422)
Distributions paid	-	-	(18,812)	(18,812)
<b>Balance at the period ended December 31, 2015</b>	<b>195,923</b>	<b>\$ 911,715</b>	<b>\$ (28,250)</b>	<b>\$ 883,465</b>

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

# Northern Alliance Trust

## CONSOLIDATED STATEMENT OF CASH FLOW

Expressed in Canadian Dollars

For the period ended	December 31, 2015	July 15, 2015
<b>Cash flows from (used in) operating activities</b>		
Net loss for the period	\$ (9,422)	\$ (16)
Changes in non-cash working capital balances		
Loans and interest receivable	(926,271)	-
Accounts payable	1,665	2,445
<b>Total cash used in operating activities</b>	<b>(934,028)</b>	<b>2,429</b>
<b>Cash flows from (used in) financing activities</b>		
Proceeds from unit issuance of Class A Units	600,000	-
Proceeds from unit issuance of Class B Units	373,767	-
Issuance costs (Note 5)	(29,806)	(38,094)
Due to related parties	16,757	35,665
Distributions paid	(5,013)	-
<b>Total cash from financing activities</b>	<b>955,705</b>	<b>(2,429)</b>
<b>Total increase in cash during the period</b>	<b>21,677</b>	<b>-</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>-</b>	<b>-</b>
<b>Cash and cash equivalents at end of period</b>	<b>\$ 21,677</b>	<b>\$ -</b>

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

**1. Nature of Operations**

Northern Alliance Trust and its wholly owned subsidiary Northern Alliance Sub Trust (together the "Trust") is an unincorporated open-ended unit trust created under the laws of the Province of British Columbia by a Declaration of Trust dated May 1, 2015 for the purposes of investing the funds of the Trust for the benefit of the unitholder. The principal office is located at 2005 Louie Drive, West Kelowna, B.C. V4T 3C3.

---

**2. Significant Accounting Policies**

**Basis of Preparation**

The consolidated financial statement has been prepared in accordance with International Financial Reporting Standards ("IFRS").

The Trust's functional and presentation currency is the Canadian dollar.

**Basis of Measurement**

The consolidated statement of financial position has been prepared on the historical cost basis.

**Use of Estimates and Judgments**

The preparation of consolidated financial statements in compliance with IFRS requires management 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. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

**Income Taxes**

The Trust is a taxable entity under the Income Tax Act (Canada) and is taxable only on income that is not allocated to the Unitholder.

The consolidated entity includes a controlled company. The income or loss of the Company is taxable to the consolidated entity and not taxable to the Trust.

Income tax expense is comprised of current and deferred tax. Income tax expense is recognized in profit or loss except to the extent that it relates to items recognized directly in equity or other comprehensive loss.

## 2. Significant Accounting Policies (Continued)

### Equity Instruments

Equity instruments are contracts that give a residual interest in the net assets of the Trust. Financial instruments issued by the Trust are classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset. Series A and B units are classified as equity instruments.

Incremental costs directly attributable to the issue of new units are shown in equity as a deduction, net of tax, from the proceeds.

### Financial Instruments

#### Classification and Measurement

Financial assets and financial liabilities are initially measured at fair value and are subsequently accounted for based on their classification as described below. The classification depends on the purpose for which the financial instruments were acquired and their characteristics. Except in very limited circumstances, the classification is not changed subsequent to initial recognition.

#### *Financial Assets*

Financial assets are classified into one of four categories:

- Held-to-maturity;
- Fair value through profit or loss ("FVTPL");
- Loans and receivables; and
- Available-for-sale ("AFS").

#### *Financial Assets at FVTPL*

A financial asset is accounted for as FVTPL if it is classified as held-for-trading or designated as such upon initial recognition. Financial assets are designated as at FVTPL if the Trust manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Trust's risk management strategy. These instruments are accounted for at fair value with the change in the fair value recognized in the statement of income during the year. Attributable transaction costs are recognized in the statement of income when incurred. The Trust does not have any financial assets classified as FVTPL.

#### *Loans and Receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market. Loans and receivables are initially recognized at fair value and subsequently at amortized cost using the effective interest rate method. Transaction costs incurred to acquire these financial instruments are included in the underlying balance. Cash is classified as loans and receivables.

The Trust does not have any financial assets classified as held-to-maturity, available for sale, or FVTPL.

#### *Financial Liabilities*

Financial liabilities are classified as other financial liabilities.

#### *Other Financial Liabilities*

Other liabilities are accounted for at amortized cost using the effective interest rate method.

#### Determination of Fair Value

The fair value of a financial instrument on initial recognition is the transaction price, which is the fair value of the consideration given or received. Subsequent to initial recognition, fair value is determined by management using available market information or other valuation methodologies.



**2. Significant Accounting Policies (Continued)**

**Financial Instruments (Continued)**

Fair Value Hierarchy

The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1) and the lowest priority to unobservable inputs (level 3).

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

Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2: Inputs other than quoted prices included in level 1 that are observable for the asset or liability either directly or indirectly; and

Level 3: Inputs that are not based on observable market data.

As at year end, the Trust did not have any financial instruments measured at fair value subsequent to initial recognition.

**Impairment of Financial Assets**

At each reporting date, the Trust assesses whether there is objective evidence that financial assets not carried at FVTPL are impaired. A financial asset or a group of financial assets is (are) impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s), and that the loss event has impact on the future cash flows of the asset(s) that can be estimated reliably.

Objective evidence that financial assets are impaired can include significant financial difficulty of the borrower or issuer, default or delinquency by a borrower, restructuring of a loan or receivable by the Trust on terms that the Trust would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.

The Trust considers evidence of impairment for financial assets at both a specific asset and portfolio level.

The Trust has no impairment loss from financial assets.

**Impairment of Non-financial Assets**

Non-financial assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount, which is the higher of value in use and fair value less costs to sell, the asset is written down accordingly.

For the purpose of assessing the value in use, the estimated future cash flows are discounted to their present value using the pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

The Trust has no impairment loss from non-financial assets.

## 2. Significant Accounting Policies (Continued)

### **New Standards, Interpretations and Amendments not yet Adopted**

A number of new standards, amendments to standards and interpretations have been issued but are not yet effective for the period ended December 31, 2015, and have not been applied in preparing these consolidated financial statements. None of these are expected to have an effect on the consolidated financial statements of the Trust, with the exception of:

IFRS 9, Financial Instruments ("IFRS 9") uses a single approach and is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. The Trust is currently evaluating the impact of IFRS 9 on its consolidated financial statements.

IFRS 15, Revenue from Contracts with Customers ("IFRS 15") is based on the notion that the principle of revenue recognition has moved from a transfer of risks and rewards to a transfer of control of the goods or services to the customer. The core principle of IFRS 15 is that revenue recognition is to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This standard is effective for annual periods beginning on or after January 1, 2017, with earlier application permitted.

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## 3. Unit Capital

The Trust is authorized to issue an unlimited number of redeemable non-transferable Series A Units and Series B Units. During the period, the Trust issued 120,187 Series A Units (July 31, 2015 - Nil Series A Unit) and 75,736 Series B Units (July 31, 2015 - Nil Series B Unit) for proceeds of \$600,937 (July 15, 2015 - \$Nil) and \$378,678 (July 15, 2015 - \$Nil), respectively. Each unitholder is entitled to one vote for each unit held.

Series A Units have a right to a preferred return of 6% per annum. Declaration of a distribution is at the discretion of the Northern Alliance Financial Corporation ("Manager"). Series B Units are entitled to receive the balance of net revenue (after payment of the distribution of Series A Units) at the discretion of the Manager.

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## 4. Capital Management

The Trust defines capital as series A and B units. The Trust's objectives in managing capital is to ensure adequate operating funds are available to maintain consistent and sustainable unitholder distributions, fund administrative costs and invest in new opportunities.

The Trust's management team is responsible for approving the Trust's objectives and policies and for overseeing the effective management of capital. The Trust's capital objectives are met by ensuring that adequate cash generated from operations are available to sustain the objectives as outlined above.

The capital at December 31, 2015 is \$883,465 (July 15, 2015 - deficit of \$16). There have been no changes in how the Trust defines capital or how it manages capital in the period.

The Trust is not subject to externally imposed capital requirements.

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**5. Related Party Transactions and Balances**

As at December 31, 2015, the Trust had payable balances due to related parties by virtue of management and a common unitholder totaling \$52,422 (July, 2015 - \$35,655) for costs incurred in relation to professional services.

During the period the Trust entered into the following transactions with related parties:

The Trust paid commission fees included in issuance costs to the Director of the Trust in the amount of \$6,000 (July 15, 2015 - \$Nil).

The Trust paid management fees of \$8,984 (July 15, 2015 - \$Nil) to the Manager.

The Trust paid interest of \$1,797 (July 15, 2015 - \$Nil) to the Manager.

The Trust paid interest of \$380 (July 15, 2015 - \$Nil) to a company related by way of common management.

The remuneration of directors and other members of key management personnel were \$Nil (July 15, 2015 - \$Nil).

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**6. Financial Instruments**

The Trust has loans and receivables from second mortgages with interest rates ranging from 10.5% - 15%. All mortgages are due on or before January 1, 2017. At December 31, 2015, 17% of the mortgage portfolio related to commercial mortgages and 83% related to residential mortgages. 37% of the mortgages are in Calgary, Alberta, 17% are in rural British Columbia and 46% are in urban British Columbia.

The Trust, as part of its operations, carries a number of financial instruments. It is management's opinion that the Trust is not exposed to significant interest rate, market, currency or credit risks arising from these financial instruments except as otherwise disclosed.

***Credit risk***

Credit risk is the risk of financial loss resulting from the failure of a counterparty, for any reason, to fully honour its financial or contractual obligations to the Trust, primarily arising from the Trust's mortgage lending activities. Fluctuations in real estate values may increase the risk of default and may also reduce the net realizable value of the collateral property to the Trust. Credit losses occur when a counterparty fails to meet its obligations to the Trust and the value realized on sale of the underlying security deteriorates below the carrying amount of the exposure. In the current economic environment, the Trust has increased its monitoring of real estate market values for its mortgages receivable.

As at December 31, 2015, the Trust does not have any properties acquired through foreclosure. No financial assets are past due or impaired.

***Interest rate risk***

Interest rate risk is the risk that the value of a financial instrument might be adversely affected by a change in the interest rates. In seeking to minimize the risks from interest rate fluctuations, the Trust manages exposure through its normal operating and financing activities. The Trust is exposed to interest rate risk primarily through its loans and receivables and related party loans. A 1% change in the bank's prime lending rate would not have a significant impact on the Trust's results.

