

OFFERING MEMORANDUM

April 2015

PENDFUND INCOME FUND I

a Mortgage Investment Trust managed by

CANADA PENFUND MORTGAGE CORPORATION

Minimum Subscription of CDN \$50,000 (5,000 Units)

SUBSCRIPTION PRICE: \$10 per Unit

The Issuer: The Units offered by this Offering Memorandum (the "Units") are Units in a Mortgage investment trust being made in reliance on certain exemptions to the prospectus requirements under the applicable Securities laws of the Provinces of Ontario, Quebec, Nova Scotia, New Brunswick, Manitoba, Saskatchewan, Alberta and British Columbia and of the United States of America and is known as Pendfund Income Fund I (the "Trust"). **As a result, the Units will be subject to the applicable resale restrictions under the said laws.** To the extent any new registration requirements are found to be applicable to the Trust and/or its activities, the Trust will take the necessary steps to comply with such requirements. Provided certain criteria are met, the Trust will be a trust eligible for investment by a Registered Retirement Savings Plan for purposes of the *Income Tax Act* (Canada). There are important tax consequences to these Securities. See "Item 6: Income Tax Considerations and RRSP Eligibility". Canada Penfund Mortgage Corporation has agreed to act as the Trust's manager (the "Manager") and is responsible for acquiring interests in Mortgages for the Trust and for administering the affairs of the Trust. The Manager has taken the initiative in forming the Trust and taking the necessary steps for the public distribution of the Units and may be seen as the promoter of the Offering. The head office of the Trust is located at Ste 140, 4392 West Saanich Rd., Victoria, British Columbia, V8Z 3E9. The telephone number of the Manager is (250) 727-3500, the email address is info@canadapenfund.ca and the facsimile number is (250) 744-3811. **These Securities do not trade on any exchange or market.** The Trust is not a reporting issuer. The Trust does not make filings through SEDAR.

The Offering: THE UNITS OFFERED PURSUANT TO THIS OFFERING MEMORANDUM ARE BEING OFFERED PURSUANT TO EXEMPTIONS FROM THE PROSPECTUS REQUIREMENTS OF THE SECURITIES ACTS OF CERTAIN PROVINCES OF CANADA (collectively, the "Offering Provinces") AND THE UNITED STATES OF AMERICA (together with the Offering Provinces, the "Offering Jurisdictions"). THE UNITS MAY NOT BE RESOLD BY SUBSCRIBERS. PAYMENT OF THE SUBSCRIPTION PRICE WILL BE THE DIRECT OBLIGATION OF THE SUBSCRIBER. MINIMUM OFFERING: \$1,000,000 **YOU MAY BE THE ONLY PURCHASER**; MAXIMUM OFFERING: \$100,000,000. **Funds available under the offering may not be sufficient to accomplish our proposed objectives.**

Payment terms: Quarterly

Proposed Closing date(s): Closings will take place periodically at the Issuer's discretion.

Income Tax consequences: There are important tax consequences to these Securities. See "Item 6: Income Tax Considerations and RRSP Eligibility". There is no selling agent.

Resale Restrictions: You will be restricted from selling your Securities for an indefinite period. See "Item 10: Resale Restrictions".

YOU HAVE TWO BUSINESS DAYS TO CANCEL YOUR AGREEMENT TO PURCHASE THESE SECURITIES. IF THERE IS A MISREPRESENTATION IN THIS OFFERING MEMORANDUM, YOU HAVE THE RIGHT TO SUE EITHER FOR DAMAGES OR TO CANCEL THE AGREEMENT (SEE "ITEM 11: RIGHTS OF ACTION FOR DAMAGES OR RECISSION").

No Securities regulatory authority has assessed the merits of these Securities or reviewed this Offering Memorandum. Any representation to the contrary is an offence. This is a risky investment. See "Item 8: Risk Factors".

At Closing, the Trust on behalf of Unitholders purchasing Units, will pay a Processing Fee to Sellers and Finders to the Trust Manager who shall then pay a portion of the Processing Fee to Persons or companies if applicable and where permitted by the Trust Manager and/or at law, such as registered dealers, non-registrants or Affiliates of the Trust Manager, as the case may be. A similar processing fee will be payable upon the fifth anniversary of

the issuance of the Units related to such subscription monies (or each fifth anniversary thereafter) provided that the Units are not redeemed on or before such fifth anniversary. The proceeds from subscriptions will be received by the Trust or the solicitor for the Trust or its authorized agent and such dealers authorized by the Trust Manager for deposit to the Trust pending the Closing. Closings will take place from time to time and within 30 days after funds are received. The Units are not underwritten, but are offered conditionally on behalf of the Trust on a best efforts basis, and are distributed by the Trust Manager and qualified registered dealers, or where permitted, non-registrants, authorized by the Trust Manager. Subscriptions will be received subject to rejection or allotment in whole or in part before Closing and the Trust reserves the right to close the subscription books at any time without notice. See "Item 5.2 The Offering and Subscription Procedure – Subscription Procedure". The completion of this Offering will also be subject to the approval of certain legal matters, on behalf of the Trust and the Trust Manager, by legal counsel representing the Trust or the Trust Manager.

This Offering Memorandum ("Offering Memorandum") has been prepared solely for the purpose of assisting prospective purchasers in making an investment decision with respect to units ("Units") of the Pendfund Income Fund I (the "Trust"). The Units are offered for sale only to those Persons where and to whom they may be lawfully offered for sale. This Offering Memorandum is never to be considered a public offering or advertisement of Units. No Securities commission or similar regulatory authority has passed on the merits of the Units or reviewed this Offering Memorandum and any representation to the contrary is an offence. The Units do not trade on any exchange or market. Holders of Units will be restricted from selling their Units for an indefinite period subject to the availability of exemptions from the prospectus and registration requirements under applicable Securities laws. Holders of Units will have certain redemption rights (see "Item 5.1 Terms of Securities – Unitholder's Right to Redeem")

The Units have not been registered under the United States Securities Act of 1933, as amended (the "U.S. Securities Act"). Prospective purchasers of Units agree, for the benefit of the Trust, that Units may be offered, sold or otherwise transferred only (a) to the Trust; (b) outside the United States in accordance with Rule 904 of regulations under the U.S. Securities Act; (c) in accordance with the exemption from registration under the U.S. Securities Act provided by Rule 144 thereunder, if available, and in compliance with any applicable state Securities laws; or (d) in a transaction that does not require registration under the U.S. Securities Act or any applicable state Securities laws, and, in the case of paragraph (c) or (d), the Trust receives an opinion of counsel of recognized standing in form and substance satisfactory to the Trust to such effect.

The Trust is not a trust company and does not carry on business as a trust company and, accordingly, the Trust is not registered under applicable legislation governing trust companies in any jurisdiction. The Units are not "deposits" within the meaning of the *Canada Deposit Insurance Corporation Act* (Canada) and are not insured under that Act or any other legislation. The price of the Units offered hereby was established by the Trustees. There are certain risk factors inherent in an investment in the Units and in the activities of the Trust, including the possibility of Unitholder liability. See "Item 8: Risk Factors".

DISCLAIMERS

This Offering Memorandum does not constitute, and may not be used for or in conjunction with, an offer or solicitation by anyone to any Person to whom it is unlawful to make such an offer or solicitation or in any jurisdiction or in any circumstances in which such offer or solicitation is not authorized. You are directed to inform yourself of and observe such restrictions and all legal requirements of your jurisdiction of residence in respect of the acquisition, holding and disposition of the Units offered hereby.

Subscribers should thoroughly review this Offering Memorandum and are advised to consult with their professional advisors to assess the business, legal, income tax and other aspects of this investment.

Neither the delivery of this Offering Memorandum at any time nor any sale to Subscribers of any of the Units shall, under any circumstances, constitute a representation or implication that there has been no change in the business and affairs of the Trust since the date of the sale to any Subscriber of the Securities offered hereby or that the information contained herein is correct as of any time subsequent to that date. Any subscription for the Units made by any Person on the basis of statements or representations not contained in this Offering Memorandum or so provided, or inconsistent with the information contained herein or therein, shall be solely at the risk of such Person. The Units will be issued only on the basis of information contained in this Offering Memorandum and provided by the Trustees in writing, and no other information or representation is authorized or may be relied upon as having been authorized by the Trustees and the Trust.

This Offering Memorandum is for the confidential use of only those Persons to whom it is transmitted. By receipt of this Offering Memorandum, recipients agree that they will not transmit, reproduce or make available to anyone, other than their professional advisers, this Offering Memorandum or any information contained herein. No Person has been authorized to give any information or to make any representation not contained in this Offering Memorandum. Any such information or representation which is given or received must not be relied upon.

ANY REPRESENTATION MADE BY ANY PERSON OTHER THAN THOSE CONTAINED HEREIN MUST NOT BE RELIED UPON.

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Item 1: Use of Net Proceeds

1.1 Net Proceeds – The net proceeds of the Offering that will be available to the Issuer after the Offering are as follows:

		Assuming min. offering	Assuming max. offering
A	Amount to be raised by this Offering	\$ 0	\$100,000,000
B	Selling commissions and fees ⁽¹⁾	\$ 0	\$2,000,000
C	Estimated Offering costs (e.g., legal, accounting, audit.)	\$ 0	\$80,000
D	Net proceeds: D = A - (B+C)	\$ 0	\$97,920,000

(1) This assumes the Issuer pays the maximum permitted commission. The Issuer may pay an aggregate of up to 2% of subscription proceeds to sellers of Units.

1.2 Use of Net Proceeds – A detailed breakdown of how the Issuer will use the net proceeds is as follows:

Description of intended use of net proceeds listed in order of priority	Assuming min. Offering	Assuming max. Offering
Invest in Mortgages secured by real estate property located in Canada. From time to time funds not invested in Mortgages will be placed in short-term Canadian Deposit Insurance Corporation insured investments (e.g. bank deposits, GICs)	\$ 0	\$97,920,000
Yearly Management Fees	\$ 0	\$1,224,000

1.3 Reallocation – The Issuer intends to spend the available funds as stated in this Offering Memorandum. The Issuer will reallocate funds only for sound business reasons.

1.4 Working Capital Deficiency – The Issuer has no working capital deficiency and, as a result of the Issuer's business, does not anticipate ever having a working capital deficiency.

