

**CONFIDENTIAL OFFERING MEMORANDUM**

*The confidential offering memorandum (“Confidential Offering Memorandum”) together with other marketing material constitutes an offering of the securities described herein only in those jurisdictions and to those persons where and to whom they may be lawfully offered for sale. This Confidential Offering Memorandum is not, and in no circumstances is to be construed as, a prospectus or advertisement or public offering of the securities described herein. This Confidential Offering Memorandum is confidential and contains certain information not publicly disclosed. No one is authorized to make any representations or give any warranty on behalf of Espresso Fund V LP other than those representations and warranties made or referred to in this Confidential Offering Memorandum. The securities to be offered hereunder have not been, and will not be, registered under the United States Securities Act of 1933, as amended (the “U.S. Securities Act”) or any state securities laws and may not be offered, sold or delivered, directly or indirectly, in the United States of America, its territories, its possessions and other areas subject to its jurisdiction or to, or for the account or benefit of, a U.S. person (as defined in Regulation S under the U.S. Securities Act). See “Plan of Distribution”.*

Private Placement and Continuous Offering

January 1, 2018

**ESPRESSO FUND V LP**

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Phone: (647) 288-3006 Email: [invest@espressocapital.com](mailto:invest@espressocapital.com)**SUBSCRIPTION PRICE****\$10 per Class B Unit****\$10 per Class F Unit**

\$100,000,000

**The Partnership:**

Espresso Fund V LP (the “Partnership”) is a limited partnership formed under the laws of the Province of Ontario pursuant to a limited partnership agreement between the Partnership and Espresso Capital Fund V GP Inc. (the “General Partner”).

The Partnership’s investment objectives are to (a) provide holders of Units (“Unitholders”) with regular cash distributions; and (b) preserve capital and minimize the risk of capital loss. See “Business of the Partnership – Our Business – Investment Objectives”. The Partnership has been created to gain exposure to a diversified portfolio of senior and subordinated secured debt (each a “Loan” and collectively, the “Loans”), primarily of technology companies, with Loan terms generally varying from six to thirty-six months. Loans will generally be in the form of credit facilities that produce regular income by way of monthly interest payments and fees, but may also be supplemented by way of incremental income from gains on warrants and other securities. Loans may have a priority claim on any tax credit claims as well as other government incentives and receivables, accounts receivables and other assets of the borrower.

**Securities Offered:**

The Partnership is offering class B units of limited partnership interest (the “Class B Units”) and class F units of the limited partnership interest (the “Class F Units”) each at a price of \$10.00 per Unit (the “Offering”). The Class B Units and the Class F

Units are referred to herein as the “Units” and each, a “Unit”. An unlimited number of Units of the Partnership are being offered on a continuous basis. **The Partnership is not a reporting issuer in any jurisdiction and these securities do not and will not trade on any exchange or market.** The Partnership does not file any of its documents on SEDAR. See “Securities Offered – The Offering”.

- Manager:** Espresso Capital Ltd. (“Espresso”) is the manager of the Partnership. The General Partner is a wholly-owned subsidiary of Espresso. The Partnership will invest the net proceeds of the Offering in Loans originated by Espresso.
- Price per security:** An unlimited number of Class B Units and Class F Units are being offered on a continuous basis as of the first business day of each month and such other days as Espresso, in its sole discretion as manager of the Partnership, may permit, at \$10 per Unit.
- Minimum/Maximum Offering:** Maximum offering: \$100,000,000  
**There is no minimum offering. You may be the only purchaser. Funds available under the Offering may not be sufficient to accomplish our proposed objectives.**
- Minimum Subscription Amount:** \$250,000, or such lesser amount as may be agreed to by Espresso, in its sole discretion.
- Payment Terms:** Full payment of the subscription price will be due upon execution and delivery of the subscription agreement and related subscription documentation. Payment should be made as directed in the subscription agreement. See “Securities Offered – Subscription Procedure”.
- Income Tax Consequences:** There are important tax consequences relating to an investment in the Units. See “Income Tax Consequences” and “Risk Factors”.
- Selling Agents:** The Units will be offered on a “private placement” basis on behalf of the Partnership by investment dealers and exempt market dealers, each, as placement agent (collectively, the “Agents” and each, an “Agent”) on a best efforts basis in accordance with the terms of a separate placement agreement between each Agent and the Partnership in reliance upon certain exemptions from the prospectus requirements of applicable securities legislation. See “Resale Restrictions”, “Risk Factors” and “Plan of Distribution”.
- Espresso is the manager of the Partnership and the originator of Loans. Espresso distributes Units of the Partnership to investors in its capacity as an exempt market dealer. Because Espresso indirectly earns fees from the ongoing management of the Partnership, the Partnership is considered both a related and connected issuer of Espresso. Espresso does not earn any commissions or other remuneration for acting as an exempt market dealer of the Units. See “Certain Canadian Securities Law Matters – Disclosure when Recommending Securities of Related or Connected Issuers”.**
- Resale Restrictions:** You will be restricted from selling your Units for 4 months and a day. See “Resale Restrictions”.
- Purchasers’ Rights:** You have 2 business days to cancel your agreement to purchase these securities. If there is a misrepresentation in this Confidential Offering Memorandum, you will have the right to sue either for damages or to cancel the agreement. See “Purchasers’ Rights”.

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

**TABLE OF CONTENTS**

	<b>Page</b>
SUMMARY OF THE OFFERING .....	1
BUSINESS OF THE PARTNERSHIP.....	7
INVESTMENT OVERVIEW .....	8
MATERIAL AGREEMENTS .....	11
MANAGEMENT OF THE PARTNERSHIP.....	11
CAPITAL STRUCTURE .....	14
SECURITIES OFFERED .....	15
CANADIAN FEDERAL INCOME TAX CONSIDERATIONS.....	21
INTERNATIONAL INFORMATION REPORTING.....	23
RISK FACTORS .....	24
REPORTING OBLIGATIONS .....	27
FEES AND EXPENSES .....	28
CONFLICTS OF INTEREST.....	28
CERTAIN CANADIAN SECURITIES LAW MATTERS.....	29
CERTAIN U.S. SECURITIES LAW MATTERS.....	30
RESALE RESTRICTIONS.....	30
PURCHASERS' RIGHTS.....	31
LEGAL MATTERS .....	41
AUDITOR AND TRANSFER AGENT .....	41
FINANCIAL STATEMENTS.....	1

## **CAUTION REGARDING FORWARD-LOOKING STATEMENTS**

This Confidential Offering Memorandum may include or incorporate by reference statements about expected future events and financial and operating results that are forward-looking. Forward-looking statements may include words such as “anticipate”, “believe”, “could”, “expect”, “goal”, “intend”, “may”, “outlook”, “plan”, “strive”, “target” and “will”. These forward-looking statements, if any, may reflect the internal projections, expectations, future growth, performance and business prospects and opportunities of the Partnership, the General Partner or Espresso and will be based on information currently available to the Partnership, the General Partner or Espresso. Actual results and developments may differ materially from results and developments discussed in the forward-looking statements, if any, as they are subject to a number of risks and uncertainties. In developing these forward-looking statements, if any, certain material assumptions would have been made. These forward-looking statements, if any, would also be subject to certain risks. See “Risk Factors”. Readers are cautioned not to place undue reliance on such forward-looking statements and assumptions as the Partnership, the General Partner or Espresso cannot provide assurance that actual results or developments will be realized or, even if substantially realized, that they will have the expected consequences to, or effects on, the Partnership, the General Partner or Espresso. These forward-looking statements are subject to change as a result of new information, future events or other circumstances, as discussed above, in which case they will only be updated by the Partnership, the General Partner or Espresso where required by law.

## SUMMARY OF THE OFFERING

*The following is a summary and is qualified in its entirety by the more detailed information appearing elsewhere in this Confidential Offering Memorandum.*

**The Partnership:** Espresso Fund V LP (the “Partnership”) is a limited partnership formed under the laws of the Province of Ontario pursuant to a limited partnership agreement between the Partnership and Espresso Capital Fund V GP Inc. (the “General Partner”).

The Partnership has been created to gain exposure to a diversified portfolio of senior and subordinated secured debt (each a “Loan” and collectively, the “Loans”), primarily of technology companies, with Loan terms generally varying from six to thirty-six months. Loans will generally be in the form of credit facilities that produce regular income by way of monthly interest payments and fees, but may also be supplemented by way of incremental income from gains on warrants and other securities. Loans may have a priority claim on any tax credit claims as well as other government incentives and receivables, accounts receivables and other assets of the borrower.

**The Offering:** The Partnership is offering class B units of limited partnership interest (the “Class B Units”) and class F units of limited partnership interest (the “Class F Units”) each at a price of \$10.00 per Unit (the “Offering”). The Class B Units and the Class F Units are referred to herein as the “Units” and each, a “Unit”. An unlimited number of Units of the Partnership are being offered on a continuous basis.

The Offering is being made pursuant to exemptions from the prospectus requirements of applicable securities laws in each of the provinces and territories of Canada. Each Investor must be an “accredited investor” as defined under applicable securities laws. Accordingly, there are restrictions on the resale or transfer of the Units. See “Certain Canadian Securities Law Matters”, “Resale Restrictions” and “Risk Factors” for further details.

**The Partnership is not a reporting issuer in any jurisdiction and these securities do not and will not trade on any exchange or market.** The Partnership does not file any of its documents on SEDAR. See “Securities Offered – The Offering”.

**The Manager:** Espresso Capital Ltd. (“Espresso”) is the manager of the Partnership. The Partnership will invest the net proceeds of the Offering in Loans originated by Espresso. See “Management of the Partnership”.

**The General Partner:** Espresso Fund V LP is the General Partner of the Partnership. The General Partner is a wholly-owned subsidiary of Espresso.

**Minimum Initial Investment:** \$250,000 (25,000 Units) or such lesser amount as may be agreed to by Espresso, in its sole discretion as manager of the Partnership.

**Investment Objectives:** The Partnership’s investment objectives are to:

- (a) provide Unitholders with regular cash distributions; and
- (b) preserve capital and minimize the risk of capital loss.

See “Business of the Partnership – Our Business – Investment Objectives”.

Espresso originates, and the Partnership purchases from Espresso, Loans using the subscription proceeds received by the Partnership in connection with the subscription for Units by investors. See “Description of the Partnership”.

Espresso provides technology companies with debt financing, typically ranging in size from \$500,000 to \$5 million, through one of the following programs:

- (a) tax credit and government incentive financing;
- (b) recurring revenue financing; and
- (c) working capital financing.

See “Management of the Partnership” and “Conflicts of Interest”.

**Price per Security:**

An unlimited number of Class B Units and Class F Units are being offered on a continuous basis on the first business day of each month and such other days as the Espresso, in its sole discretion, may permit (each, a “Subscription Date”). Each class of Unit is offered at \$10 per Unit.

**Subscription Procedure:**

In order for a subscription request to be processed at each Subscription Date, payment of the subscription price must be received by the third business day prior to the applicable Subscription Date; in addition, delivery of the duly completed subscription agreement and any other required documents must be received by Espresso by no later than 4:00 p.m. (Eastern Time) on the fifth business day prior to the applicable Subscription Date and the subscription price must be received by Espresso by no later than 4:00 p.m. (Eastern Time) on the third business day prior to the applicable Subscription Date (the “Subscription Deadline”). If the subscription order and/or payment of the subscription price is received by Espresso after the Subscription Deadline, the subscription order will be processed as of the next Subscription Date or, upon request by the investor, the subscription price will be returned without interest or deduction.

The subscription agreement is irrevocable by the subscriber but is conditional upon acceptance by the Partnership. Espresso has the discretion to reject any subscription request. The decision to accept or reject any subscription request will be made as soon as possible, and in any event, within two business days of receipt of the subscription price, completed subscription agreement and other required documents. If the subscription request is rejected, all payments received with the request will be refunded without interest or deduction. Subscription proceeds are held in trust by the Agents from the time of receipt until the Subscription Date, at which time the proceeds are accepted by the Partnership and the Units are issued to the subscriber.

See “Securities Offered – Subscription Procedure”.

**Series Accounting:**

In order to ensure a fair allocation of fees and expenses to Unitholders, the Partnership utilizes a “series accounting methodology” whereby a separate series of Units will be issued as of each Subscription Date bearing a designation which corresponds to the time at which the particular Units were issued (each, a “Series”).

At the end of each fiscal year, each Series within a class of Units, other than the Base Series, will be re-designated and converted into the Base Series (a “Series Roll Up”). The Series Roll Up will be effected at the prevailing Series net asset value per Unit of the Base Series of Units.

For the purposes of a Series Roll Up, “Base Series” means in respect of a class of Units, the initial Series of such class of Unit issued on the initial Subscription Date for such class of Unit and includes, for greater certainty, any Units reclassified into Base Series as of the end of each fiscal year pursuant to a Series Roll Up.

See “Securities Offered – The Units – Series Accounting”.

**Use of Leverage:**

The Partnership uses leverage principally for treasury management. The maximum aggregate amount of leverage that the Partnership may employ is 50% of the net asset value of the Partnership.

**Distributions:**

The Partnership intends to pay monthly cash distributions no later than the 15th day following the last day of each month in an amount equal to 1/365th of 7% of the initial subscription price per Unit for each day of the month for which the distribution is payable as well as an annual distribution to be declared payable no later than the last business day of December in each year. The annual distribution will be paid no later than March 31 of the following year and is expected to consist of any excess distributable net income less, in the General Partner’s discretion, such amounts needed to maintain the value of the Partnership’s assets or investments, implement the Partnership’s current investment plan or to otherwise fund the Partnership’s ongoing operations.

All distributions (other than distributions paid to redeeming Unitholders) are made on a pro rata basis to each registered Unitholder determined as of the close of business on the applicable distribution record date.

The distribution can be expected to vary from year to year based on variations in the net asset value of the Partnership. There can be no assurance that the Partnership will be able to make distributions at its targeted rate. The distribution policy of the Partnership, including the targeted distribution rate, is reviewed by Espresso on an annual basis.

**Management Fee**

**Class B Units:** As compensation for providing management and administrative services to the Partnership, the General Partner shall be entitled to a management fee equal to 1/12<sup>th</sup> of 2% of the net asset value of the Class B Units, plus applicable federal and provincial taxes, calculated and paid monthly.

**Class F Units:** As compensation for providing management and administrative services to the Partnership, the General Partner shall be entitled to a management fee equal to 1/12<sup>th</sup> of 1% of the net asset value of the Class F Units, plus applicable federal and provincial taxes, calculated and paid monthly.

**Operating Expense Contribution:**

The General Partner is entitled to an operating expense contribution (the “Operating Expense Contribution”) equal to 3.5% of the value of the Loan Portfolio (defined below) attributable to the Units for its services as general partner of the Partnership including originating, underwriting, administering and collecting loans, as well as for the ongoing maintenance

of its proprietary software platform, the credit scoring models and other intellectual property necessary for its risk management activities. The Operating Expense Contribution, plus applicable taxes, shall be calculated and paid monthly. The value of the “Loan Portfolio” is an amount equal to the sum of the dollar amount of all principal balances, accrued interest, equity warrants and any other capitalized amounts added to customer loan balances.

**Service Fee**

**Class B Units:** The General Partner may pay a service fee out of the management fee to the dealer of each holder of Class B Units equal to, per annum, 1/12<sup>th</sup> of 1% of the net asset value per Class B Unit held. Payments are calculated monthly and paid quarterly to registered dealers.

**Class F Units:** As the Class F Units are intended to be purchased by holders of fee based accounts, the Partnership does not pay a service fee in respect of the Class F Units.

**Performance Allocation:**

After Unitholders have received distributions in a year in an amount up to 7% of the subscription price per Unit, the General Partner shall be entitled to receive all net income of the Partnership between 7% and 9% per annum of the subscription price, and thereafter 20% of any net income of the Partnership in excess of 9% per annum of the subscription price per Unit (the “Performance Allocation”).

The Performance Allocation is calculated and accrued on a monthly basis and payable quarterly on the last day of each calendar quarter. The General Partner may in its discretion determine to hold back a portion of the Performance Allocation otherwise payable at the end of the calendar quarter and to pay the portion so held back at a later date. The General Partner expects to hold back approximately 30% of the Performance Allocation payable at the end of each calendar quarter, and to collect such held back amounts within ten days after the completion of the annual audit of the Partnership.

**Redemption:**

Units may be redeemed on the last business day of December of each year (each a “Redemption Date”). In order to effect such a redemption, the Units must be surrendered on or before the first business day of December. Units surrendered after the first business day of December will be redeemed on the next Redemption Date.

No later than 90 days after the applicable Redemption Date, the Partnership will pay to the redeeming Unitholder, in respect of each Unit redeemed, an amount (the “Redemption Price”) equal to the net asset value per Unit as at the applicable Redemption Date, less (a) any unrealized income, as at the Redemption Date, attributable to the Units being redeemed, less (b) any costs and expenses associated with the redemption of the units being redeemed.

Espresso may suspend the redemption of Units or the payment of redemption proceeds. See “Securities Offered – The Units – Suspension of Redemptions”.

Redemptions of Units in any calendar year shall be limited to such number of Units as have an aggregate value equal to 20% of the net asset value of such class at the end of that calendar year.



See “Securities Offered – The Units – Redemptions”.

**Mandatory Redemption:** The Partnership may in its discretion redeem all or a portion of a Unitholder’s Units by giving 30 days’ prior written notice to the Unitholder, specifying the number of Units to be redeemed. See “Securities Offered – The Units – Mandatory Redemptions”.

**Transfers of Units:** Units may only be transferred with the consent of the General Partner and transfers will generally not be permitted. The transfer or resale of Units (which does not include a redemption of Units) is also subject to restrictions under applicable securities legislation. Redemption of the Units in accordance with the provisions set out herein is the only means of liquidating an investment in the Partnership. See “Resale Restrictions”.

**Sales Charge:** The Partnership does not charge an up-front sales commission. However, registered dealers may, at their discretion, charge purchasers a sales commission for Class B Units purchased by the subscriber. Any such sales commission will be negotiated between the registered dealer and the subscriber and will be payable directly by the subscriber to the dealer. Any such sales commission will reduce a subscriber’s net investment amount in Units.

No sales commission of any kind shall be payable on the Class F Units

**No Certificates:** Generally, the Partnership does not issue Unit certificates but may do so in the discretion of the General Partner. However, on any purchase, redemption or transfer of Units, the General Partner shall issue confirmation slips indicating the nature of the transaction effected by the Unitholder and the number of Units held by such Unitholder after such transaction. Unit certificates, if issued, shall be in such form as the General Partner may from time to time approve. See “Securities Offered – No Certificates”.

**Limited Liability:** Unless a Unitholder takes part in the control of the business of the Partnership, the liability of each Unitholder for the debts, liabilities, obligations and losses of the Partnership will be limited to the amount of capital contributed or agreed to be contributed to the Partnership by the Unitholder, less any such amounts properly returned to the Unitholder. See “Securities Offered -- Limited Liability” and “Risk Factors – Possible Loss of Limited Liability”.

**Risk Factors:** Investing in Units of the Partnership involves certain risks. **An investment in the Partnership may be deemed speculative and is not intended as a complete investment program.** Prospective purchasers should carefully consider the information in the “Risk Factors” section of this Confidential Offering Memorandum and consult their own professional advisors to assess the tax, legal and other aspects of an investment in Units.

**Tax Considerations and Eligibility for Investment:** Persons investing in a limited partnership such as the Partnership offered hereby should be aware of the tax consequences of investing in, holding and/or redeeming units of a limited partnership. **Investors are urged to consult with their tax advisers to determine the tax consequences of an investment in the Partnership.**

Units are not qualified investments under the *Income Tax Act* (Canada) for trusts governed by registered retirement savings plans, registered

retirement income funds, deferred profit sharing plans, registered education savings plans, registered disability savings plans or tax-free savings accounts.

See “Canadian Federal Income Tax Considerations”.

**Fiscal Year:**

The Partnership’s fiscal year ends on December 31 of each year.

**Auditor:**

KPMG LLP

## BUSINESS OF THE PARTNERSHIP

### Structure

Espresso Fund V LP (“the Partnership”) is a limited partnership formed under the laws of the Province of Ontario pursuant to a third amended and restated limited partnership agreement made as of January 1, 2018 between Espresso Capital Fund V GP Inc. (the “General Partner”) and each person admitted to the Partnership as a Unitholder (the “Limited Partnership Agreement”). The General Partner is entitled to delegate any and all of its powers. The General Partner has engaged Espresso Capital Ltd. (“Espresso”) to act as manager of the Partnership and to provide all administrative services required by the Partnership. The General Partner is a wholly-owned subsidiary of Espresso. See “Management of the Partnership”.

### Our Business

#### *Investment Objectives*

The Partnership’s investment objectives are to:

- (a) provide holders of Units (“Unitholders”) with regular cash distributions; and
- (b) preserve capital and minimize the risk of capital loss.

#### *Investment Strategies*

The Partnership has been created to gain exposure to a diversified portfolio of senior and subordinated secured debt (each a “Loan” and collectively, the “Loans”), primarily of technology companies, with Loan terms generally varying from six to thirty-six months. Loans will generally be in the form of credit facilities that produce regular income by way of monthly interest payments and fees, but may also be supplemented by way of incremental income from gains on warrants and other securities. Loans may have a priority claim on any tax credit claims as well as other government incentives and receivables, accounts receivables and other assets of the borrower. The Partnership invests in various Loans originated by Espresso.

Espresso provides technology companies with debt financing, typically ranging in size from \$500,000 to \$5 million, and typically through one of the following programs:

- (a) tax credit and government incentive financing;
- (b) recurring revenue financing; and
- (c) working capital financing.

In making its determination whether to enter into a Loan with a particular company, Espresso undertakes a rigorous diligence process leveraging Espresso’s proprietary credit models to review the credit worthiness of the potential borrower. See “Investment Criteria” below for further details regarding Espresso’s diligence process.