Financial Instruments (continued)

*Liquidity risk*

Liquidity risk is the risk that cash inflows, supplemented by assets readily convertible to cash, will be insufficient to honour all cash outflow commitments as they come due. The failure of borrowers to make regular mortgage payments increases the uncertainties associated with liquidity management, notwithstanding that the Trust may eventually collect the amounts outstanding. The Trust closely monitors its liquidity position to ensure that it has sufficient cash to meet liability obligations as they become due. All the Trust's financial liabilities are current.

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7. Subsequent Events

On January 12, 2016 the Trust raised a total of \$40,000 by selling a total of 8,000 Series B Units at a subscription price of \$5.00 per unit.

On March 4, 2016 the Trust raised a total of \$500,000 by selling a total of \$100,000 Series A Units at a subscription price of \$5.00 per unit.

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**NORTHERN ALLIANCE TRUST**  
**Financial Statements**  
**Year Ended December 31, 2016**



CZECHOWSKY, GRAHAM & HANEVELT  
CHARTERED PROFESSIONAL ACCOUNTANTS  
• AN ASSOCIATION OF PROFESSIONAL PRACTICES •

STEVE CZECHOWSKY\*  
LOUIS GRAHAM\*  
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CALGARY, ALBERTA T2E 7K6  
TELEPHONE: 403-234-8877  
FAX: 403-263-1749

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## INDEPENDENT AUDITOR'S REPORT

---

To the Shareholders of Northern Alliance Trust

I have audited the accompanying consolidated financial statements of Northern Alliance Trust, which comprise the consolidated statement of financial position as at December 31, 2016, and the consolidated statements of loss and comprehensive loss, changes in unitholder's equity and cash flow for the period then ended, and a summary of significant accounting policies and other explanatory information.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for private enterprises, 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.

### Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

## Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of Northern Alliance Trust as at December 31, 2016 and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for private enterprises.

Calgary, Alberta  
April 24, 2017



LOUIS GRAHAM PROFESSIONAL CORPORATION  
CHARTERED PROFESSIONAL ACCOUNTANT

**Northern Alliance Trust**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
For the year ended December 31, 2016

**Consolidated Financial Statements**

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**Northern Alliance Trust**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**Expressed in Canadian Dollars**

December 31	2016	2015
<b>Assets</b>		
<b>Current assets</b>		
Cash	\$ 233,296	\$ 21,677
Prepaid expenses	8,351	-
Loans and interest receivable (Note 7)	1,852,932	926,271
<b>Total assets</b>	<b>\$ 2,094,579</b>	<b>\$ 947,948</b>
<b>Liabilities and unitholders' equity</b>		
<b>Current liabilities</b>		
Bank indebtedness (Note 5)	\$ 300,000	\$ -
Accounts payable	12,281	4,110
Customer deposits	6,948	-
Due to related parties (Note 6)	49,918	52,422
Distributions payable	175	7,951
<b>Total liabilities</b>	<b>369,322</b>	<b>64,483</b>
<b>Unitholders' equity</b>		
Unit capital (Note 3)	1,761,984	911,715
Retained earnings (deficit)	(36,727)	(28,250)
<b>Total unitholders' equity</b>	<b>1,725,257</b>	<b>(883,465)</b>
<b>Total liabilities and unitholders' equity</b>	<b>\$ 2,094,579</b>	<b>\$ 947,948</b>

*Signed*

David  
McKittrick

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

**Northern Alliance Trust**  
**CONSOLIDATED STATEMENT OF LOSS AND COMPREHENSIVE LOSS**  
**Expressed in Canadian Dollars**

<u>For the year ended December 31</u>	<u>2016</u>	<u>2015</u>
<b>Revenue</b>	<b>\$ 166,024</b>	<b>\$ 13,268</b>
<b>Expenses</b>		
Bank charges	-	109
Business licenses and fees	3,750	-
Commissions and fees	1,037	-
Interest expense (Note 6)	4,766	2177
Management fee (Note 6)	46,052	8984
Office	792	-
Professional fees	39,613	11,420
Trustee fees	5,618	-
	<u>101,628</u>	<u>22,690</u>
<b>Net Income and comprehensive income (loss and comprehensive loss) for the year</b>	<b>\$ 64,396</b>	<b>\$ (9,422)</b>

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

# Northern Alliance Trust

## CONSOLIDATED STATEMENT OF CHANGES IN UNITHOLDERS' EQUITY

Expressed in Canadian Dollars

	Number of units	Unit capital	Deficit	Total Unitholders' Equity
<b>Balance at July 15, 2015</b>	-	-	\$ (16)	\$ (16)
Issuance of Series A Units	120,000	600,000	-	883,465
Issuance of Series B Units	74,753	373,767	-	373,767
Issuance by way of DRIP of Series A Units	187	937	-	937
Issuance by way of DRIP of Series B Units	983	4,911	-	4,911
Issuance costs (Note 6)	-	(67,900)	-	(67,900)
Loss for the period	-	-	(9,422)	(9,422)
Distributions paid	-	-	(18,812)	(18,812)
<b>Balance at the period ended December 31, 2015</b>	<b>195,923</b>	<b>911,715</b>	<b>(28,250)</b>	<b>883,465</b>
Issuance of Series A Units	164,000	820,000	-	820,000
Issuance of Series B Units	120,528	602,640	-	602,640
Issuance by way of DRIP of Series A Units	4,335	21,675	-	21,675
Issuance by way of DRIP of Series B Units	5,455	27,274	-	27,274
Redemption of Class A Units	(120,000)	(600,000)	-	(600,000)
Issuance costs (Note 6)	-	(21,320)	-	(21,320)
Net Income for the year	-	-	64,396	64,396
Distributions paid	-	-	(72,873)	(72,873)
<b>Balance at the year ended December 31, 2016</b>	<b>370,241</b>	<b>\$ 1,761,984</b>	<b>\$ (36,727)</b>	<b>\$ 1,725,257</b>

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

**Northern Alliance Trust**  
**CONSOLIDATED STATEMENT OF CASH FLOW**  
**Expressed in Canadian Dollars**

<b>For the year ended December 31</b>	<b>2016</b>	<b>2015</b>
<b>Cash flows from (used in) operating activities</b>		
Net income (loss) for the year	\$ 64,396	\$ (9,422)
Changes in operating assets and liabilities		
Prepaid expenses	(8,351)	-
Investment in loans and interest receivable	(1,501,640)	(926,271)
Proceeds from repayment of loans and interest receivable	574,979	-
Accounts payable	8,171	1,665
Distributions payable	(7,776)	-
Customer deposits	6,948	-
<b>Total cash used in operating activities</b>	<b>(863,273)</b>	<b>(934,028)</b>
<b>Cash flows from (used in) financing activities</b>		
Proceeds from unit issuance of Class A Units	820,000	600,000
Proceeds from unit issuance of Class B Units	602,640	373,767
Redemption of Class A Units	(600,000)	-
Issuance costs (Note 5)	(21,320)	(29,806)
Increase in bank indebtedness	300,000	-
Due to related parties	(2,504)	16,757
Distributions paid	(23,924)	(5,013)
<b>Total cash from financing activities</b>	<b>1,074,892</b>	<b>955,705</b>
<b>Total increase in cash during the year</b>	<b>211,619</b>	<b>21,677</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>21,677</b>	<b>-</b>
<b>Cash and cash equivalents (bank indebtedness) at end of year</b>	<b>\$ 233,296</b>	<b>\$ 21,677</b>

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

**1. Nature of Operations**

Northern Alliance Trust and its wholly owned subsidiary Northern Alliance Sub Trust (together the "Trust") is an unincorporated open-ended unit trust created under the laws of the Province of British Columbia by a Declaration of Trust dated May 1, 2015 for the purposes of investing the funds of the Trust for the benefit of the unitholder. The principal office is located at 2005 Louie Drive, West Kelowna, B.C. V4T 3C3.

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**2. Significant Accounting Policies**

**Basis of Preparation**

The consolidated financial statement has been prepared in accordance with International Financial Reporting Standards ("IFRS").

The Trust's functional and presentation currency is the Canadian dollar.

**Basis of Measurement**

The consolidated statement of financial position has been prepared on the historical cost basis.

**Use of Estimates and Judgments**

The preparation of consolidated financial statements in compliance with IFRS requires management 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. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

**Income Taxes**

The Trust is a taxable entity under the Income Tax Act (Canada) and is taxable only on income that is not allocated to the Unitholder.

The consolidated entity includes a controlled company. The income or loss of the Company is taxable to the consolidated entity and not taxable to the Trust.

Income tax expense is comprised of current and deferred tax. Income tax expense is recognized in profit or loss except to the extent that it relates to items recognized directly in equity or other comprehensive loss.

## 2. Significant Accounting Policies (Continued)

### Equity Instruments

Equity instruments are contracts that give a residual interest in the net assets of the Trust. Financial instruments issued by the Trust are classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset. Series A and B units are classified as equity instruments.

Incremental costs directly attributable to the issue of new units are shown in equity as a deduction, net of tax, from the proceeds.

### Financial Instruments

#### Classification and Measurement

Financial assets and financial liabilities are initially measured at fair value and are subsequently accounted for based on their classification as described below. The classification depends on the purpose for which the financial instruments were acquired and their characteristics. Except in very limited circumstances, the classification is not changed subsequent to initial recognition.

#### *Financial Assets*

Financial assets are classified into one of four categories:

- Held-to-maturity;
- Fair value through profit or loss ("FVTPL");
- Loans and receivables; and
- Available-for-sale ("AFS").

#### *Financial Assets at FVTPL*

A financial asset is accounted for as FVTPL if it is classified as held-for-trading or designated as such upon initial recognition. Financial assets are designated as at FVTPL if the Trust manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Trust's risk management strategy. These instruments are accounted for at fair value with the change in the fair value recognized in the statement of income during the year. Attributable transaction costs are recognized in the statement of income when incurred. The Trust does not have any financial assets classified as FVTPL.

#### *Loans and Receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market. Loans and receivables are initially recognized at fair value and subsequently at amortized cost using the effective interest rate method. Transaction costs incurred to acquire these financial instruments are included in the underlying balance. Cash is classified as loans and receivables.

The Trust does not have any financial assets classified as held-to-maturity, available for sale, or FVTPL.

#### *Financial Liabilities*

Financial liabilities are classified as other financial liabilities.

#### *Other Financial Liabilities*

Other liabilities are accounted for at amortized cost using the effective interest rate method.

#### Determination of Fair Value

The fair value of a financial instrument on initial recognition is the transaction price, which is the fair value of the consideration given or received. Subsequent to initial recognition, fair value is determined by management using available market information or other valuation methodologies.

**2. Significant Accounting Policies (Continued)**

**Financial Instruments (Continued)**

**Fair Value Hierarchy**

The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1) and the lowest priority to unobservable inputs (level 3).

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

Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2: Inputs other than quoted prices included in level 1 that are observable for the asset or liability either directly or indirectly; and

Level 3: Inputs that are not based on observable market data.