Item 2: Business of the Manager, Canada Penfund Mortgage Corporation and of the Trust

2.0 The Trust: Pendfund Income Fund I and the Trustee: Pendfund Income Fund Inc.

2.1 Structure

Pendfund Income Fund Inc. (the "Trustee") is the Trustee for certain limited purposes under a Trust Agreement between Pendfund Income Fund I (the "Trust") and the Trustee and is a federally incorporated company created under the laws of Canada in 2003. The principal place of business of the Trust is located at Ste 140, 4392 West Saanich Rd., Victoria British Columbia, V8Z3E9.

Canada Penfund Mortgage Corporation (the "Manager") is the manager of the Trust under a Trust Management Agreement and is a company incorporated under the laws of British Columbia in December of 2000. The telephone number of the Trust Manager is (250) 727-3500, the email address of the Manager is info@canadapenfund.ca and the facsimile number is (250) 744-3811.

The Issuer may register extra-provincially as necessary in the future to conduct business in other Canadian jurisdictions as may be approved by the Issuer's Board of Trustees.

SUMMARY

2.2 Our Business

Description of the Trust

The Trust has been created for the purpose of generating a quality stream of income and preserving capital. The Trust will invest principally in high grade commercial Mortgage Loans secured by revenue-bearing commercial real property located in Canada. The Loan products the Trust offers are mainly of a "first resort" nature, meaning

that the Trust is amongst the best of sources for Borrowers to obtain such Loans in terms of pricing and conditions. The Trust provides both private and institutional investors an opportunity to participate directly in a Portfolio of Commercial Mortgage Loans ("Loans"). The Trust intends to continue to finance its lending activities through the sale of Units and the Trust's long-term objective is to provide Unitholders with favourable investment yields and stable and secure cash distributions from investments in Mortgage Loans in target markets. Through efficient sourcing and management of a geographically diverse portfolio of Real Property Mortgage investments in Canada, the Trust shall use its best efforts to ensure that Unit values and distributions shall be maximized.

The Trust conducts its investment activities under contract with the Trust Manager (the "Manager"), which is currently licensed as a Mortgage Brokerage in the Province of British Columbia. See "Item 3.4 Organization – B. The Trust Manager". The Trust Manager has the exclusive right to arrange, underwrite, syndicate and service all investments on behalf of the Trust in accordance with specific investment and operating policies established by the Trust from time to time. The Trust Manager is responsible for either acquiring interests in Mortgages or making Loans secured by Mortgages for the Trust. The Trust Manager, and not the Trustee, is responsible for carrying out all the transactions of the Trust, supervising the investment and Mortgage Portfolio of the Trust and for providing management services for the Trust. It is the intention of the Trust Manager that Trust cash-assets will be invested as quickly as is feasible in Mortgage Loans. Pending such investment, cash on hand will be invested in Authorized Interim Investments only. The Trust Manager may, from time to time, instruct the Trustee to sell investments in Mortgages and reinvest the proceeds or exchange such investments for other investments in Mortgages.

The objective of the Trust is to generate annuity income from its investments. The Trust will receive its income from Mortgage Loans pursuant to the terms of the Mortgages it invests in. From this income, the Trustees calculate, allocate and pay the Trust's Distributable Cash to the Trust's Unitholders on a monthly or other scheduled basis as determined by the Trustees, from time to time, in accordance with the Declaration of Trust. Currently, the Trustees intend to distribute to Unitholders all of the income of the Trust so that the Trust will not have any liability for tax, under Part I of the Tax Act, in any taxation year. To achieve these objectives, the Trust will benefit from the Trust Manager's experience in originating, underwriting, syndicating and servicing Mortgage investments. Any Mortgage investments will be subject to specific investment policies and the operation of the Trust will be subject to specific operating policies. The establishment of these policies is based on market demand and the historical practices of the Trust Manager, whose management personnel have been successfully operating in the Mortgage industry since the 1970's.

The Trust shall pursue a strategy of growth through investments in "small" Commercial Mortgages, known in the industry as Loans of less than \$2,000,000, an area of lending that is currently underserved by Canadian banks and other lending institutions. The Trust shall focus on this and other underserved market niches. The Trustees believe that controlled growth will be beneficial to Unitholders if it is achieved within the Trust's objectives and investment strategy. The Trust shall grow in a manner considered not to be dilutive to existing Unitholders and at a level of growth that enables the Trust to achieve sustainable increases in economies of scale relating to administrative and operating costs.

The Trust has essentially been established for an indefinite term. Pursuant to the Declaration of Trust, termination of the Trust (other than by reason that no property of the Trust remains held by the Trustees) or the sale or transfer of all or substantially all of the Trust's assets (other than as part of an internal reorganization of the assets of the Trust as approved by the Trustees) requires approval by Special Resolution. See "Item 5.1 Terms of Securities – Description of Units".

2.3 Business Development

The promoters and Manager are long standing participants in the field of Commercial Mortgage lending in Canada with a broad network of industry connections. Together with the Board of Trustees which will be actively involved in governance and business development, the management team will develop and promptly act on quality lending opportunities across Canada.

The following is a summary of some information contained in this Offering Memorandum and reference should be made to the more detailed and additional information contained elsewhere in this Offering Memorandum.

General Investment Objective: The investment objective of the Trust is to provide for the direct investment, by private and institutional investors, into a Pool of high quality Mortgage Loans secured by quality Real Property situated in Canada. Targeted Mortgage investments shall be primarily **Investment-Grade (not less than 65% of the Pool)** conservatively underwritten First Mortgage Loans against income-producing property such as apartments, commercial plazas, warehouse, office buildings and other commercial properties.

The Trust will invest in Commercial Mortgage "small loans". This term is generally applied in the lending industry to loan amounts less than \$2,000,000. The investment objective of the Trust is to preserve capital and generate attractive, stable fixed-income returns with which to pay regular quarterly distributions to investors through investment in a geographically diversified Portfolio of conservatively underwritten, mainly Investment-Grade Mortgages.

This Trust is designed to fill a void in the fixed-income investment market with the provision of conservatively underwritten, risk-averse Commercial Mortgages for the investment Portfolio. The mandate of the Trust is safety of capital with a functional return on investment. The Loans are conventional class, secured primarily by income-producing commercial Real Property in urban and surrounding area markets. The Trust target, minimum yield to the Investor ("Hurdle Rate"), is an aggregate gross annualized yield equal to the two year Government of Canada bond yield plus 350 basis points. The incentive is to exceed the goal and remain within a policy of conservatism in its risk management. Risk is managed through the use of an Asset Allocation Model that ensures the Portfolio is diversified by geography, asset class, term, Borrower, loan-to-value ratio and Security ranking. Each file is subject to a rigorous underwriting process and undergoes timely review of a Board of Trustees made up of a team of experts in the field. Once funded, the Trust Manager will regularly monitor the status of the Loan and Borrower.

Offering: A minimum of 100,000 Units that will raise Gross Subscription Proceeds of not less than \$1,000,000. There is a maximum offering amount of \$100,000,000. See "Item 5.2 The Offering and Subscription Procedure – Plan of Distribution". A Subscriber whose subscription is accepted will become a Unitholder of the Trust.

Subscription Price: The subscription price per Unit is \$10.00.

Minimum Subscription: There is a minimum subscription for residents of British Columbia and qualifying residents of Alberta and Ontario of 5000 Units or \$50,000. Non-qualifying residents of Alberta and residents of other provinces may be required to make minimum subscriptions.

Investment Targets and Mandate: The Trust has been created for the purpose of generating a stream of income by investing not less than 65% of the Trust capital into Investment-Grade Commercial First Mortgages on income generating property. The Trust may, in amounts not to exceed 35% of its net asset base, make Loans secured by Mortgages ("Loans") on other types of Real Property with different loan designs as a means of increasing yield with a primary view to safety and cash flow. The Trust may also finance or purchase Mortgages. Some Loans will be arranged by entities which are affiliated with the Trust Manager, (the "Manager") and vetted for approval by the Board and the Manager. See "Item 2.4 Objectives and Policies – Investment Policy and Procedure".

Investment Eligibility for RRSPs: The Trust will be registered as a "registered investment". As such, the Units of the Trust will be qualified investments for RRSP's under the Tax Act.

Retraction: Units are retractable or redeemable at the demand of the Unitholders, subject to the availability of cash reserves to pay such retractions, in a minimum amount of \$50,000 and at a retraction price equal to the lesser of the Subscription Price and the Net Asset Value Per Unit if redeemed on the fifth anniversary of the issuance of such Unit (or each five year anniversary thereafter) or, at any other time, in various percentages of the lesser of the Subscription Price and the Net Asset Value Per Unit as at the date of the redemption Notice (a "Redemption").

Distribution Policy: The Trust will make a distribution to each Unitholder on a quarterly basis, in an amount equal to the Manager's estimate of net income and net realized capital gains of the Trust, less estimated non-capital losses carried forward, if any, for each quarter ending March 31, June 30 and September 30. For the year ending December 31, the distribution will equal the balance of net income and capital gains for the fiscal period less non-capital losses carried forward, if any. For the year such quarterly distributions (although payable on March 31, June 30, September 30 or December 31) will be paid in arrears on the 15th day following the quarter to which distribution relates, except the December 31 distribution will be paid in arrears on the 60th day following that quarter. In each Fiscal Year, distributions will be proportionate to the number of days the Unit has been issued and outstanding in the quarter to which the distribution relates.

Taxation of the Trust and Unitholders: The Trust will not pay tax on the net income and net realized capital gains that are distributed to Unitholders (as is required under the terms of the Trust Agreement), provided the Trust has no non-resident or other designated beneficiaries. The Trust Agreement prohibits the issue of Units to "designated beneficiaries" as that term is defined in the Tax Act. Losses incurred by the Trust cannot be allocated to Unitholders but may be deducted by the Trust in future years. In computing their income for the purposes

of the Tax Act, Unitholders will include the income and the taxable portion of capital gains distributed to them by the Trust. Distributions not included in income, other than the untaxed one-half of capital gains, will generally reduce a Unitholder's adjusted cost base of the Units held. On redemption or other disposition of Units, the Unitholder will realize a capital gain (or loss) to the extent that the proceeds of disposition exceed (or are exceeded by) the adjusted cost base of the Units immediately before the redemption. One-half of a capital gain must be included in income as a taxable capital gain. One-half of a capital loss is an allowable capital loss which may be applied against taxable capital gains realized in the year, with any excess (adjusted to reflect the appropriate inclusion rate) available for carry back three years or forward indefinitely and applied against taxable capital gains realized in those earlier or later years.