#### *Leverage*

The maximum aggregate amount of leverage that the General Partner may employ is 50% of the net asset value of the Partnership. If at any time leverage exceeds the threshold, the General Partner will cause the leverage to be reduced to below such threshold.

### *Other Strategies*

The investment strategies described above are not intended to be exhaustive and other strategies may also be employed. The actual strategies utilized will depend upon market conditions and the relative attractiveness of the available opportunities.

### *Business & Investment Restrictions*

The Partnership is subject to certain investment restrictions as set forth in the Limited Partnership Agreement, including that the Partnership:

- (a) shall not make loans that are unsecured;
- (b) shall not make any loans or investments (other than as permitted in the Limited Partnership Agreement and for short-term liquid investments primarily for cash management purposes); and
- (c) shall not at the time of purchase invest more than 10% of its net asset value in the Partnership securities of any one issuer.

In addition, the Partnership:

- (a) may borrow or otherwise employ leverage in an amount not exceeding 50% of the aggregate contributed capital of the Partnership at the time of borrowing;
- (b) may seek to pool, securitize, leverage, sell or otherwise finance its investments in order to optimize returns; and
- (c) may accept equity or equity related securities (including, without limitation, warrants, convertible loans, etc.) in connection with the debt financing business described in the Limited Partnership Agreement

The investment strategies described above are not intended to be exhaustive and other strategies may also be employed. The actual strategies utilized will depend upon market conditions and the relative attractiveness of the available opportunities.

## **INVESTMENT OVERVIEW**

### **Overview – Market Opportunity**

Espresso believes the technology sector is among the fastest growing industries in the world, with high rates of company formation, as well as job and wealth creation. However, many technology small businesses (not unlike small businesses in general) have difficulty securing sufficient debt financing.

### *Technology Sector Underserved by Traditional Lenders*

Traditional lenders (including commercial banks) limit small business lending to loans which are secured against tangible assets such as accounts receivables, equipment and real estate. Technology small businesses, unlike traditional businesses, tend to have the bulk of their asset value in intangible rather than tangible assets, and as a result have difficulty obtaining credit from traditional lenders. Espresso believes that it has the expertise and experience, as demonstrated by its track record, to accurately assess and

underwrite technology small business credit, and offer innovative products such as tax credit financing, recurring revenue financing and working capital financing to address this underserved market.

### *Canadian Market Opportunity*

Canadian banking sources estimate that there are approximately 100,000 technology small businesses in Canada. Espresso estimates the target market for its financing solutions at approximately 15,000 of these companies.

### *Government Incentive Programs in Canada*

The federal and provincial governments in Canada have established a variety of incentive programs focused on the technology sector in order to foster job creation and accelerate innovation. The federal government's Scientific Research and Experimental Development (SR&ED) program, according to the most recently published data, provides \$1.3 billion in annual refundable tax credits to Canadian controlled private corporations. Additionally, many provinces supplement the federal SR&ED refund with a provincial R&D tax credit. Espresso estimates the combined value of federal and provincial R&D tax credits at over \$2 billion annually. While R&D tax credits represent the major form of government support for the technology sector, Espresso estimates that the federal and provincial governments provide a further \$1 billion in other incentives to the technology sector including other tax credits as well as loans and grants.

### **Competitive Positioning**

Espresso has established itself as a leading provider of *founder friendly* capital to Canadian technology companies. Espresso believes the following key competitive strengths differentiate it from its competitors:

- ***Brand Awareness.*** Espresso enjoys strong brand recognition across Canada as a leading provider of non-dilutive financing to technology companies.
- ***Nine year track record.*** Espresso has pioneered, and proven over its nine year operating history, a lending model that has consistently returned in excess of 9%<sup>(i)</sup> net returns to investors. During this period, Espresso's loan loss ratio<sup>(ii)</sup> was limited to approximately 1% of the approximate \$163 million in loans that have come due for repayment.
  - (i) based on pro-forma historical performance and calculated based on Class F fee structure across all funds on a weighted-average basis
  - (ii) loan loss ratio is defined as the total of all general and specific reserves taken against all of the loans for all funds since inception, divided by the total advances made on all loans on all funds since inception
- ***Proprietary Software Platform.*** Espresso has developed and continues to invest in expanding the capabilities of its proprietary software platform that enables it to input and process a large volume of financial and operational data from its borrowers. Espresso's proprietary software platform provides Espresso with tools designed to reasonably predict the future financial performance of its borrowers, allowing it to proactively manage potential risk in its loan portfolio.
- ***Proprietary credit scoring model.*** Espresso has developed and continues to invest in improving its proprietary credit scoring model, which uses advanced analytics including machine learning to evaluate the creditworthiness of potential borrowers. Espresso believes that its credit scoring model enables it to better assess and underwrite loans to technology companies.

- **Funding Speed.** Standardized origination and underwriting processes, and simplified documentation, enable Espresso to quickly and efficiently process Loans relative to competitors.
- **Risk-Based Pricing.** Espresso uses a sophisticated risk-based pricing model to position its offerings as “fairly priced” thereby building a more favorable brand perception in the marketplace than many of its competitors.

## Overview of Financing Solutions

Espresso’s funding solutions are designed to meet the needs of a market segment that, based on its experience, is highly underserved. Specifically, Espresso provides working capital, sales expansion and bridge financing solutions for technology small businesses ranging in size from \$500,000 to \$5 million with loan terms generally ranging from six to thirty-six month terms. Loans will typically be subject to fixed rate monthly interest payments, plus fees, and occasionally royalties or warrants, set to ensure Espresso meets its minimum threshold returns. Loans are collateralized by a security interest in the borrower’s assets including tax credit claims and other government incentives, accounts receivables and other assets, although Espresso may not always have a first priority security interest on such assets.

Loans are highly standardized and will typically take one of the following forms:

- (a) **Tax Credit and Government Incentive Financing.** Loans to finance current and future tax credit and other government incentive receivables.
- (b) **Recurring Revenue Financing.** Loans to support sales expansion investments of Software-as-a-Service (SaaS) companies and other businesses with high-margin, recurring revenue models.
- (c) **Working Capital Financing.** Loans to finance high quality receivables and other working capital assets.

## Investment Criteria

In making its determination as to whether to enter into a Loan with a particular borrower, Espresso uses its diligence processes to review the credit worthiness of the borrower based on Espresso’s proprietary credit models. Espresso believes its proprietary, machine learning powered credit models, based on 9 years of loan performance data enable Espresso to quickly and accurately assess and underwrite technology small business credit. Espresso’s risk scoring methodology and credit models take into account a variety of factors depending on loan type, including but not limited to:

- (a) the quality of company management and operations team, their current and prior track record of success, the maturity of the company’s strategic planning, operational and financial management processes, and the quality of the company’s governance.
- (b) the company’s financial profile, including revenue, revenue growth rates, revenue composition (recurring vs non-recurring), gross margin, and net income margin;
- (c) the company’s customer base and customer economics, including diversification and, where applicable, customer lifetime value, factoring customer acquisition costs, turnover rates, and ability to generate customer expansion revenue; and

- (d) capital structure, cash flow profile, prior history of tax credit claims, value of the company's current assets including current tax credit claims, tax credit claim accruals and accounts receivables, the value other company assets and the company's enterprise value.

### **MATERIAL AGREEMENTS**

The following agreements can reasonably be regarded as material to purchasers of Units:

- (a) Limited Partnership Agreement (as defined under "Business of the Partnership – Structure"; and
- (b) Management Services Agreement between the Partnership and Espresso dated January 1, 2016 (the "Services Agreement").

### **MANAGEMENT OF THE PARTNERSHIP**

Espresso Fund V LP is a limited partnership formed under the laws of the Province of Ontario pursuant to the Limited Partnership Agreement. The general partner of the Partnership is Espresso Capital Fund V GP Inc., which is a wholly-owned subsidiary of Espresso. The General Partner has an uncertificated 0.001% partnership interest in the Partnership.

The General Partner has engaged Espresso Capital Ltd. to act as the manager of the Partnership pursuant to the Services Agreement. In its capacity as manager of the Partnership, Espresso provides or causes to be provided all managerial, administrative and compliance services required by the Partnership.

Espresso is a corporation established under the laws of the Province of Ontario. Espresso's head office is located at 8 King Street East, Suite 300, Toronto, Ontario, M5C 1B5. The name, principal occupation and related experience of officers and directors of Espresso are as follows:

**Gary Yurkovich** - *Chairman of Espresso Capital Ltd.*

Gary Yurkovich is a seasoned technology executive, investor and board member with 30 years of experience helping innovative companies succeed. He has held key management roles including CEO, COO, Vice President Sales and Marketing and Vice President Corporate Development for companies that were subsequently acquired by Kodak Company, WellPoint, TELUS Corporation and Dolby Labs. Mr. Yurkovich currently sits on the board of several Canadian technology companies and foundations.

**Alkarim Jivraj** - *President and Chief Executive Officer of Espresso Capital Ltd.*

Alkarim Jivraj has been involved in technology investment banking, venture capital and venture debt for over 20 years, during which period he has advised or invested in over 200 companies. Prior to joining Espresso, he was the Founder and Managing Partner of Intrepid Business Acceleration Fund, a venture capital fund, and also Managing Director of Intrepid Equity Finance, an advisory firm. Alkarim started his finance career at Yorkton Securities, a boutique investment banking firm, eventually leading its information technology investment banking practice and co-managing two investment funds. Alkarim sits on the Board of SCI Marketview.

**Enio Lazzer** - *Chief Operating Officer and Chief Financial Officer of Espresso Capital Ltd.*

Enio Lazzer is a finance executive with over 20 years of experience in finance, investment banking, capital markets, operations and technology and has extensive experience in developing and executing strategic business plans and building core business operations and platforms. Prior to joining Espresso, Mr. Lazzer

has held numerous senior roles in the Canadian banking sector including divisional Chief Financial Officer, Chief Operating Officer and Managing Director within CIBC World Markets, where he also served as Head of its Prime Brokerage business. He also previously served as Vice President and Chief Financial Officer of The Northern Trust Company, Canada where he was part of an executive management team that established the first foreign owned trust company in Canada and successfully grew it to over \$40 billion of assets under management.

**Will Hutchins** - *Managing Director of Espresso Capital Ltd.*

Will Hutchins is a finance executive with over 15 years of experience in corporate finance. Mr. Hutchins was formerly Director, Investment Banking at TD Securities Inc. where he worked from January 2005 to March 2015 advising clients in the technology, media and communications sectors on debt and equity financings, M&A transactions and corporate strategy. Prior to TD, he practiced law in the corporate finance and M&A departments of Stikeman Elliott LLP in Toronto, Ontario and Paul, Weiss, Rifkind, Wharton & Garrison LLP in New York, New York.

**Chris Hill** - *Chairman of the Credit Committee of Espresso Capital Ltd.*

Chris Hill is a veteran CFO with over 20 years of experience in finance and operations for both large public and private venture backed technology companies. Mr. Hill was formerly COO and CFO at Resolution Health from its inception to its sale to NYSE-listed WellPoint. He currently sits on the board of directors of Engine Digital.

**Fred Welter** - Director

Fred Welter is the President of NWG Assets Ltd. and the former President & Chief Executive Officer of North West Geomatics Ltd. (“North West”). Fred Welter established North West Geomatics Ltd. in 1988, growing it into a pre-eminent North American aerial photography company. Under Mr. Welter’s leadership, North West successfully undertook the transition from film to digital technology, to becoming a global leader in the areas of digital imagery acquisition, imagery processing and cloud storage and distribution. He has led major aerial photography projects for clients in North America and around the world, including Honduras, Costa Rica, Venezuela, Colombia, Peru, Thailand, India, Saudi Arabia, Kuwait and Zimbabwe. Mr. Welter sold his interest in North West to Hexagon AB in 2013 and is presently semi-retired.

**Neil Murdoch** - *Director*

Neil Murdoch is an active investor and has served on the boards of many private and public companies, including his current portfolio of businesses. He is the former President of Aston Hill Asset Management, having retired in December 2015. Neil has a strong track record of leadership and execution in the retail investment world. In late 2003 he founded Connor, Clark & Lunn Capital Markets Inc. where, as CEO and President, he raised over \$2.5 billion in new assets before Aston Hill acquired the firm in 2013. Prior thereto, he was Executive Vice-President and Portfolio Manager at AIC Group of Funds. Neil joined AIC in 1993 when the firm managed only \$150 million in assets and was instrumental in its growth to over \$15 billion as one of the three principals of the business. The funds he managed were the winners of numerous investment awards.

**Brice Scheschuk** - *Director*

Brice Scheschuk, CPA, CA is CEO of Globalive Capital, CFO of Pragmatic Solutions, past CFO of WIND Mobile and past CEO of Globalive Communications. He has over twenty years’ experience building and operating companies at Globalive, Leitch Technology and PricewaterhouseCoopers. He obtained his CA designation at PricewaterhouseCoopers and B.Comm (Hon.) Finance from Dalhousie University. Selected



current and past board and advisory positions include Cranson Capital, Espresso Capital, Findev (TSX: FDI), Globalive Communications, iLookabout (TSX: ILA), Loran Scholars, OutsideIQ, Partsroom, Plaza Ventures, Pitchpoint Solutions, Pragmatic Solutions, Samba Days/Rewards, SceneDoc, Shamba Foundation, Varicent Software, Web Host Industry Review, WIND Mobile, World of Angus and Zoocasa.

### **Razor Suleman - Director**

Razor Suleman is the Founder & former CEO of Achievers, a leading provider of SaaS based rewards and recognition programs. Razor built Achievers from an idea to a company with a \$100M in revenues. Achievers was acquired by Silicon Valley based Blackhawk Networks (NASDAQ: HAWK) in July of 2015 for \$150M. Under Razor’s leadership, Achievers has raised venture capital from leading firms including Sequoia Capital. Razor graduated from Wilfrid Laurier University’s School of Business and MIT’s Entrepreneurial Masters Program. He has won dozens of awards including Ernst & Young’s Entrepreneur of the Year award, BDC’s Young Entrepreneur of the Year, and a Human Capital Leadership Award from HR Magazine.

### **Track Record of Espresso**

Since inception in November 2009, Espresso has provided over \$200 million in financing to over 220 technology companies across Canada while limiting its Loan Loss ratio<sup>(3)</sup> to approximately 1%.

	<b>Fund I</b>	<b>Fund II</b>	<b>Fund III</b>	<b>Fund IV</b>	<b>Fund V</b>
<b>Inception Date</b>	Nov’09	Nov’11	Feb’13	Jul’13	Feb’16
<b>Transaction Value<sup>(1)</sup></b>	\$17.7M	\$18.2M	\$71.9M	\$18.4M	\$83.2M
<b>Current Loan Book<sup>(1)</sup></b>	\$0M	\$0M	\$0M	\$0M	\$48.2M
<b>Normalized IRR<sup>(2)</sup></b>	13.1%	8.9%	11.3%	10.4%	10.1%
<b>Loan Loss Ratio</b>	1.1%	3.2%	1.6%	0.0%	0.4%

#### **Notes:**

- (1) As at December 31, 2017.
- (2) IRR (internal rate of return) is based on pro-forma historical performance calculated using fee structures similar to the Class F fee structure for previous funds managed by Espresso. Derived from audited and unaudited results. IRR is calculated after deducting all operating fees, operating expenses and performance allocation (carried interest). **The information set forth above is historical and is not intended to be, nor should it be construed as, an indication as to future IRR.** IRR is not equivalent to annual cash yield. The calculation of IRR takes into account the timing of the distributions.
- (3) Loan Loss ratio is defined as the total of all realized losses and specific reserves taken against all loans for all funds since inception, divided by the total advances made on all loans from all funds since inception.

### **Operating Expense Contribution**

The General Partner is entitled to an operating expense contribution (the “**Operating Expense Contribution**”) equal to 3.5% of the value of the Loan Portfolio (defined below) attributable to the Units for its services as general partner of the Partnership including originating, underwriting, administering and collecting loans, as well as for the ongoing maintenance of its proprietary software platform, the credit scoring models and other intellectual property necessary for its risk management activities. The Operating Expense Contribution, plus applicable taxes, shall be calculated and paid monthly. The value of the “Loan Portfolio” is an amount equal to the sum of the dollar amount of all principal balances, accrued interest, equity warrants and any other capitalized amounts added to customer loan balances. The Partnership reimburses the General Partner for all expenses incurred by the General Partner in the performance of its duties as general partner of the Partnership.

## Services Agreement

Espresso's responsibilities as manager of the Partnership include, without limitation, acquiring or arranging to acquire units of the Partnership, calculating the net asset value of the Partnership and net asset value per Unit of the Partnership, net income and net realized capital gains of the Partnership, authorizing the payment of operating expenses incurred on behalf of the Partnership, preparing financial statements and financial and accounting information as required by the Partnership, ensuring that Unitholders are provided with financial statements and other reports as are required by applicable law from time to time, ensuring that the Partnership complies with regulatory requirements, preparing the Partnership's reports to Unitholders, determining the amount of distributions to be made by the Partnership and negotiating contractual agreements with third-party providers of services, including the auditor of the Partnership. Espresso may from time to time employ or retain any other person or entity to perform, or to assist Espresso in the performance of management services to all or any portion of the Partnership's assets and in performing other duties of Espresso as set out in the Limited Partnership Agreement.

Under the Services Agreement, Espresso is required to exercise its powers and discharge its duties honestly, in good faith and in the best interests of Unitholders and in connection therewith, to exercise the degree of care, diligence and skill that a reasonably prudent person would exercise in similar circumstances.

The Services Agreement may be terminated by the General Partner if Espresso fails to materially comply with the terms of the agreement and such failure remains un-remedied for a period of 10 days after notice of such failure has been given by the General Partner to Espresso describing such failure in detail. The Services Agreement may be terminated at any time by Espresso upon not less than 10 days' notice in writing to the General Partner, such termination to be effective as of the last Business Day of the month in which such notice period expired, and may be terminated by Espresso at its option immediately with subsequent notice to the General Partner should the General Partner fail to materially comply with the terms of the Services Agreement.

In addition, Espresso and its affiliates and each of their directors, officers, employees and agents will be indemnified by the Partnership for all liabilities, costs and expenses incurred in connection with any action, suit or proceeding that is proposed or commenced or other claim that is made against any of them in the exercise of Espresso's duties under the Services Agreement, if they do not result from Espresso's wilful misconduct, bad faith, gross negligence or breach of its obligations thereunder.

The services of Espresso are not exclusive and nothing in the Services Agreement, the Limited Partnership Agreement or any other agreement prevents Espresso from providing similar services to other Partnerships and other clients (whether or not their investment objectives and policies are similar to those of the Partnership) or from engaging in other business activities.

## CAPITAL STRUCTURE

The Partnership is authorized to issue an unlimited number of redeemable, transferable units of an unlimited number of classes, each of which represents an equal, undivided interest in the net assets of the Partnership. The Partnership currently has Class I Units, Class H Units and Class A Units outstanding in the following amounts and has authorized for issuance Class B Units and Class F Units:

<b>Description of Class</b>	<b>Number outstanding as at December 31, 2017</b>
Class I Units – issued to unitholders of prior funds managed by Espresso in consideration for contributions of such units	7,520,486
Class H Units	20,198,050

Class A Units – Issued to Espresso Income Trust, a mutual fund trust managed by Espresso which provides investors with exposure to the Partnership	8,998,520
Class B Units - offered under this Offering Memorandum	-
Class F Units - offered under this Offering Memorandum	-

All holders of units are entitled to participate pro rata: (i) in any payments or distributions (other than distributions paid to redeeming unitholders) made by the Partnership ; and (ii) upon liquidation of the Partnership , in any distributions to unitholders of net assets of the Partnership remaining after satisfaction of outstanding liabilities. units are not transferable, except by operation of law (for example, a death or bankruptcy of a unitholder) or with the consent of Espresso. Holders of units of each class of the Partnership shall be entitled to vote at any meeting of Unitholders (unless the circumstances are such that one class of units of the Partnership is affected differently in which case the holders of each class of units of the Partnership will vote separately as a class). The rights attached to the Units may only be modified, amended or varied in accordance with the terms of the Limited Partnership Agreement.

Espresso, in its capacity as manager of the Partnership, may create and name (or rename) from time to time one or more classes or series of Units, without approval of or notice to Unitholders, with such attributes as the General Partner, acting in the best interests of the Partnership, may determine in its discretion, provided that such attributes do not adversely affect the existing Unitholder of the Partnership. No series of a class of Units shall have any rights, preferences or priorities over any other series of Units of the same class, other than in connection with the calculation of fees payable by such series as described in the Limited Partnership Agreement. No Unit of a series shall have any rights, preferences or priorities over any other Unit of such series.

Espresso, in its capacity as manager of the Partnership, may consolidate or subdivide the Units of a class and Units of one or more series from time to time in such manner as it considers appropriate. Fractional Units may be issued. None of the rights described in the Limited Partnership Agreement as being available to a holder of a Unit are available to the purported holder of a fractional Unit other than a proportional right to distributions and the proceeds of redemption.

## **SECURITIES OFFERED**

The following is a summary only of the material attributes and characteristics of the Units.

The Partnership is currently offering Class B Units and Class F Units. Class B Units and Class F Units are available to all eligible investors and are Canadian dollar denominated.

An unlimited number of Class B Units and Class F Units are being offered on a private placement basis (the “Offering”) pursuant to exemptions from the prospectus requirements of applicable securities laws in each of the provinces and territories of Canada. Prospective investors must be an “accredited investor” as defined under applicable securities laws. Accordingly, there will be restrictions on the resale or transfer of the Units. See “Certain Canadian Securities Law Matters”, “Resale Restrictions” and “Risk Factors” for further details.