As at year end, the Trust did not have any financial instruments measured at fair value subsequent to initial recognition.

**Impairment of Financial Assets**

At each reporting date, the Trust assesses whether there is objective evidence that financial assets not carried at FVTPL are impaired. A financial asset or a group of financial assets is (are) impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s), and that the loss event has impact on the future cash flows of the asset(s) that can be estimated reliably.

Objective evidence that financial assets are impaired can include significant financial difficulty of the borrower or issuer, default or delinquency by a borrower, restructuring of a loan or receivable by the Trust on terms that the Trust would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.

The Trust considers evidence of impairment for financial assets at both a specific asset and portfolio level.

The Trust has no impairment loss from financial assets.

**Impairment of Non-financial Assets**

Non-financial assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount, which is the higher of value in use and fair value less costs to sell, the asset is written down accordingly.

For the purpose of assessing the value in use, the estimated future cash flows are discounted to their present value using the pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

The Trust has no impairment loss from non-financial assets.

**2. Significant Accounting Policies (Continued)**

**New Standards, Interpretations and Amendments not yet Adopted**

A number of new standards, amendments to standards and interpretations have been issued but are not yet effective for the period ended December 31, 2016, and have not been applied in preparing these consolidated financial statements. None of these are expected to have an effect on the consolidated financial statements of the Trust, with the exception of:

IFRS 9, Financial Instruments ("IFRS 9") uses a single approach and is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. The Trust is currently evaluating the impact of IFRS 9 on its consolidated financial statements.

IFRS 15, Revenue from Contracts with Customers ("IFRS 15") is based on the notion that the principle of revenue recognition has moved from a transfer of risks and rewards to a transfer of control of the goods or services to the customer. The core principle of IFRS 15 is that revenue recognition is to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This standard is effective for annual periods beginning on or after January 1, 2017, with earlier application permitted.

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**3. Unit Capital**

The Trust is authorized to issue an unlimited number of redeemable non-transferable Series A Units and Series B Units. During the period, the Trust issued 168,335 Series A Units (2015-120,187 Series A Unit) and 125,983 Series B Units (2015 - 75,736 Series B Unit) for proceeds of \$841,675 (2015- \$600,937) and \$629,914 (2015 - \$378,678), respectively. Each unitholder is entitled to one vote for each unit held.

Series A Units have a right to a preferred return of 6% per annum. Declaration of a distribution is at the discretion of the Northern Alliance Financial Corporation ("Manager"). Series B Units are entitled to receive the balance of net revenue (after payment of the distribution of Series A Units) at the discretion of the Manager.

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**4. Capital Management**

The Trust defines capital as series A and B units. The Trust's objectives in managing capital is to ensure adequate operating funds are available to maintain consistent and sustainable unitholder distributions, fund administrative costs and invest in new opportunities.

The Trust's management team is responsible for approving the Trust's objectives and policies and for overseeing the effective management of capital. The Trust's capital objectives are met by ensuring that adequate cash generated from operations are available to sustain the objectives as outlined above.

The capital at December 31, 2016 is \$1,725,257 (2015 - \$883,465). There have been no changes in how the Trust defines capital or how it manages capital in the period.

The Trust is not subject to externally imposed capital requirements.



**5. Credit Facility**

On September 20, 2016, the Trust completed a new financing agreement for a \$500,000 line of credit facility from a Canadian Schedule 1 Chartered bank bearing interest at the greatest of 5.20% and prime plus 2.50%. The facility is due and payable on demand. As at December 31, 2016, the outstanding overdraft balance was \$300,000. The letter of credit has an indefinite term as long as the loans are unchanged. The letter of credit is for the purpose of supporting day-to-day operations of the Trust. Security on the letter of credit consists of a General Security Agreement covering all present and after acquired personal property.

The Trust's borrowings are subject to covenants. The covenants are: cash flow coverage ratio of not less than 1.50:1 at all times; and debt to tangible net worth ratio not greater than 0.50:1. At December 31, 2016, the cash flow coverage ratio was 14.51 and the debt to tangible net worth ratio was 0.21. The Trust closely monitors business performance to manage compliance with these covenants.

Subsequent to year end, the Trust's line of credit increased to \$1,000,000.

Financing and legal fees of \$8,351 have been capitalized and will be amortized over 5 years.

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**6. Related Party Transactions and Balances**

As at December 31, 2016, the Trust had payable balances due to related parties by virtue of management and a common unitholder totaling \$49,918 (2015 - \$52,422) for costs incurred in relation to professional services.

During the year the Trust entered into the following transactions with related parties:

The Trust paid commission fees included in issuance costs to the Director of the Trust in the amount of \$8,000 (2015 - \$6,000).

The Trust paid management fees of \$46,052 (2015 - \$8,984) to the Manager.

The Trust paid interest of \$3,450 (2015 - \$1,797) to the Manager.

The Trust paid interest of \$619 (2015 - \$380) to a company related by way of common management.

The remuneration of directors and other members of key management personnel were \$Nil (2015 - \$Nil).

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**7. Financial Instruments**

The Trust has loans and receivables from second mortgages with interest rates ranging from 9.5% - 15%. All mortgages are due on or before January 1, 2018. At December 31, 2016, 8% of the mortgage portfolio related to commercial mortgages and 92% related to residential mortgages. 44% of the mortgages are in Calgary and area, Alberta, 4% are in rural British Columbia and 52% are in urban British Columbia.

The Trust, as part of its operations, carries a number of financial instruments. It is management's opinion that the Trust is not exposed to significant interest rate, market, currency or credit risks arising from these financial instruments except as otherwise disclosed.

**7. Financial Instruments (continued)**

***Credit risk***

Credit risk is the risk of financial loss resulting from the failure of a counterparty, for any reason, to fully honour its financial or contractual obligations to the Trust, primarily arising from the Trust's mortgage lending activities. Fluctuations in real estate values may increase the risk of default and may also reduce the net realizable value of the collateral property to the Trust. Credit losses occur when a counterparty fails to meet its obligations to the Trust and the value realized on sale of the underlying security deteriorates below the carrying amount of the exposure. In the current economic environment, the Trust has increased its monitoring of real estate market values for its mortgages receivable.

As at December 31, 2016, the Trust does not have any properties acquired through foreclosure and no financial assets are impaired.

***Interest rate risk***

Interest rate risk is the risk that the value of a financial instrument might be adversely affected by a change in the interest rates. In seeking to minimize the risks from interest rate fluctuations, the Trust manages exposure through its normal operating and financing activities. The Trust is exposed to interest rate risk primarily through its loans and receivables and related party loans. A 1% change in the bank's prime lending rate would not have a significant impact on the Trust's results.

***Liquidity risk***

Liquidity risk is the risk that cash inflows, supplemented by assets readily convertible to cash, will be insufficient to honour all cash outflow commitments as they come due. The failure of borrowers to make regular mortgage payments increases the uncertainties associated with liquidity management, notwithstanding that the Trust may eventually collect the amounts outstanding. The Trust closely monitors its liquidity position to ensure that it has sufficient cash to meet liability obligations as they become due. All the Trust's financial liabilities are current.

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**8. Subsequent Events**

Subsequent to year end the Trust raised a total of \$35,000 by selling a total of 7,000 Series A Units at a subscription price of \$5.00 per unit.

Subsequent to year end the Trust raised a total of \$200,500 by selling a total of 40,100 Series B Units at a subscription price of \$5.00 per unit.

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**9. Mortgages Receivable**

Mortgages receivable are measured at their amortized cost using the effective interest method. By applying this method, a mortgage is carried at the present value of all expected cash flows of the mortgage; these cash flows include principal advances and repayments, interest repayments or any structuring, legal or sundry costs paid or fees received throughout the mortgage term. As such, structuring fees received on origination, net of any origination costs, are deferred in the carrying value of the mortgage and amortized into interest income over the mortgage term. The amortized cost of a mortgage is then reduced by a mortgage loss provision, when required.

# Northern Alliance Trust

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Expressed in Canadian Dollars

For the period ended December 31, 2016

The following is a summary of the loan portfolio:

a) Portfolio Analysis

	# of Mortgages	Avg. Interest Rate	Gross Amount	Impairment Allowance	Net Amount
<b>December 31, 2016</b>					
Residential loans	23	12.08%	\$ 1,464,815	\$ -	\$ 1,464,815
Commercial loans	2	11.75%	357,187	-	357,187
	25		\$ 1,822,002	\$ -	\$ 1,822,022
Accrued Interest			30,930	-	30,930
			\$ 1,852,932	\$ -	\$ 1,852,932
<b>December 31, 2015</b>					
Residential loans	12	12.12%	\$ 760,361	\$ -	\$ 760,361
Commercial loans	1	10.50%	160,700	-	160,700
	13		\$ 921,061	\$ -	\$ 921,061
Accrued Interest			8,329	-	8,329
			\$ 929,390	\$ -	\$ 929,390

b) Maturity of loans is as follows:

	# of Mortgages	Avg. Interest Rate	Gross Amount	Impairment Allowance	Net Amount
<b>December 31, 2016</b>					
Under 6 months	4	11.75%	\$ 167,531	\$ -	\$ 167,531
6 months to 1 year	17	12.08%	1,357,421	-	1,357,421
1 year to 2 years	4	12.25%	297,050		297,050
	25		\$ 1,822,002	\$ -	\$ 1,822,002
Accrued Interest			30,930	-	30,930
			\$ 1,852,932	\$ -	\$ 1,852,932
<b>December 31, 2015</b>					
Under 6 months	1	11.00%	\$ 23,351	\$ -	\$ 23,351
6 months to 1 year	12	12.08%	897,710	-	897,710
	13		\$ 921,061	\$ -	\$ 921,061
Accrued Interest			8,329	-	8,329
			\$ 929,390	\$ -	\$ 929,390

**Northern Alliance Trust**  
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
 Expressed in Canadian Dollars  
 For the period ended December 31, 2016

c) Geographic distribution of loans:

	# of Mortgages	Avg. Interest Rate	Gross Amount	Impairment Allowance	Net Amount
<b>December 31, 2016</b>					
Calgary & area, AB	11	11.66%	\$ 721,960	\$ -	\$ 721,960
Urban, BC	13	12.40%	1,080,087	-	1,080,087
Rural, BC	1	11.99%	19,955	-	19,955
	25		\$ 1,822,002	\$ -	\$ 1,822,002
Accrued Interest			30,930	-	30,930
			\$ 1,852,932	\$ -	\$ 1,852,932
<b>December 31, 2015</b>					
Calgary & area, AB	6	10.79%	\$ 334,797	\$ -	\$ 334,797
Urban, BC	6	13.25%	427,151	-	427,151
Rural, BC	1	11.75%	159,113	-	159,113
	13		\$ 921,061	\$ -	\$ 921,061
Accrued Interest			8,329	-	8,329
			\$ 929,390	\$ -	\$ 929,390

d) Security position distribution of loans:

	# of Mortgages	Avg. Interest Rate	Gross Amount	Impairment Allowance	Net Amount
<b>December 31, 2016</b>					
First Mortgages	-	-%	\$ -	\$ -	\$ -
Second Mortgages	25	12.06%	1,822,002	-	1,822,002
	25		\$ 1,822,001	\$ -	\$ 1,822,002
Accrued Interest			30,930	-	30,930
			\$ 1,852,932	\$ -	\$ 1,852,932
<b>December 31, 2015</b>					
First Mortgages	-	-%	\$ -	\$ -	\$ -
Second Mortgages	13	12.00%	921,061	-	921,061
	13		\$ 921,061	\$ -	\$ 921,061
Accrued Interest			8,329	-	8,329
			\$ 929,390	\$ -	\$ 929,390

9. **Mortgages Receivable (continued)**

**# of Mortgages** indicates the number of mortgages in each of the mortgages receivable categories.

**Average Effective Interest Rate** is calculated on all of the above loans. Interest is charged on the principal balance of the loan, not on the receivable balance which is included in the gross amount.