Residency Requirement: Unitholders must be residents of Canada. The Manager may force a transfer or redemption of Units if a Unitholder becomes a non-resident or otherwise does not meet necessary eligibility qualifications as herein stated. See "Item 5.1 Terms of Securities – Forced Redemption Upon and Limitation on Non-Residency".

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

The Trust Manager: The Trust Manager will arrange Mortgages on behalf of the Trust and will act as manager of the Trust. Pursuant to the Trust Agreement, the Manager has agreed to manage the Trust and will be entitled to receive an annual fee (the "Management Fee") equal to 1.2% of the Average Annual Gross Assets of the Trust and an annual fee (the "Incentive Fee") of 20% of the gross earnings over the Hurdle Rate ("Hurdle Rate" means the average 2-Yr GOC Yield for the 12-month period then ended plus 350 basis points). The Trust will be obligated to pay any applicable GST or other applicable taxes payable by the Trust according to the regulations of the *Excise Tax Act* (Canada) on such fees.

No Transferability: Units will not be transferable, except if required as a result of a Unitholder becoming a non-resident. Units will not be listed on any stock exchange. As well, Securities requirements may prohibit or restrict transferability of Units. See "Item 5.1 Terms of Securities – Forced Redemption Upon and Limitation on Non-Residency" and "Item 5.2 The Offering and Subscription Procedure – Resale Restrictions".

Compensation Paid to Sellers and Finders: At Closing, the Trust will pay a fee to the Trust Manager, registered dealers, or where permitted, non-registrants, in the amounts as follows:

Capital Subscription Amount	Percentage of Subscription At the time of Subscription	Percentage of Subscription At fifth Year Anniversary
\$50,000 - \$1,000,000	2%	1.2%
\$1,000,001 - \$1,500,000	1.5%	.9%
\$1,500,001 - \$2,000,000	1%	.6%
> \$2,000,000	.75%	.45%

of the subscription monies obtained by such Persons and on the fifth anniversary of the issuance of Units related to such subscription monies (or each fifth year anniversary thereafter) a further amount as above stated of such subscription monies provided that the Units are not redeemed on or before such fifth anniversary. The Trust Manager shall then pay a portion of the Processing Fee to Persons or companies where permitted by the Trust Manager and/or at law, registered dealers, non-registrants as the case may be. This fee is consideration for the arrangement of the transaction and to the Trust Manager in consideration of efforts expended in the sourcing, arranging and ultimate investment of proceeds into Commercial Mortgage Loans.

Risk Factors: Risks are involved in investment in this type of Trust and some of those risks are summarized as follows:

- a) The Trust will invest in Mortgages which are primarily, but not necessarily secured by a first charge on the Security. Mortgages other than First Mortgages are generally considered at higher risk than those with first position since they are subject to the interests of prior charge holders. In not more than 35% of the Net Asset Value of the Trust, the underlying Security of the Real Property may not be revenue-bearing multi-family and commercial industrial buildings and may be construction, hospitality, developmental, raw land, single family residential Security. This may add additional

risk to the Portfolio.

- b) Securities requirements may prohibit or restrict transferability of Units. See "Item 5.2 The Offering and Subscription Procedure – Resale Restrictions". There is no market for the Units and a market for the Units is not expected to develop. The Units are not transferable, except if required as a result of a Unitholder becoming a non-resident.
- c) Unitholders are depending on the skill, professional judgement, best intentions and experience of the Trust Manager and the Board of Trustees in relation to the operation and management of the Trust.
- d) Although investments will be carefully chosen by the Manager, there is no provision for a guaranteed return to Unitholders, or warranty that losses may not be incurred by the Trust in respect of such investments.
- e) The Trustee is beneficially owned by an Affiliate of the Manager and is a company without material assets. Should a claim be made against the Trustee, it will likely be difficult to realize upon any judgment which might be obtained.
- f) Any Mortgage investment is subject to risks such as interest rates, commercial or residential vacancy and occupancy rates, fluctuations in Real Property values, operating expenses, liquidity and other factors.
- g) The Trust may be adversely affected by changes in income tax laws and other laws, governmental policies or regulations.
- h) Officers and Directors of the Manager are involved in other business and periodically, in spite of best efforts to act independently in the best interests of the Trust, matters may conflict with those of Unitholders.
- i) The Manager considers the risk of any personal liability of Unitholders to be minimal in view of the requirement of the Trust that any written contract or commitment of the Trust (except where not reasonably possible) include an express limitation of liability. Also, the nature of the activities of the Trust and the size of the anticipated equity of the Trust limit this possibility. The Declaration of Trust does provide that no Unitholder shall be subject to any personal liability as such for satisfaction of any obligation in respect of or claim arising out of or in connection with any contract or obligation of the Trust or of the Trustee (to the extent that claims are not satisfied by the Trust). However, due to legal uncertainties relating to this type of Trust, there is a risk that a Unitholder could be held personally liable for obligations in connection with the Trust (to the extent that claims are not satisfied by the Trust).
- j) As custodian, the Trustee may not in all instances (for example, when invested in a syndicated Loan where a partner-investor services the Loan) service or hold Mortgages where the Trust syndicates with other lenders. The Trustee does not supervise or monitor the Trust Manager, but acts generally as custodian of Trust property and shall take and act on instructions of the Manager.
- k) Registration of the Trust as a Registered Investment may be revoked by Governmental authorities. In such a case, the Units of the Trust will cease to be qualified investments for RRSPs. This could result in the holders of RRSPs which continue to hold Units becoming liable for a penalty tax.

A more complete description of risks can be found in "Item 8: Risk Factors".

Distribution on Termination: Any amounts payable at the termination of the Trust of will be from liquidated assets and shall be distributed to Unitholders, together with any monies payable as part of the Manager's Fee. Proceeds shall be distributed to pay the liabilities of the Trust and to establish reserves for the contingent liabilities of the Trust. See "Item 5.1 Terms of Securities – Distributions – Distribution on Termination of the Trust".

Use of Proceeds: The Net Subscription Proceeds will be invested in Mortgages as set out in "Item 2.4 Objectives and Policies – Investment Policy and Procedure". Pending investment in Mortgages, Trust assets shall be invested in Authorized Interim Investments and the Manager will use its best efforts to make suitable investments of Trust assets in Mortgage Loans as soon as market conditions permit following each Closing. The Manager will pay the expenses of this Offering, other than the Sales Fee.

Certificates: Certificates for Units will be issued to Unitholders.

Glossary

The following terms used in this Offering Memorandum have the meanings set out below:

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

"Agreement", **"hereto"**, **"herein"**, **"hereby"**, **"hereunder"**, **"hereof"** and similar expressions when used in this Agreement and the attached schedules refer to the whole of this Agreement and the attached schedules and not to any particular article, clause or other portions thereof, and includes any and every instrument supplemental hereto, and any reference to section, clause, or article by number means the appropriate clause, section or article of this Agreement and attached schedules unless the context is expressly to the contrary or otherwise requires; and any reference to Schedule by letter or number means the appropriate Schedule attached to this Agreement;

"Alberta Rules" means the regulations under the Alberta Securities Act with all amendments thereto in force from time to time and any regulations that may be passed which have the effect of supplementing or superseding such regulation;

"Alberta Securities Act" means the *Securities Act* (Alberta) with all amendments thereto in force from time to time and any statutes that may be passed which have the effect of supplementing or superseding such statute;

"Annuitant" means an annuitant under an Exempt Plan of which a Unitholder acts as a trustee or carrier;

"Associate" has the meaning ascribed thereto in the British Columbia Act;

"Authorized Investments" means Mortgages, Authorized Interim Investments, Related Investments, Workout Investments or the acquiring, holding, maintaining, improving, leasing or managing of any Real Property or an interest in Real Property where determined, in the Trust Manager's sole discretion, to preserve, protect, or enhance, for the purposes of liquidation, the Trust assets;

"Authorized Interim Investments" means investments guaranteed by the Government of Canada or of a province or territory of Canada, cash deposits in or receipts, deposit notes, certificates of deposits, acceptances and other similar instruments issued, endorsed or guaranteed by a Schedule I or Schedule II Bank, CMHC insured Residential Mortgages and AAA Rated Mortgage Backed Securities;

"BCBCA" means British Columbia Business Corporations Act;

"B.C. Rules" means the regulations under the B.C. Securities Act and all amendments thereto in force from time to time and any regulations which may be passed which have the effect of supplementing or superseding such regulation;

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

"Board" means the Board of Trustees of the Trust;

"Board Member" means any member of the Board of Trustees of the Trust;

"Board of Trustees" means the Board of Trustees of the Trust;

"Borrower" means any Person, Persons or body corporate, its successors and assigns which borrows funds from the Trust against the Security of Real Property;

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

"Closing" means each closing of the Offering;

"CMHC" means the Canada Mortgage and Housing Corporation, a Canadian federal crown corporation;

"Commercial Mortgages" means Mortgages granted as Security for Loans given in respect of properties, land developments and construction projects which have multi residential, retail, commercial, service, office and/or industrial uses;

"Construction Mortgages" means Mortgages granted as Security for Loans which are advanced against stipulated budgets for multi-family residential and commercial, retail, service, office and/or industrial use projects;

"Conventional First Mortgage" means a First Mortgage for which the principal amount, at the time of commitment, does not exceed the lower of 75% of the purchase price of the underlying Real Property securing the Mortgage and 75% of the appraised value of the underlying Real Property securing the Mortgage;

"Conventional Mortgage" means a Conventional First Mortgage and/or a Conventional Second Mortgage;

"Conventional Second Mortgage" means a Second Mortgage for which the principal amount at the time of commitment, together with the principal balance outstanding on the First Mortgage on the same Real Property, does not exceed the lower of 75% of the purchase price of the underlying Real Property and 75% of the appraised value of the underlying Real Property;

"Declaration of Trust" means the Declaration of Trust between the Investors and the Trustee dated variously, governed by the laws of British Columbia, pursuant to which the Trust was created, as amended, supplemented or amended and restated from time to time;

"Director" means a director-level employee of a corporation entrusted with discretion in the exercise of a portion of corporate powers;

"Distributable Cash" means the amount of available cash collected to be distributed by the Trust, calculated as set out under "Distributions";

"Distribution Date" means the 15th day following the quarter (March 31, June 30, September 30 or December 31) to which distribution relates, except the December 31 distribution will be paid in arrears on the 60th day following that quarter;