## **Distributions**

### *Distributions to Holders of Units*

The Partnership intends to pay monthly cash distributions on Units no later than the 15th day following the last day of each month in an amount equal to  $1/365^{\text{th}}$  of 7% of the initial subscription price per Unit for each day of the month for which the distribution is payable as well as an annual distribution to be declared payable no later than the last business day of December in each year. The annual distribution on Units will be paid no later than March 31 of the following year and is expected to consist of any excess distributable net income less, in the General Partner's discretion, such amounts needed to maintain the value of the Partnership's assets or investments, implement the Partnership's current investment plan or to otherwise fund the Partnership's ongoing operations.

All distributions (other than distributions paid to redeeming Unitholders) will be made on a pro rata basis to each registered Unitholder determined as of the close of business on the applicable distribution record date.

### *Performance Allocation to the General Partner*

After Unitholders have received distributions in a year in an amount up to 7% of the subscription price per Unit, the General Partner shall be entitled to receive all net income of the Partnership between 7% and 9% per annum of the subscription price, and thereafter 20% of any net income of the Partnership in excess of 9% per annum of the subscription price per Unit (the "Performance Allocation").

The Performance Allocation is calculated and accrued on a monthly basis and payable quarterly on the last day of each calendar quarter. The General Partner may in its discretion determine to hold back a portion of the Performance Allocation otherwise payable at the end of the calendar quarter and to pay the portion so held back at a later date. The General Partner expects to hold back approximately 30% of the Performance Allocation payable at the end of each calendar quarter, and to collect such held back amounts within ten days after the completion of the annual audit of the Partnership.

### *Distribution Reinvestment Plan*

The Partnership offers a reinvestment plan which provides that a holder of Units may elect to reinvest all distributions paid on the Units held by such holder in additional Units. Holders of Units who wish to reinvest the distributions paid on their Units as of a particular distribution date should speak with their dealer for details.

## **Allocation of Partnership Net Income**

The Partnership Net Income (defined below) is allocated at the end of each fiscal year, first as to an amount necessary to account for expenses incurred by the Partnership as determined by the General Partner and then any residual amount among the holders of units of the Partnership based on their proportionate share of distributions received or receivable for such fiscal year. "Partnership Net Income" means the amount of net income (or loss) of the Partnership before income taxes computed in accordance with generally accepted accounting principles, adjusted to exclude all fair value adjustments to the carrying-value of assets and liabilities and to include realized capital gains and losses on the disposition of assets, computed with reference to the historical cost of the assets disposed of and any operating expense contribution payable to Espresso.

## **Redemptions**

Units may be redeemed on the last business day of December of each year (each a “Redemption Date”). In order to effect such a redemption, the Units must be surrendered on or before the first business day of December. No later than 90 days after the applicable Redemption Date, the Partnership will pay to the redeeming Unitholder, in respect of each Unit redeemed, an amount (the “Redemption Price”) equal to the net asset value per Unit as at the applicable Redemption Date, less (a) any unrealized income, as at the Redemption Date, attributable to the Units being redeemed and (b) any costs and expenses associated with the redemption of the Units being redeemed.

Redemptions of Units in any calendar year shall be limited to such number of Units as have an aggregate value equal to 20% of the net asset value of such class at the end of that calendar year.

A redemption notice shall be irrevocable and shall contain a clear request by the Unitholder that a specified number of Units be redeemed or stipulate the dollar amount which the Unitholder requires to be paid. A Unitholder’s signature on a redemption notice shall be guaranteed by a Canadian chartered bank, a trust company or a registered broker or securities dealer acceptable to the General Partner. Redemption notices will be accepted in the order in which they are received.

### *Mandatory Redemption*

Espresso may in its discretion cause the Partnership to redeem all or a portion of a Unitholder’s Units by giving 30 days’ prior written notice to the Unitholder, specifying the number of Units to be redeemed. In addition, Espresso may cause the Partnership to redeem Units owned by a person or partnership that is a “designated beneficiary” without notice if the continued ownership of Units by such person or partnership could have adverse tax consequences to the Partnership.

### *Suspension of Redemptions*

Espresso may suspend the redemption of Units or payment of redemption proceeds for any period during which Espresso determines that conditions exist which render impractical the sale of assets of the Partnership or which impair the ability of Espresso to determine the value of the assets of the Partnership. The suspension may apply to all requests for redemption received prior to the suspension but as to which payment has not been made, as well as to all requests received while the suspension is in effect. All Unitholders making such requests shall be advised by Espresso of the suspension and that the redemption will be effected at a price determined on the first Valuation Date (as defined herein) 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 Offering**

Units are being offered on a continuous basis on the first business day of each month and such other days as Espresso, in its sole discretion, may permit (each, a “Subscription Date”).

The minimum subscription amount for Units is \$250,000 (or such lesser amount as may be agreed to by Espresso, in its sole discretion). As of each Subscription Date, a new Series of Units is being offered for a purchase price of \$10 per Unit.

Subscriptions for Units are subject to acceptance by Espresso and may be accepted in whole or in part.

## **Valuation of Units**

The net asset value of the Partnership and net asset value per unit of each class of the Partnership are calculated by Espresso in accordance with the terms of the Limited Partnership Agreement, once a month as of the last business day of each calendar month, or more frequently in the discretion of Espresso, at the close of regular trading on the Toronto Stock Exchange, normally 4:00 p.m. (Eastern time) and on December 31 of each year (each, a “Valuation Date”). The net asset value of each class of the Partnership on a particular date is equal to the aggregate value of the assets of the Partnership attributable to each such class of units, including any income, net realized capital gains or other amounts payable to Unitholders on or before such date and the value of the liabilities of the Partnership for the operating expense contribution to Espresso and other expenses and taxes. The net asset value per unit of the Partnership is obtained by dividing the net asset value of the class on such Valuation Date by the number of units of the class of the Partnership then outstanding.

### *Series Accounting*

In order to ensure a fair allocation of fees and expenses to Unitholders, the Partnership utilizes a “series accounting methodology” whereby a separate series of Units will be issued as of each Subscription Date bearing a designation which corresponds to the time at which the particular Units were issued (each, a “Series”).

At the end of each fiscal year, each Series within a class of Units, other than the Base Series, will be re-designated and converted into the Base Series (a “Series Roll Up”). The Series Roll Up will be accomplished by amending the Series net asset value per Unit of all such Series at such time so that they are the same, and consolidating or subdividing the number of Units of each such Series so that the aggregate Series net asset value of the Series of Units subject to the Series Roll Up held by a Unitholder does not change. The Series Roll Up will be effected at the prevailing Series net asset value per Unit of the Base Series of Units.

For the purposes of a Series Roll Up, “Base Series” means in respect of a class of Units, the initial Series of such class of Unit issued on the initial Subscription Date for such class of Unit and includes, for greater certainty, any Units reclassified into Base Series as of the end of each fiscal year pursuant to a Series Roll Up.

## **Subscription Procedure**

An investor who wishes to subscribe for Units must:

- (a) complete and execute the subscription form that accompanies this Confidential Offering Memorandum, including all applicable schedules thereto;
- (b) pay the subscription price for the Units in accordance with the instructions set out in the Subscription Agreement; and
- (c) complete and execute any other documents deemed necessary by Espresso to comply with applicable securities laws.

In order for a subscription request to be processed at each Subscription Date, payment of the subscription price must be received by the third business day prior to the applicable Subscription Date; in addition, delivery of the duly completed subscription agreement and any other required documents must be received by Espresso by no later than 4:00 p.m. (Eastern Time) on the fifth business day prior to the applicable Subscription Date and the subscription price must be received by Espresso by no later than 4:00 p.m.

(Eastern Time) on the third business day prior to the applicable Subscription Date (the “Subscription Deadline”). If the subscription order and/or payment of the subscription price is received by Espresso after the Subscription Deadline, the subscription order will be processed as of the next Subscription Date or, upon request by the investor, the subscription price will be returned without interest or deduction.

The subscription agreement is irrevocable by the subscriber but is conditional upon acceptance by the Partnership. Espresso has the discretion to reject any subscription request. The decision to accept or reject any subscription request will be made as soon as possible, and in any event, within two business days of receipt of the subscription price, completed subscription agreement and other required documents. If the subscription request is rejected, all payments received with the request will be refunded without interest or deduction. Subscription proceeds are held in trust by the Agents from the time of receipt until the Subscription Date, at which time the proceeds are accepted by the Partnership and units are issued to the subscriber.

Subscriptions for Units will be received subject to rejection or allotment in whole or in part and the right is reserved to close the subscription books for the Units at any time without notice. The Partnership may accept subscriptions for Units on such other date as the Partnership may agree.

### **No Certificates**

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

### **Amendments to the Limited Partnership Agreement**

The Limited Partnership Agreement may be amended with the prior consent of the holders of at least 66⅔% of units of the Partnership voted on the amendment at a duly constituted meeting of holders of units of the Partnership or by a written resolution of partners holding more than 66⅔% of the units of the Partnership entitled to vote at a duly constituted meeting of holders of units of the Partnership, including: (a) changing the liability of any limited partner; and (b) changing the right of a limited partner to vote at any meeting of holders of units of the Partnership. The General Partner may also make amendments to the Limited Partnership Agreement without the approval or consent of the limited partners to reflect, among other things: (a) a change in the name of the Partnership or the location of the principal place of business or registered office of the Partnership; (b) the admission, substitution, withdrawal or removal of limited partners in accordance with the Limited Partnership Agreement; (c) a change that, as determined by the General Partner, is reasonable and necessary or appropriate to qualify or continue the qualification of the Partnership as a limited partnership in which the limited partners have limited liability under applicable laws; (d) a change that, as determined by the General Partner, is reasonable and necessary or appropriate to enable the Partnership to take advantage of, or not be detrimentally affected by, changes in the Tax Act or other taxation laws; or (e) a change to amend or add any provision, or to cure any ambiguity or to correct or supplement any provisions contained in the Limited Partnership Agreement which may be defective or inconsistent with any other provision contained in the Limited Partnership Agreement. Notwithstanding the foregoing: (i) no amendment which would adversely affect the rights and obligations of the General Partner, as a general partner, may be made without the consent of the General Partner; and (ii) no amendment which would adversely affect the rights and obligations of any other holders of units of the Partnership or any class of limited partner differently than any other class of limited partner may be made without the consent of such holder or class. The General Partner may also amend the Limited Partnership Agreement to add additional classes of units with an operating fee which is higher or lower than the operating fee in respect of the Units.

## **Removal of General Partner**

The Limited Partnership Agreement provides that the General Partner will be deemed to resign as general partner upon: (a) ceasing to be a Canadian resident within the meaning of the Tax Act; (b) filing a voluntary petition for bankruptcy; (c) the appointment of a trustee, receiver or liquidator in respect of the General Partner; (d) having entered against it an order for relief in a bankruptcy or insolvency proceeding which is not stayed, vacated or dismissed within 120 days; (e) being involuntarily dissolved, liquidated or wound up; or (f) the commencement of any act or proceeding in connection with dissolution, liquidation or winding up, whether voluntary or involuntary, and which, if involuntary, is not contested in good faith by the General Partner. Such deemed resignation shall not be effective until the earlier of the date of appointment of a new general partner by majority vote of the limited partners or 120 days after the occurrence of such event, except a deemed resignation arising as a result of (a), above, which shall be effective immediately before the General Partner ceased to be a resident of Canada. The General Partner is permitted to resign as general partner, or to transfer its interest in the Partnership, only on 45 days' prior written notice to the Partnership and the limited partners, provided that any resignation by the General Partner will only be effective following the appointment of a replacement general partner.

The General Partner may be removed and replaced with another person as general partner of the Partnership with the prior consent of the holders of at least 66⅔% of the units of the Partnership voted on the amendment at a duly constituted meeting of holders of units of the Partnership or by a written resolution of partners holding more than 66⅔% of units of the Partnership entitled to vote at a duly constituted meeting of holders of units of the Partnership, as a result of the General Partner's fraud, wilful misconduct, breach of its fiduciary duties or for wilful breach of the Limited Partnership Agreement that, in each case, results in material harm to the Partnership.

## **Limited Liability**

Subject to the provisions of the Limited Partnerships Act (Ontario) (the "LP Act"), the liability of each Unitholder for the debts, liabilities and obligations of the Partnership will be limited to its contributed capital plus its share of any undistributed income of the Partnership. Where Unitholders have received the return of all or part of their capital contribution or where the Partnership is dissolved, the Unitholders will be liable to the Partnership's creditors for any amount, not in excess of the amount returned, necessary to discharge the liabilities of the Partnership to all creditors who extended credit or whose claims otherwise arose before the return of the capital contribution. Following payment of a capital contribution, a Unitholder will not be liable for any further claims or assessments or be required to make further contributions to the Partnership. The General Partner will use all commercially reasonable efforts to ensure that the limited liability of the Limited Partners is maintained in accordance with the Limited Partnership Agreement, provided that, for each Unitholder, if its limited liability is lost by reason of an act or omission of that Unitholder, then, to the extent that such loss of limited liability is caused by an act or omission of such Unitholder, that Unitholder will be responsible for all claims arising from assertions that its liability is not limited as intended by the Limited Partnership Agreement.

The General Partner shall be liable for the debts, obligations and any other liabilities of the Partnership in the manner and to the extent required by the LP Act and as set forth in the Limited Partnership Agreement to the extent that Partnership assets are insufficient to pay such liabilities.

The General Partner will indemnify and hold harmless each Unitholder for any costs, damages, liabilities, expenses or losses suffered or incurred by such Unitholder that result from or arise out of such Unitholder not having unlimited liability as set out in the Limited Partnership Agreement, other than any liability caused by or arising out of any act or omission of such Unitholder.



## CANADIAN FEDERAL INCOME TAX CONSIDERATIONS

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

The following is a general summary of the principal Canadian federal income tax consequences to a prospective Unitholder of the acquisition, holding and disposition of Units acquired pursuant to this Confidential Offering Memorandum. It is assumed for the purposes of this summary that: (i) the Unitholder is an individual (other than a trust) that is a resident of Canada for purposes of the Tax Act; (ii) the Unitholder is the original purchaser and beneficial owner of the Units; (iii) the Unitholder deals at arm's length with the Partnership and Espresso; and (iv) the Unitholder holds the Units as capital property, and has not entered into a "derivative forward agreement" (as defined in the Tax Act) in respect of Units. Generally, Units are considered to be capital property to a Unitholder provided that such Unitholder does not hold its Units in the course of carrying on a business and has not acquired them in one or more transactions considered to be an adventure or concern in the nature of trade.

This summary is also based on the assumptions that: (i) none of the issuers of securities held by the Partnership will be a foreign affiliate of either the Partnership or any Unitholder; (ii) none of the securities held by the Partnership will be a "tax shelter investment" within the meaning of section 143.2 of the Tax Act; (iii) none of the securities held by the Partnership will be an interest in a non-resident trust other than an "exempt foreign trust"; (iv) none of the securities held by the Partnership will be an interest in a non-resident trust that is deemed to be a controlled foreign affiliate of the Partnership for the purposes of the Tax Act; and (v) the Partnership will not enter into any arrangement where the result is a dividend rental arrangement for the purposes of the Tax Act. In addition, a person or partnership, an interest in which is a "tax shelter investment", if acquired, would be a "tax shelter investment", as that term is defined in the Tax Act and this summary is not applicable to such a person or partnership.

Under certain provisions of the Tax Act, trusts or partnerships (defined as "SIFT trusts" and "SIFT partnerships", respectively)"investments" (as defined in subsection 122.1(1) of the Tax Act) in which are listed or traded on a stock exchange or other public market, and that hold one or more "non-portfolio properties" (as defined), are effectively taxed on income and taxable capital gains in respect of such non-portfolio properties at combined rates comparable to the rates that apply to income earned and distributed by Canadian corporations. Distributions of such income received by unitholders of SIFT trusts and allocations of such income made to members of SIFT partnerships are treated as eligible dividends from a taxable Canadian corporation.

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

The following summary is based on the current provisions of the Tax Act, the regulations thereunder (the "Regulations"), all specific proposals to amend the Tax Act or the Regulations publicly announced by or on behalf of the Minister of Finance (Canada) prior to the date hereof and the current published administrative practices of the Canada Revenue Agency ("CRA"). The summary does not otherwise take into account or anticipate any changes in law, whether by judicial, administrative or legislative decision or action, nor does it take into account provincial, territorial or foreign income tax legislation or considerations, which may differ from those described herein.

**The summary is not exhaustive of all possible Canadian federal tax considerations and is not intended to constitute legal or tax advice to a prospective Unitholder. The income and other tax consequences**

**will vary depending on the Unitholder's particular circumstances, including the province(s) or territory(ies) in which the Unitholder resides or carries on business. Accordingly, prospective Unitholders should consult their own tax advisors about their individual circumstances.**

### **Computation of Partnership Income or Loss**

The Partnership is not a taxable entity. However, the income or loss of the Partnership for a fiscal period for purposes of the Tax Act will be computed as if it were a separate person resident in Canada for the purpose of computing the income or loss of the partners of the Partnership. The income of the Partnership as determined for purposes of the Tax Act may differ from its income as determined for accounting purposes and may not be matched by cash distributions from the Partnership. The fiscal year of the Partnership ends on December 31 in each calendar year.

Each Unitholder generally will be required to file an income tax return reporting the Unitholder's share of the Partnership's income or loss. For this purpose, the Partnership will provide each Unitholder with the necessary tax information relating to the Units of the Unitholder, but the Partnership will not prepare or file income tax returns on behalf of any Unitholder. Each Unitholder is required to file an information return in prescribed form containing prescribed information for each fiscal period of the Partnership. The General Partner is obliged to file the necessary return under the Limited Partnership Agreement and, when made, each Unitholder is deemed to have made this filing.

In computing its income or loss for tax purposes for each fiscal period, the Partnership will be entitled to claim deductions for reasonable administrative costs, interest and other expenses incurred by it for the purposes of earning income, to the extent permitted by the Tax Act.

### **Unitholders: Calculation of Income**

Each Unitholder generally will be required to include, in computing his or her income or loss for a taxation year, his or her share of the income or loss (and of taxable capital gains or allowable capital losses) of the Partnership allocated to such Unitholder for each fiscal year of the Partnership, whether or not the Unitholder has received or will receive a distribution from the Partnership. Income and loss of the Partnership will be allocated to Unitholders in accordance with the provisions of the Limited Partnership Agreement as described under "Securities Offered – Allocation of Partnership Net Income". There can be no assurance that any cash distributions made by the Partnership will be sufficient to satisfy a Unitholder's tax liability for a year arising from his or her status as a Unitholder.

In general, a Unitholder's share of any income or loss from the Partnership from a particular source or a particular place will be treated as if it were income or loss of the Unitholder from that particular source or place, and any provisions of the Tax Act applicable to that type of income or loss will apply to the Unitholder.

Subject to the detailed "at risk" rules contained in the Tax Act, generally a Unitholder may deduct his or her share of the Partnership's losses (other than capital losses) from his or her income from any other source to reduce income for the relevant taxation year and, to the extent such share exceeds his or her income for that year, the excess may generally be carried back three years and forward twenty years and deducted in computing his or her taxable income for those years in accordance with and subject to applicable provisions of the Tax Act. Prospective investors should consult their own tax advisors with respect to the application of the "at risk" rules in their particular circumstances.

One-half of a Unitholder's share of capital losses, if any, of the Partnership may generally be used to offset taxable capital gains in the year, in any of the three prior years or in any subsequent year, in accordance with and subject to applicable provisions of the Tax Act.

## **Disposition of a Unit**

The actual or deemed disposition of a Unit held as capital property (including a redemption) will result in 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 of the Unit.

The adjusted cost base of a Unit of a Unitholder at any time generally will be the subscription price of the Unit paid by the Unitholder plus the share of income of (and any capital gains realized by) the Partnership allocated to the Unitholder in respect of such Unit for each previous fiscal period ending before that time, minus the aggregate of all amounts that have been distributed to the Unitholder in respect of the Unit before that time and losses of the Partnership allocated to the Unitholder in respect of such Unit for each previous fiscal period ending before that time. If the adjusted cost base of a Unitholder's Units is negative at the end of a taxation year, the amount by which it is negative will be deemed to be a capital gain realized by the Unitholder in that taxation year and the Unitholder's adjusted cost base of such Units will be increased to nil.

The amount of any taxable capital gain realized on a disposition of a Unit by a Unitholder may be increased if the transferee is a person exempt from tax.

Where by virtue of a disposition of Units the Unitholder ceases to be a Unitholder of the Partnership, the fiscal period of the Partnership will be deemed to end immediately prior to the Unitholder ceasing to be a Unitholder for the purposes of, among other things, computing the Unitholder's adjusted cost base of its Interest in the Partnership at the time of disposition.

Generally a Unitholder is required to include in computing its income for a taxation year one-half of the amount of any capital gain (a "taxable capital gain") realized in the year. Subject to and in accordance with the provisions of the Tax Act, a Unitholder is required to deduct one-half of the amount of any capital loss (an "allowable capital loss") realized in the year from taxable capital gains realized by the Unitholder in the year, and allowable capital losses in excess of taxable capital gains may be carried back and deducted in any of the three preceding taxation years or carried forward and deducted in any subsequent taxation year against net taxable capital gains realized in such years.

## **Dissolution of the Partnership**

On a taxable dissolution of the Partnership under which the Partnership has sold all its assets and distributes any remaining cash to the partners of the Partnership, a Unitholder generally will be considered to have disposed of his or her Unit for proceeds of disposition equal to the cash received or receivable by the Unitholder on such dissolution. Any gain or loss realized by the Partnership on the disposition of its assets will be reflected in the income or loss of the Partnership in its final fiscal period and, subject to the detailed rules of the Tax Act, each Unitholder will be required to include or be entitled to deduct his or her share of the Partnership's income or loss in the taxation year in which the dissolution occurs. As discussed above, a Unitholder's share of the resulting gain or loss of the Partnership generally will be reflected in adjustments to the adjusted cost base of the Unitholder's Unit.