**Collateral** The Company negotiates security for the loans it advances which included mortgage security on residential and commercial real estate. Additional collateral may also include personal and corporate guarantees, and promissory notes.

A mortgage is defined to be in arrears when the principal is not received in accordance with the terms of the original agreement. As at December 31, 2016, the Company had two mortgages receivable in arrears (2015 - nil mortgage receivable in arrears) with a principal balance outstanding of \$220,821. As at December 31, 2016 & 2015 there were no credit losses.

**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.

**British Columbia, Alberta, Saskatchewan and Manitoba:**

This Offering Memorandum does not contain a misrepresentation.

**DATED** this 30<sup>th</sup> day of April, 2017.

**Northern Alliance Trust**

**By its Manager and Promoter, Northern Alliance Financial Corporation**

“David McKittrick”

\_\_\_\_\_  
(Signed) David McKittrick  
Chief Executive Officer and Director

“Dean Larson”

\_\_\_\_\_  
(Signed) Dean Larson  
Chief Operating Officer and Director

**On behalf of the Directors of Northern  
Alliance Financial Corporation**

“Cliff Shillington”

\_\_\_\_\_  
(Signed) Cliff Shillington  
Director

**SCHEDULE "A"**  
**SUBSCRIPTION FORM**  
**PRIVATE PLACEMENT SUBSCRIPTION AGREEMENT**

TO: **NORTHERN ALLIANCE TRUST** (the "Trust")  
101 2205 Louie Drive  
West Kelowna, British Columbia  
V4T 3C3

The undersigned (the "**Subscriber**" or "**Investor**") hereby subscribes for units of the Trust, a trust created under the laws of the Province of British Columbia, at \$5.00 per Unit for the aggregate subscription price set out below (the "Subscription Price"), upon and subject to the terms and conditions set forth in the "Terms and Conditions of Subscription for Units of Northern Alliance Trust dated April 30, 2017" attached hereto, and agrees to deliver, with this subscription, the Subscription Price and the other documents referred to herein and further agrees that such terms and conditions shall govern all subsequent subscriptions for Units. The Subscriber must complete the "Risk Acknowledgement – Form 45-106F4" (if acquiring under the "offering memorandum" prospectus exemption), the "Classification of Investors under the Offering Memorandum Exemption" form (if acquiring under the "offering memorandum" prospectus exemption), the "Investment Limits for Investors under the Offering Memorandum Exemption" form (if acquiring under the "offering memorandum" exemption), the "Accredited Investor Certification" (if acquiring as an "accredited investor") and "Risk Acknowledgement – Form 45-106F9" (if acquiring as an individual "accredited investor") hereto.

**The undersigned understands and acknowledges that the Subscription Price will (subject to the requirement in National Instrument 45-106 Prospectus Exemptions to hold the Subscription Price until midnight on the second business day after the Subscription Agreement is signed by the Subscriber), upon receipt from the Subscriber be immediately available to the Trust.**

**UNITS SUBSCRIBED FOR:**

\_\_\_\_\_  
Number of Units Purchased

\_\_\_\_\_  
Series

\_\_\_\_\_  
(Signature of Subscriber or Authorized Signatory)

\_\_\_\_\_  
Witness

(Signature of Subscriber must be witnessed if the  
Subscriber is an individual)

**NAME AND ADDRESS OF SUBSCRIBER:**

\_\_\_\_\_  
Title Last Name First Name Middle Name Date of Birth (YYYY-MM-DD)

\_\_\_\_\_  
Address City Province Postal Code

Res. Phone: \_\_\_\_\_ Mobile: \_\_\_\_\_ Business: \_\_\_\_\_ fax: \_\_\_\_\_

\_\_\_\_\_  
email

\_\_\_\_\_  
Social insurance Number (SIN)

**Name on Register (if Different than in the name of the Subscriber)**

\_\_\_\_\_  
Title Last Name First Name Middle Name Date of Birth (YYYY-MM-DD)

**Delivery Instructions of the person to whom the certificate representing the Units is to be delivered, if other than the Subscriber:**

\_\_\_\_\_  
Home Address City Province Postal Code

{00510611;7}

Contact Name (if Investor is a Corporation, Partnership or Trust)

Business Identification Number, if the investor is a company

**Distribution Instructions: Please indicate whether distributions are to be issued as to:**☐ Units to receive 100% Cash☐ Units to receive 100% Units at \$5.00 per Unit.

Please provide your banking information so that we may directly deposit your distribution cheque (only applicable for non-registered investments):

Bank:

Branch:

Bank #:

Transit #:

Account #:

**The undersigned must deliver to the Trust the following:**

1. a duly completed and executed copy of this Subscription Agreement;
2. a certified cheque or bankers draft, payable to Northern Alliance Trust in the amount of the Subscription Price;
3. two duly completed and executed copies of Risk Acknowledgment, Form 45-106F4;
4. if subscribing under the offering memorandum exemption, a duly completed and executed copy of the "Classification of Investors under the Offering Memorandum Exemption" form;
5. if subscribing under the offering memorandum exemption, a duly completed and executed copy of the "Investment Limits for Investors under the Offering Memorandum Exemption" form;
6. if an accredited investor, a duly completed and executed copy of the "Accredited Investor Certification";
7. if an individual accredited investor, a duly completed and executed copy of the "Risk Acknowledgement - Form 45-106F9";

**Connected Issuer:**

Northern Alliance Financial Corporation (the "Manager"), when acting as an exempt market dealer in selling securities of the Trust, is also the Manager of the Trust, and consequently, the Trust may be considered a "connected issuer" of the Manager, within the meaning of applicable securities legislation.

**Offering Memorandum Exemption:**

☐ I acknowledge that I have received and read a copy of the offering memorandum of this investment.

ACCEPTANCE: The Trust hereby accepts this subscription and represents, warrants and covenants to the undersigned that the representations and warranties made by the Trust are true and correct in all material respects as of this date and that the undersigned will have the benefit of and be entitled to rely on such representations and warranties.

ACCEPTED and AGREED to this \_\_\_\_ day of \_\_\_\_\_, 20\_\_.

**NORTHERN ALLIANCE TRUST,**  
**By its Manager,**  
**Northern Alliance Financial Corporation**

Per: \_\_\_\_\_  
 Dave McKittrick, President and CEO



**TERMS AND CONDITIONS FOR SUBSCRIPTION OF UNITS  
OF NORTHERN ALLIANCE TRUST**

**Dated April 30, 2017**

1. **Offering.** An unlimited number of Units will be issued on the terms set forth in this subscription.
2. **Funds in Trust.** In accordance with the requirements of National Instrument 45-106 Prospectus Exemptions, the Manager will hold the subscription monies advanced by each Investor in trust for the Investor until midnight on the second business day after the Subscription Agreement is signed by the Investor.
3. **Representations, Warranties and Covenants of the Trust.** The Trust represents and warrants to the Investor that:
  - a) Creation. The Trust is a trust created under the laws of the Province of British Columbia, with full power and authority to conduct its business as it is currently being conducted and to own its assets and has secured any other authorizations, approvals, permits and orders required by law for the conduct by the Trust of its business as it is currently being conducted.
  - b) Authorization. The Trust has duly authorized the issuance and sale of the Units upon the terms of this offer. The Units, once issued, against the duly completed and executed Subscription Agreements and forms and certifications thereto and applicable Subscription Price in respect thereof, will represent validly authorized and duly issued units of the Trust.
4. **Representations, Warranties and Covenants of the Investor.** The Investor hereby represents and warrants to and covenants and agrees with the Manager that:
  - a) Legal Capacity. If the Investor is a corporation, the Investor is a duly incorporated and subsisting corporation with full power and authority to execute and deliver and perform its obligations under this Subscription Agreement, the execution and delivery of each of this Subscription Agreement and the performance by the Investor of its obligations hereunder have been duly authorized by all corporate action required by the Investor, and this Subscription Agreement has been duly executed and delivered by the Investor and is a legal, valid and binding obligation of, enforceable against, the Investor. If the Investor is an individual, he or she has attained the age of majority and has the legal capacity and competence to execute this Subscription Agreement, and to take all actions required pursuant hereto.
  - b) No Prospectus. No prospectus has been filed by the Trust with any of the securities regulatory authorities of the Provinces of Canada in connection with the issuance of the Units, the issuance of the Units is exempt from the prospectus requirements of the Securities Act (British Columbia) and the rules promulgated thereunder, together with the prospectus requirements of any other applicable securities legislation (collectively, the "Securities Laws") and, as a consequence:
    - i) the Investor is restricted from using most of the civil remedies available under the Securities Laws;
    - ii) the Investor may not receive information that would otherwise be required to be provided to him under the Securities Laws; and
    - iii) the Trust is relieved from certain obligations that would otherwise apply under the Securities Laws.
  - c) Offering Memorandum. The Investor has received from the Manager an offering memorandum with respect to the Investor's purchase of the Units.