"Distribution Record Date" or **"Distribution Payment Date"** in respect of the Trust, means the last day of each quarter, or such other date or dates as the Trustees may from time to time designate as a Distribution Record Date in accordance with the Declaration of Trust, provided that December 31 in each year will be a Distribution Record Date;

"Eligible Mortgages" means those Mortgages selected for investment and management in the Mortgage Portfolio by the Trust Manager;

"Exempt Plans" means trusts governed by a Registered Retirement Savings Plan (RRSP), a Registered Retirement Income Fund (RRIF), Deferred Profit Sharing Plan (DPSP) or a Registered Education Savings Plan (RESP);

"Fair Market Value" in relation to a Unit means the Fair Market Value of such Unit as determined by the Trustees from time to time, acting reasonably, but in their sole discretion, based upon the price at which the Units were offered for sale in the most recent offering of Units by the Trust less the net issue costs of such Unit, adjusted as determined by the Trustees including, without limitation, an adjustment for profits and losses up to the date of determination; provided however that such Fair Market Value shall not exceed the Proportionate Share of the Net Asset Value of the Trust represented by such Unit;

"First Mortgage" means a Mortgage having priority over all other Mortgage Loan interests registered against the same Real Property used to secure such Mortgage;

"Fiscal Year" means each consecutive period of twelve (12) months coinciding with the calendar year and ending on December 31, provided however that the first Fiscal Year of the Trust will be the period commencing April 20, 2015 and ending on December 31st, 2015;

"Fund" means the "Trust" or Pendfund Income Fund I, an unincorporated investment trust established under the laws of Canada pursuant to the Declaration of Trust;

"Fund General Security Agreement" means Guarantee or that general security agreement granted to the Manager in respect of the assets of the Trust as Security for the Guarantee given by the Trust to the Manager;

"Fund Income" or **"Trust Income"**, for any taxation year of the Trust, means the income in a year calculated at the discretion of the Trustees, less amounts of any deductible non-capital losses of the Trust for the prior years that are deductible in calculating the Trust's taxable income in accordance with the Tax Act, provided that capital gains and capital losses will be excluded from the calculation of Trust Income. Without limitation, the Trustees will have sole discretion in the use of certain deductions, provisions and calculations available under the Tax Act;

"Fund Reserves" means the amounts from time to time which the Trustees, acting reasonably, but in their sole discretion, determine are necessary or desirable to meet the current and future expenses, liabilities, commitments and obligations of the Trust and be necessary or desirable for the conduct, promotion and protection of the Trust, its assets and Unitholders;

"Guarantee" means that Guarantee of the obligations of the Trust to the Manager, granted by the Trust;

"Hurdle Rate" means an aggregate gross annualized yield equal to the two year Government of Canada bond yield plus 350 basis points;

"Insured Mortgages" means Mortgages, the principal repayment of which have been insured with CMHC or another commercially recognized Mortgage insurer;

"Investment Grade" means Loans underwritten and advanced using parameters which would be acceptable to Commercial lending Institutions in Canada such as Credit Unions, Banks and Life Insurance Companies;

"Investor" or **"Unitholder"** means "Subscriber" or a holder of Units;

"Investor's Funds" or **"Proceeds"** means monies advanced by the Investor to the Trustee and to be dealt with by the Trustee in accordance with the provisions of this Agreement;

"Loan" means Mortgage Loan(s) caused to be advanced by the Trustee to Borrowers with the interest payable thereon all in accordance with the Mortgage and upon the security of the Security;

"Loan Guarantee" means any Guarantee which may be granted in favour of the Trust as Security for the performance of the obligations of the Borrower to the Trust under the Mortgage;

"Manager" means "Trust Manager" or Canada Penfund Mortgage Corporation, a company governed by the laws of British Columbia, and its successors as Manager under the Trust Management Agreement, or any such Person as may from time to time be appointed by the Trustees to manage the day to day operation of the Trust together with any agents duly appointed by the Trust Manager;

"Management Agreement" means the agreement between the Trustee, on behalf of the Trust, and the Trust Manager;

"Material Agreements" means the contracts referred to under "Material Agreements";

"Management Fee" means a fee paid to the Manager by the Trust of 1.2%, of annualized gross assets of the Trust calculated and paid monthly together with an Incentive Performance Fee of 20% of the gross earnings over the "Hurdle Rate";

"Mortgage" or **"Mortgages"** means a Mortgage, or a Mortgage of a leasehold interest (or other like instrument, including an assignment of or an acknowledgement of an interest in a Mortgage), hypothecation, deed of trust, charge or other Security interest of or in Real Property used to secure obligations to repay money by a charge upon the underlying Real Property whether evidenced by notes, debentures, bonds, assignments of purchase and sale agreements or other evidences of indebtedness;

"Mortgage Portfolio" or **"Portfolio"** means, at any time, the portfolio of Mortgages or interests therein held by the Trust;

"Net Asset Value" means, on a Valuation Day, the aggregate Fair Market Value of the assets of the Trust on such Valuation Day less the amount of the liabilities of the Trust at that time;

"Net Asset Value Per Unit" means, on a Valuation Day, the quotient obtained by dividing the amount equal to the Net Asset Value of the Trust on such Valuation Day by the total number of Units, including fractions of Units outstanding;

"Net Subscription Proceeds" means the gross proceeds to the Trust from the sale of the Units less the costs of this Offering;

"NI 31-103" means *National Instrument 31-103 - Registration Requirements*, as amended, supplemented or replaced from time to time;

"NI 45-106" means *National Instrument 45-106 - Prospectus and Registration Exemptions*, as amended, supplemented or replaced from time to time;

"Notice" means the notice sent by a Unitholder to the Trustees requiring the Trust to redeem the Units so described in the Notice;

"Offering" means the offering on a private placement basis a maximum of 10,000,000 Units at a price of \$10.00 per Unit described in this Offering Memorandum;

"Officer" means a management-level employee of a corporation entrusted with discretion in the exercise of a portion of corporate powers;

"Ordinary Resolution" means a resolution passed by a simple majority of the votes cast by those Unitholders who, being entitled to do so, vote in person or by proxy at a duly convened meeting of Unitholders, or, subject to applicable laws, regulations and regulatory policies, a written resolution, in one or more counterparts, consented to in writing by Unitholders holding not less than 50% plus one of the votes attached to Units held by all Unitholders entitled to vote at that time;

"Performance Incentive Fee" means a fee to be paid to the Trust Manager pursuant to the Trust Agreement, in any calendar year where the Trust has gross earnings in excess of the Hurdle Rate, 20% of such excess;

"Person" means and includes individuals, corporations, limited partnerships, general partnerships, joint stock companies, joint ventures, associations, companies, trusts, banks, trust companies, pension funds, land trusts, business trusts or other organizations, whether or not legal entities and governments and agencies and political subdivisions thereof;

"Pool" means the total of Mortgage and associated assets contained within the Trust;

"Proportionate Share" means, at any point in time, the fraction of which the aggregate amount advanced by all Unitholders into the Trust is the denominator and the amount advanced by the Unitholder is the numerator;

"Qualified Appraiser" means a person who is an appraiser accredited or licensed by the Appraisal Institute of Canada or any successor thereof;

"Real Property" means property which in law is Real Property and includes, whether or not the same would in law be Real Property, leaseholds, Mortgages, undivided joint interests in Real Property and any interests in and to any of the foregoing;

"Register" means that record of the names and addresses of Unitholders together with other pertinent information to be kept by, on behalf of, or under the direction of the Trustees;

"Related Investment" means bonds, debentures, notes or other evidence of indebtedness in shares, Units or other evidence of ownership in any entity, including specifically a joint venture or a mortgage investment corporation, engaged directly or indirectly in the funding, holding or investing in Mortgages granted as Security for Loans, or the sole or principal purpose and activity of which is to invest in, hold and deal in Mortgages;

"Residential Mortgages" means Mortgages that are registered on or against completed single family residences and multifamily residential properties;

"Schedule I Bank" means a bank listed in Schedule I of the *Bank Act* (Canada);

"Second Mortgage" means a Mortgage having priority over all other Mortgage Loan interests registered against the same Real Property other than a First Mortgage on such Real Property;

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

"Special Resolution" means a resolution approved by not less than 75% of the votes cast by those Unitholders who, being entitled to do so, vote in person or by proxy at a duly convened meeting of Unitholders, or, subject to applicable laws, regulations and regulatory policies, a written resolution, in one or more counterparts, consented to in writing by Unitholders holding not less than 66.67% of the votes attached to Units held by all Unitholders entitled to vote at that time;

"Stage I Environmental Audit" means an evaluation of Real Property for purposes of environmental analysis performed solely on the basis of historical records without invasive sampling or drillings from such property;

"Subordinate Mortgage" means a Mortgage other than a First Mortgage, including, without limitation a Second Mortgage;

"Subscriber" means "Unitholder" or a subscriber for Units pursuant to the Offering whose subscription has been accepted by the Trustees, and to whom Units have been issued and not revoked or transferred, and any other holder of Units from time to time (collectively "Subscribers");

"Subscription Agreement" means the agreement to be entered into between the Trust and Subscribers in furtherance of a subscription for Units under the Offering;

"Subsidiary" has the meaning ascribed thereto in the BCBCA;

"Syndication" means the sharing of a Mortgage or other investment by more than one Person;

"Tax Act" means the *Income Tax Act* (Canada) and the regulations promulgated thereunder, as amended from time to time;

"Term Mortgages" means Mortgages granted as Security for a Loan used to finance a completed or substantially completed income-producing or owner occupied property for a period of time;

"Trust" means the "Fund" or Pendfund Income Fund I, an unincorporated investment trust established under the laws of British Columbia;

"Trust Agreement" means the Trust Agreement between the Trust, Pendfund Income Fund I and the Trustee, Pendfund Income Fund Inc. dated April 20, 2015, governed by the laws of British Columbia, as amended, supplemented or amended and restated from time to time;

"Trust Funds" at any time, means all of the monies, interests, properties and assets that are at such time held by the Trustees for the purposes of the Trust established under the Declaration of Trust, including, without limitation, the initial contribution made by the Settlor of the Trust and all monies realized from the sale of Units or borrowing by the Trust;

"Trust Management Agreement" means the trust management agreement dated April 20, 2015 between the Trust and the Trust Manager, providing for, among other things, the retention of the Trust Manager to arrange and service the Trust's Authorized Investments as the same may be amended, renewed, extended, supplemented or amended and restated from time to time;

"Trust Manager" means "Manager" or Canada Penfund Mortgage Corporation, a company governed by the laws of British Columbia, and its successors as Manager under the Trust Management Agreement, or any such Person as may from time to time be appointed by the Trustees to manage the day to day operation of the Trust together with any agents duly appointed by the Trust Manager;

"Trust Property" means all of the monies, interests, properties and assets that are at such time held by the Trustees for the purposes of the Trust established under the Declaration of Trust,

"Trustee" means Pendfund Income Fund Inc., a corporate body incorporated pursuant to the laws of Canada, its successors and assigns, the Trustee of Pendfund Income Fund I;

"Trustees" are members of the Board of Trustees of the Trust;

"Unitholder" means "Subscriber" or a holder of Units or any Investor, Persons, corporations, Trusts, registered retirement savings plans, or other legal entities who invest in the Trust and who have been granted Trust Units as Security for funds invested into the Trust;

"Units" means each of the Units of the Trust;

"Valuation Date" means the last Business Day of each calendar month upon which date the Trustees will determine the aggregate Fair Market Value of Units outstanding on the first Business Day of the said calendar month;

"Workout Investments" means any evidence of indebtedness, any evidence of ownership in any entity or any other investment made by or at the direction of the Board of Trustees in its sole discretion, on behalf of the Trust, to preserve or protect the Trust or its assets, provided that such investments do not, directly or indirectly, cause the Trust to cease to be considered a "unit trust" (as such term is defined under the Tax Act).