## **Eligibility for Investment**

A Unit will not be a qualified investment for trusts governed by a registered retirement savings plan, registered retirement income fund, deferred profit sharing plan, registered education savings plan, registered disability savings plan or tax-free savings account.

## **INTERNATIONAL INFORMATION REPORTING**

Pursuant to the Intergovernmental Agreement for the Enhanced Exchange of Tax Information under the Canada-U.S. Tax Convention entered into between Canada and the United States (the “IGA”), and related Canadian legislation, the Partnership and the dealers through which Unitholders hold their Units are required to report certain information, including certain financial information (e.g. account balances), with respect to Unitholders who are U.S. residents and U.S. citizens (including U.S. citizens who are residents or citizens of Canada), and certain other “U.S. Persons” as defined under the IGA (excluding registered plans such as RRSPs), to the Canada Revenue Agency. Intermediaries and/or entities that hold units directly or indirectly, may have different disclosure requirements under the IGA. The Canada Revenue Agency will then exchange the information with the U.S. Internal Revenue Service pursuant to the provisions of the Canada-U.S. Tax Convention.

In addition, pursuant to rules in the Tax Act implementing the Organisation for Economic Co-operation and Development Common Reporting Standard (the “Common Reporting Standard”) the Partnership and the dealer through which Unitholders hold their Units are required under Canadian legislation to identify and report to the Canada Revenue Agency certain information, including financial information (e.g. account balances), relating to Unitholders of the Partnership (other than registered plans) who are resident in a country outside Canada that has adopted the Common Reporting Standard. Such information will be exchanged by the Canada Revenue Agency with the countries where such Unitholders are resident.

## **RISK FACTORS**

An investment in Units of the Partnership involves certain risks. The following information describes certain significant risks and uncertainties inherent in the Offering and the business of the Partnership. Prospective purchasers should take these risks into account in evaluating the Partnership and deciding whether to purchase Units of the Partnership. This section does not describe all risks applicable to the Partnership, Espresso or the General Partner, or its industry or its business, as applicable, and is intended only as a summary of certain material risks. In addition, prospective purchasers should consult their own financial and other legal and tax advisors, and should carefully consider, among other matters, the following discussion of risks before deciding whether to purchase Units of the Partnership.

### **No Public Market; Restrictions on Resale**

There is no public market for the Units and the Partnership does not intend to apply for a listing of the Units on any stock exchange. There can be no assurance that a secondary market will develop or, if it does, that it will provide Unitholders with liquidity of investment. There can be no assurance as to the liquidity of the trading market for the Units or that a trading market for the Units will develop. The market price for the Units may be affected by changes in general market conditions and numerous other factors beyond the control of the Partnership and Espresso.

The Units are being offered on a private placement basis pursuant to exemptions from prospectus requirements available under securities laws in each of the provinces (other than Ontario) and territories of Canada, which exemptions impose restrictions and reporting requirements on the initial offering of, and subsequent resale of, the Units. The Partnership does not currently intend to file a prospectus or similar document with any securities regulatory authority in Canada qualifying the resale of the Units to the public in any province or territory of Canada in connection with the Offering. As a result, Units purchased pursuant to this Confidential Offering Memorandum will be subject to restrictions on resale, and may only be resold if a further exemption is relied upon by the purchasing investor or if an appropriate discretionary exemption is obtained pursuant to applicable securities laws.

The Partnership is not a reporting issuer in the Province of Ontario or any other jurisdiction in Canada or the United States and neither has any current intention of becoming a reporting issuer. As a result, it is not expected that the Units will become freely tradeable under applicable securities laws.

## **Not a Public Investment Fund**

The Partnership is not subject to the restrictions placed on public investment funds to ensure diversification and liquidity of their portfolio holdings.

## **Limited Liquidity**

Units may only be redeemed on an annual basis, and redemptions in any calendar year shall be limited to such number of Units as have an aggregate value equal to 20% of the net asset value of such class at the end of that calendar year. The Partnership will endeavour to maintain sufficient liquidity in its portfolio to meet its expenses and the redemption of its units. However, unexpectedly heavy demand for redemptions of units could result in the Partnership having to dispose of investments at a time when it is not optimal to do so in order to meet such redemption requests.

## **Loss of Investment**

An investment in the Partnership is appropriate only for investors who have the capacity to absorb a loss on their investment.

## **Use of Leverage**

The Partnership uses leverage principally for treasury management. It is anticipated that the Partnership may at times incur indebtedness in an amount of up to, but not in excess of 50% of its net asset value. The indebtedness is secured by the assets of the Partnership. There can be no assurance that such a strategy will enhance returns and in fact the strategy may reduce returns (both distributions and capital).

## **Collateral Risk**

Changes in the credit risk associated with collateral securities may impact the value of the collateral securing a Loan. The collateral value may decline, be insufficient to meet the obligations of the borrower, or be difficult to liquidate. As a result, a Loan may not be fully collateralized and can decline significantly in value which may negatively affect the Partnership.

## **Reliance on the General Partner/Espresso**

Unitholders are dependent on the abilities of Espresso and the General Partner to effectively administer the affairs of the Partnership, respectively, as well as the abilities of Espresso to originate Loans and effectively manage the Partnership's portfolio in a manner consistent with its investment objectives and investment strategies. Each of the General Partner and Espresso depends, to a great extent, on a very limited number of individuals in the administration of its activities as manager of the Partnership, the General Partner or originator of Loans, as applicable. The loss of the services of any one of these individuals for any reason could impair the ability of the General Partner or Espresso (in its capacity as loan originator and manager of the Partnership), as the case may be, to perform its duties, as manager and trustee on behalf of the Partnership, general partner of the Partnership or originator of Loans, as applicable.

## **Changes in Legislation**

There can be no assurance that certain laws applicable to the Partnership, including income tax laws, government incentive and tax credit programs will not be changed in a manner which adversely affects the Partnership or Unitholders.

## **Conflicts of Interest – The Partnership**

Espresso, as manager of the Partnership, engages in the promotion, management or investment management of one or more funds or trusts with similar investment objectives and investment strategies to those of the Partnership. Although none of the directors or officers of Espresso devotes his or her full time to the business and affairs of the Partnership, each director and officer of the Espresso devotes as much time as is necessary to supervise the management of (in the case of the directors) or to manage the business and affairs of (in the case of officers) the Partnership and Espresso.

## **Credit Risk**

A borrower under a Loan may default on its obligations to pay principal or interest when due. This non-payment could result in a reduction of income to the Partnership and potentially decrease the net asset value of the Partnership. There can be no assurance that liquidation of collateral would satisfy the borrower's obligation in the event of non-payment or scheduled interest or principal when due or that such collateral could be readily liquidated. In the event of bankruptcy of a borrower, the Partnership could experience delays or limitations with respect to its ability to realize the benefits of any collateral securing the Loan. Generally the business of those companies that the Partnership anticipates issuing Loans to will be financed primarily by equity. Accordingly, such businesses are subject to the risks associated with development stage companies, including losses, uncertainty of revenues, markets and profitability and the possibility that the business will require further funding that may not be available.

## **Early-Stage Company Risk**

The companies that Espresso anticipates originating Loans to are generally in their development stage of their business and are heavily dependent on their ability to continue to expand their target market. Should the market of such a company cease to exist, fail to grow or grow more slowly than anticipated, or become saturated with competitors, such company's business, financial condition and results of operations could be adversely affected. There can be no assurance that the business of a borrower will have sufficient economic or human resources to develop and market its business in a timely manner, or at all.

## **Valuation of the Partnership**

Valuation of the Partnership may involve uncertainties and judgement determinations, and, if such valuations should prove to be incorrect, the net asset value of the Partnership could be adversely affected. The General Partner may face a conflict of interest in valuing securities held by the Partnership because the values assigned affects the calculation of fees payable by the Partnership to the General Partner.

## **Significant Redemptions**

If a substantial number of Units are redeemed, the number of Units outstanding could be significantly reduced with the effect of decreasing liquidity of the Units in the market. In addition, the expenses of the Partnership would be spread among fewer Units resulting in a lower net asset value per Unit than if there were fewer redemptions. If, as a result of significant redemptions, Espresso determines that it is in the best interests of Unitholders to terminate the Partnership, Espresso could cause the termination of the Partnership without Unitholder approval.

## **General Economic and Market Conditions**

The success of the Partnership's activities may be affected by general economic and market conditions, such as interest rates, availability of credit, inflation rates, economic uncertainty, changes in law, and national and international political circumstances.

### **Possible Loss of Limited Liability**

Under the LP Act, the General Partner has unlimited liability for the debts, liabilities, obligations and losses of the Partnership to the extent that they exceed the assets of the Partnership. The liability of each Unitholder for the debts, liabilities, obligations and losses of the Partnership is limited to the value of money or other property the Unitholder has contributed or agreed to contribute to the Partnership. In accordance with the LP Act, if a Unitholder has received a return of all or part of the Unitholder's contribution to the Partnership, the Unitholder is nevertheless liable to the Partnership, or where the Partnership is dissolved, to its creditors, for any amounts not in excess of the amount returned with interest, necessary to discharge the liabilities of the Partnership to all creditors who extended credit or whose claims arose before the return of the contribution. The limitation of liability of a Unitholder may be lost if a Unitholder takes part in the control of the business of the Partnership.

### **Changes in Legislation**

There can be no assurance that tax, securities and other laws will not be changed or administered in a manner which adversely affects the returns of the Partnership or the Unitholders.

The Partnership is required to pay applicable GST and/or HST, as applicable, on expenses and fees that are charged to the Partnership based on the province or territory of the residence of the holder of Units.

### **No Assurance of Return**

There is no assurance that the Partnership will achieve its investment objectives. An investment in Units should be considered as speculative and investors must bear the risk of a loss on their investment.

**The foregoing statement of risks does not purport to be a complete explanation of all the risks involved in purchasing the Units of the Partnership. Potential investors should read this entire Confidential Offering Memorandum and consult with their legal, tax and financial advisers, before making a decision to invest in the Units of the Partnership.**

## **REPORTING OBLIGATIONS**

### **Financial Statements**

Unitholders receive audited financial statements of the Partnership within 90 days of the Partnership's fiscal year end and receive unaudited interim financial statements in respect of each calendar quarter within 45 days of the end of such calendar quarter. The Partnership will also make available to each Unitholder annually, and within the time prescribed by law, information necessary to enable such Unitholder to complete an income tax return with respect to the amounts payable by the Partnership.

### **Reports to Unitholders**

Espresso sends or cause to be sent to each Unitholder within 45 days of the end of each calendar quarter and within 90 days of the Partnership's fiscal year end, a plan accounting report setting out:

- (a) details regarding any distributions made by the Partnership in respect of the calendar quarter or fiscal year end;
- (b) a written management report from Espresso regarding the progress of the Partnership;

- (c) the net asset value per Unit at the last Valuation Date of the month to which the report relates;
- (d) the number and value of the Units held by the Unitholder at the last Valuation Date of the month to which the report relates; and
- (e) details of any Units purchased or redeemed as of the last Valuation Date of the month to which the report relates.

### **Meetings of Unitholders**

The Partnership will not hold regular meetings, however Espresso may convene a meeting of Unitholders as it considers appropriate or advisable from time to time. Espresso must also call a meeting of Unitholders on the written request of Unitholders holding not less than 50% of the outstanding Units of the Partnership in accordance with the Limited Partnership Agreement, provided that in the event of a request to call a meeting of Unitholders made by such Unitholders, Espresso shall not be obliged to call any such meeting until it has been satisfactorily indemnified by such Unitholders against all costs of calling and holding such meeting.

## **FEES AND EXPENSES**

### **Sales Commission**

There is no up-front sales commission. However, registered dealers may, at their discretion, charge purchasers a front-end sales commission for Class B Units purchased by the subscriber. Any such sales commission will be negotiated between the registered dealer and the purchaser and will be payable directly by the subscriber to the dealer. Any such sales commission will reduce a subscriber's net investment amount in Units. No sales commission of any kind shall be payable on the Class F Units.

### **Partnership Expenses**

The Partnership pays for all routine and customary expenses relating to the Partnership's operation, as well as the servicing, collection and liquidation of investments, including, but not limited to fund administration, cost and interest amounts in respect of any credit facilities, any realized loan losses and associated costs or expenses, registrar and transfer agency fees and expenses, if applicable, auditing, legal, and accounting fees and expenses, communication expenses, printing and mailing expenses, all costs and expenses associated with the sale of Units including securities filing fees (if any), investor servicing costs; expenses relating to providing financial and other reports to Unitholders and convening and conducting meetings of Unitholders, all taxes, assessments or other governmental charges levied against the Partnership, interest expenses and all brokerage and other fees relating to the purchase and sale of the assets of the Partnership. In addition, the Partnership pays for expenses associated with ongoing investor relations and education relating to the Partnership.

## **CONFLICTS OF INTEREST**

### **Disclosure when Recommending Securities of Related or Connected Issuers**

Applicable securities laws require registered dealers, when they trade in their own securities or securities of certain other issuers to which they, or certain other parties related to them, are related or connected, to do so only in accordance with particular disclosure and other rules. These rules require dealers, prior to trading with their clients, to inform them of the relevant relationships and connections with the issuer of the



securities. Potential investors should refer to the applicable provisions of these securities laws for the particulars of these rules and their rights or consult with a legal adviser.

Espresso is the manager of the Partnership and the originator of Loans and the General Partner is a wholly-owned subsidiary of Espresso. Espresso distributes Units of the Partnership to investors in its capacity as an exempt market dealer (EMD). Because Espresso indirectly earns fees from the ongoing management of the Partnership, the Partnership is considered both a related and connected issuer of Espresso. Espresso may face a conflict of interest in valuing securities held by the Partnership because the values assigned affects the calculation of the performance allocation payable to the General Partner and operating expense contribution payable to Espresso. Details of this relationship and the fees earned by Espresso and the General Partner are disclosed under “Management of the Partnership – Operating Expense Allocation” and “Securities Offered – Distributions – Performance Allocation”.

Potential conflicts of interest could arise in connection with Espresso acting as the manager of the Partnership (and Espresso also owning the General Partner of the Partnership), and Espresso dealing in securities of the Partnership. However, as an EMD, Espresso intends only to sell Units of the Partnership and/or other pooled funds organized by Espresso. In its capacity as EMD of the Partnership, Espresso gathers know-your-client information from each prospective purchaser and conducts an objective suitability analysis based on quantitative criteria in order to determine whether Units of the Partnership are an appropriate investment for such purchaser. Espresso is not remunerated by the Partnership for acting as EMD.

#### **CERTAIN CANADIAN SECURITIES LAW MATTERS**

The distribution of the Units is being made on a private placement basis pursuant to exemptions from prospectus requirements of applicable securities laws. By purchasing the Units, a purchaser of Units and any ultimate purchaser for which such purchaser is acting as agent, will be deemed to have represented, acknowledged and confirmed to the Partnership and Espresso that, as at the date of its subscription for Units, the purchaser:

- (a) is resident in or otherwise subject to applicable securities legislation of one of the provinces or territories of Canada and the purchase by, and sale to such purchaser of the Units and any act, solicitation, conduct or negotiation directly or indirectly in furtherance of such purchase and sale has occurred only in one of the provinces or territories of Canada;
- (b) is entitled under applicable securities laws to purchase the Units without the benefit of a prospectus qualified under such securities laws;
- (c) has reviewed and acknowledges the terms referred to below under the heading “Resale Restrictions” and acknowledges and agrees that the Units purchased under this Confidential Offering Memorandum are subject to resale restrictions under applicable securities laws, that the purchase of Units has certain consequences under Canadian federal income tax legislation and that it has been advised to consult its own legal counsel and tax and other advisers in its jurisdiction of residence for full particulars of the resale restrictions and tax laws applicable to it;
- (d) acknowledges that it is aware of the characteristics of the Units, of the risks relating to an investment in the Units and of the fact that it may not be able to resell the Units except in accordance with limited exemptions under applicable securities law;
- (e) is purchasing, Units as principal for its own account, or is deemed to be purchasing Units as principal by applicable securities law; and is an “accredited investor” as defined in

National Instrument NI 45-106 – *Prospectus Exemptions* (“NI 45-106”), if in Ontario, Section 73.3 of the *Securities Act* (Ontario);

- (f) acknowledges and agrees that the Partnership and Espresso will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements and agrees that if any of the acknowledgments, representations or agreements deemed to have been made by its purchase of the Units are no longer accurate, it will promptly notify the Partnership and Espresso.
- (g) In addition, each purchaser of Units and any ultimate purchaser for which such purchaser is acting as agent will be deemed to have represented to the Partnership that such purchaser acknowledges that its name and other specified information, including the dollar value of the purchase and number of Units it has purchased, may be disclosed to Canadian securities regulatory authorities. This information will not be placed on the public file of any Canadian securities regulatory authority, however, freedom of information legislation may require the securities regulatory authority to make this information available if requested, and the subscriber consents to such disclosure of this information. Such subscriber’s personal information is being collected on behalf of and used by the securities regulatory authority in the subscriber’s jurisdiction of residence under the authority granted in securities legislation for the purpose of the administration and enforcement of securities legislation. If a subscriber has any questions about the collection and use of this information, such subscriber should contact the securities regulatory authority in the subscriber’s jurisdiction at the address listed at the end of the subscription agreement.

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

### **CERTAIN U.S. SECURITIES LAW MATTERS**

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

### **RESALE RESTRICTIONS**

These securities will be subject to a number of resale restrictions, including a restriction on trading. Until the restriction on trading expires, you will not be able to trade the securities unless you comply with an exemption from the prospectus and registration requirements under securities legislation. Unless permitted

under securities legislation, a Unitholder cannot trade the securities before the date that is 4 months and a day after the date the Partnership becomes a reporting issuer in any province or territory in Canada.

In addition to the above, for subscribers resident in Manitoba, unless permitted under securities legislation, you must not trade the securities without the prior written consent of the regulator in Manitoba, unless the Partnership has filed a prospectus with the regulator in Manitoba with respect to the securities you have purchased and the regulator in Manitoba has issued a receipt for that prospectus, or you have held the securities for at least 12 months. The regulator in Manitoba will consent to such a trade if the regulator is of the opinion that to do so is not prejudicial to the public interest.

The distribution in Canada of the Units is being made on a private placement basis in accordance with applicable securities laws and is exempt from the requirement that the Partnership prepare and file a prospectus with the relevant Canadian securities regulatory authorities.

The Partnership is not a reporting issuer in the Province of Ontario or any other jurisdiction in Canada or the United States and does not have any current intention of becoming a reporting issuer. As a result, it is not expected that the Units will become freely tradeable under applicable securities laws.

The foregoing is only a summary of the resale restrictions relevant to purchasers of the Units. It is not intended to be exhaustive. All persons purchasing Units pursuant to this Confidential Offering Memorandum should consult with their own advisors:

- (a) prior to acquiring the Units pursuant to this Confidential Offering Memorandum for advice with respect to the restrictions on resale of such Units; and
- (b) prior to selling any of the Units ensure compliance under applicable securities laws.

### **PURCHASERS' RIGHTS**

If you purchase these securities you will have certain rights, some of which are described below. For information about your rights you should consult a lawyer.

- (a) **Two Day Cancellation Right** - You can cancel your agreement to purchase these securities. To do so, you must send a notice to us by midnight on the 2nd business day after you sign the agreement to buy the securities.
- (b) **Statutory Rights of Action in the Event of a Misrepresentation** - If there is a misrepresentation in this offering memorandum, you have a statutory right to sue:
  - (i) the Partnership to cancel your agreement to buy these securities; or
  - (ii) for damages against the Partnership.

This statutory right to sue is available to you whether or not you relied on the misrepresentation. However, there are various defences available to the persons or companies that you have a right to sue. In particular, they have a defence if you knew of the misrepresentation when you purchased the securities.

If you intend to rely on the rights described in (a) or (b) above, you must do so within strict time limitations. You must commence (a) your action to cancel the agreement or (b) your action for damages within the time period stated by securities legislation as set forth below.

- (a) Contractual Rights of Action in the Event of a Misrepresentation - If there is a misrepresentation in this offering memorandum, you have a contractual right to sue the Partnership:
  - (i) to cancel your agreement to buy these securities; or
  - (ii) for damages.

This contractual right to sue is available to you whether or not you relied on the misrepresentation. However, in an action for damages, the amount you may recover will not exceed the price that you paid for your securities and will not include any part of the damages that Partnership proves does not represent the depreciation in value of the securities resulting from the misrepresentation. The Partnership has a defence if it proves that you knew of the misrepresentation when you purchased the securities.

If you intend to rely on the rights described in (a) or (b) above, you must do so within strict time limitations. You must commence your action to cancel the agreement within 180 days after you signed the agreement to purchase the securities. You must commence your action for damages within the earlier of 180 days after learning of the misrepresentation and 3 years after you signed the agreement to purchase the securities.

A purchaser of Units has a statutory right of action in the following offering jurisdictions: Ontario, Manitoba, New Brunswick, Nova Scotia, Prince Edward Island and Saskatchewan. As required by applicable securities laws, a purchaser's statutory rights of action in Ontario, Manitoba, New Brunswick, Nova Scotia, Prince Edward Island and Saskatchewan are summarized below.

These rights are in addition to, and without derogation from, any other right or remedy that purchasers may have at law. For the purposes of the following, and except as otherwise defined below in respect of a particular province, "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 not misleading in light of the circumstances in which it was made.

The following summary is subject to the express provisions of the relevant securities legislation and the rules, regulations and other instruments thereunder in the relevant provinces. Those provisions may contain other limitations and statutory defenses, not described below, on which a defendant may rely.