- d) Purchasing as Principal. The Investor is:
- i) purchasing the Units, and will acquire the Units, when issued, as principal, for investment and not with a view to resale or distribution; or
  - ii) not purchasing the Units as principal and the Investor:
    - (A) confirms that it is duly authorized to enter into this Subscription Agreement and to execute all documentation in connection with the purchase of the Units on behalf of each beneficial purchaser;
    - (B) acknowledges that the Trust may be required to disclose to certain regulatory authorities the identity of each beneficial purchaser of Units for whom the Investor may be acting; or
    - (C) confirms that it is a portfolio manager that carries on business in a Canadian province or territory and that it is registered or exempt from registration under the securities laws of that province or territory and that it is purchasing the Subscribed Units for accounts that are fully managed by it.
- e) Investor Has Benefit of Private Placement Exemption. The Investor either:
- i) is NOT an individual and is purchasing as principal a sufficient number of Units so that the aggregate acquisition cost of the Investor or beneficial Investor will not be less than \$150,000, or
  - ii) if a resident of any province or territory of Canada, may rely on the receipt of an Offering Memorandum, in either case, to be exempt from the prospectus and registration requirements under the applicable statute in which the Investor or beneficial Investor is resident. The Investor, if a resident of Alberta, Manitoba, Ontario, Northwest Territories, Nunavut, Prince Edward Island, Quebec, Saskatchewan or Yukon, and if investing more than \$10,000, is an “eligible investor”, in that the investor is a person whose:
    - (A) net assets, alone or with a spouse, in the case of an individual, exceed \$400,000;
    - (B) net income before taxes exceeded \$75,000 in each of the two most recent calendar years and who reasonably expects to exceed that income level in the current calendar year; or
    - (C) net income before taxes, alone or with a spouse, in the case of an individual, exceeded \$125,000 in each of the two most recent calendar years and who reasonably expects to exceed that income level in the current calendar year.
- f) Investor is an Accredited Investor. If subparagraph (e) does not apply, the Investor is purchasing the Units as principal for its own account, not for the benefit of any other person, and not with a view to the resale or distribution of all or any of the Units, and it is one of the following:
- i) an individual who, either alone or together with a spouse, beneficially owns, directly or indirectly, financial assets (cash and securities) that have an aggregate realizable value that, before taxes but net of any related liabilities, exceeds \$1 million;
  - ii) an individual who beneficially owns financial assets having an aggregate realizable value that, before taxes but net of any related liabilities, exceeds \$5 million;
  - iii) an individual whose net income before taxes exceeded \$200,000 in each of the two most recent calendar years or whose net income before taxes combined with that of a spouse exceeded \$300,000 in each of the two most recent calendar years and who, in either case, reasonably expects to exceed that net income level in the current calendar year;

- iv) an individual who, either alone or with a spouse, has net assets of at least \$5 million;
- v) a corporation, trust or partnership in respect of which all of the owners of interests, direct, indirect or beneficial, except the voting securities required by law to be owned by directors, are persons that are accredited investors; or
- vi) a corporation, trust, or partnership that has net assets of at least \$5 million as shown on its most recently prepared financial statements;

provided that:

- vii) the Investor has executed and delivered to the Manager an “Accredited Investor Certification” indicating that the Subscriber fits within one of the categories of “accredited investor” set forth in such definition; and
  - viii) if the Investor falls into category (i), (ii), (iii) or (iv) immediately above, such Investor has also executed and delivered to the Manager a “Risk Acknowledgement – Form 45-106F9”.
- g) Resale Restrictions. The Investor has been independently advised as to and is aware of the applicable restrictions on the resale of Units imposed by securities laws in the jurisdiction in which the Investor resides and is aware of the risks and other characteristics of the Units and of the fact that the Investor may not be able to resell the Units except in accordance with applicable securities laws. The Trust is not under any obligation to qualify the resale of the Units under a prospectus or assist the Investor in complying with any exemption from the prospectus requirement or resale restrictions set out under applicable securities laws.
  - h) Irrevocable Offer. Subject to Section 2 hereof, the Investor’s offer to subscribe for the Units as herein set out is unconditional, irrevocable and non-transferable and has not been induced by any warranties or representations with regard to the present or future value of Units, that any person will resell or repurchase the Units, or that any person will refund the purchase price for the Units.
  - i) No Review. The Investor understands that no federal, provincial, state or other agency within the Investor’s jurisdiction of residence or otherwise has reviewed or passed upon any of the Units or made any finding or determination concerning the fairness or advisability of this investment.
  - j) Consents and Approvals. No consent or approval of any person is required in connection with the execution and delivery of this Subscription Agreement by the Investor.
  - k) Investment Risk. The Units are not being purchased by the Investor as a result of any material information concerning the Trust that has not been publicly disclosed and the Investor’s decision to tender this offer to acquire the Units has not been made as a result of any verbal or written representation as to fact or otherwise made by or on behalf of the Trust or any other person. The Investor understands that the purchase of the Units involves a high degree of risk and should only be considered by persons who can bear the loss of their entire investment.
  - l) Status of Investor. The Investor has such knowledge, skill and experience in business, financial and investment matters so that the Investor is capable of evaluating the merits and risks of an investment in the Units. To the extent necessary, the Investor has retained, at his, her or its own expense, and relied upon, appropriate professional advice regarding the investment, tax and legal merits and consequences of this subscription and owning the Units.
  - m) Not a U.S. Person. The Investor is not a U.S. person (as such term is defined in Regulation S under the Securities Act of 1933 (the “1933 Act”)), which definition includes an individual resident in the United States and an estate or trust of which any executor, administrator or trustee is a U.S. person, and is not purchasing the Units for the account or benefit of a U.S. person, and it was not offered the Units in the United States, and did not execute or deliver this agreement or deliver payment for the Units in the United States.

- n) No Intention to sell to U.S. Persons. The Investor has no intention to distribute either directly or indirectly any of the Units in the United States or to U.S. persons.
  - o) No Proceeds of Crime. The funds representing the Subscription Price which will be advanced by the Investor to the Trust hereunder will not represent proceeds of crime for the purposes of the Proceeds of Crime (Money Laundering) and Terrorist Financing Act (Canada) (the "PCMLTFA") and the Investor acknowledges that the Trust may in the future be required by law to disclose the Investor's name and other information relating to this Subscription Agreement and the subscription hereunder, on a confidential basis, pursuant to the PCMLTFA. To the best of the Investor's knowledge (i) none of the subscription funds to be provided by the Investor (A) have been or will be derived from or related to any activity that is deemed criminal under the law of Canada, the United States of America, or any other jurisdiction, or (B) are being tendered on behalf of a person or entity who has not been identified to the Subscriber, and (ii) it shall promptly notify the Trust if the Investor discovers that any of such representations ceases to be true, and to provide the Trust with appropriate information in connection therewith.
5. **Personal Information.** The Subscriber acknowledges (on its own behalf and, if applicable, on behalf of each person on whose behalf the Subscriber is contracting hereunder) that this Subscription Agreement and the Appendices attached hereto require the Subscriber to provide certain personal information to the Trust. Such information is being collected by the Trust for the purposes of completing the Offering, which includes, without limitation, determining the Subscriber's eligibility (or that of any beneficial purchasers) to purchase the Units under applicable securities laws, preparing and registering certificates representing the Units to be issued to the Subscriber and completing filings required by any stock exchange, securities regulatory authority or taxation authorities. Certain securities commissions have been granted the authority to indirectly collect this personal information pursuant to securities legislation and this personal information is also being collected for the purpose of administration and enforcement of securities legislation. In Ontario, the Administrative Support Clerk (Telephone: (416) 593-3684), Suite 1903, Box 55, 20 Queen Street West, Toronto Ontario, M5H 3S8, Facsimile: (416) 593-8122 is the public official who can answer questions about the indirect collection of personal information. In British Columbia, questions about the collection and use of this information can be directed to the British Columbia Securities Commission, P.O. Box 10142, Toll free across Canada: 1-800-373-6393, Pacific Centre, 701 West Georgia Street, Vancouver, British Columbia V7Y 1L2, Telephone: (604) 899-6500, Facsimile: (604) 899-6581. The Subscriber's personal information may be disclosed by the Trust to: (a) stock exchanges or securities regulatory authorities; (b) the Trust's registrar and transfer agent; (c) taxation authorities; or (d) any of the other parties involved in the Offering, including legal counsel. In addition, the Trust hereby notifies the Subscriber (and if applicable, each person on whose behalf the Subscriber is contracting hereunder) that the Trust may be providing the following information to the Ontario Securities Commission and other securities regulatory authorities: (a) the full name, residential address and telephone number of the Subscriber; (b) the number of Units purchased by the Subscriber; (c) the total purchase price for the Units; (d) the statutory exemption relied upon by the Trust; and (e) the date of distribution of the Units. Further, the Subscriber acknowledges that the British Columbia Securities Commission will make the following information available for public inspection: (a) the full name of the Subscriber; (b) if applicable, the Subscriber's status as an insider or registrant; (c) the number of Units purchased by the Subscriber; (d) the total purchase price for the Units; and (e) the date of distribution of the Units (collectively, the information is referred to herein as the "Information"). By executing this Subscription Agreement, the Subscriber is deemed to be authorizing and consenting to the foregoing collection (including the indirect collection of personal information), use and disclosure of the Subscriber's personal information and the Information as set forth above. The Subscriber also consents to the filing of copies or originals of any of the Subscriber's documents described in this Subscription Agreement, as well as the Information, as may be required to be filed with any stock exchange or securities regulatory authority in connection with the transactions contemplated hereby and the inclusion of the foregoing in any record books prepared in connection with the Offering.
6. **Further Assurances.** The Investor covenants and agrees to execute and deliver such further documents and to provide such further assurances as may be required by the Manager to give effect to this subscription, including, without limiting the generality of the foregoing, all documents, assurances, undertakings and other information as may be required from time to time under applicable securities laws, and all regulatory or governmental bodies or stock exchanges having jurisdiction over the Trust's affairs.

7. **Reliance Upon Representations, Warranties and Covenants.** The Investor acknowledges that the foregoing representations and warranties are made by it with the intent that they may be relied upon by the Manager and its counsel in determining the eligibility of the Investor to purchase the Units under the relevant securities laws. The Investor further agrees that by accepting the Units subscribed for pursuant hereto, at the Closing and at any subsequent closing, it shall be representing and warranting that the foregoing representations and warranties are true as at the Closing and at any subsequent closing with the same force and effect as if they had been made by it as at the Closing and at any subsequent closing, and will survive the completion of the sale of such Units. The Manager and its counsel shall be entitled to rely on the representations and warranties of the Investor contained hereto and the Investor shall indemnify and hold harmless the Trust for any losses, claims, costs, expenses, damages or liabilities they may suffer or incur which are caused by or arise from, directly or indirectly, their reliance thereon.
8. **Survival of Representations, Warranties and Covenants.** All the representations, warranties and covenants set out in this Agreement will be true as at the date of this Subscription Agreement and on the Closing, as if the representations, warranties and covenants were made at that time and will survive the Closing.
9. **Amendment.** Neither this Subscription Agreement nor any provisions hereof will be modified, changed, discharged or terminated except by an instrument in writing, signed by the party against whom any waiver, change, discharge or termination is sought.
10. **Contractual Rights of Action.** By its acceptance and acknowledgment of this Subscription Agreement, the Trust expressly awards the Investor the contractual rights of action described in the Offering Memorandum under the heading "Purchasers' Contractual and Statutory Rights of Action", which are incorporated herein by reference.
11. **Assignability.** Neither this Agreement nor any right, remedy, obligation or liability arising hereunder or by reason hereof will be assignable by either the Trust or the Investor without the prior written consent of the other party.
12. **Applicable Law.** This Agreement will be governed by and construed in accordance with the laws of the Province of British Columbia and the laws of Canada applicable thereto.
13. **Interpretation.** The section and other headings contained in this Agreement are for reference purposes only and will not affect the meaning or interpretation of this Agreement. Words imparting the neuter gender include the masculine or feminine gender and words in the singular include the plural and vice versa.
14. **Notices.** All notices and other communications provided for herein will be in writing and will be deemed to have been duly given if delivered personally or sent by registered or certified mail, return receipt requested, postage prepaid or by facsimile or other electronic means indicating the date of receipt and the signatures of the parties:
  - a) If to the Manager, at the following address:
 

Northern Alliance Financial Corporation  
101, 2205 Louie Drive  
West Kelowna, British Columbia  
V4T 3C3  
Facsimile: (866) 336-9953  
Attention: President
  - b) If to the Investor, at the address and facsimile number set out on the cover page of this Agreement.
15. **Binding Effect.** The provisions of this Agreement will be binding upon and accrue to the benefit of the parties hereto and their respective heirs, legal representatives, successors and permitted assigns, as the case may be.