2.4 Objectives and Policies

Industry Overview

Participants in Commercial Mortgage markets, like other businesses, have from time to time varying levels of demand for certain products. Some factors of consideration are loan size, Security type, location within an economic region and portfolio requirements as they relate to liability matching within the institution. With corporate mergers and the disappearance of many trust companies and other lenders over the past 15 years, demand from mainstream lenders for "small" commercial loan amounts (<\$2MM) has waned. This is due to many factors but is partly due to industry using the same and often more overhead to process and service a small loan as it does for a loan greater than \$2MM. Given a steady supply of large loans and the burden of overhead, small loans with less a profit margin are unattractive and can bear greater expense than income. Layers of bureaucracy and fixed expenses add to operational costs for lenders. As a result, larger centers, major institutions, chartered banks and trust companies compete for large loans and high volumes of Investment Grade and insured product with an oversupply of capital to meet the demand of these cases. Small loans are left to small bank branches and credit unions that will serve existing clients and/or cross-sell into small loans. There is a good demand for small loans from Borrowers and a lesser desire from institutions to fund them. The Trust, with low overhead and skilled staff, can participate profitably in the small loan market, service the portfolio for a small fraction of the price of mainstream lending industry and provide a valuable commodity to the borrowing and investing public.

General

The investment objective of the Trust is to provide for the direct investment, by private and institutional Investors, into a Pool of high quality Mortgage Loans secured by Real Property situate in Canada.

Notwithstanding the descriptions of the Trust's investment objectives, policies, procedures, guidelines, allocations, strategies or definitions in this Offering Memorandum, until the Trust is a "mutual fund trust" as defined in the Tax Act the Trust will restrict its investments to "qualified investments" for a trust governed by an RRSP as defined in the Tax Act. It is expected that the Trust will become a "mutual fund trust" as defined in the Tax Act if it reaches 150 Unitholders, each of whom hold a "block of units" as defined in the regulations to the Tax Act. Accordingly, the descriptions of the Trust's investment objectives, policies, procedures, guidelines, allocations, strategies and definitions, which have been prepared in the event the Trust becomes a "mutual fund trust", may not apply until the Trust becomes a "mutual fund trust".

Targeted Mortgage investments shall be primarily **Investment Grade (not less than 65% of the Pool)** conservatively underwritten First Mortgage Loans against income-producing property such as apartments, commercial plazas, warehouse, office buildings and other commercial properties. The Trust shall compete directly with Institutional lenders such as Banks, Life Insurance companies and Credit Unions for these Loans and shall compete for market share by providing fair pricing, loan flexibility and exceptional approval timing which may improve Loan pricing. Loans will be disbursed across Canada, mainly in the Provinces of British Columbia, Alberta and Ontario with the assistance of trusted brokers, correspondents and Affiliates of the Manager and shall in every case be closely scrutinized by the Trust Manager to maintain adherence to a high quality Industry Standard. The latest electronic and technological aids in communication shall be employed to assure for accuracy and speed both in sourcing Mortgage Loans and reporting to Unitholders and others. ***The minimum targeted net yield of the Trust is the average 2-Yr Government of Canada (GOC) benchmark bond yield (.75%) plus 350 basis points), 4.25 % as at April, 2015.***

The balance of the Trust (**35% of the Pool**) shall seek higher yielding Loans in niche-type cases such as construction projects, hospitality, land, development, residential and other types of income and non-income producing commercial properties. Loan-to-value ratios in this portion of the Trust rarely may exceed 75% of purchase price but where it is the Borrower's intention to add value to the property, any progress draws shall be

disbursed as work is completed and value increases, leaving acceptable equity margins. In this investment sector of the Trust, Loans granted or purchased by the Trust may be First or Subsequent Mortgages. Interest may be either payable periodically throughout the term of the Loan, usually monthly for investment-grade product, or upon their expiration (accrued interest) with an interest reserve built in at Loan disbursement.

Niche-type lending for the purposes herein is otherwise defined as cases largely institutional quality but lacking in a minor way in an area other than quality of Security. The Trust will use niche loans as a means of increasing overall yield without unduly increasing risk. Disqualifiers from mainstream lenders aside from small loan amount will be due to issues concerning ranking, underwriting ratio deficiencies, covenant, track record, financial reporting, regional concerns, purchase/appraisal issues, timing, financial reporting and corporate structure. The Trust will not lend to untrustworthy borrowers.

The Manager intends to continue the Trust for an indefinite period of time, which may change subject to future events. The Trust will not invest directly in Real Property, and will be subject to and maintain the investment requirements that must be met for certain trusts, as set out below under "Investment Policy and Procedure" but the Trust may hold Real Property acquired as a result of foreclosure.

Investment Policy and Procedure

The investment goal of the Trust is to make prudent investments mainly in loans that are Conventional First Mortgages and to a lesser extent, niche-type and subordinate loans. The Trust Manager, on behalf of the Trust, diligently reviews and selects Mortgage investment opportunities to present to the Trust and Board of Trustees for approval and manages and services the Mortgage Portfolio. In making its investment selections to present to the Trust, the Trust Manager adheres to the investment and operating policies of the Trust. For loan approval, the Trust Manager provides a full underwriting report consisting of a thorough assessment of the Loan Security, Borrower, location, region, asset class and intra-region market and competition, and where considered necessary, an appraisal prepared by a Qualified Appraiser, Engineering Reports, and an appropriate Environmental Audit and any other reports which would be considered necessary by a prudent lender in a similar case consideration. The investment strategy of the Trust is to invest in Loans and sub-markets where Borrower needs are not being met by larger financial institutions, most particularly in the area of small loans in loan amounts mainly between \$500,000 and \$2,000,000. Management of risk and a stable interest yield in the Portfolio will be achieved with diversification of Security asset classes, conservative underwriting and diligent and pro-active Mortgage servicing. Investment in Real Property may only arise from the acquisition of Real Property through foreclosure of a Mortgage held by the Trust as satisfaction of indebtedness owed to the Trust.

The Trust offers Units from time to time only if the receipt of the proceeds of such Offering by the Trust does, in the opinion of the Manager, not impair: (i) the investment goals and the investment strategy of the Trust as described in this section; (ii) the investment and operating policies listed in the subsection entitled "Investment Policies and Guidelines/Asset Allocation Model" below; (iii) the Trust's investment objectives with respect to individual Loans; or (iv) the Trust's expected return from its investment in and management of the Mortgages.

Part of a growth strategy may involve purchasing existing Mortgages or Mortgage Portfolios from lenders currently competing in target markets. The Trust may also make Authorized Investments depending on market conditions, available funds and attractive yields.

Investment Policies and Guidelines/Asset Allocation Model

The following are investment criteria applied in the Administration of the Trust:

- the Trust will invest only in Mortgages on the Security of Real Property situated within Canada;
- up to 100% of the Trust's capital may be invested in Conventional First Mortgages, Insured Mortgages and Loans which conform to the 65% Portfolio allocation criteria herein;
- no more than 20% of the Trust's capital may be invested in Subordinate Mortgages;
- subject to the Trust attaining a mass of \$20MM, the Trust will not invest more than 10% of its capital in any single First Mortgage unless it is required to do so for risk management purposes only;
- subject to the Trust attaining a mass of \$20MM, the Trust may not make an investment in a Mortgage with a single Borrower if the aggregate of the book value of such investment and the book value of the Trust's

Mortgages, Loans or investments already provided to the Borrower would exceed 10% of the capital of the Trust;

- when not invested in other Authorized Investments, the Trust's capital will be placed in Authorized Interim Investments;
- the Trust will not invest directly in Real Property and will be subject to the investment requirements that must be met for certain trusts, as set out herein;
- the Trust shall not grant unsecured Loans to or invest in Securities owned by the Manager or its Affiliates nor grant Loans to Officers or Directors of the Manager or Trustee;
- the Trust shall invest only in Mortgages on Real Property for which the Manager will have received, reviewed and been satisfied with an independent appraisal report or other dependable means of valuation, whether or not it has been provided by the Borrower. Progress draws shall be used in order to maintain industry standard loan-to-value ratios for Loans involving construction activity that results in added value to Real Property;
- the Trust shall make Mortgage investments primarily in British Columbia, Alberta and Ontario, however, to the extent practicable, investments of the Trust may be diversified with respect to geographic locations within Canada;
- the Trust may co-invest with a third party or third parties in a Mortgage;
- the Trust will not invest in any asset which in any way does not qualify as a "qualified investment" for a trust governed by a "Registered Retirement Savings Plan" as those terms are defined in subsection 146(1) of the Tax Act or would disqualify the Trust as such;
- the Trust may participate in Authorized Investments on a syndicated basis with others, including Affiliates and associates of the Trust Manager and their Affiliates and associates, subject to the approvals otherwise required in connection with its investments; and
- notwithstanding limits stated herein the Trust may increase a given investment to more than 10% of Trust Capital in order to remedy the default of a prior ranking Security or satisfy the indebtedness secured by a prior ranking Security or for any other reason if such action is required to protect the Trust's investment and if same is approved by the Board of Trustees.