### ***Ontario***

If this Confidential Offering Memorandum, together with any amendment to it, is delivered to a purchaser prior to purchasing his, her or its Units and this Confidential Offering Memorandum, or any amendment to it, contains a Misrepresentation which was a Misrepresentation at the time of the purchase of the Units purchasers in Ontario will, without regard to whether the purchaser relied on the Misrepresentation, have a statutory right of action against the Partnership for damages or, alternatively, while still the owner of any of the Units for rescission, in which case, if the purchaser elects to exercise the right of rescission, the purchaser will have no right of action for damages against the Partnership provided that:

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

- (c) in no case will the amount recoverable in any action exceed the price at which the securities were offered under this Confidential Offering Memorandum, or any amendment to it.

The statutory right of action described above does not apply to the following prospective purchasers in Ontario:

- (a) a Canadian financial institution, as defined in OSC Rule 45-501 – *Ontario Prospectus and Registration Exemptions*, or an authorized foreign bank named in Schedule III of the *Bank Act* (Canada);
- (b) the Business Development Bank of Canada incorporated under the *Business Development Bank of Canada Act* (Canada); or
- (c) a subsidiary of any person referred to in paragraphs (a) and (b), if the person owns all of the voting securities of the subsidiary, except the voting securities required by law to be owned by directors of that subsidiary.

No action may be commenced to enforce the right of action described above unless the right is exercised within:

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

### ***Saskatchewan***

If this Confidential Offering Memorandum or any amendment to it is sent or delivered to a purchaser resident in Saskatchewan and it contained a Misrepresentation, a purchaser who purchases a security covered by this Confidential Offering Memorandum or any amendment to it has, without regard to whether the purchaser relied on the Misrepresentation, a right of action for rescission against the Partnership or has a right of action for damages against:

- (a) the Partnership;
- (b) every promoter (and if applicable trustee) of the Partnership at the time this Confidential Offering Memorandum or any amendment to it was sent or delivered;
- (c) 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;
- (d) every person who, or company that, in addition to the persons or companies mentioned in (a) to (c) above, signed this Confidential Offering Memorandum or any amendment to this Confidential Offering Memorandum; and
- (e) every person who, or company that, sells securities on behalf of the Partnership under this Confidential Offering Memorandum or amendment to this Confidential Offering Memorandum.

Such rights of rescission and damages are subject to certain limitations including the following:

- (a) if the purchaser elects to exercise its rights of rescission against the Partnership it shall have no right of action for damages against the Partnership;
- (b) in an action for damages, a defendant will not 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 securities resulting from the Misrepresentation relied on;
- (c) no person or company, other than the Partnership, will be liable for any part of this Confidential Offering Memorandum or any amendment to it not purporting to be made on the authority of an expert and not purporting 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 sufficient to provide reasonable grounds for a belief that there had been no Misrepresentation or believed that there had been a Misrepresentation;
- (d) in no case shall the amount recoverable exceed the price at which the securities were offered; and
- (e) no person or company is liable in an action for rescission or damages if that person or company proves that the purchaser purchased the securities with knowledge of the Misrepresentation.

In addition, no person or company, other than the Partnership will be liable if the person or company proves that:

- (a) this Confidential Offering Memorandum or any amendment to it was sent or delivered without the person's or company's knowledge or consent and that, on becoming aware of it being sent or delivered, that person or company immediately gave reasonable general notice that it was so sent or delivered; or
- (b) with respect to any part of this Confidential Offering Memorandum or any amendment to it purporting to be made on the authority of an expert, or purporting to be a copy of, or an extract from, a report, an opinion or a statement of an expert, that person or company had no reasonable grounds to believe and did not believe that (i) there had been a Misrepresentation, or (ii) the part of this Confidential Offering Memorandum or any amendment to it did not fairly represent the report, opinion or statement of the expert, or was not a fair copy of, or an extract from, the report, opinion or statement of the expert.

Not all defences upon which the Partnership, or others may rely on are described herein. Please refer to the full text of *The Securities Act, 1988* (Saskatchewan), as amended (the "Saskatchewan Act").

The Saskatchewan Act also provides that where an individual makes a verbal statement to a prospective purchaser that contains a Misrepresentation relating to the security purchased and the verbal statement is made either before or contemporaneously with the purchase of the security, the purchaser has, without regard to whether the purchaser relied on the Misrepresentation, a right of action for damages against the individual who made the verbal statement.

The Saskatchewan Act provides a purchaser with the right to void the purchase agreement and to recover all money and other consideration paid by the purchaser for the securities if the securities are purchased from a vendor who is trading in Saskatchewan in contravention of the Saskatchewan Act, the regulations to the Saskatchewan Act or a decision of the Financial and Consumer Affairs Authority of Saskatchewan, Securities Division.

The Saskatchewan Act also provides a right of action for rescission or damages to a purchaser of securities to whom this Confidential Offering Memorandum or any amendment to it was not sent or delivered prior to or at the same time as the purchaser enters into an agreement to purchase the securities, as required by the Saskatchewan Act.

The Saskatchewan Act provides that no action shall be commenced to enforce any of the foregoing rights more than:

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

The Saskatchewan Act also provides a purchaser who has received an amended offering memorandum delivered in accordance with the Saskatchewan Act with a right to withdraw from the agreement to purchase the securities by delivering a notice to the person who or company that is selling the securities, indicating the purchaser's intention not to be bound by the purchase agreement, provided such notice is delivered by the purchaser within two (2) business days of receiving the amended offering memorandum.

The Saskatchewan Act provides that a person or company is not liable for a Misrepresentation in forward-looking information if the person or company proves that:

- (a) with respect to the document containing the forward-looking information, proximate to that information there is contained:
  - (i) reasonable cautionary language identifying the forward-looking information as such, and identifying material factors that could cause actual results to differ materially from a conclusion, forecast or projection in the forward-looking information; and
  - (ii) a statement of the material factors or assumptions that were applied in drawing a conclusion or making a forecast or projection set out in the forward-looking information; and
- (b) the person or company had a reasonable basis for drawing the conclusions or making the forecasts and projections set out in the forward-looking information.

### ***Nova Scotia***

If this Confidential Offering Memorandum, a record incorporated by reference in or deemed incorporated into this Confidential Offering Memorandum or any amendment to it or any advertising or sales literature contains a Misrepresentation that was a Misrepresentation at the time of purchase, the purchaser will be deemed to have relied upon the Misrepresentation and will have a statutory right of action for damages against the Partnership and, subject to additional defences, against the trustee of the Partnership and persons who have signed this Confidential Offering Memorandum. Alternatively, the purchaser may elect to exercise a statutory right of rescission against the Partnership in which case the purchaser will have no right of action for damages. This right of action is subject to the following limitations:

- (a) the right of action for damages or rescission is exercisable not later than 120 days after the date on which payment was made for the securities;
- (b) no person or company will be liable if it proves that the purchaser purchased the securities with knowledge of the Misrepresentation;
- (c) in the case of an action for damages, the defendant will not be liable for all or any portion of those damages that it proves do not represent the depreciation in value of the securities as a result of the Misrepresentation;
- (d) in no case will the amount recoverable exceed the price at which the securities were offered to the purchaser;
- (e) no person or company other than the Partnership is liable if the person or company proves that, with respect to any part of this Confidential Offering Memorandum or amendment to this Confidential Offering Memorandum 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 (i) there had been a Misrepresentation or (ii) the relevant part of this Confidential Offering Memorandum or amendment to this Confidential Offering Memorandum did not fairly represent the report, opinion or statement of the expert or was not a fair copy of, or an extract from, the report, opinion or statement of the expert;
- (f) no person or company other than the Partnership is liable with respect to any part of this Confidential Offering Memorandum or amendment to this Confidential Offering Memorandum 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 (i) failed to conduct a reasonable investigation to provide reasonable grounds for a belief that there had been no Misrepresentation or (ii) believed that there had been a Misrepresentation;
- (g) no person or company is liable for a Misrepresentation in forward-looking information if the person or company proves all of the following things:
  - (i) the document containing the forward-looking information contained, proximate to that information,
    - (A) reasonable cautionary language identifying the forward-looking information as such, and identifying material factors that could cause actual results to differ materially from a conclusion, forecast or projection in the forward-looking information, and
    - (B) a statement of the material factors or assumptions that were applied in drawing a conclusion or making a forecast or projection set out in the forward-looking information; and
  - (ii) the person or company had a reasonable basis for drawing the conclusions or making the forecasts and projections set out in the forward-looking information;
- (h) No person or company, other than the Partnership is liable if this Confidential Offering Memorandum or an amendment thereto was sent or delivered to the purchaser 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; and

- (i) No person or company, other than the Partnership is liable if after delivery of this Confidential Offering Memorandum any amendment thereto and before the purchase of the securities by the purchaser, on becoming aware of any misrepresentation in this Confidential Offering Memorandum, or amendment thereto, the person or company withdrew the person's or company's consent to this Confidential Offering Memorandum, or amendment thereto, and gave reasonable general notice of the withdrawal and the reason for it.

The rights of action for rescission or damages described herein are in addition to and without derogation from any right a purchaser may have at law.

### ***New Brunswick***

Section 150(1) of *Securities Act* (New Brunswick) provides that where any information relating to the Offering provided to the purchaser of the securities contains a Misrepresentation, the purchaser will be deemed to have relied upon the Misrepresentation if it was a Misrepresentation at the time of purchase and will have a statutory right of action against the Partnership for damages or, alternatively, for rescission, provided that no action shall be commenced to enforce a right of action more than,

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

If the purchaser elects to exercise its right of rescission against the Partnership it shall have no right of action for damages against the Partnership.

This right of action is also subject to the following limitations:

- (a) no person will be liable if it proves that the purchaser purchased the securities with knowledge of the Misrepresentation;
- (b) in the case of an action for damages, the defendant will not be liable for all or any portion of those damages that it proves do not represent the depreciation in value of the securities as a result of the Misrepresentation;
- (c) the Partnership will not be liable where it is not receiving any proceeds from the distribution of the securities and the Misrepresentation was not based on information provided by the Partnership unless the Misrepresentation (i) was based on information that was previously publicly disclosed by the Partnership, (ii) was a Misrepresentation at the time of its previous public disclosure, and (iii) was not subsequently publicly corrected or superseded by the Partnership before the completion of the distribution of the securities; and
- (d) in no case will the amount recoverable under section 150(1) exceed the price at which the securities were sold to the purchaser.

The rights of action for rescission or damages described herein are in addition to and without derogation from any other right a purchaser may have at law.

### ***Alberta***

The *Securities Act* (Alberta) provides that, subject to certain limitations, where any information relating to this Offering that is provided to a purchaser of Units contains 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 not misleading in light of the circumstances in which it was made (a “misrepresentation”), a purchaser who purchases Units shall regardless of whether the purchaser relied on the misrepresentation, subject to certain defences, have a right of action for damages or may elect to exercise a right of rescission, in which case he shall have no right of action for damages, provided that:

- (a) in an action for rescission or damages, the defendant will not be liable if it proves that the purchaser purchased the security with knowledge of the misrepresentation;
- (b) in an action for damages, the defendant is not liable for all or any portion of the damages that it proves do not represent the depreciation in value of the security as a result of the misrepresentation relied upon; and
- (c) in no case shall the amount recoverable under the right of action described herein exceed the price at which the security was offered.

In addition, no person or company other than the issuer is liable if the person or company proves that:

- (a) the offering memorandum or the amendment to the offering memorandum was sent or delivered to the purchaser 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;
- (b) after delivery of the offering memorandum or the amendment to the offering memorandum and before the purchase of the securities by the purchaser, on becoming aware of any misrepresentation in the offering memorandum, or amendment to the offering memorandum, the person or company withdrew the person’s or company’s consent to the offering memorandum, or amendment to the offering memorandum, and gave reasonable general notice of the withdrawal and the reason for it; or
- (c) with respect to any part of the offering memorandum or amendment to the offering memorandum purporting: (i) to be made on the authority of an expert; or (ii) 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 (a) there had been a misrepresentation, or (b) the relevant part of the offering memorandum or amendment to the offering memorandum (1) did not fairly represent the report, opinion or statement of the expert, or (2) was not a fair copy of, or an extract from, the report, opinion or statement of the expert.

Pursuant to section 211 of the *Securities Act* (Alberta), no action may be commenced to enforce the right of action for rescission or damages more than (a) 180 days after the day of the transaction that gave rise to the cause of action, in the case of an action for rescission, or (b) the earlier of (i) 180 days after the day that the plaintiff first had knowledge of the facts giving rise to the cause of action, or (ii) three years after the day of the transaction that gave rise to the cause of action, in any other case.

The right of action for rescission or damages described herein is conferred by section 204 of the *Securities Act* (Alberta) and is in addition to and without derogation from any right the purchaser may have at law and is subject to the express provisions of the *Securities Act* (Alberta), and the rules, regulations and other instruments thereunder.

### ***Manitoba***

The *Securities Act* (Manitoba) provides that, subject to certain limitations, where any information relating to this Offering that is provided to a purchaser of Units contains 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 not misleading in light of the circumstances in which it was made (a “misrepresentation”), a purchaser who purchases Units shall be deemed to have relied on the misrepresentation and has, subject to certain defences, a right of action for damages or may elect to exercise a right of rescission, in which case he shall have no right of action for damages, provided that:

- (a) in an action for rescission or damages, the defendant will not be liable if it proves that the purchaser purchased the security with knowledge of the misrepresentation;
- (b) in an action for damages, the defendant is not liable for all or any portion of the damages that it proves do not represent the depreciation in value of the security as a result of the misrepresentation relied upon; and
- (c) in no case shall the amount recoverable under the right of action described herein exceed the price at which the security was offered.

In addition, no person or company other than the issuer is liable if the person or company proves that:

- (a) the offering memorandum or the amendment to the offering memorandum was sent or delivered to the purchaser 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;
- (b) after delivery of the offering memorandum or the amendment to the offering memorandum and before the purchase of the securities by the purchaser, on becoming aware of any misrepresentation in the offering memorandum, or amendment to the offering memorandum, the person or company withdrew the person’s or company’s consent to the offering memorandum, or amendment to the offering memorandum, and gave reasonable general notice of the withdrawal and the reason for it; or
- (c) with respect to any part of the offering memorandum or amendment to the offering memorandum purporting: (i) to be made on the authority of an expert; or (ii) 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 (a) there had been a misrepresentation, or (b) the relevant part of the offering memorandum or amendment to the offering memorandum (1) did not fairly represent the report, opinion or statement of the expert, or (2) was not a fair copy of, or an extract from, the report, opinion or statement of the expert.

Pursuant to section 141 of the *Securities Act* (Manitoba), no action may be commenced to enforce the right of action for rescission or damages more than (a) 180 days after the day of the transaction that gave rise to the cause of action, in the case of an action for rescission, or (b) the earlier of (i) 180 days after the day that

the plaintiff first had knowledge of the facts giving rise to the cause of action, or (ii) two years after the day of the transaction that gave rise to the cause of action, in any other case.

The right of action for rescission or damages described herein is conferred by section 141 of the *Securities Act* (Manitoba) and is in addition to and without derogation from any right the purchaser may have at law and is subject to the express provisions of the *Securities Act* (Manitoba), and the rules, regulations and other instruments thereunder.

### ***Newfoundland and Labrador***

The *Securities Act* (Newfoundland and Labrador) provides that, subject to certain limitations, where any information relating to this Offering that is provided to a purchaser of Units contains 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 not misleading in light of the circumstances in which it was made (a “misrepresentation”), a purchaser who purchases Units during the period of distribution has, without regard to whether the purchaser relied upon the misrepresentation, a statutory right of action (a) for damages against (i) the issuer, (ii) every director of the issuer at the date of the offering memorandum, and (iii) every person or company who signed the offering memorandum and (b) for rescission against the issuer.

The *Securities Act* (Newfoundland and Labrador) provides a number of limitations and defences in respect of such rights. Where a misrepresentation is contained in an offering memorandum, a person or company shall not be liable for damages or rescission:

- (a) where the person or company proves that the purchaser purchased the securities with knowledge of the misrepresentation;
- (b) in the case of an action for damages, the defendant is not liable for all or any part of the damages that the defendant proves do not represent the depreciation in value of the security as a result of the misrepresentation; and
- (c) in no case will the amount recoverable in any action exceed the price at which the securities were offered under the offering memorandum.

In addition, no person or company, other than the issuer, is liable:

- (a) where the person or company proves that the offering memorandum was sent to the purchaser without the person’s or company’s knowledge or consent and that, on becoming aware of its being sent, the person or company promptly gave reasonable notice to the issuer that it was sent without the knowledge and consent of the person or company;
- (b) if the person or company proves that the person or company, on becoming aware of the misrepresentation in the offering memorandum, withdrew the person’s or company’s consent to the offering memorandum and gave reasonable notice to the issuer of the withdrawal and the reason for it;
- (c) if, with respect to any part of the offering memorandum purporting to be made on the authority of an expert or purporting to be a copy of, or an extract from, a report, opinion or statement of an expert, the person or company proves that the person or company did not have any reasonable grounds to believe and did not believe that:
  - (i) there had been a misrepresentation; or

- (ii) the relevant part of the offering memorandum:
  - (A) did not fairly represent the report, opinion or statement of the expert; or
  - (B) was not a fair copy of, or an extract from, the report, opinion or statement of the expert; or
- (d) with respect to any part of the offering memorandum not purporting to be made on the authority of an expert and not purporting to be a copy of, or an extract from, a report, opinion or statement of an expert, unless the person or company:
  - (i) did not conduct an investigation sufficient to provide reasonable grounds for a belief that there had been no misrepresentation; or
  - (ii) believed there had been a misrepresentation.

Pursuant to section 138 of the *Securities Act* (Newfoundland and Labrador), no action may be commenced to enforce the right of action for rescission or damages more than (a) 180 days after the day of the transaction that gave rise to the cause of action, in the case of an action for rescission, or (b) the earlier of (i) 180 days after the day that the plaintiff first had knowledge of the facts giving rise to the cause of action, or (ii) three years after the day of the transaction that gave rise to the cause of action, in any other case.

The right of action for rescission or damages described herein is conferred by section 130.1 of the *Securities Act* (Newfoundland and Labrador) and is in addition to and without derogation from any right the purchaser may have at law and is subject to the express provisions of the *Securities Act* (Newfoundland and Labrador), and the rules, regulations and other instruments thereunder.

### **Contractual Rights of Action**

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

### **LEGAL MATTERS**

Certain legal matters in respect of the Units are passed upon for the Partnership and Espresso by Osler, Hoskin & Harcourt LLP.

### **AUDITOR AND TRANSFER AGENT**

The auditor of the Partnership is KPMG LLP.

SGGG Fund Services Inc. is the registrar for the Units and the register for the transfer of the Units is kept at its principal office in Toronto, Ontario.

## FINANCIAL STATEMENTS

Financial Statements of

**ESPRESSO FUND V  
LIMITED PARTNERSHIP**

For the period from commencement of operations on  
February 19, 2016 to December 31, 2016



KPMG LLP  
PO Box 10426 777 Dunsmuir Street  
Vancouver BC V7Y 1K3  
Canada  
Telephone (604) 691-3000  
Fax (604) 691-3031

## INDEPENDENT AUDITORS' REPORT

To the Unitholders of Espresso Fund V Limited Partnership

We have audited the accompanying financial statements of Espresso Fund V Limited Partnership, which comprise the statement of financial position as at December 31, 2016, the statements of comprehensive income, changes in net assets attributable to holders of redeemable partnership units and cash flows for the period from commencement of operations on February 19, 2016 to December 31, 2016, and notes comprising a summary of significant accounting policies and other explanatory information,

### *The General Partner's Responsibility for the Financial Statement*

The General Partner is responsible for the preparation and fair presentation of this financial statement in accordance with International Financial Reporting Standards, and for such internal control as the General Partner determines is necessary to enable the preparation of the financial statement that is free from material misstatement, whether due to fraud or error.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on this financial statement based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statement 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 the General Partner, as well as evaluating the overall presentation of the financial statement.

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





*Opinion*

In our opinion, the financial statement presents fairly, in all material respects, the financial position of the Espresso Fund V Limited Partnership as at December 31, 2016, and its financial performance and cash flows for the period from commencement of operations on February 19, 2016 to December 31, 2016 in accordance with International Financial Reporting Standards.