16. **Notification of Changes.** The parties hereby covenant and agree to notify the other party upon the occurrence of any event prior to the Closing which would cause any party's representations, warranties or covenants contained in this Agreement to be false or incorrect.
17. **Entire Agreement.** This Subscription Agreement constitutes the entire agreement between the Investor and the Manager on behalf of the Trust with respect to the Units, and there are no other agreements, warranties, representations, conditions or covenants, written or oral, express or implied, in respect of, or which affect, the transaction herein contemplated.
18. **Costs.** The Investor acknowledges and agrees that except as may otherwise be provided for in this Subscription Agreement, all costs and expenses incurred by the Investor (including any fees and disbursements of any special counsel retained by the Investor) relating to the sale of the Units to the Investor will be borne by the Investor.
19. **Counterparts and Facsimile.** This Subscription Agreement may be executed in counterparts or by facsimile or both, each counterpart or facsimile of which will be deemed to be an original, but all of which, taken together, and delivered will constitute one and the same Agreement. This Agreement will not be effective as to any party hereto until such time as this Agreement or a counterpart thereof has been executed and delivered, by facsimile or otherwise, by each party hereto.
20. **Language.** The parties hereby confirm their express wish that the present Agreement and all documents and agreements directly and indirectly related thereto, including notices, be drawn up in English. Les parties reconnaissent leur volonté expresse que la présente convention ainsi que tous les documents et conventions qui s'y rattachent directement ou indirectement, y compris les avis, soient rédigés en langue anglaise.

[END OF TERMS AND CONDITIONS FOR SUBSCRIPTION OF UNITS OF NORTHERN ALLIANCE TRUST]

## APPENDIX A

FORM 45-106F4  
Risk Acknowledgement

WARNING

**Risk Acknowledgement**

I acknowledge that this is a risky investment:

- I am investing entirely at my own risk.
- No securities regulatory authority has evaluated or endorsed the merits of these securities or the disclosure in the offering memorandum.
- I will not be able to sell these securities except in very limited circumstances. I may never be able to sell these securities.
- I could lose all the money I invest.

I am investing \$\_\_\_\_\_ [total consideration] in total; this includes any amount I am obliged to pay in the future. Norther Alliance Trust will pay \$\_\_\_\_\_ [amount of fee or commission] of this to \_\_\_\_\_ [name of person selling the securities] as a fee or commission.

**I acknowledge that this is a risky investment and that I could lose all the money I invest.**

\_\_\_\_\_  
Date

\_\_\_\_\_  
Signature of Purchaser

\_\_\_\_\_  
Print name of Purchaser

Sign 2 copies of this document. Keep one copy for your records.

**You have 2 business days to cancel your purchase**

To do so, send a notice to Northern Alliance Financial Corporation stating that you want to cancel your purchase. You must send the notice before midnight on the 2nd business day after you sign the agreement to purchase the securities. You can send the notice by fax to (866) 336-9953 or e-mail to dave@nafinancial.ca or in person to Northern Alliance Financial Corporation at its business address, 2205 Louie Drive, West Kelowna, British Columbia, V4T 3C3, Attention: David McKittrick. Keep a copy of the notice for your records.

\_\_\_\_\_  
Name

\_\_\_\_\_  
Address

\_\_\_\_\_  
Fax

\_\_\_\_\_  
E-mail

## **You are buying “Exempt Market Securities”**

### **Exempt Market Securities**

They are called *exempt market securities* because two parts of securities law do not apply to them. If an issuer wants to sell exempt market securities to you:

- the issuer does not have to give you a prospectus (a document that describes the investment in detail and gives you some legal protections), and
- the securities do not have to be sold by an investment dealer registered with a securities regulatory authority.

There are restrictions on your ability to resell exempt market securities. Exempt market securities are more risky than other securities.

### **You will receive an offering memorandum**

Read the offering memorandum carefully because it has important information about the issuer and its securities. Keep the offering memorandum because you have rights based on it. Talk to a lawyer for details about these rights.

### **Securities are not listed**

The securities you are buying are not listed on any stock exchange and they may never be listed. You may never be able to sell these securities.

### **Issuer is a Non-Reporting Issuer**

A *non-reporting issuer* does not have to publish financial information or notify the public of changes in its business. You will not receive ongoing information about this issuer.

For more information on the *exempt market*, call your local securities regulatory authority. If you live in British Columbia, contact the British Columbia Securities Commission at (604) 899-6500, (outside the local area, call toll-free 1-800 373-6393), or visit its website at [www.bcsc.bc.ca](http://www.bcsc.bc.ca). If you live in Alberta, contact the Alberta Securities Commission, in Calgary at (403) 297-6454 and in Edmonton at (780) 427-5201, or visit its website at [www.albertasecurities.com](http://www.albertasecurities.com). If you live in Saskatchewan, contact the Saskatchewan Financial Services Commission at (306) 787-5645, or visit its website at [www.sfsc.gov.sk.ca](http://www.sfsc.gov.sk.ca). If you live in Manitoba, contact the Manitoba Securities Commission at (204) 945-2548, or visit its website at [www.msc.gov.mb.ca](http://www.msc.gov.mb.ca). If you live in Ontario, contact the Ontario Securities Commission at (416) 593-8314 (outside the local area, call toll-free 1-877-785-1555), or visit its website at [www.osc.gov.on.ca](http://www.osc.gov.on.ca). If you live in Quebec, contact the Autorité Des Marchés Financiers, in Quebec City at (418) 525-0337 and in Montreal at (514) 395-0337 (outside the local area, call toll-free 1-877-525-0337), or visit its website at [www.lautorite.qc.ca](http://www.lautorite.qc.ca).



**APPENDIX B****FORM 45-106F9****RISK ACKNOWLEDGEMENT FOR INDIVIDUAL ACCREDITED INVESTORS****WARNING!**

This investment is risky. Don't invest unless you can afford to lose all the money you pay for this investment.

**SECTION 1 TO BE COMPLETED BY THE ISSUER OR SELLING SECURITY HOLDER****1. About your investment**

Type of security: Units of a Mutual Fund Trust

Issuer: Northern Alliance Trust

Purchased from: Through Northern Alliance Financial Corporation and affiliated Exempt Market Dealers

**SECTIONS 2 TO 4 TO BE COMPLETED BY THE PURCHASER****2. Risk acknowledgement**

This investment is risky. Initial that you understand that:

Your Initials

Liquidity risk -- You may not be able to sell your investment quickly -- or at all.

Lack of information -- You may receive little or no information about your investment.

Lack of advice -- You will not receive advice from the salesperson about whether this investment is suitable for you unless the salesperson is registered. The salesperson is the person who meets with, or provides information to, you about making this investment. To check whether the salesperson is registered, go to [www.aretheyregistered.ca](http://www.aretheyregistered.ca).

**3. Accredited investor status**

You must meet at least one of the following criteria to be able to make this investment. Initial the statement that applies to you. (You may initial more than one statement.) The person identified in section 6 is responsible for ensuring that you meet the definition of accredited investor. That person, or the salesperson identified in section 5, can help you if you have questions about whether you meet these criteria.

Your initials

\_\_\_\_\_ Your net income before taxes was more than \$200,000 in each of the 2 most recent calendar years, and you expect it to be more than \$200,000 in the current calendar year. (You can find your net income before taxes on your personal income tax return.)

\_\_\_\_\_ Your net income before taxes combined with your spouse's was more than \$300,000 in each of the 2 most recent calendar years, and you expect your combined net income before taxes to be more than \$300,000 in the current calendar year.

\_\_\_\_\_ Either alone or with your spouse, you own more than \$1 million in cash and securities, after subtracting any debt related to the cash and securities.

\_\_\_\_\_ Either alone or with your spouse, you have net assets worth more than \$5 million. (Your net assets are your total assets (including real estate) minus your total debt.)

**4. Your name and signature**

By signing this form, you confirm that you have read this form and you understand the risks of making this investment as identified in this form.

\_\_\_\_\_  
Date

\_\_\_\_\_  
Account Holder Signature

\_\_\_\_\_  
Account Holder's Related Party Signature

\_\_\_\_\_  
Account Holder Name

\_\_\_\_\_  
Account Holder's Related Party Name

**SECTION 5 TO BE COMPLETED BY THE SALESPERSON****5. Salesperson information**

[Instruction: The salesperson is the person who meets with, or provides information to, the purchaser with respect to making this investment. That could include a representative of the issuer or selling security holder, a registrant or a person who is exempt from the registration requirement.]

First and last name of salesperson

Telephone:

866.777.9567

Email::

dave@nafinancial.ca

Name of firm (if registered):

Northern Alliance Financial Corporation

**SECTION 6 TO BE COMPLETED BY THE ISSUER OR SELLING SECURITY HOLDER****6. For more information about this investment**

Summary

Fund: Northern Alliance Trust

Manager: Northern Alliance Financial Corporation (not a registered Investment Fund Manager)

Address: 101 2205 Louie Drive, West Kelowna, BC V4T 3C3

Phone: 866.777.9567

Email: [dave@nafinancial.ca](mailto:dave@nafinancial.ca)

Outside EMD: \_\_\_\_\_

For more information about prospectus exemptions, contact your local securities regulator. You can find contact information at [www.securities-administrators.ca](http://www.securities-administrators.ca).

Form instructions:

1. This form does not mandate the use of a specific font size or style but the font must be legible.
2. The information in sections 1, 5 and 6 must be completed before the purchaser completes and signs the form.
3. The purchaser must sign this form. Each of the purchaser and the issuer or selling security holder must receive a copy of this form signed by the purchaser. The issuer or selling security holder is required to keep a copy of this form for 8 years after the distribution.