Portfolio Allocation:

Generally, **not less than 65%** of the Mortgage Portfolio shall be invested as follows:

- (i) investment-Grade first ranking Mortgages on income producing commercial Security located in urban centers and surrounding areas;
- (ii) Loan terms shall not be longer than 5 years;
- (iii) loan-to-value ratios shall not exceed 75%;
- (iv) income from property tenancy shall include but not be limited to residential, multi-residential, retail, commercial, office, light industrial or warehouse combination sources.

Generally, **not greater than 35%** of the Mortgage Portfolio may be invested as follows:

- (i) subordinate (other than First Mortgage limited to a maximum of 20% of Portfolio size) ranking;
 - (ii) non-income producing Security;
 - (iii) hospitality, construction or niche loans;
 - (iv) non-national tenant, single-tenant, owner-occupied Real Property.
- Primarily, no single Loan will exceed a Loan amount of **\$3,000,000** but this policy will not apply to obligations of Canadian municipal, provincial and federal governments and government agencies or Loan amounts larger than \$3,000,000 that the Trust participates in as a partner in a syndicated Mortgage Loan or co-investor with another Mortgage lender or lenders;
 - No single investment or related group of investments held by the Trust involving one property, or several properties owned by one Borrower shall exceed \$4,000,000 or 10% of the NAV (Net Asset Value), whichever is greater;

- Upon the Trust reaching a size of not less than \$40,000,000, no single Unitholder will be permitted to own greater than 30% of outstanding Units in the Trust.

Niche-type considerations may include the following:

- (i) Underwriting Ratio Deficiencies – Cases in which underwriting ratios are minimally deficient for correctable or temporary reasons.
- (ii) Debt Service Coverage Ratios (DSC) are the ratio of Net Operating Income over Annual Debt Service and will be generally adhered to, however, if a DSC is minimally deficient until an income threshold is met, a holdback or another measure may be implemented at the discretion of the Manager.
- (iii) Loan-to-Value Ratios (LTVR) is established at a maximum of 75% depending on the case. If an LTVR is minimally deficient due to a temporary reason and if the balance of the file is strong, a holdback or another measure may be implemented at the discretion of the Manager.
- (iv) Debt/Equity Ratios – If a Borrower appears with an overbalance of short term debt or receivables and a balance sheet does not appear technically perfect for predictably temporary reasons and if the Borrower and other matters of the case appear structurally sound, the Manager and Board of Trustees may deal with the Loan application in their discretion.
- (v) Covenant – Generally, Borrowers must have retained earnings and net worth within industry ratios of the loan they seek. If a Borrower has a sub-standard working capital position or at the time of application cash flow is minimized due to temporary causes, or another common underwriting ratio is temporarily thin and accountable reasons for the temporary nature are apparent, then with other solid feasibilities and other factors of the loan in line the case may be considered by the Manager and Board of Trustees in their discretion.
- (vi) Track Record – If a Loan applicant is an entity with less than 5 years in business or venturing into a new field such as the first time owner of a multi-family property, then the Manager and Board of Trustees may deal with the Loan application in their discretion provided other aspects of the case fall within industry standards.
- (vii) Financial Reporting – If in a Loan application there is an instance of slow or otherwise compromised financial reporting, the file shall be dealt with by the Manager and Board of Trustees in their discretion.
- (viii) Regional Concerns – Institutions will frequently decline loans in metro areas that have marginalized smaller populations than those required by a certain trade lending manual, or periodically large flourishing regions are "red-lighted" due to economic trends or the overweight allocation of Institutional investment at a certain time in a region. Provided other matters of a specific case are within industry standard, then the Manager and Board of Trustees may deal with a Loan application under these circumstances in their discretion.
- (ix) Purchase/Appraisal Issues – The rule in the Bank Act is that conventional uninsured Mortgages shall not exceed 75% of the appraised value or purchase price, whichever is less. If, in a case, an appraisal method is used and yields results that do not strictly align with loan underwriting procedure or certain appraiser is absent on an approved appraisers list, or there appears to be less than industry-standard adequate time on a purchase agreement or a short possession date exists in a case with quick approval time necessary, then the Manager and Board of Trustees may deal with the Loan application in their discretion.
- (x) Credit – If a lagging blemish on credit history, since rectified, exists or was computer generated in error or an otherwise good credit risk temporarily appears as questionable, or other credit report issues exist for reasons that may disqualify a Borrower according to industry-standard, then the Manager and Board of Trustees may deal with the loan application in their discretion. Historically poor credit risks shall be avoided without exception and close scrutiny in this area shall be applied by experienced personnel of, or by Persons acting as agents of, the Trust Manager.

It is not possible within these pages to fully explain niche lending rationale. Quality lending opportunities can be missed by large slow moving institutions due to broad policies, limited manpower, slow reporting and communication and lack of delegation of duty and of authority to regional areas. The Trust Manager and Board

of Trustees shall use prudent discretion and judgment in their consideration of niche-type cases with respect to the Trust.

Interim Funding Facility

The Trust as Borrower may maintain a funding facility with an arm's length third party financial institution such that the Trust will have access on a revolving basis to funds in the maximum amount of not greater than 20% of the book value of its Mortgages. The Trust may use the revolving facility to take investment positions in Mortgages acquired by the Trust directly or by participating beneficial interest at times when funds are not immediately available from subscription proceeds from the Trust.

Syndication Strategy

To manage and diversify risk, the Trust Manager may syndicate Mortgage investments in which the Trust participates with one or more lenders. Syndicated Mortgages may initially be funded by the Trust at a specified interest rate and a portion of the Mortgage may then be syndicated to a financial institution or other lenders who wish to participate in a Syndication of the Loan as an investment partner. Syndication may be on a *pari passu* basis or on a subordinated basis. Syndicating Mortgage Loans can reduce the Trust's exposure in respect of any one Mortgage investment.

Portfolio Maintenance

Due to the type of low-risk Loans the Trust will typically invest in, minimal Loan distress and subsequent enforcement issues on Security are anticipated. Notwithstanding, the Trust Manager shall pre-empt and minimize risks associated with defaulting Mortgages with diligent monitoring of the Mortgage Portfolio, ongoing communication with Borrowers and vigilant observation of general market condition in the markets in which it operates. If a default occurs, aggressive enforcement procedures shall be implemented.

The Trust Manager, whose Officers have substantial experience in all aspects of servicing Mortgage Loans and has a history of negligible losses on Loans which it has underwritten and serviced, shall fulfill this role.

A default management and recovery program includes the following:

- Implementation of enforcement proceedings following default under the terms of a Mortgage;
- Performance of a property inspection, immediate execution of the general or specific assignments of rents from the property in order to maintain Mortgage payments and, if necessary, the appointment of a receiver manager or taking possession of the property and establishing a property management program for the property.

Focus on Western Canadian Urban Centres

A main key to successful lending is the knowledge and understanding of the Real Property markets. Western Canada and the Prairie Provinces contain a well diversified economic base and the functionaries of the Trust Manager are familiar with most aspects of it. The Trust intends to continue to lend into urban centres of the above areas with which the Officers of the Trust Manager are familiar due to their past lending experience. The Trust also intends to continue to diversify geographically by making Mortgage investments on Real Property located in other areas of Canada where prevailing economic conditions are favourable.

Changes to Investment and Operating Policies

The investment and/or operating policies (the "policies") of the Trust set out above may be amended, supplemented or replaced from time to time by the Trust Manager provided the Board of Trustees is given written notice for its approval of such material amendments to the investment policies 30 days prior to the implementation of any such amended policies and approval is granted. Notwithstanding anything else to the contrary set out in the Trust Agreement, if at any time a government or regulatory authority having jurisdiction over the Trust enacts any law, regulation or requirement which is in conflict with any policy of the Trust then in force, such policy in conflict will, if the Trust Manager and Board of Trustees so resolve, be amended to the extent necessary to resolve any such conflict.

2.5 Short Term Objectives

Development of the Mortgage Portfolio

Amongst the methods of building and maintaining a successful Mortgage Portfolio are the following:

- (i) professional Mortgage underwriting and timely file processing carried out by knowledgeable personnel;
- (ii) a keen marketing and timely approval program which allows continuing choice from a range of investment cases allowing the Trust to be selective and prudent in its funding; and
- (iii) disciplined Mortgage servicing and Portfolio monitoring.

The Trust will benefit from the experience and long standing reputation of the Trust Manager in these respects for the following reasons:

- (i) it will market into an established demand for the type of Loan product offered to Borrowers;
- (ii) the reputation, experience and marketing ability of the Trust Manager;
- (iii) the timely credit analysis and decision-making processes followed by the Trust Manager and the Board of Trustees; and
- (iv) operation in a market where lower supply of similar Loans exists due to lack of significant lenders in the market segments in which the Trust shall invest.

The executives and Officers of the Trust Manager have sourced, funded and managed loan volumes in the many billions of dollars on behalf of various Borrowers and major institutional investor clients in collaboration with Mortgage Brokerages, banks, trust companies, lawyers and Life Insurance companies. Officers of the Trust Manager have collectively over 100 years experience in the business of sourcing and underwriting Mortgages and each of these individuals has a comprehensive knowledge and understanding of the Mortgage and real estate industries that has enabled them to make prudent investment decisions and identify sound investment opportunities during this time. The name, brief *curriculum vitae*, office held with the Trust Manager and principal occupation of each Officer are described under the heading "Item 3.4 Organization – B. The Trust Manager". The members of the Board of Trustees have over 175 years of finance, legal and business experience.

On behalf of the Trust, the Manager shall endeavor to obtain a minimum of \$3,000,000 of committed capital for investment into Mortgage Loans as above described, prior to implementing the lending program. The lending program at its outset shall therefore constitute investment into smaller loans as a means of spreading risk in the Mortgage Portfolio and paying quarterly dividends to its Unitholders. The Issuer's goal over the next twelve (12) months is to increase its share capital base from its start-up amount of 0 to \$15,000,000. The Issuer's business plan is not dependent on attaining this goal; it is simply a target. The Issuer anticipates that whatever funds raised will be sufficient for the Issuer to continue implementing its business plan. The Offering Memorandum form requires the following table to be completed with respect to the Issuer's objectives over the next twelve (12) months. It should be noted however that this particular table form is not well suited to the expression of the Issuer's business.