*KPMG LLP*

Chartered Professional Accountants

March 29, 2017  
Vancouver, Canada

# ESPRESSO FUND V LIMITED PARTNERSHIP

Statement of Financial Position  
December 31, 2016

	Notes	2016
<b>Assets</b>		
Cash		\$ 2,391,875
Interest receivable	4	207,832
Other receivable		12,500
Loans receivable	4	18,878,706
		21,490,913
<b>Liabilities</b>		
Contributions received in advance		260,000
Due to related party	5	2,505,794
Deferred commitment fees	6	219,410
Operating fee payable		72,931
Accrued expenses		83,471
Performance fee accrued	5	9,721
		3,151,327
<b>Net assets, attributable to holders of redeemable partnership units</b>		<b>\$ 18,339,586</b>
Net assets attributable to the holders of redeemable partnership units:		
Class I, Series 2016-02 (Initial)		\$ 1,383,573
Class I, Series 2016-04		100,092
Class I, Series 2016-05		453,673
Class I, Series 2016-06		2,622,594
Class I, Series 2016-07		953,499
Class I, Series 2016-10		611,010
Class I, Series 2016-11		2,106,496
Class H, Series 2016-07 (Initial)		50,271
Class H, Series 2016-08		50,182
Class H, Series 2016-09		1,102,153
Class H, Series 2016-10		1,609,649
Class H, Series 2016-11		3,182,062
Class H, Series 2016-12		285,448
Class Trust A		3,000,339
Class Trust B		686,731
Class Trust C		91,142
Class Trust F		50,672
		\$ 18,339,586
Net assets attributable to the holders of redeemable partnership units per unit:		
Class I, Series 2016-02 (Initial)		\$ 0.9990
Class I, Series 2016-04		1.0009
Class I, Series 2016-05		1.0051
Class I, Series 2016-06		1.0070
Class I, Series 2016-07		1.0054
Class I, Series 2016-10		1.0025
Class I, Series 2016-11		1.0038
Class H, Series 2016-07 (Initial)		1.0054
Class H, Series 2016-08		1.0036
Class H, Series 2016-09		1.0020
Class H, Series 2016-10		1.0025
Class H, Series 2016-11		1.0038
Class H, Series 2016-12		1.0047
Class Trust A		0.9978
Class Trust B		1.0068
Class Trust C		1.0127
Class Trust F		1.0134

Related party transactions (note 6)

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

Approved on behalf of the General Partner:

\_\_\_\_\_  
Director

\_\_\_\_\_  
Director

# ESPRESSO FUND V LIMITED PARTNERSHIP

## Statement of Comprehensive Income

For the period from commencement of operations on February 19, 2016 to December 31, 2016

	Notes	2016
Investment income:		
Investment income		\$ 968,541
Commitment fees	5	169,630
Other income		53,287
		1,191,458
Expenses:		
Operating fee	5	319,626
Provision for impaired loans	4	171,035
Administration, audit and tax fees		113,774
Bank fees		36,035
Interest expense		34,530
Organization costs		24,427
Performance fee	5	9,721
		709,148
Increase in net assets attributable to holders of redeemable partnership units before distributions		
		482,310
Distributions to holders of redeemable partnership units		
		(428,468)
Increase in net assets attributable to holders of redeemable partnership units after distributions		
		\$ 53,842
Increase in net assets attributable to the holders of redeemable partnership units:		
Class I, Series 2016-02 (Initial)		\$ (1,426)
Class I, Series 2016-04		92
Class I, Series 2016-05		2,323
Class I, Series 2016-06		18,136
Class I, Series 2016-07		5,149
Class I, Series 2016-10		1,541
Class I, Series 2016-11		8,058
Class H, Series 2016-07 (Initial)		271
Class H, Series 2016-08		182
Class H, Series 2016-09		2,153
Class H, Series 2016-10		4,060
Class H, Series 2016-11		12,172
Class H, Series 2016-12		1,341
Class Trust A		(6,660)
Class Trust B		4,635
Class Trust C		1,142
Class Trust F		673
		\$ 53,842
Increase in net assets attributable to the holders of redeemable partnership units per unit:		
Class I, Series 2016-02 (Initial)		\$ (0.0010)
Class I, Series 2016-04		0.0009
Class I, Series 2016-05		0.0051
Class I, Series 2016-06		0.0070
Class I, Series 2016-07		0.0054
Class I, Series 2016-10		0.0025
Class I, Series 2016-11		0.0038
Class H, Series 2016-07 (Initial)		0.0054
Class H, Series 2016-08		0.0036
Class H, Series 2016-09		0.0020
Class H, Series 2016-10		0.0025
Class H, Series 2016-11		0.0038
Class H, Series 2016-12		0.0047
Class Trust A		(0.0022)
Class Trust B		0.0068
Class Trust C		0.0127
Class Trust F		0.0134

The accompanying notes are an integral part of the opening statement of financial position.

# ESPRESSO FUND V LIMITED PARTNERSHIP

Statement of Changes in Net Assets Attributable to Holders of Redeemable Partnership Units

For the period from commencement of operations on February 19, 2016 to December 31, 2016

	Balance, on commencement of operations on February 19, 2016	Issue of redeemable partnership units	Reinvestment of distributions	Redemption of redeemable partnership units	Increase in net assets attributable to holders of redeemable partnership units	Balance, December 31, 2016
Class I Series	\$ -	\$ 8,197,064	\$ -	\$ -	\$ 33,873	\$ 8,230,937
Class H Series	-	6,230,000	29,586	-	20,179	6,279,765
Class Trust A	-	3,006,999	-	-	(6,660)	3,000,339
Class Trust B	-	682,095	-	-	4,636	686,731
Class Trust C	-	90,000	-	-	1,142	91,142
Class Trust F	-	50,000	-	-	672	50,672
	\$ -	\$ 18,256,158	\$ 29,586	\$ -	\$ 53,842	\$ 18,339,586

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

# ESPRESSO FUND V LIMITED PARTNERSHIP

## Statement of Cash Flows

For the period from commencement of operations on February 19, 2016 to December 31, 2016

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Cash resources provided by (used in):

Operating activities:

Increase in net assets attributable to holders of redeemable  
partnership units before distributions \$ 482,310

Adjustments to reconcile net income to net cash used in operating activities:

Other income	(10,876)
Loans issued	(23,325,341)
Loans redeemed	4,288,749
Provision for loan losses	171,035
Interest income	(968,541)
Interest expense	34,530
Changes in operating assets and liabilities:	
Due to related party	2,505,794
Deferred commitment fees	219,410
Operating fee payable	72,931
Accrued expenses	83,471
Performance fee accrued	9,721
Other receivable	(12,500)

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(16,449,307)

Interest received 758,436

Interest paid (34,530)

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(15,725,401)

Financing activities:

Proceeds from issue of redeemable units	18,285,744
Income distributions	(428,468)
Contributions received in advance	260,000

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18,117,276

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Increase in cash 2,391,875

Cash, beginning of year -

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Cash, end of year \$ 2,391,875

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

# ESPRESSO FUND V LIMITED PARTNERSHIP

Notes to the Financial Statements

For the period ended December 31, 2016

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## 1. Reporting entity:

Espresso Fund V Limited Partnership (the "Fund") is a limited partnership registered and domiciled in Ontario, Canada. The address of the Fund's registered office is 403 - 322 King Street West, Toronto, Ontario. The Fund commenced operations on February 19, 2016.

The Fund is a limited partnership with the principal objective to promote, organize, raise and manage a pool of capital which will be used to provide secured venture debt financing to Canadian and U.S. technology companies principally in the form of tax credit and government incentive, working capital and recurring revenue financing.

The general partner of the Fund is Espresso Capital Fund V GP Inc. (the "General Partner"). The General Partner has contracted the management and administrative responsibilities of the Fund to Espresso Capital Ltd. (the "Manager").

## 2. Basis of presentation:

### (a) Statement of compliance:

The financial statements of the Fund have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The financial statements were authorized for issue by the General Partner on March 29, 2017.

### (b) Basis of measurement:

The financial statements have been prepared on the historical cost basis.

### (c) Functional and presentation currency:

These financial statements are presented in Canadian dollars, which is the Fund's functional currency.

### (d) Use of estimates and judgments:

The preparation of the financial statements in conformity with IFRS requires the Manager to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses. Actual results could differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. The areas of significant estimation and judgment in these financial statements relate to allowances for impairment of the Fund's loan receivables, as further described in note 4.

# ESPRESSO FUND V LIMITED PARTNERSHIP

Notes to the Financial Statements

For the period ended December 31, 2016

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### 3. Significant accounting policies:

(a) Financial instruments:

(i) Recognition and measurement:

Financial instruments are required to be classified into one of the following categories: held-for-trading, fair value through profit or loss, available-for-sale, loans and receivables, assets held-to-maturity and other financial liabilities. All financial instruments are measured at fair value on initial recognition. Measurement in subsequent periods depends on the classification of the financial instrument. Transaction costs are included in the initial carrying amount of financial instruments except for financial instruments classified as held-for-trade or fair value through profit or loss in which case transaction costs are expensed as incurred.

The Fund has not classified any financial instruments as held-for-trading, fair value through profit or loss, available-for sale or held-to-maturity. The Fund initially recognizes loans and receivables and other financial liabilities on the date they are originated.

The Fund derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. The Fund derecognizes a financial liability when its contractual obligations are discharged, cancelled or expire.

Financial assets and liabilities are offset and the net amount presented in the statement of net assets only when the Fund has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The Fund classifies as loans and receivables its cash, loans receivable, and interest receivable. Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent measurement of loans and receivables is at amortized cost using the effective interest method, less any impairment losses. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

The effective interest method is a method of calculating the amortized cost of a financial asset or liability and of allocating interest income or expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments through the expected life of the financial asset or liability, or where appropriate, a shorter period.

# ESPRESSO FUND V LIMITED PARTNERSHIP

Notes to the Financial Statements

For the period ended December 31, 2016

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### 3. Significant accounting policies (continued):

#### (a) Financial instruments (continued):

##### (i) Recognition and measurement (continued):

At each reporting date, the Fund assesses whether there is objective evidence that a loan receivable is impaired. If there is objective evidence that an impairment loss on a loan has been incurred, the amount of the loss is measured as the difference between the loan's carrying amount and the present value of estimated future cash flows discounted at the loan's original effective interest rate. The carrying amount of loan is reduced through use of an allowance for impairment account.

The Fund first assesses whether objective evidence of impairment exists individually for each loan.

If it is determined that no objective evidence of impairment exists for an individually assessed loan, each group of loans with similar credit risk characteristics are collectively assessed for impairment. Loans that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment. The expected future cash outflows for a group of loans with similar credit risk characteristics are estimated based on historical loss experience.

If, in a subsequent period, the amount of any impairment loss previously recognized decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment is recognized in net income.

Loans are written off from time to time as determined by the Manager when it is reasonable to expect that the recovery of the loan is unlikely. Loans are written off against the allowance for impairment, if an allowance for impairment had previously been recognized. If no allowance had been recognized, the write offs are recognized as expenses in net income.

##### (ii) Other financial liabilities:

The Fund's other financial liabilities are comprised of due to related party, operating fee payable, accrued expenses and performance fee accrued. Other financial liabilities are initially measured at fair value, net of transaction costs, and are subsequently measured at amortized cost using the effective interest method.



# ESPRESSO FUND V LIMITED PARTNERSHIP

Notes to the Financial Statements

For the period ended December 31, 2016

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### 3. Significant accounting policies (continued):

#### (b) Redeemable Units:

The Fund classifies financial instruments issued as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments. The Fund has two classes of units: Class A and Class B.

Class A units are redeemable, subject to the conditions specified in the Fund's Limited Partnership Agreement, and provide each unitholder with the right to redeem for cash at a value proportionate to the unitholders' share in the Fund's net assets attributable to Class A units. Accordingly, Class A units are classified as financial liabilities. Distributions payable to holders of redeemable units are recognized in comprehensive income when they are authorized and no longer at the discretion of the Fund.

Class B units are non-redeemable and are held by Espresso Capital Management Partnership ("Espresso Capital"), an entity related to the General Partner. Class B units are classified as equity instruments.

#### (c) Revenue recognition:

Interest income on loans is recognized using the effective interest method over the term of the respective loan and includes the accretion or amortization of any discounts or premiums that originate on issuance of the loan.

Commitment fees are amortized into revenue based on the expected life of each loan. When a loan is repaid before the date of the expected life of the loan, the remaining unamortized commitment fees for the respective loan are brought into income at the time the loan is repaid. When a loan extends beyond the date of the expected life of the loan, the amortization period for the related commitment fee are re-determined based on the new conditions surrounding the loan.

#### (d) Income taxes:

As a limited partnership, the Fund's income is attributed to and taxed in the hands of its partners. Accordingly, no provision for income taxes has been made in these financial statements.

#### (e) New standards and interpretations not yet adopted:

A number of new standards, amendments to standards and interpretations in issue, are not yet effective for the year ended December 31, 2016, and have not been applied in preparing these financial statements. None of these will have a significant effect on the financial statements of the Fund, with the possible exception:

# ESPRESSO FUND V LIMITED PARTNERSHIP

Notes to the Financial Statements

For the period ended December 31, 2016

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### 3. Significant accounting policies (continued):

(e) New standards and interpretations not yet adopted (continued):

- (i) IFRS 9, *Financial Instruments* deals with recognition, de-recognition, classification and measurement of financial instruments and its requirements represent a significant change from the existing requirements in IAS 39, *Financial Instruments: Recognition and Measurement*, in respect of financial assets. The standard contains two primary measurement categories for financial assets: amortized cost and fair value. A financial asset would be measured at amortized cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, and the asset's contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. All other financial assets would be measured at fair value. The standard eliminates the existing IAS 39 categories of held to maturity, available for sale and loans and receivables.

This standard becomes effective for the Fund's 2018 fiscal year. The Fund's Manager is currently in the process of evaluating the potential effect of this standard. The standard is not expected to have a significant impact on the financial statements since the Fund's financial assets and liabilities are currently measured at amortized cost.

- (ii) IFRS 15, *Revenue from Contracts with Customers*, deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognized when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18, Revenue and IAS 11, Construction Contracts, and related interpretations. The standard is effective for annual periods beginning on or after January 1, 2018. The Fund's Manager is assessing the impact of IFRS 15.

### 4. Loans receivable:

The loans receivable earn interest at fixed rates ranging from 1.20% to 1.69% per month. Loans are secured by all assets of the client as defined in the General Security Agreements granted to the Fund, which may be subordinate to other lenders. Interest on the loans is accrued on a monthly basis and is generally paid in full no later than the due date for repayment of the principal balance of the respective loan. The principal balances of the loans are due no later than the maturity date as defined in the Loan Agreements.

As at December 31, 2016, the Fund recognized allowances for impairment against loans and interest receivable as shown in the tables below. The loans and interest receivable balances in the statement of financial position are shown, net of these allowances for impairment.

# ESPRESSO FUND V LIMITED PARTNERSHIP

Notes to the Financial Statements

For the period ended December 31, 2016

## 4. Loans receivable (continued):

### (a) Loans and interest receivable:

	2016
Total loans	\$ 19,047,469
Allowance for impairment	(168,763)
	<u>\$ 18,878,706</u>
	2016
Total interest	\$ 210,104
Allowance for impairment	(2,272)
	<u>\$ 207,832</u>

### (b) Total allowance for impaired loans and interest receivable:

	2016
Individual specific provisions	\$ -
Collective provision	171,035
	<u>\$ 171,035</u>

### (c) Movement in the allowance for impairment:

	2016
Balance, beginning of period	\$ -
Allowance charged to net income	171,035
	<u>\$ 171,035</u>

As at December 31, 2016, the carrying value of impaired loans for which specific provisions have been identified was nil.

# ESPRESSO FUND V LIMITED PARTNERSHIP

Notes to the Financial Statements

For the period ended December 31, 2016

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## 4. Loans receivable (continued):

### (c) Movement in the allowance for impairment loans (continued):

The Fund estimates specific allowances by determining the likely impairment loss on loans which have not maintained contractual payments in accordance with the loan agreement or where there is other evidence of potential impairment. The amount of impairment is based on factors such as the underlying financial strength of the borrower, the length of time loans are past due, the status of tax credit claims, the views and judgment of the taxation authorities evaluating such tax credit claims, and other security obtained.

The estimate of collective allowance is based on historical loss experience and analysis of underlying factors causing loss such as overall economic circumstances and changes to tax credit legislation on the application of such legislation by taxation authorities.

## 5. Related party transactions:

### (a) Operating fee:

In consideration for the administration and management services provided by the Manager to the Fund, the Fund is charged an operating fee.

The operating fee for Class I and Class H is calculated at the rate of 25% of the Gross Revenue earned by the Fund. Gross Revenue includes interest income, commitment amounts and other fees or capital gains received by the Fund as a result of its investments. The operating fee for Class A was previously calculated in a similar manner as Classes I and H, however, effective December 1, 2016, the calculation method was revised to 3.5% of the value of Class A's portion of the Fund's loan portfolio.

The operating fee for each class of Espresso Income Trust (the "Trust") is calculated at the rate of 3.5% of the Trust's proportionate share in value of the Fund's loan portfolio. Class Trust C units are subject to an additional fee calculated as 1/12<sup>th</sup> of 2% of the net asset value per Class Trust C unit held. Class Trust F units are subject to an additional fee calculated as 1/12<sup>th</sup> of 1% of the net asset value per Class Trust F unit held. The operating fees are paid by the Fund on behalf of the Trust.

For the period ended December 31, 2016, the total operating fee for the Fund and the Trust was \$319,626, of which \$72,931 remained payable at December 31, 2016. The total operating fee for the Fund was \$308,114, of which \$61,419 remained payable at December 31, 2016.

# ESPRESSO FUND V LIMITED PARTNERSHIP

Notes to the Financial Statements

For the period ended December 31, 2016

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## 5. Related party transactions (continued):

### (b) Performance fee:

The General Partner is entitled to a performance fee from the Fund. The performance fee will accrue monthly, and will be payable annually on the last business day of December of each year or upon the redemption of units if these redemptions occur prior to the year-end.

For Class I and Class H, the amount of the performance fee will be equal to 20% of the net income attributable to the Class I and Class H units, provided that the unitholders have first received distributions of at least 8% on the initial subscription price per unit.

For Class A, the performance fee was paid by the Fund on behalf of the Trust. For Class Trust A units, the amount of the performance fee is equal to 100% of the net income attributable to the Class Trust A units, provided that the unitholders have first received distributions of at least 10% on the initial subscription price per unit.

For Class Trust B, the amount of the performance fee is equal to 100% of the net income attributable to the Class Trust B units, provided that the unitholders have first received distributions of at least 8% on the initial subscription price per unit.

For Class Trust C and Class Trust F, the amount of the performance fee calculated is two-tiered. After holders of Class Trust C units have received distributions in a year in an amount up to 7% of the subscription price per Class Trust C unit, the General Partner shall be entitled to receive all net income of the Fund between 7% and 9% per annum of the subscription price, and thereafter 20% of any net income of the Fund in excess of 9% per annum of the subscription price per unit.

For the year ended December 31, 2016, the total performance fee for the Fund and the Trust was \$9,721, of which \$110 related to the Fund. The entire amount of the performance fee remains payable at December 31, 2016.

### (c) Due to related party:

In December 2016, the Fund purchased the loan portfolio of the Espresso Capital Tax Credit Fund III Limited Partnership ("Fund III"), an entity related to the General Partner. As part of the sale process, the General Partner undertook a full normal course due diligence review of these loans. The General Partner's Credit Committee approved the purchase of these loans in accordance with Fund V's credit policy and guidelines. The purchase occurred at the carrying value of the loans as recorded by Fund III. Due to related party in the statement of financial position represents the purchase cost of these loans payable to Fund III. The balance was subsequently paid in full in January 2017.

# ESPRESSO FUND V LIMITED PARTNERSHIP

Notes to the Financial Statements

For the period ended December 31, 2016

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## 5. Related party transactions (continued):

(d) Related fund transfers subsequent to the end of the year:

In January 2017, the following transactions occurred:

- (i) Espresso Capital Investment Fund IV Limited Partnership ("Fund IV"), an entity related to the General Partner, sold its loan portfolio to the Fund. As part of the sale process, the General Partner undertook a full normal course due diligence review of these loans. The General Partner's Credit Committee approved the purchase of these loans in accordance with Fund V's credit policy and guidelines. The sale occurred at the carrying value of approximately \$3,060,000 recorded by Fund IV.
- (ii) Fund IV sold warrants to the Fund, these warrants related to the loans sold to the Fund, as discussed in section (i) above. The transfer occurred at the carrying value of \$37,258 recorded by Fund IV.
- (iii) Fund IV transferred an investment in securities to the Fund, this investment related to a loan that was sold to the Fund, as discussed in section (i) above. The transfer occurred at the carrying value of \$30,000 recorded by Fund IV.

## 6. Commitment fees:

The commitment fee transactions for the Fund were as follows:

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	2016
Deferred commitment fees, beginning of period	\$ -
Commitment fees received during the period	389,040
Commitment fees amortized to income during the period	(169,630)
Deferred commitment fees, end of period	\$ 219,410

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# ESPRESSO FUND V LIMITED PARTNERSHIP

Notes to the Financial Statements

For the period ended December 31, 2016

## 7. Capital:

The Fund is authorized to issue an unlimited number of redeemable units in an unlimited number of distinct series. The initial price to each subscriber is Canadian ("CAD") \$1.00 per unit. The Fund currently offer six series of units, being Class I, Class H, and Class Trust A, Class Trust B, Class Trust C and Class Trust F.

The unit transactions for the Fund were as follows for the period ended December 31, 2016:

Series	Outstanding Units, beginning of period	Units issued	Units redeemed	Units reinvested	Outstanding units, end of period
<b>Class I</b>					
Series 2016-02	-	1,385,000	-	-	1,385,000
Series 2016-04	-	100,000	-	-	100,000
Series 2016-05	-	451,350	-	-	451,350
Series 2016-06	-	2,604,458	-	-	2,604,458
Series 2016-07	-	948,350	-	-	948,350
Series 2016-10	-	609,469	-	-	609,469
Series 2016-11	-	2,098,438	-	-	2,098,438
	-	8,197,065	-	-	8,197,065
<b>Class H</b>					
Series 2016-07	-	50,000	-	-	50,000
Series 2016-08	-	50,000	-	-	50,000
Series 2016-09	-	1,100,000	-	-	1,100,000
Series 2016-10	-	1,600,000	-	5,589	1,605,589
Series 2016-11	-	3,160,000	-	9,890	3,169,890
Series 2016-12	-	270,000	-	14,107	284,107
	-	6,230,000	-	29,586	6,259,586
<b>Class Trust</b>					
Series Trust A	-	3,006,999	-	-	3,006,999
Series Trust B	-	682,096	-	-	682,096
Series Trust C	-	90,000	-	-	90,000
Series Trust F	-	50,000	-	-	50,000
	-	3,829,095	-	-	3,829,095
<b>Total</b>	-	18,256,159	-	29,586	18,285,745

# ESPRESSO FUND V LIMITED PARTNERSHIP

Notes to the Financial Statements

For the period ended December 31, 2016

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## 8. Operating expenses and fees from lending activities:

The Fund is responsible for all reasonable operating expenses incurred in the management and administration of the Fund, including: legal, audit, accounting, custodial, independent valuation expenses, including HST and other taxes, operating and administrative costs, investor servicing costs and costs of financial and other reports issued by the Fund.