**APPENDIX “A” Eligible Investor** - (defined in National Instrument 45-106) means:

Please Check the box and Initial beside it

- ☐ \$400K (a) person whose (i) net assets, alone or with a spouse, in the case of an individual, exceed \$400,000,  
\$75K (ii) net income before taxes exceeded \$75,000 in each of the two most recent calendar years and who  
\$125K reasonably expects to exceed that income level in the current year, or (iii) net income before taxes,  
alone or with a spouse, in the case of an individual, exceeded \$125,000 in each of the two most recent  
calendar years and who reasonably expects to exceed that income level in the current calendar year;
- ☐ \_\_\_\_\_ (b) person of which a majority of the voting securities are beneficially owned by eligible investors or  
a majority of the directors are eligible investors;
- ☐ \_\_\_\_\_ (c) general partnership in which all of the partners are eligible investors;
- ☐ \_\_\_\_\_ (d) a limited partnership of which the majority of the general partners are eligible investors;
- ☐ \_\_\_\_\_ (e) a trust or estate of which all of the beneficiaries or a majority of the trustees or executors are  
eligible investor;
- ☐ \_\_\_\_\_ (f) an “Accredited Investor” as defined in National Instrument 45-106. **[If relying upon this  
exemption, Schedule 1 to this Appendix “A” – Certificate of Accredited Investors needs to be  
completed];**
- ☐ \_\_\_\_\_ (g) a person described as “Family, Friends and Business Associate” as defined in National Instrument  
45-106. **[If relying upon this exemption, Schedule 2 to this Appendix “A” – Certificate of Family,  
Friends and Business Associates needs to be completed]**
- ; or
- ☐ \_\_\_\_\_ (h) a person that has obtained advice regarding the suitability of the investment and if the person is a  
resident in a jurisdiction of Canada, that advice has been obtained from an “eligibility advisor” as  
defined in National Instrument 45-106.

**NOTE: IF SUBSCRIBING UNDER ANY OF EXEMPTIONS (A) THROUGH (E) ABOVE, THEN THE SUBSCRIBER  
MUST ALSO COMPLETE THE CORRESPONDING SCHEDULE 1 AND SCHEDULE 2 TO THIS APPENDIX “A”.**

**NOTE: IF SUBSCRIBING UNDER EITHER EXEMPTION (F) OR (G) ABOVE, THEN THE SUBSCRIBER  
MUST ALSO COMPLETE THE CORRESPONDING SCHEDULE 3 OR SCHEDULE 4 TO THIS APPENDIX “A”.**

## Eligible Investors

**SCHEDULE 1 TO APPENDIX “A” CLASSIFICATION OF INVESTORS UNDER THE OFFERING  
MEMORANDUM EXEMPTION**

<b>How you qualify to buy securities under the offering memorandum exemption</b>		
Initial the statement under A, B, C or D containing the criteria that applied to you. (You may initial more than one statement.) If you initial a statement under B or C, you are not required to complete A.		
<b>A. You are an eligible investor because:</b>		<b>Your initials</b>
<b>Eligible Investor</b>	Your net income before taxes was more than \$75,000 in each of the 2 most recent calendar years, and you expect it to be more than \$75,000 in this calendar year. (You can find your net income before taxes on your personal income tax return.)	
	Your net income before taxes combined with your spouse's was more than \$125,000 in each of the 2 most recent calendar years, and you expect your combined net income to be more than \$125,000 in this calendar year. (You can find your net income before taxes on your personal income tax return.)	
	Either alone or with your spouse, you have net assets worth more than \$400,000. (Your net assets are your total assets, including real estate, minus your total debt including any mortgage on your property.)	
<b>B. You are an eligible investor, as a person described in section 2.3 [Accredited investor] of NI 45-106 or, as applicable in Ontario, subsection 7.3(3) of the Securities Act (Ontario), because:</b>		<b>Your initials</b>
<b>Accredited Investor</b>	Your net income before taxes was more than \$200,000 in each of the 2 most recent calendar years, and you expect it to be more than \$200,000 in this calendar year. (You can find your net income before taxes on your personal income tax return.)	
	Your net income before taxes combined with your spouse's was more than \$300,000 in each of the 2 most recent calendar years, and you expect your combined net income before taxes to be more than \$300,000 in the current calendar year.	
	Either alone or with your spouse, you own more than \$1 million in cash and securities, after subtracting any debt related to the cash and securities.	
	Either alone or with your spouse, you have net assets worth more than \$5 million. (Your net assets are your total assets (including real estate) minus your total debt.)	
<b>C. You are an eligible investor, as a person described in section 2.5 [Family, friends and business associates] of NI 45-106, because:</b>		<b>Your initials</b>
<b>Family, Friends and Business Associates</b>	<p>You are:</p> <p>1) <i>[check all applicable boxes]</i></p> <p><input type="checkbox"/> a director of the issuer or an affiliate of the issuer</p> <p><input type="checkbox"/> an executive officer of the issuer or an affiliate of the issuer</p> <p><input type="checkbox"/> a control person of the issuer or an affiliate of the issuer</p> <p><input type="checkbox"/> a founder of the issuer</p> <p>OR</p> <p>2) <i>[check all applicable boxes]</i></p> <p><input type="checkbox"/> a person of which a majority of the voting securities are beneficially owned by, or a majority of the directors are, (i) individuals listed in (1) above and/or (ii) family members, close personal friends or close business associates of individuals listed in (1) above</p> <p><input type="checkbox"/> a trust or estate of which all of the beneficiaries or a majority of the trustees or executors are (i) individuals listed in (1) above and/or (ii) family members, close personal friends or close business associates of individuals listed in (1) above</p> <p>You are a family member of _____ <i>[Instruction: Insert the name of the person who is your relative either directly or through his or her spouse], who holds the following position at the issuer or an affiliate of the issuer:</i></p> <p>_____.</p> <p>You are the _____ of that person or that person's spouse. <i>[Instruction: To qualify for this investment, you must be (a) the spouse of the person listed above or (b) the parent, grandparent, brother, sister, child or grandchild of that person or that person's spouse.]</i></p>	
	You are a close personal friend of _____ <i>[Instruction:</i>	

	<i>Insert the name of your close personal friend], who holds the following position at the issuer or an affiliate of the issuer: _____.</i> You have known that person for _____ years.	
	You are a close business associate of _____ <i>[Instruction: Insert the name of your close business associate]</i> , who holds the following position at the issuer or an affiliate of the issuer: _____. You have known that person for _____ years.	
<b>D. You are not an eligible investor.</b>		<b>Your initials</b>
<b>Not an Eligible Investor</b>	<i>You acknowledge that you are not an eligible investor.</i>	

## Eligible Investors

**SCHEDULE 2 TO APPENDIX “A” INVESTMENT LIMITS FOR INVESTORS UNDER THE OFFERING MEMORANDUM EXEMPTION**

<b>SECTION 1 TO BE COMPLETED BY THE PURCHASER</b>		
<b>1. Investment limits you are subject to when purchasing securities under the offering memorandum exemption</b>		
You may be subject to annual investment limits that apply to all securities acquired under the offering memorandum exemption in a 12 month period, depending on the criteria under which you qualify as identified in Schedule 1. Initial the statement that applies to you.		
<b>A. You are an eligible investor.</b>		<b>Your initials</b>
<b>Eligible Investor</b>	As an eligible investor that is an individual, you cannot invest more than \$30,000 in all offering memorandum exemption investments made in the previous 12 months, unless you have received advice from a portfolio manager, investment dealer or exempt market dealer, as identified in section 2 of this schedule, that your investment is suitable. Initial one of the following statements:	
	You confirm that, after taking into account your investment of \$_____ today in this issuer, you have not exceeded your investment limit of \$30,000 in all offering memorandum exemption investments made in the previous 12 months.	
	You confirm that you received advice from a portfolio manager, investment dealer or exempt market dealer, as identified in section 2 of this schedule that the following investment is suitable. You confirm that, after taking into account your investment of \$_____ today in this issuer, you have not exceeded your investment limit in all offering memorandum exemption investments made in the previous 12 months of \$100,000.	
<b>B. You are an eligible investor, as a person described in section 2.3 [Accredited investor] of NI 45-106 or, as applicable in Ontario, subsection 7.3(3) of the Securities Act (Ontario).</b>		<b>Your initials</b>
<b>Accredited Investor</b>	You acknowledge that, by qualifying as an eligible investor as a person described in section 2.3 [Accredited investor], you are not subject to investment limits.	
<b>C. You are an eligible investor, as a person described in section 2.5 [Family, friends and business associates] of NI 45-106.</b>		<b>Your initials</b>
<b>Family, Friends and Business Associates</b>	You acknowledge that, by qualifying as an eligible investor as a person described in section 2.5 [Family, friends and business associates], you are not subject to investment limits.	
<b>D. You are not an eligible investor.</b>		<b>Your initials</b>
<b>Not an Eligible Investor</b>	You acknowledge that you cannot invest more than \$10,000 in all offering memorandum exemption investments made in the previous 12 months. You confirm that, after taking into account your investment of \$_____ today in this issuer, you have not exceeded your investment limit of \$10,000 in all offering memorandum exemption investments made in the previous 12 months.	
<b>SECTION 2 TO BE COMPLETED BY THE REGISTRANT</b>		
<b>2. Registrant Information</b>		
<i>[Instruction: this section must only be completed if an investor has received from a portfolio manager, investment dealer or exempt market dealer concerning his or her investment.]</i>		
First and last name of registrant (please print):		
Registered as:		
<i>[Instruction: indicate whether registered as a dealing representative or advising representative]</i>		
Telephone:	Email:	
Name of firm:		
<i>[Instruction: indicate whether registered as an exempt market dealer, investment dealer or portfolio manager.]</i>		
Date:		

**Accredited Investors****SCHEDULE 3 TO APPENDIX “A” CERTIFICATE OF ACCREDITED INVESTOR**

The Subscriber, or the principal for whom the Subscriber is acting, is an “accredited investor” as defined in National Instrument 45-106 (“NI 45-106”) by virtue of being **[check appropriate box]**:

- ☐ a) a Canadian financial institution, or a Schedule III bank;
- ☐ b) the Business Development Bank of Canada incorporated under the Business Development Bank Act (Canada);
- ☐ c) a subsidiary of any person referred to in paragraphs (a) or (b), if the person owns all of the voting securities of the subsidiary, except the voting securities required by law to be owned by directors of that subsidiary;
- ☐ d) a person registered under the securities legislation of a jurisdiction of Canada, as an adviser or dealer, other than a person registered solely as a limited market dealer under one or both of the Securities Act (Ontario), or the Securities Act (Newfoundland and Labrador);
- ☐ e) an individual registered or formerly registered under the securities legislation of a jurisdiction of Canada as a representative of a person referred to in paragraph (d);
- ☐ f) the Government of Canada or a jurisdiction of Canada, or any crown corporation, agency or wholly owned entity of the Government of Canada or a jurisdiction of Canada;
- ☐ g) a municipality, public board or commission in Canada and a metropolitan community, school board, the Comité de gestion de la taxe scolaire de l’île de Montréal or an intermunicipal management board in Québec;
- ☐ h) any national, federal, state, provincial, territorial or municipal government of or in any foreign jurisdiction, or any agency of that government;
- ☐ i) a pension fund that is regulated by either the Office of the Superintendent of Financial Institutions (Canada) or a pension commission or similar regulatory authority of a jurisdiction of Canada;
- ☐ j) an individual who, either alone or with a spouse, beneficially owns, financial assets having an aggregate realizable value that before taxes, but net of any related liabilities, exceeds Cdn\$1,000,000;
- ☐ k) an individual whose net income before taxes exceeded Cdn\$200,000 in each of the two most recent calendar years or whose net income before taxes combined with that of a spouse exceeded Cdn\$300,000 in each of the two most recent calendar years and who, in either case, reasonably expects to exceed that net income level in the current calendar year;
- ☐ l) an individual who, either alone or with a spouse, has net assets of at least Cdn\$5,000,000;
- ☐ m) a person, other than an individual or investment fund, that has net assets of at least Cdn\$5,000,000 as shown on its most recently prepared financial statements;
- ☐ n) an investment fund that, in that distributes or has distributed its securities only to:
  - i) a person that is or was an accredited investor at the time of the distribution;
  - ii) a person that acquires or acquired securities in the circumstances referred to in sections 2.10 or 2.19 of NI 45-106;

- iii) a person described in paragraph (i) or (ii) that acquires or acquired securities under section 2.18 of NI 45-106;
- ☐ o) an investment fund that distributes or has distributed securities under a prospectus in a jurisdiction of Canada for which the regulator or, in Quebec, the securities regulatory authority, has issued a receipt;
- ☐ p) a trust company or trust corporation registered or authorized to carry on business under the Trust and Loan Companies Act (Canada) or under comparable legislation in a jurisdiction of Canada or a foreign jurisdiction, acting on behalf of a fully managed account by the trust company or trust corporation, as the case may be;
- ☐ q) a person acting on behalf of a fully managed account managed by that person, if that person:
  - i) is registered or authorized to carry on business as an adviser or the equivalent under the securities legislation of a jurisdiction of Canada or a foreign jurisdiction;
  - ii) in Ontario, is purchasing a security that is not a security of an investment fund;
- ☐ r) a registered charity under the Income Tax Act (Canada) that, in regard to the trade, has obtained advice from an eligibility adviser or an adviser registered under the securities legislation of the jurisdiction of the registered charity to give advice on the securities being traded;
- ☐ s) an entity organized in a foreign jurisdiction that is analogous to any of the entities referred to in paragraphs (a) to (d) or paragraph (i) in form and function;
- ☐ t) a person in respect of which all of the owner of interests, direct, indirect or beneficial, except the voting securities required by law to be owned by directors, are persons that are accredited investors. (In British Columbia, an indirect interest means an economic interest in the person);
- ☐ u) an investment fund that is advised by a person registered as an adviser or a person that is exempt from registration as an adviser, or
- ☐ v) a person that is recognized or designated by the securities regulatory authority or, except in Ontario and Quebec, the regulator as an accredited investor;

The representations, warranties, statements and certification made in this Certificate are true and accurate as of the date of this Certificate and will be true and accurate as of the Closing. If any such representation, warranty, statement or certification becomes untrue or inaccurate prior to the Closing, the undersigned Purchaser shall give the Issuer immediate written notice thereof.

The Purchaser acknowledges that the Issuer will be relying on this Certificate in connection with the Subscription Agreement

*[Remainder of this page intentionally left blank]*



The statements made on this certificate are true.

EXECUTED by the Purchaser at \_\_\_\_\_ this \_\_\_\_ day of \_\_\_\_\_, \_\_\_\_\_.

**If a corporation, partnership or other entity:**

**If an individual:**

\_\_\_\_\_  
*Signature of Authorized Signatory*

\_\_\_\_\_  
*Signature*

Not applicable

\_\_\_\_\_  
*Name and Position of Signatory*

\_\_\_\_\_  
*Print Name*

Not applicable

\_\_\_\_\_  
*Name of Purchasing Entity*

\_\_\_\_\_  
*Jurisdiction of Residence*

\_\_\_\_\_  
*Jurisdiction of Residence*

**DEFINITIONS:**

“**Canadian financial institution**” means:

- (a) an association governed by the Cooperative Credit Associations Act (Canada) or a central cooperative credit society for which an order has been made under section 473(1) of that Act, or
- (b) a bank, loan corporation, trust company, trust corporation, insurance company, treasury branch, credit union caisse populaire, financial services cooperative, or league that, in each case, is authorized by an enactment of Canada or a jurisdiction of Canada to carry on business in Canada or a jurisdiction of Canada;

“**EVCC**” means an employee venture capital corporation that does not have a restricted constitution, and is registered under Part 2 of the Employee Investment Act (British Columbia), R.S.B.C. 1996 c. 112, and whose business objective is making multiple investments;

“**financial assets**” means:

- (a) cash,
- (b) securities, or
- (c) a contract of insurance, a deposit or an evidence of a deposit that is not a security for the purposes of securities legislation;

“**fully managed account**” means an account of a client for which a person makes the investment decisions if that person has full discretion to trade in securities for the account without requiring the client’s express consent to a transaction;

“**investment fund**” means a mutual fund or a non-redeemable investment fund, and, for greater certainty in British Columbia, includes an EVCC and a VCC;

“**person**” includes:

- (a) an individual,
- (b) a corporation,
- (c) a partnership, trust, fund and an association, syndicate, organization or other organized group of persons, whether incorporated or not, and
- (d) an individual or other person in that person’s capacity as a trustee, executor, administrator or personal or other legal representative;

**“related liabilities”** means:

- (a) liabilities incurred or assumed for the purpose of financing the acquisition or ownership of financial assets, or
- (b) liabilities that are secured by financial assets;

**“Schedule III bank”** means an authorized foreign bank named in Schedule III of the Bank Act (Canada);

**“spouse”** means, an individual who:

- (a) is married to another individual and is not living separate and apart within the meaning of the Divorce Act (Canada), from the other individual, or
- (b) is living with another individual in a marriage-like relationship, including a marriage-like relationship between individuals of the same gender; or
- (c) in Alberta, is an individual referred to in paragraph (a) or (b), or is an adult interdependent partner within the meaning of the Adult Interdependent Relationships Act (Alberta);

**“subsidiary”** means in issuer that is controlled directly or indirectly by another issuer and includes a subsidiary of that subsidiary;

**“VCC”** means a venture capital corporation registered under Part 1 of the Small Business Venture Capital Act (British Columbia), R.S.B.C. 1996 c. 429, whose business objective is making multiple investments.

**SCHEDULE 4 TO APPENDIX “A”****CERTIFICATE OF  
FRIENDS, FAMILY AND BUSINESS ASSOCIATES***(BRITISH COLUMBIA & ALBERTA ONLY)***Family, Friends and Business Associates**

The Subscriber confirms and certifies to the Issuer that the Subscriber is **[check appropriate boxes]**:

- ☐ (a) a director , executive officer or control person of the Issuer or of an affiliate of the Issuer;
- ☐ (b) a spouse, parent , grandparent, brother, sister, child or grandchild of a director, executive officer, or control person of the Issuer, or of an affiliate of the Issuer namely, \_\_\_\_\_ [print name of director, executive officer or control person];
- ☐ (c) a parent, grandparent, brother, sister, child or grandchild of the spouse of a director, executive officer or control person of the Issuer, or of an affiliate of the Issuer, namely, \_\_\_\_\_ [print name of spouse];
- ☐ (d) a person who is a close personal friend of a director, executive officer, control person of the Issuer, or an affiliate of the Issuer namely \_\_\_\_\_ [print name of director, executive officer or control person];
- ☐ (e) a person who is a close business associate of a director, executive officer, control person of the Issuer, or an affiliate of the Issuer namely \_\_\_\_\_ [print name of director, executive officer or control person];
- ☐ (f) the founder of the issuer or a spouse, parent, grandparent, brother, sister, child, grandchild, close personal friend or close business associate of a founder of the Issuer, namely \_\_\_\_\_ [print name of founder];
- ☐ (g) a parent, grandparent, brother, sister, child or grandchild of a spouse of a founder of the Issuer, namely \_\_\_\_\_ [print name of spouse of founder];
- ☐ (h) a person of which the majority of the voting securities are beneficially owned by, or a majority of the directors are, persons described in paragraphs (a) to (g) above; OR
- ☐ (i) a trust or estate of which all the beneficiaries or a majority of the trustees or executors are persons described in paragraphs (a) to (g) above.

**The representations, warranties, statements and certification made in this Certificate are true and accurate as of the date of this Certificate and will true and accurate as of the Closing. If any such representation, warranty, statement or certification becomes untrue or inaccurate prior to the Closing, the undersigned Purchaser shall give the Issuer immediate written notice thereof.**

**The Purchaser acknowledges that the Issuer will be relying on this Certificate in connection with the Subscription Agreement.**

*[Remainder of this page intentionally left blank]*

The statements made on this certificate are true.

EXECUTED by the Purchaser at \_\_\_\_\_ this \_\_\_\_ day of \_\_\_\_\_, \_\_\_\_\_.

**If a corporation, partnership or other entity:**

**If an individual:**

\_\_\_\_\_  
*Signature of Authorized Signatory*

\_\_\_\_\_  
*Signature*

Not applicable

\_\_\_\_\_  
*Name and Position of Signatory*

\_\_\_\_\_  
*Print Name*

Not applicable

\_\_\_\_\_  
*Name of Purchasing Entity*

\_\_\_\_\_  
*Jurisdiction of Residence*

\_\_\_\_\_  
*Jurisdiction of Residence*

**DEFINITIONS:**

“**director**” means:

- (a) a member of the board of directors of a company or an individual who performs similar functions for a company, and
- (b) with respect to a person that is not a company, an individual who performs functions similar to those of a director of a company.

“**executive officer**” means, for an issuer, an individual who is:

- (a) a chair, vice-chair or president,
- (b) a vice-president in charge of a principal business unit, division or function including sales, finance or production,
- (c) an officer of the issuer or any of its subsidiaries and who performs a policy-making function in respect of the issuer, or
- (d) performing a policy-making function in respect of the issuer.

“**founder**” means, in respect of an issuer, a person who:

- (a) acting alone, in conjunction, or in concert with one or more persons, directly or indirectly, takes the initiative in founding, organizing or substantially reorganizing the business of the issuer, and
- (b) at the time of the trade is actively involved in the business of the issuer.