What we must do and how we will do it	Target completion date or, if not known, number of months to complete	Our cost to complete
While there is nothing the Issuer "must" do to carry out its business plan, the short term goal is to establish a capital base greater than \$10MM with greater than 150 Investors with which to commence lending operations. The Issuer's goal over the next 24 months is to raise greater than \$25,000,000 in investment capital on behalf of the Trust.	12 months	See "Item 1.2 Use of Net Proceeds".

2.6 Insufficient Proceeds

Whether or not the Trust is able to reach its short term goal of \$10MM, fundamental objectives of investment of proceeds can be met through sound investment principles.

2.7 Material Agreements

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

- a) The **Declaration of Trust** dated variously, between the Investor and the Trustee, Pendfund Income Fund Inc., creating the Trust under the laws of Canada.

Generally, this agreement is a determination of rights and responsibilities between the Investor and the Trustee with respect to the assets of the Trust. It states that the Investor has agreed to make an investment in Trust Units and is desirous to have the Trustee cause, subject to the terms of the agreement, the proceeds to be invested on the Security of a Pool of Mortgages and related assets on Real Property. It states that other Investors shall invest in the same manner into the Pool.

The Trustee, subject to the terms of the Agreement, amongst other duties, agrees to cause the processing and advance of Loans for the Pool and to administer the Loans in the Pool and generally perform all other acts required in the administration of Mortgages in a manner consistent with generally accepted industry practices. For further details, see "Item 3.4 Organization – The Trust Agreement" and "Item 5.1 Terms of Securities – Description of Units".

- b) The **Trust Agreement** dated April 20th, 2015 between the Trust, Pendfund Income Fund I, and the Trustee, Pendfund Income Fund Inc.

Generally, this agreement is a determination of responsibilities between the Trust and the Trustee with respect to the assets of the Trust. It states that the Trust is desirous to have the Trustee cause, subject to the terms of the agreement, the proceeds to be invested on the security of a Pool of Mortgages and related assets on Real Property.

The Trustee, subject to the terms of the Agreement, amongst other duties, agrees to cause the processing and advance of Loans for the Pool and to administer the Loans in the Pool and generally perform all other acts performed in the administration of Mortgages and Mortgage Loans in a manner consistent with generally accepted Mortgage practices. For further details, see "Item 3.4 Organization – The Trust Agreement" and "Item 5: Securities Offered – Description of Units".

- c) The **Trust Management Agreement** dated April 20th, 2015 is entered into by the Trustee, Pendfund Income Fund Inc., and the Trust Manager, Canada Penfund Mortgage Corporation.

Generally, this agreement states that the Trust Manager has authority to manage the ongoing business and general administration, supervise and direct the investment and reinvestment of assets in the Trust, develop and implement all aspects of the Trust's marketing and distribution strategies and any additions thereto, subject to the specific limitations made in the Agreement, including the investment objectives and guidelines attached to the Agreement as Exhibit A – Investment Guidelines/Asset Allocation Model. In this agreement, the Trust relies on the expertise and experience of the Manager in the area of credit assessment, real estate development, loan management and administration to enhance returns and limit risk.

Also, this agreement outlines the duties and responsibilities of the parties with respect to the servicing and administration of the Mortgage Loans within the Trust. It details matters with respect to the collection and remittance of payments, the maintenance of records and insurance on Real Property and other customary loan servicing procedures the Manager performs for the Trust. In the Agreement the Trust Manager is required to exercise its powers and discharge its duties diligently, honestly and in good faith and in the best interests of the Trust. For further details, see "Item 3.4 Organization – B. The Trust Manager".

- d) The **Trust Advisory Agreement** ("Agreement") dated April 20th, 2015 is entered into by Pendfund Income Fund I ("Trust"), and the Pendfund Income Fund Inc. Board of Trustees ("Board"). See "Item 3.4 Organization – C. Trust Governance".

Generally, this agreement states that in conjunction with the Trust Manager, the Board of Trustees establishes the overall policies for the Trust, monitors and evaluates the Trust's strategic direction, and shall retain plenary power for the Trust and for those functions not specifically delegated to the Trust Manager. Accordingly, the mandate of the Board is to supervise the management of the business, assets and affairs of the Trust with a view to the best interests of the Trust and its Unitholders. The Board shall engage in duties of oversight and supervision of the accounting and financial reporting practices and procedures of the Trust and the quality and integrity of financial statements of the Trust. The Board is responsible for overseeing of the instruction and direction of the auditors in the performance of audit duties. The Board Members Agreement outlining the responsibilities of the individual Board Members is attached to and forms a part of this agreement.

Copies of all agreements referred to above may be inspected during normal business hours at the principal office of the Trust Manager, Ste. 140-4392 West Saanich Rd., Victoria, BC.

Item 3: Directors, Management, Promoters and Principal Holders

3.1 Compensation and Securities Held

The Manager has not completed its first financial year in its capacity of Manager of the Trust; therefore, no compensation has been paid to the Directors or Officers of the Manager. Timothy Tuttle is the majority shareholder in the Trustee; Messrs. Kevin MacLean, David Cox and Richard Bailey are Directors.

3.2 Management Experience

The Trust Manager, Canada Penfund Mortgage Corporation

The Trust is managed by the Trust Manager, Canada Penfund Mortgage Corporation, a licensed Mortgage Broker and the Trust Manager is governed by the Board of Trustees. The Trust Manager was incorporated under the *Company Act (British Columbia)* in 2000 and is a Mortgage investment and management company with its principal office in Victoria, British Columbia. The Manager is registered as a Mortgage Broker under the *Mortgage Brokers Act (British Columbia)*. The principals and executives of the Manager have, since the 1970's, procured, invested, managed and acted legally on behalf of several billions of dollars in Mortgage investment capital with a variety of major Financial Institutions, including Life Companies, Trust Companies, Brokerages, Banks, Pension Funds, Credit Unions and Private Investors. More information on the structure and function of the Trust Manager is contained herein in "Item 3.4 Organization – B. The Trust Manager".

Timothy J. Tuttle: President, Canada Penfund Mortgage Corporation, Board Member

Timothy Tuttle has been President of Canada Penfund Mortgage Corporation since 2000. It is a CMHC approved commercial mortgage correspondent which arranges, lends, services and brokers commercial mortgages in Canada on behalf of various pension funds, life assurance companies and other public and private capital pools located across Canada. Mr. Tuttle has been involved in the commercial mortgage business since 1978 and for seventeen years prior to establishing Canada Penfund Mortgage Corporation he held executive lending positions with two Canadian Life Assurance companies and one Trust Company, as Regional Manager and Vice President. Mr. Tuttle has structured, negotiated and administered Mortgage transactions in the many billions of dollars. He has vast experience in the real property investment field and has been involved in every aspect of it. He is widely known in the industry and devotes his full time and attention to servicing and placing mortgages, principally on behalf of the Trust. He practices and has coached various athletics and has competed provincially. He is a graduate of the Universities of Victoria and Alberta.

Michael Smethurst AACI*: Vice-President, Lending Canada Penfund Mortgage Corporation, Board Member

Mr. Smethurst has been exclusively involved in commercial real estate finance since 1972. Since 1982 he has held the position of Vice President of three major financial institutions in Toronto, Montreal and Vancouver. He led teams in Mortgage origination, underwriting and administration, both as direct lender and as trusted correspondent for life insurance and trust companies, pension funds, chartered banks and credit unions. He has wide spanning industry connections and a broad knowledge in technical Real Property analysis and loan securitization. Mr. Smethurst is familiar with key markets in Canada and is an expert in CMHC apartment finance. In Vancouver he conducted extensive CMHC lending via Mortgage backed securitization and over his career he has been directly responsible for the investment of several billions of dollars in Commercial Mortgage securities. He graduated from the University of British Columbia with a Bachelor of Commerce in Urban Land Economics and was accredited with the AACI designation by the Appraisal Institute of Canada in 1976.

Kevin R. MacLean AACI*: Vice-President, Investment Canada Penfund Mortgage Corporation, Board Member

Mr. MacLean has had a 32 year career in Commercial Real Estate Finance and Appraisal. He was formerly located in Alberta as a senior executive in lending with Canada's largest Life Insurance company. He structured, underwrote and serviced commercial loans in the several billions of dollars. He served for many years as a Director for the Provincial Association of the Appraisal Institute of Canada and for two years as Chairman. He also carries the CRF*(Certificate in Real Estate Finance) designation from the Real Estate Institute of Canada and was a Licensed Property Manager and Agent. He led a provincial Credit Union Central in the arrangement, purchase and service of nine figure tranches of commercial loans. He is an expert analyst and has formulated spreadsheet and other data systems now used in financial and Real Property analysis and lending. He holds an AACI* designation, Accredited Appraiser of the Canadian Institute.

*denotes retired status

The Trust Governor: The Board of Trustees

In conjunction with the Trust Manager, the Board establishes the overall policies for the Trust, monitors and evaluates the Trust's strategic direction, and retains plenary power for those functions not specifically delegated to the Trust Manager. Accordingly, the mandate of the Board is to supervise the management of the business and affairs of the Trust with a view to the best interests of the Trust. More information on the structure and function of the Board of Trustees is contained herein in "Item 3.4 Organization – C. Trust Governance".

The principal occupations of the members of the Board of Trustees and their experience relevant to the Issuer's business are as follows:

Timothy J. Tuttle: Chairman of the Board of Trustees, President, Canada Penfund Mortgage Corporation.

Kevin R. MacLean AACI*: Businessman

David K. Cox QC: Lawyer

Since 2000, Mr. Cox has been a senior partner with Witten LLP, an Edmonton Law Firm which carries on a nationally recognized practice focusing on Commercial Development, secured lending transactions on behalf of major financial institutions, Creditors' Rights and Collections and Landlord Tenant law. His practice is active in urban and rural Alberta and focuses primarily on commercial real estate, commercial lending and business law. Mr. Cox earned a B.A. and LL.B. (1975) at the University of Alberta and was awarded the title of Queen's Counsel in 2002. He primarily focuses on business and corporate law, commercial and residential real estate and secured lending as well as estate administration and planning and is a lecturer on corporate commercial and real estate law.