## 9. Financial risk management:

The Fund's investment activities expose it to various types of risk that are associated with the financial instruments it holds. Financial risks are made up of credit risk, liquidity risk and market risk. Market risk is the risk that changes in market prices, such as interest risk, equity prices and foreign exchange rate will affect the Fund's income or fair value of its financial instruments.

### (a) Risk management framework and capital management:

The Fund employs active investment strategies whereby investments in the Fund are based on target weightings, individual risks and credit quality of each investment. The Fund bases credit quality on a number of risk factors, included, but not limited to, an assessment of the quality of the primary security (the security interest in all of the borrowers' assets as set out in the General Security Agreement granted to the Fund), and the quality of the underlying clients business. The security is assessed by determining, among other things, the amount and quality of the client's revenues, the amount of invested capital, the sufficiency and quality of the client's financial statements, management and Board of Directors. To assist with managing risk, the Manager also maintains a governance structure that oversees the Funds' investment activities and monitors compliance with the Funds' stated investment strategy and securities regulations.

The capital of the Fund is primarily comprised of its partnership units held by Limited Partners. The Fund manages its capital to meet its investment strategy and to continue as a going concern while maximizing the return to the unitholders. The Fund does not have any internally or externally imposed capital restrictions.

### (b) Summary of loan portfolio characteristics:

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Average loan size	\$	617,260
Number of positions		31
Average interest rate		1.37%

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# ESPRESSO FUND V LIMITED PARTNERSHIP

Notes to the Financial Statements

For the period ended December 31, 2016

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## 9. Financial risk management (continued):

### (c) Credit risk:

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Fund. Credit risk is managed by dealing with counterparties the Manager believes to be creditworthy and by monitoring of credit exposures and collateral. The greatest concentration of credit risk relates to the Fund's loans receivable and interest receivable.

The carrying amount of loans receivable and interest receivable in the statement of financial position represents the maximum credit risk exposure as at December 31, 2016.

### (d) Liquidity risk:

Liquidity risk is the possibility that investments in securities cannot be readily converted into cash when required to meet the obligations of the Fund. Liquidity risk is managed by making loans with fixed terms generally not to exceed one year from the date of the loan to achieve matching to the Fund's liabilities, which generally fall due within a year. In addition, interest income is received by the Fund on a monthly basis. The Manager does not consider liquidity risk in relation to the redemption of the Fund's units to be significant as the Fund requires appropriate notice of unit redemptions, which may be restricted in certain circumstances.

The Fund's financial liabilities mature within one year from the Fund's year-end date.

### (e) Market risk:

#### (i) Interest rate risk:

Interest rate risk is the risk that the fair value or cash flows of the Fund's interest bearing investments will fluctuate due to changes in market interest rates. The Fund's investments in interest bearing instruments are fixed rate and normally held until maturity and accordingly are not exposed to significant interest rate risk.

#### (ii) Currency risk:

Currency risk is the risk that the value of investments denominated in currencies other than the functional currency of the Fund will fluctuate due to changes in foreign exchange rates. At December 31, 2016, the Fund did not have significant exposure to currency risk as all its financial instruments were denominated in Canadian dollars.

#### (iii) Other price risk:

Other price risk is the risk that the fair value of a financial instrument will fluctuate as a result of changes in the market prices (other than those arising from interest rate or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments in a market. Given the nature of the Fund's financial instruments, it is not exposed to significant other price risk.

# ESPRESSO FUND V LIMITED PARTNERSHIP

Notes to the Financial Statements

For the period ended December 31, 2016

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## 10. Fair value of financial instruments:

Financial instruments measured at fair value are categorized into one of the three hierarchy levels. Each level is based on the transparency of the inputs used to measure that fair value of the assets or liabilities:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value of loans receivable has not been provided because in the Manager's opinion it is not meaningful information. There is no active market for these loans and, as such, the range of possible values is so wide it is not meaningful.

The carrying value of cash, interest receivable, due to related party, performance fee accrued, operating fee payable and accrued expenses approximate their fair value given their short-term nature. These financial assets and liabilities, which are measured at amortized cost, are considered Level 2, as while observable prices are available, they are not quoted in an active market. There have been no movements between levels during 2016.

Financial Statements of

**ESPRESSO FUND V LIMITED  
PARTNERSHIP**

For the period ended September 30, 2017  
(Unaudited)

# ESPRESSO FUND V LIMITED PARTNERSHIP

Statement of Financial Position

As of September 30, 2017 with 2016 comparative information (Unaudited)

	Notes	September 30, 2017	December 31, 2016
<b>Assets</b>			
Cash		\$ 4,151,805	\$ 2,391,875
Loans receivable	4	37,549,589	18,878,706
Equities, at fair value		30,000	-
Warrants, at fair value		943,971	-
Interest receivable	4	476,923	207,832
Other receivable		18,541	12,500
		43,170,829	21,490,913
<b>Liabilities</b>			
Contributions received in advance		610,000	260,000
Due to related party	5	-	2,505,794
Loan payable		7,900,000	-
Deferred commitment fees	6	375,223	219,410
Operating fee payable		143,364	72,931
Redemption Payable		559	-
Accrued expenses		63,791	83,471
Performance fee accrued	5	210,643	9,721
Other Payable		646	-
Interest payable		35,225	-
		9,339,451	3,151,327
<b>Net assets attributable to holders of redeemable partnership units</b>		<b>\$ 33,831,378</b>	<b>\$ 18,339,586</b>

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

# ESPRESSO FUND V LIMITED PARTNERSHIP

Statement of Financial Position (continued)

As of September 30, 2017 with 2016 comparative information (Unaudited)

	September 30, 2017	December 31, 2016
Net assets attributable to the holders of redeemable partnership units:		
Class I, Series 2016-02 (Initial)	\$ 1,416,158	\$ 1,383,573
Class I, Series 2016-04	102,342	100,092
Class I, Series 2016-05	464,133	453,673
Class I, Series 2016-06	-	2,622,594
Class I, Series 2016-07	975,494	953,499
Class I, Series 2016-10	625,483	611,010
Class I, Series 2016-11	464,026	2,106,496
Class I, Series 2017-01	3,307,219	-
Class I, Series 2017-02	455,403	-
Class I, Series 2017-03	48	-
Class I, Series 2017-04	53	-
Class I, Series 2017-05	1,761	-
Class I, Series 2017-06	1,828	-
Class H, Series 2016-07 (Initial)	51,367	50,271
Class H, Series 2016-08	51,290	50,182
Class H, Series 2016-09	1,144,199	1,102,153
Class H, Series 2016-10	1,553,334	1,609,649
Class H, Series 2016-11	3,213,332	3,182,062
Class H, Series 2016-11 (2)	1,689,633	-
Class H, Series 2016-12	291,298	285,448
Class H, Series 2017-01	633,846	-
Class H, Series 2017-02	3,471,552	-
Class H, Series 2017-03	690,384	-
Class H, Series 2017-04	686,945	-
Class H, Series 2017-05	290,830	-
Class H, Series 2017-06	1,485,953	-
Class H, Series 2017-08	101,835	-
Class H, Series 2017-09	1,915,977	-
Class Trust A	4,977,850	3,000,339
Class Trust B	1,636,668	686,731
Class Trust C	791,232	91,142
Class Trust F	1,339,905	50,672
	<b>\$ 33,831,378</b>	<b>\$ 18,339,586</b>

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

# ESPRESSO FUND V LIMITED PARTNERSHIP

Statement of Financial Position (continued)

As of September 30, 2017 with 2016 comparative information (Unaudited)

	September 30, 2017	December 31, 2016
Net assets attributable to the holders of redeemable partnership units per unit:		
Class I, Series 2016-02 (Initial)	\$ 1.0217	\$ 0.9990
Class I, Series 2016-04	1.0234	1.0009
Class I, Series 2016-05	1.0271	1.0051
Class I, Series 2016-06	-	1.0070
Class I, Series 2016-07	1.0273	1.0054
Class I, Series 2016-10	1.0248	1.0025
Class I, Series 2016-11	1.0260	1.0038
Class I, Series 2017-01	1.0285	-
Class I, Series 2017-02	1.0279	-
Class I, Series 2017-03	1.0213	-
Class I, Series 2017-04	1.0192	-
Class I, Series 2017-05	1.0197	-
Class I, Series 2017-06	1.0173	-
Class H, Series 2016-07 (Initial)	1.0273	1.0054
Class H, Series 2016-08	1.0258	1.0036
Class H, Series 2016-09	1.0243	1.0020
Class H, Series 2016-10	1.0248	1.0025
Class H, Series 2016-11	1.0260	1.0038
Class H, Series 2016-11 (2)	1.0260	1.0038
Class H, Series 2016-12	1.0267	1.0047
Class H, Series 2017-01	1.0285	-
Class H, Series 2017-02	1.0279	-
Class H, Series 2017-03	1.0269	-
Class H, Series 2017-04	1.0242	-
Class H, Series 2017-05	1.0197	-
Class H, Series 2017-06	1.0173	-
Class H, Series 2017-08	1.0115	-
Class H, Series 2017-09	1.0084	-
Class Trust A	1.0204	0.9978
Class Trust B	1.0066	1.0068
Class Trust C	1.0127	1.0127
Class Trust F	1.0140	1.0134

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

# ESPRESSO FUND V LIMITED PARTNERSHIP

## Statement of Comprehensive Income

For the period ended on September 30, 2017 with 2016 comparative information (Unaudited)

	Notes	Quarter ended September 30, 2017	Quarter ended September 30, 2016	Period-to-date September 30, 2017	Period-to-date September 30, 2016
<b>Investment income:</b>					
Interest Income		\$ 1,408,609	\$ 321,870	\$ 3,914,658	\$ 492,917
Commitment fees	6	140,967	40,456	424,113	78,888
Net change in realized appreciation on investments		(46,927)	(20,286)	41,480	(20,286)
Net change in unrealized appreciation on investments		62,238	266	131,305	-
Other income		23,266	-	55,535	3,744
Loss on foreign exchange		33,945	-	(3,104)	-
		1,622,098	342,306	4,563,987	555,263
<b>Expenses:</b>					
Operating fee	5	400,233	93,865	1,153,492	144,425
Provision for impaired loans	4	181,773	58,362	545,544	92,351
Performance fee		79,253	2,319	210,643	3,109
Administration fees		69,402	38,757	250,431	64,382
Interest expense		60,667	-	148,651	34,530
		791,328	193,303	2,308,761	338,797
<b>Net investment income</b>		<b>\$ 830,770</b>	<b>\$ 149,003</b>	<b>\$ 2,255,226</b>	<b>\$ 216,466</b>
Increase in net assets attributable to holders of redeemable and non-redeemable partnership units before distributions					
		\$ 830,770	\$ 149,003	\$ 2,255,226	\$ 216,466
Distributions to holders of redeemable partnership units					
		(611,160)	(140,834)	(1,571,210)	(180,619)
Increase in net assets attributable to holders of redeemable and non-redeemable partnership units after distributions					
		\$ 219,610	\$ 8,169	\$ 684,016	\$ 35,847

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

# ESPRESSO FUND V LIMITED PARTNERSHIP

Statement of Comprehensive Income (continued)

For the period ended on September 30, 2017 with 2016 comparative information (Unaudited)

	Quarter ended September 30, 2017	Quarter ended September 30, 2016	Period-to-date September 30, 2017	Period-to-date September 30, 2016
Increase in net assets attributable to the holders of redeemable partnership units after distributions:				
Class I, Series 2016-02 (Initial)	\$ 9,731	\$ 3,754	\$ 31,518	\$ 4,256
Class I, Series 2016-04	707	276	2,250	500
Class I, Series 2016-05	3,241	1,054	9,915	3,898
Class I, Series 2016-06	-	6,022	(17,696)	26,307
Class I, Series 2016-07	6,819	8,402	20,800	8,402
Class I, Series 2016-10	4,340	-	13,595	-
Class I, Series 2016-11	3,231	-	9,998	-
Class I, Series 2017-01	23,202	-	92,272	-
Class I, Series 2017-02	3,186	-	12,352	-
Class I, Series 2017-03	-	-	1	-
Class I, Series 2017-04	-	-	1	-
Class I, Series 2017-05	12	-	34	-
Class I, Series 2017-06	13	-	31	-
Class H, Series 2016-07 (Initial)	359	443	1,096	443
Class H, Series 2016-08	356	372	1,107	372
Class H, Series 2016-09	7,992	6,615	24,792	6,615
Class H, Series 2016-10	10,811	-	34,142	-
Class H, Series 2016-11	22,407	-	68,983	-
Class H, Series 2016-11 (2)	11,755	-	36,434	-
Class H, Series 2016-12	2,033	-	6,245	-
Class H, Series 2017-01	4,452	-	17,555	-
Class H, Series 2017-02	24,305	-	95,093	-
Class H, Series 2017-03	4,849	-	17,950	-
Class H, Series 2017-04	4,763	-	16,195	-
Class H, Series 2017-05	1,992	-	5,598	-
Class H, Series 2017-06	10,181	-	25,149	-
Class H, Series 2017-08	1,156	-	1,156	-
Class H, Series 2017-09	15,977	-	15,977	-
Class Trust A	33,281	(18,769)	107,771	(14,946)
Class Trust B	1,616	-	6,056	-
Class Trust C	1,715	-	8,772	-
Class Trust F	5,609	-	18,146	-
Class Trust H	(481)	-	728	-
	\$ 219,610	\$ 8,169	\$ 684,016	\$ 35,847

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



# ESPRESSO FUND V LIMITED PARTNERSHIP

Statement of Comprehensive Income (continued)

For the period ended on September 30, 2017 with 2016 comparative information (Unaudited)

	Quarter ended September 30, 2017	Quarter ended September 30, 2016	Period-to-date September 30, 2017	Period-to-date September 30, 2016
Increase in net assets attributable to the holders of redeemable partnership units per unit after				
Class I, Series 2016-02 (Initial)	\$ 0.0070	\$ (0.0045)	\$ 0.0227	\$ 0.0004
Class I, Series 2016-04	0.0071	0.0022	0.0225	0.0022
Class I, Series 2016-05	0.0072	0.0063	0.0220	0.0063
Class I, Series 2016-06	-	0.0078	(1.0070)	0.0078
Class I, Series 2016-07	0.0072	-	0.0219	-
Class I, Series 2016-10	0.0071	-	0.0223	-
Class I, Series 2016-11	0.0071	-	0.0221	-
Class I, Series 2017-01	0.0072	-	0.0285	-
Class I, Series 2017-02	0.0072	-	0.0279	-
Class I, Series 2017-03	0.0013	-	0.0213	-
Class I, Series 2017-04	0.0019	-	0.0192	-
Class I, Series 2017-05	0.0070	-	0.0197	-
Class I, Series 2017-06	0.0068	-	0.0173	-
Class H, Series 2016-07 (Initial)	0.0072	-	0.0219	-
Class H, Series 2016-08	0.0071	-	0.0222	-
Class H, Series 2016-09	0.0071	-	0.0224	-
Class H, Series 2016-10	0.0071	-	0.0223	-
Class H, Series 2016-11	0.0071	-	0.0222	-
Class H, Series 2016-11 (2)	0.0071	-	0.0222	-
Class H, Series 2016-12	0.0072	-	0.0220	-
Class H, Series 2017-01	0.0072	-	0.0285	-
Class H, Series 2017-02	0.0072	-	0.0279	-
Class H, Series 2017-03	0.0072	-	0.0269	-
Class H, Series 2017-04	0.0071	-	0.0242	-
Class H, Series 2017-05	0.0070	-	0.0197	-
Class H, Series 2017-06	0.0069	-	0.0173	-
Class H, Series 2017-08	0.0115	-	0.0115	-
Class H, Series 2017-09	0.0084	-	0.0084	-
Class Trust A	0.0066	(0.0026)	0.0226	0.0023
Class Trust B	-	-	(0.0002)	-
Class Trust C	(0.0009)	-	-	-
Class Trust F	0.0011	-	0.0006	-
Class Trust H	(1.0114)	-	(1.0000)	-

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

# ESPRESSO FUND V LIMITED PARTNERSHIP

Statement of Changes in Net Assets Attributable to Holders of Redeemable Partnership Units  
For the period ended on September 30, 2017 with 2016 comparative information (Unaudited)

	Balance, December 31, 2016	Issue of redeemable partnership units	Reinvestment of distributions	Redemption of redeemable units	Increase in net assets attributable to holders of redeemable partnership units	Balance September 30, 2017
Class I Series	\$ 8,230,937	\$ 1,100,195	\$ 10,944	\$ (1,703,199)	\$ 175,071	\$ 7,813,948
Class H Series	6,279,765	10,690,199	190,549	(256,210)	367,472	17,271,775
Class Trust A	3,000,339	1,915,921	-	(46,181)	107,771	4,977,850
Class Trust B	686,731	943,881	-	-	6,056	1,636,668
Class Trust C	91,142	691,318	-	-	8,772	791,232
Class Trust F	50,672	1,321,466	-	(50,379)	18,146	1,339,905
Class Trust H	-	106,908	-	(107,636)	728	-
<b>Total</b>	<b>\$ 18,339,586</b>	<b>\$ 16,769,888</b>	<b>\$ 201,493</b>	<b>\$ (2,163,605)</b>	<b>\$ 684,016</b>	<b>\$ 33,831,378</b>

	Balance, on commencement of operations on February 19, 2016	Issue of redeemable partnership units	Reinvestment of distributions	Redemption of redeemable units	Increase in net assets attributable to holders of redeemable partnership units	Balance December 31, 2016
Class I Series	\$ -	\$ 8,197,064	\$ -	\$ -	\$ 33,873	\$ 8,230,937
Class H Series	-	6,230,000	29,586	-	20,179	6,279,765
Class Trust A	-	3,006,999	-	-	(6,660)	3,000,339
Class Trust B	-	682,095	-	-	4,636	686,731
Class Trust C	-	90,000	-	-	1,142	91,142
Class Trust F	-	50,000	-	-	672	50,672
<b>Total</b>	<b>\$ -</b>	<b>\$ 18,256,158</b>	<b>\$ 29,586</b>	<b>\$ -</b>	<b>\$ 53,842</b>	<b>\$ 18,339,586</b>

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

# ESPRESSO FUND V LIMITED PARTNERSHIP

## Statement of Cash Flows

For the period ended on September 30, 2017 with 2016 comparative information (Unaudited)

	Quarter ended September 30, 2017	Quarter ended September 30, 2016	Period-to-date September 30, 2017	Period-to-date September 30, 2016
Increase in net assets attributable to holders of redeemable partnership units before distributions	\$ 830,770	\$ 149,003	\$ 2,255,226	\$ 216,466
Adjustments to reconcile net income to net cash used in operating activities:				
Net realized loss on investments	46,678	-	(41,480)	-
Net unrealized gain on investments	(62,238)	(10,043)	(131,305)	(10,876)
Loans and warrants issued	(17,319,380)	(4,804,241)	(44,346,659)	(10,481,073)
Loans and warrants redeemed	9,419,617	1,619,749	24,342,226	2,719,749
Provision for impaired loans	168,593	58,362	532,364	92,351
Changes in operating assets and liabilities:				
Interest receivable	(91,913)	-	(269,091)	-
Deferred commitment fees	91,407	49,493	155,813	127,580
Operating fee payable	(21,414)	4,215	70,433	30,586
Accrued expenses	(65,534)	44,121	(19,680)	57,570
Performance fee accrued	79,253	2,319	200,922	3,109
Other receivable	(18,541)	-	(6,041)	-
Other payable	646	-	646	-
Redemption payable	559	-	559	-
Interest payable	21,192	-	35,225	-
	(6,920,305)	(2,887,022)	(17,220,842)	(7,244,538)
Financing activities:				
Proceeds from issue of redeemable units	4,626,256	2,721,437	16,971,381	8,901,516
Due to related party	-	15,000	(2,505,794)	25,000
Loan payable	4,450,000	-	7,900,000	-
Redemption of redeemable units	(1,761,394)	-	(2,163,605)	-
Income distributions	(611,160)	(140,834)	(1,571,210)	(180,619)
Contributions received in advance	536,141	434,000	350,000	450,000
	7,239,843	3,029,603	18,980,772	9,195,897
Increase in cash	319,538	142,581	1,759,930	1,951,359
Cash, beginning of period	3,832,267	1,808,778	2,391,875	-
Cash, end of period	\$ 4,151,805	\$ 1,951,359	\$ 4,151,805	\$ 1,951,359

The accompanying notes are an integral part of the financial statement.

# ESPRESSO FUND V LIMITED PARTNERSHIP

Notes to the Financial Statements

For the period ended on September 30, 2017 (Unaudited)

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## 1. Reporting entity:

Espresso Fund V Limited Partnership (the “Fund”) is a limited partnership registered and domiciled in Ontario, Canada. The address of the Fund's registered office is 403 - 322 King Street West, Toronto, Ontario. The Fund commenced operations on February 19, 2016.

The Fund is a limited partnership with the principal objective to promote, organize, raise and manage a pool of capital which will be used to provide secured venture debt financing to Canadian and U.S. technology companies principally in the form of tax credit and government incentives, working capital and recurring revenue financing.

The general partner of the Fund is Espresso Capital Fund V GP Inc. (the “General Partner”). The General Partner has contracted the management and administrative responsibilities of the Fund to Espresso Capital Ltd. (the “Manager”). The General Partner has held 1 Class H unit since the inception of the Fund.

## 2. Basis of presentation:

### (a) Statement of compliance:

The financial statements of the Fund have been prepared in accordance with International Financial Reporting Standards (“IFRS”).

### (b) Basis of measurement:

The financial statements have been prepared on the historical cost basis.

### (c) Functional and presentation currency:

These financial statements are presented in Canadian dollars, which is the Fund's functional currency.

### (d) Use of estimates and judgments:

The preparation of the financial statements in conformity with IFRS requires the Manager to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses. Actual results could differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. The areas of significant estimation and judgment in these financial statements relate to allowances for impairment of the Fund's loan receivables, as further described in note 4.

# ESPRESSO FUND V LIMITED PARTNERSHIP

Notes to the Financial Statements

For the period ended on September 30, 2017 (Unaudited)

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## 3. Significant accounting policies:

### (a) Financial instruments:

#### (i) Recognition and measurement:

Financial instruments are required to be classified into one of the following categories: fair value through profit or loss, available-for-sale, loans and receivables, assets held-to-maturity and other financial liabilities. All financial instruments are measured at fair value on initial recognition. Measurement in subsequent periods depends on the classification of the financial instrument. Transaction costs are included in the initial carrying amount of financial instruments except for financial instruments classified as fair value through profit or loss in which case transaction costs are expensed as incurred.

The Fund has not classified any financial instruments as available-for sale or held-to-maturity. The Fund initially recognizes loans and receivables and other financial liabilities on the date they are originated.

The Fund derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. The Fund derecognizes a financial liability when its contractual obligations are discharged, cancelled or expired.

Financial assets and liabilities are offset and the net amount presented in the statement of net assets only when the Fund has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The Fund has classified its warrants and investment in security as fair value through profit or loss. Financial instruments classified as fair value through profit or loss are subsequently measured at fair value each reporting period with changes in fair value recognized in income for the respective period.

The Fund classifies its loans and receivables as loans receivable, and interest receivable. Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent measurement of loans and receivables is at amortized cost using the effective interest method, less any impairment losses. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

The effective interest method is a method of calculating the amortized cost of a financial asset or liability and of allocating interest income or expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments through the expected life of the financial asset or liability, or where appropriate, a shorter period.

# ESPRESSO FUND V LIMITED PARTNERSHIP

Notes to the Financial Statements

For the period ended on September 30, 2017 (Unaudited)

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### 3. Significant accounting policies (continued):

#### (a) Financial instruments (continued):

##### (i) Recognition and measurement (continued):

At each reporting date, the Fund assesses whether there is objective evidence that a loan receivable is impaired. If there is objective evidence that an impairment loss on a loan has been incurred, the amount of the loss is measured as the difference between the loan's carrying amount and the present value of estimated future cash flows discounted at the loan's original effective interest rate. The carrying amount of loan is reduced through use of an allowance for impairment account.

The Fund first assesses whether objective evidence of impairment exists individually for each loan.

If it is determined that no objective evidence of impairment exists for an individually assessed loan, each group of loans with similar credit risk characteristics are collectively assessed for impairment. Loans that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment. The expected future cash outflows for a group of loans with similar credit risk characteristics are estimated based on historical loss experience.

If, in a subsequent period, the amount of any impairment loss previously recognized decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment is recognized in net income.

Loans are written off from time to time as determined by the Manager when it is reasonable to expect that the recovery of the loan is unlikely. Loans are written off against the allowance for impairment, if an allowance for impairment had previously been recognized. If no allowance had been recognized, the write offs are recognized as expenses in net income.

##### (ii) Financial liabilities:

The Fund's financial liabilities are initially measured at fair value, net of transaction costs, and subsequently measured at amortized cost using the effective interest method.

# ESPRESSO FUND V LIMITED PARTNERSHIP

Notes to the Financial Statements

For the period ended on September 30, 2017 (Unaudited)

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### 3. Significant accounting policies (continued):

#### (b) Redeemable units:

The Fund classifies financial instruments issued as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments.

All fund units are redeemable, subject to the conditions specified in the Fund's Limited Partnership Agreement, and provide each unitholder with the right to redeem for cash at a value proportionate to the unitholder's share in the Fund's net assets. Accordingly, fund units are classified as financial liabilities. Distributions payable to holders of redeemable units are recognized in comprehensive income when they are authorized and no longer at the discretion of the fund.

#### (c) Revenue recognition:

Interest income on loans is recognized using the effective interest method over the term of the respective loan and includes the accretion or amortization of any discounts or premiums that originate on issuance of the loan.

Commitment fees are amortized into revenue based on the expected life of each loan. When a loan is repaid before the date of the expected life of the loan, the remaining unamortized commitment fees for the respective loan are brought into income at the time the loan is repaid. When a loan extends beyond the date of the expected life of the loan, the amortization period for the related commitment fee are re-determined based on the new conditions surrounding the loan.

#### (d) Income taxes:

As a limited partnership, the Fund's income is attributed to and taxed in the hands of its partners. Accordingly, no provision for income taxes has been made in these financial statements.

### 4. Loans receivable:

The loans receivable earn interest at fixed rates ranging from 13.50% to 20.28% per annum. Loans are secured by all assets of the client as defined in the General Security Agreements granted to the Fund, which may be subordinate to other lenders. Interest on the loans is accrued on a monthly basis and is generally paid in full no later than the due date for repayment of the principal balance of the respective loan. The principal balances of the loans are due no later than the maturity date as defined in the Loan Agreements.

As at September 30, 2017, the Fund recognized allowances for impairment against loans and interest receivable as shown in the tables below. The loans and interest receivable balances in the statement of financial position are shown, net of these allowances for impairment.

# ESPRESSO FUND V LIMITED PARTNERSHIP

Notes to the Financial Statements

For the period ended on September 30, 2017 (Unaudited)

## 4. Loans receivable (continued):

(a) Loans and interest receivable:

	September 30, 2017	December 31, 2016
Total loans	\$ 38,338,301	\$ 19,047,469
Allowance for impairment	\$ (788,712)	\$ (168,763)
	\$ 37,549,589	\$ 18,878,706

	September 30, 2017	December 31, 2016
Total interest	\$ 486,306	\$ 210,104
Allowance for impairment	\$ (9,383)	\$ (2,272)
	\$ 476,923	\$ 207,832

(b) Total allowance for impaired loans and interest receivable:

	September 30, 2017	December 31, 2016
Individual specific provisions	\$ 50,000	\$ -
Collective provision	\$ 748,095	\$ 171,035
	\$ 798,095	\$ 171,035

(c) Movement in the allowance for impaired loans and interest receivable:

	September 30, 2017	December 31, 2016
Balance, beginning of period	\$ 171,035	\$ -
Allowance charged to net income	\$ 545,544	\$ 171,035
Write off	\$ (46,369)	\$ -
Recovery	\$ 127,885	\$ -
Balance, end of period	\$ 798,095	\$ 171,035



# ESPRESSO FUND V LIMITED PARTNERSHIP

Notes to the Financial Statements

For the period ended on September 30, 2017 (Unaudited)

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## 4. Loans receivable (continued):

### (c) Movement in the allowance for impairment loans (continued):

The Fund estimates specific allowances by determining the likely impairment loss on loans which have not maintained contractual payments in accordance with the loan agreement or where there is other evidence of potential impairment. The amount of impairment is based on factors such as the underlying financial strength of the borrower, the length of time loans are past due, the status of tax credit claims, the views and judgment of the taxation authorities evaluating such tax credit claims, and other security obtained.

The estimate of collective allowance is based on historical loss experience and analysis of underlying factors causing loss such as overall economic circumstances and changes to tax credit legislation on the application of such legislation by taxation authorities.

## 5. Related party transactions:

### (a) Operating fee:

In consideration for the administration and management services provided by the Manager to the Fund, the Fund is charged an operating fee.

The operating fee for Class I and Class H is calculated at the rate of 25% of the Gross Revenue earned by the Fund. Gross Revenue includes interest income, commitment fees and other fees or capital gains received by the Fund as a result of its investments. The operating fee for Class A was previously calculated in a similar manner as Classes I and H. However, effective December 1, 2016, the calculation method was revised to 3.5% of the value of Class A's portion of the Fund's loan portfolio.

The operating fee for Class A is calculated at a rate of 3.5% of Class A's proportionate share in value of the Fund's loan portfolio. At the Trust level, Class Trust C units are subject to an additional fee calculated as 1/12<sup>th</sup> of 2% of the net asset value per Class Trust C unit held. Class Trust F units are subject to an additional fee calculated as 1/12<sup>th</sup> of 1% of the net asset value per Class Trust F unit held. The operating fees are paid by the Fund on behalf of the Trust.

The total operating fee for the Fund was \$400,233 in the quarter (2016: \$93,865) and \$1,153,492 year-to-date (2016: \$144,425), of which \$143,364 remained payable.

### (b) Performance fee:

The General Partner is entitled to a performance fee from the Fund. The performance fee will accrue monthly, and will be payable annually on the last business day of December of each year or upon redemption of units if these redemptions occur prior to the year-end.

For Class I, Class H, and Class Trust H, the amount of the performance fee will be equal to 20% of the net income attributable to such units, provided that the unitholders have first received annual distributions of at least 8% on the initial subscription price per unit.

# ESPRESSO FUND V LIMITED PARTNERSHIP

Notes to the Financial Statements

For the period ended on September 30, 2017 (Unaudited)

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## 5. Related party transactions (continued):

### (b) Performance fee (continued):

For Class A, the performance fee is paid by the Fund on behalf of the Trust. For Class Trust A units, the amount of the performance fee is equal to 100% of the net income attributable to such units, provided that the unitholders have first received annual distributions of at least 10% on the initial subscription price per unit.

For Class Trust B, the amount of the performance fee is equal to 100% of the net income attributable to such units, provided that the unitholders have first received annual distributions of at least 8% on the initial subscription price per unit.

For Class Trust C and Class Trust F, the amount of the performance fee calculated is two-tiered. After holders of such units have received annual distributions in the year in an amount up to 7% of the subscription price per unit, the General Partner shall be entitled to receive all net income attributable to such units between 7% and 9% per annum, and thereafter 20% of any net income attributable to such units exceeding 9% per annum.

The total performance fee for the Fund was \$79,253 in the quarter (2016: \$2,319) and \$210,643 year-to-date (2016: \$3,109). The entire amount remains payable on September 30, 2017.

### (c) Due to related party:

In December 2016, the Fund purchased the loan portfolio of the Espresso Capital Tax Credit Fund III Limited Partnership ("Fund III"), an entity related to the General Partner. As part of the sale process, the General Partner undertook a full normal course due diligence review of these loans. The General Partner's Credit Committee approved the purchase of these loans in accordance with Fund V's credit policy and guidelines. The purchase occurred at the carrying value of the loans as recorded by Fund III. Due to related party in the statement of financial position represents the purchase cost of these loans payable to Fund III. The balance was subsequently paid in full in January 2017.

### (d) Related fund transfers:

In January 2017, the following transactions occurred:

- (i) Espresso Capital Investment Fund IV Limited Partnership ("Fund IV"), an entity related to the General Partner, sold its loan portfolio to the Fund. As part of the sale process, the General Partner undertook a full normal course due diligence review of these loans. The General Partner's Credit Committee approved the purchase of these loans in accordance with Fund V's credit policy and guidelines. The sale occurred at the carrying value of approximately \$3,060,000 recorded by Fund IV.
- (ii) Fund IV sold warrants to the Fund, these warrants related to the loans sold to the Fund, as discussed in section (i) above. The transfer occurred at the carrying value of \$37,258 recorded by Fund IV.

# ESPRESSO FUND V LIMITED PARTNERSHIP

Notes to the Financial Statements

For the period ended on September 30, 2017 (Unaudited)

## 5. Related party transactions (continued):

(d) Related fund transfers (continued):

(iii) Fund IV transferred an investment in securities to the Fund, this investment related to a loan that was sold to the Fund, as discussed in section (i) above. The transfer occurred at the carrying value of \$30,000 recorded by Fund IV.

## 6. Commitment fees:

The commitment fee transactions for the Fund were as follows:

	September 30, 2017	December 31, 2016
Deferred commitment fees, beginning of period	\$ 219,410	\$ -
Commitment fees received during the period	579,926	389,040
Commitment fees amortized to income during the period	(424,113)	(169,630)
Deferred commitment fees, end of period	\$ 375,223	\$ \$219,410

## 7. Capital:

The Fund is authorized to issue an unlimited number of redeemable units in an unlimited number of distinct series. The initial price to each subscriber is Canadian ("CAD") \$1.00 per unit. The Fund currently offers three series of units, being Class I, Class H, and Class A. Class A is held solely by the Trust and comprises of the following classes: Class Trust A, Class Trust B, Class Trust C, Class Trust F, and Class Trust H.

# ESPRESSO FUND V LIMITED PARTNERSHIP

Notes to the Financial Statements

For the period ended on September 30, 2017 (Unaudited)

## 7. Capital (continued):

Series	Period ended September 30, 2017				
	Outstanding units, beginning of period	Units issued	Units redeemed	Units reinvested	Outstanding units, end of period
<b>Class I</b>					
Series 2016-02	1,385,000	-	-	1,057	1,386,057
Series 2016-04	100,000	-	-	-	100,000
Series 2016-05	451,350	-	-	536	451,886
Series 2016-06	2,604,458	-	(2,604,458)	-	-
Series 2016-07	948,350	-	-	1,176	949,526
Series 2016-10	609,469	-	-	865	610,334
Series 2016-11	2,098,438	-	(1,646,875)	720	452,283
Series 2017-01	-	3,262,093	(49,467)	2,804	3,215,430
Series 2017-02	-	443,000	-	51	443,051
Series 2017-03	-	-	-	47	47
Series 2017-04	-	-	-	52	52
Series 2017-05	-	-	-	1,727	1,727
Series 2017-06	-	-	-	1,797	1,797
	8,197,065	3,705,093	(4,300,800)	10,832	7,612,190
<b>Class H</b>					
Series 2016-07	50,000	-	-	-	50,000
Series 2016-08	50,000	-	-	-	50,000
Series 2016-09	1,100,000	-	-	17,033	1,117,033
Series 2016-10	1,605,589	-	(100,000)	10,126	1,515,715
Series 2016-11	3,169,890	-	(50,790)	12,785	3,131,885
Series 2016-11 (2)	-	1,646,875	-	-	1,646,875
Series 2016-12	284,107	-	(662)	269	283,714
Series 2017-01	-	600,000	(689)	16,948	616,259
Series 2017-02	-	3,457,000	(99,689)	20,082	3,377,393
Series 2017-03	-	650,000	(630)	22,941	672,311
Series 2017-04	-	650,000	(702)	21,426	670,724
Series 2017-05	-	265,000	(684)	20,904	285,220
Series 2017-06	-	1,415,000	(712)	46,355	1,460,643
Series 2017-08	-	100,000	-	677	100,677
Series 2017-09	-	1,900,000	-	-	1,900,000
	6,259,586	10,683,875	(254,558)	189,546	16,878,449
<b>Class A</b>					
Series Trust A	3,006,999	2,694,563	(823,013)	-	4,878,549
Series Trust B	682,096	1,625,977	(682,096)	-	1,625,977
Series Trust C	90,000	691,306	-	-	781,306
Series Trust F	50,000	1,321,394	(50,000)	-	1,321,394
Series Trust H	-	106,905	(106,905)	-	-
	3,829,095	6,440,145	(1,662,014)	-	8,607,226
<b>Total</b>	<b>18,285,746</b>	<b>20,829,113</b>	<b>(6,217,372)</b>	<b>200,378</b>	<b>33,097,865</b>

# ESPRESSO FUND V LIMITED PARTNERSHIP

Notes to the Financial Statements

For the period ended on September 30, 2017 (Unaudited)

## 7. Capital (continued):

Year ended December 31, 2016					
Series	Outstanding units, beginning of year	Units issued	Units redeemed	Units reinvested	Outstanding units, end of year
Class I					
Series 2016-02	-	1,385,000	-	-	1,385,000
Series 2016-04	-	100,000	-	-	100,000
Series 2016-05	-	451,350	-	-	451,350
Series 2016-06	-	2,604,458	-	-	2,604,458
Series 2016-07	-	948,350	-	-	948,350
Series 2016-10	-	609,469	-	-	609,469
Series 2016-11	-	2,098,438	-	-	2,098,438
	-	8,197,065	-	-	8,197,065
Class H					
Series 2016-07	-	50,000	-	-	50,000
Series 2016-08	-	50,000	-	-	50,000
Series 2016-09	-	1,100,000	-	-	1,100,000
Series 2016-10	-	1,600,000	-	5,589	1,605,589
Series 2016-11	-	3,160,000	-	9,890	3,169,890
Series 2016-12	-	270,000	-	14,107	284,107
	-	6,230,000	-	29,586	6,259,586
Class A					
Series Trust A	-	3,006,999	-	-	3,006,999
Series Trust B	-	682,096	-	-	682,096
Series Trust C	-	90,000	-	-	90,000
Series Trust F	-	50,000	-	-	50,000
	-	3,829,095	-	-	3,829,095
<b>Total</b>	-	<b>18,256,160</b>	-	<b>29,586</b>	<b>18,285,746</b>

# ESPRESSO FUND V LIMITED PARTNERSHIP

Notes to the Financial Statements

For the period ended on September 30, 2017 (Unaudited)

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## 8. Operating expenses and fees from lending activities:

The Fund is responsible for all reasonable operating expenses incurred in the management and administration of the Fund, including: legal, audit, accounting, custodial, operating and administrative costs, investor servicing costs and costs of financial and other reports issued by the Fund.

## 9. Financial risk management:

The Fund's investment activities expose it to various types of risk that are associated with the financial instruments it holds. Financial risks are made up of credit risk, liquidity risk and market risk. Market risk is the risk that changes in market prices, such as interest risk, equity prices and foreign exchange rate will affect the Fund's income or fair value of its financial instruments.

### (a) Risk management framework and capital management:

The Fund employs active investment strategies whereby investments in the Fund are based on target weightings, individual risks and credit quality of each investment. The Fund bases credit quality on a number of risk factors, included, but not limited to, an assessment of the quality of the primary security (the security interest in all of the borrowers' assets as set out in the General Security Agreement granted to the Fund), and the quality of the underlying clients business. The security is assessed by determining, among other things, the amount and quality of the client's revenues, the amount of invested capital, the sufficiency and quality of the client's financial statements, management and Board of Directors. To assist with managing risk, the Manager also maintains a governance structure that oversees the Funds' investment activities and monitors compliance with the Funds' stated investment strategy and securities regulations.

The capital of the Fund is primarily comprised of its partnership units held by Limited Partners. The Fund manages its capital to meet its investment strategy and to continue as a going concern while maximizing the return to the unitholders. The Fund does not have any internally or externally imposed capital restrictions.

### (b) Summary of loan portfolio characteristics:

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Average loan size	\$879,273
Number of positions	44
Average interest rate	16.16%

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# ESPRESSO FUND V LIMITED PARTNERSHIP

Notes to the Financial Statements

For the period ended on September 30, 2017 (Unaudited)

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## 9. Financial risk management (continued):

### (c) Credit risk:

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Fund. Credit risk is managed by dealing with counterparties the Manager believes to be creditworthy and by monitoring of credit exposures and collateral. The greatest concentration of credit risk relates to the Fund's loans receivable and interest receivable.

The carrying amount of loans receivable and interest receivable in the statement of financial position represents the maximum credit risk exposure as at September 30, 2017.

### (d) Liquidity risk:

Liquidity risk is the possibility that investments in securities cannot be readily converted into cash when required to meet the obligations of the Fund. Liquidity risk is managed by making loans with fixed terms generally between 12 and 36 months from the date of the loan to achieve matching to the Fund's liabilities. In addition, interest income is received by the Fund on a monthly basis. The Manager does not consider liquidity risk in relation to the redemption of the Fund's units to be significant as the Fund requires appropriate notice of unit redemptions, which may be restricted in certain circumstances.

### (e) Market risk:

#### (i) Interest rate risk:

Interest rate risk is the risk that the fair value or cash flows of the Fund's interest bearing investments will fluctuate due to changes in market interest rates. The Fund's investments in interest bearing instruments are fixed rate and short-term in nature and accordingly are not exposed to significant interest rate risk.

#### (ii) Currency risk:

Currency risk is the risk that the value of investments denominated in currencies other than the functional currency of the Fund will fluctuate due to changes in foreign exchange rates. The table below indicates the foreign currencies to which the Fund had exposure as at period end in Canadian dollar terms. The table also illustrates the potential impact to the Fund's net assets, all other variables held constant, as a result of a 5% increase or decrease in these currencies relative to the Canadian Dollar. In practice, the actual results may differ from this sensitivity analysis and the difference could be material.

# ESPRESSO FUND V LIMITED PARTNERSHIP

Notes to the Financial Statements

For the period ended on September 30, 2017 (Unaudited)

## 9. Financial risk management (continued):

(e) Market risk (continued):

(ii) Currency risk (continued):

						2017
			Other net assets attributable to holders of redeemable units			
Currency	Investments	Cash			Total	Impact on Net Assets
U.S. Dollars	\$ 965,881	\$ -	\$	(2,888)	\$ 962,993	\$ 48,150
As percent of net assets attributable to holders of redeemable partnership units (%)					2.85%	0.14%

As of December 31, 2016, the Fund had no exposure to currency risk as all its financial instruments were denominated in Canadian dollars.

(iii) Other price risk:

Other price risk is the risk that the fair value of a financial instrument will fluctuate as a result of changes in the market prices (other than those arising from interest rate or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments in a market. Given the nature of the Fund's financial instruments, it is not exposed to significant other price risk.

## 10. Fair value of financial instruments:

Financial instruments measured at fair value are categorized into one of the three hierarchy levels. Each level is based on the transparency of the inputs used to measure that fair value of the assets or liabilities:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value of loans receivable has not been provided because in the Manager's opinion it is not meaningful information. There is no active market for these loans and, as such, the range of possible values is so wide it is not meaningful.



# ESPRESSO FUND V LIMITED PARTNERSHIP

Notes to the Financial Statements

For the period ended on September 30, 2017 (Unaudited)

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## 10. Fair value of financial instruments (continued):

The carrying value of cash, interest receivable, performance fee payable, operating fee payable, accrued expenses and interest payable, approximate their fair value given their short-term nature. These financial assets and liabilities, which are measured at amortized cost, are considered Level 2, as while observable prices are available, they are not quoted in an active market. There have been no movements between levels during 2017.