Richard A. Bailey P.Eng. MBA: Chemical Engineer, Businessman

Richard Bailey is currently President of RA BAILEY AND ASSOCIATES, a consulting chemical engineering firm located in Victoria, BC. This firm conducts all phases of environmental audit, engineering and remediation on Real Property across Canada. His firm acted as Science Consultant to Canada Customs and Revenue Agency in over 70 projects. He holds executive positions in other research and development firms involved in the technology of alternative sustainable fuels, a field in which he is considered expert. He is currently a Technology Consultant to Sustainable Development Technology Canada involved with Zero Emission Distributed Hydrogen and is a consultant to the Natural Science and Engineering Research Council. He has built and conducted environmental audits on Oil Refineries while employed with Petro Canada and his contributions to his industry are internationally recognized. He is a member of the Association of Professional Engineers, Geologists and Geophysicists of Alberta and of Professional Engineers and Geoscientists of BC. He is past Chair of several Environmental Advisory Committees. He is in charge of Environmental matters for Securities of Pendfund.

William D. Macpherson: Chartered Accountant

Mr. Macpherson is a founding partner of Macpherson Adams, a Chartered Accounting firm located in Victoria, BC. The firm was founded in 1980 and carries on a practice in accounting and audit, corporate and personal taxation, acquisition and divestiture structuring, strategic planning and management consulting. The firm clientele is made up of a wide range of businesses and individuals. He is widely known for his professional experience, keen business insights and approachable nature and is an experienced and trusted business advisor. Mr. Macpherson is a respected member of the Institute of Chartered Accountants of British Columbia. He

earned his Bachelor of Commerce in 1976 from UBC and a Chartered Accountant designation in 1979 while in the employ of Price Waterhouse in Victoria, BC.

3.3 Penalties, Sanctions and Bankruptcy

- (a) The following penalties or sanctions have been in effect during the last ten (10) years against: (i) a Director, senior Officer, or control person of the Issuer, or (ii) an issuer in which a Person or company referred to in (i) was a Director, senior Officer or control person at the time: None
- (b) The following declarations of or voluntary assignments in bankruptcy, proposals under any bankruptcy or insolvency legislation, proceedings, arrangements or compromises with creditors or appointments of a receiver, receiver manager or Board Member to hold assets, have been in effect during the last ten (10) years against: (i) a Director, senior Officer, or control person of the Issuer, or (ii) an issuer in which a Person or company referred to in (i) was a Director, senior Officer or control person at the time: None

3.4 Organization

A. The Trustee

Pendfund Income Fund Inc. is the Trustee of the Trust for certain limited purposes on the terms and conditions set out in the Declaration of Trust between Investors and the Trustee and the Trust Agreement between the Trust and the Trustee. The address of the Trustee is Ste. 140-4392 West Saanich Rd., Victoria, British Columbia, V8Z 3E9. The Trustee is a company, formed under the laws of Canada December 19, 2003. It has no material assets or liabilities. It carries on no business activities other than acting as Trustee of the Trust. The shares of the Trustee are owned by Officers of the Manager. See "Item 3.4 Organization – B. The Trust Manager".

The duties, and responsibilities and authorities of the Trustee are as described in those expressly set forth in the Declaration of Trust and the Trust Agreement. The Trustee is responsible for holding Trust Property in safekeeping, retaining monies, securities, property, assets or investments, selling, encumbering or otherwise disposing of Trust Property as directed by the Manager, paying out of Trust Property expenses as directed by the Manager, depositing monies forming part of the Trust Property, possessing and, as directed by the Manager, investing monies from time to time forming part of Trust Property, holding legal title to Trust Property, exercising rights, powers and privileges appertaining to ownership of or interest in Trust Property, prescribing any instrument provided for or contemplated by the Declaration of Trust, and remitting distributions, specified by and at the direction of the Manager; all subject to the terms and conditions set out in the Declaration of Trust and Trust Management Agreement. The Declaration of Trust provides that the Trustee may engage or employ persons in connection with the Trust and pay to them compensation out of Trust Property and may delegate its powers, authorities and duties.

The Declaration of Trust and Trust Agreement provide that the Trustee will not be liable in carrying out its duties except in cases where the Trustee fails to act honestly and in good faith for Unitholders, or to exercise the degree of care, diligence and skill that a reasonably prudent Trustee would exercise in comparable circumstances and shall be indemnified out of the Trust Property unless there has been willful default or fraud by the Trustee. In addition, the Trust Agreement contains other customary provisions limiting the liability of the Trustee and indemnifying the Trustee in respect of certain liabilities incurred by it in carrying out its duties.

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

The Trustee will not receive fees from the Trust for acting as Trustee of the Trust, and will be reimbursed by the Trust for all expenses and liabilities which are properly incurred by the Trustee in connection with the activities of the Trust.

Operating Expenses of the Trust

The Trust will pay for all expenses it incurs in connection with its operation and management. In addition to the fees and expenses referenced elsewhere in this Offering, it is expected that these expenses are including but not limited to:

- (a) taxes, license fees, regulatory filing fees, auditors fees, accounting and tax preparation fees and other fees payable by the Trust, financial and other reporting costs, marketing and advertising expenses;
- (b) costs payable to any Transfer Agent or custodian(s) or other agent, legal or investment counsel, actuary, valuator, technical or other consultant, accountant or other third party service provider;
- (c) expenses for any acts or legal proceedings in which the Trust Manager or others act in for the maintenance or protection of the property of the Trust;
- (d) any fees, expenses or remuneration incurred by independent Trust Directors, members of the Board of Trustees and Officers of the Trust or to the Trust Manager for performance of extraordinary and other services on behalf of the Trust;
- (e) where not paid by other parties, credit bureau reports, printing costs, routine office and rent expenses; and
- (f) all taxes, commissions and costs of Securities transactions, debt service and credit facilities and any extraordinary and other administrative expenses of the Trust (including the calculation of Net Asset Value).

Certain other fees associated with Mortgage Loans are generally paid by the Borrowers. For instance the Trust Manager may be compensated for its services, by brokerage fees paid by the Borrower, and costs of initially establishing a Mortgage Loan (e.g., legal expenses, processing and administrative fees, etc.)

Generally, the Trust will reimburse the Manager for all of its expenses incurred in connection with the management of the Trust, except that the Manager is responsible for certain of the expenses of the initial Offering of Units (other than Unit seller and finder fees), including marketing and printing expenses and for the employment expenses of its personnel, rent and other office expenses.

Since some of the Directors and Officers of the Trustee may also be Directors or Officers of the Manager, the Manager is considered to be a party affiliated with the Trust.

The Trust Agreement

Subject to the limitations contained in the Trust Agreement, the Trustees have full absolute and exclusive power, control and authority over the assets and operation of the Trust to the same extent as if the Trustees were the sole beneficial owners of the assets of the Trust. The Trustees may act in their sole judgment and discretion in any capacity as is necessary for the carrying out of any of the operation or purposes of the Trust and are charged to do so in the best interest of the Trust.

The Board of Trustees may fill any vacancies on the Board of Trustees that occur during the year as set out in the Trust Agreement. Under the terms of the Trust Agreement the assets and the operations of the Trust are subject to the control of a minimum of three and a maximum of five Trustees who shall have relevant experience of not less than 5 years in duration in one of the fields of commercial banking, law, Real Property lending, real estate, accounting or another relevant field of benefit to plenary control of the Trust.

The Trustees have the authority to allow a Trust Manager, committee or other Persons to administer and regulate the operation of the Trust, to act as agents for the Trust, to execute documents on behalf of the Trust and the Trustees and to make executive decisions which conform to the general policies and principles and the investment and operating policies established by the Trustees.

Trustees will not be, in any way, restricted by the provisions of the laws of any jurisdiction limiting or purporting to limit investments which may be made by them. Trustees must exercise the powers and discharge the duties of the office honestly, in good faith and with a view to the best interests of the Trust and the Unitholders.

Trustees are empowered to delegate to committees, which may be comprised of Trustees or Persons who are

not Trustees, a Trust Manager or other advisors, any of the powers of the Trustees including the responsibility for administering to and performing record keeping and reporting functions of the Trust and in so doing, they are deemed to have satisfied the aforesaid standard of care.

Each Board Member and Officer of the Trust is indemnified by the Trust and the Trust Agreement states that, in acting on behalf of the Trust or other agreements, the Trustees will not be subject to any personal liability for any costs, damages, charges, damages, penalties or expenses with respect to the Trust or its assets and the Trust will be solely liable. The Declaration of Trust limits the liability of the Trustees to the Trust and the Unitholders, restricting liability to matters concerning willful misconduct or bad faith by a Board Member.

Unless otherwise required by law, the Trustees will not be required to give bond, surety or security in any jurisdiction for the performance of any duties or obligations under the Declaration of Trust, nor will they be required to devote their entire time to the investments, purpose or affairs of the Trust.

For their services, Trustees are entitled to receive reasonable annual compensation and expenses including for attending board or committee meetings. Services may include duties as an Officer of the Trust, legal, accounting, environmental audit, valuation or other professional services or services as a broker or underwriter.

Under the provisions of the Trust Management Agreement, a Board Member who is also a Director, Officer or employee of the Trust Manager will be paid such compensation, if any, by the Trust Manager.

Trustees and Conflict of Interest

The Declaration of Trust contains conflict of interest provisions that are intended to protect Unitholders without creating unreasonable limitations on either the Trust or the Trustee. The Declaration of Trust requires that each Board Member disclose any material interest in a material contract or transaction which conflicts with the Trust and to refrain from voting on matters connected with the Trust. If all of the Trustees have a proposed or a material interest in a material contract or transaction then, provided the required disclosure has been made by each of the Trustees, they may proceed to consider and vote on any resolution to approve the contract if they determine in good faith that it is commercially reasonable to do so.

Where a material contract is made or a material transaction is entered into between the Trust and a Board Member, or between the Trust and another Person of which a Board Member is a Director or Officer or in which he has a material interest and such Person disclosed his interest in accordance with the Declaration of Trust, and the contract or transaction was approved in good faith, then such Person is not accountable to the Trust or to the Unitholders for any profit or gain realized from the contract.

The Trust may in the future enter into agreements or transactions with the Trust Manager or its Affiliates or associates for the provision of products or services by the Trust Manager. Trustees may be Directors or Officers of the Trust Manager and any amounts charged to Trust for products or services will be determined in a commercially reasonable manner.

B. The Trust Manager

The Trust Manager was incorporated under the **Company Act (British Columbia)** in 2000 and is a Mortgage investment and management company with its principal office in Victoria, British Columbia. The Manager is registered as a Mortgage Broker under the **Mortgage Brokers Act (British Columbia)**. The principals and executives of the Manager have, since the 1970's, procured, invested, managed and acted legally on behalf of several billions of dollars in Mortgage investment capital with a variety of major financial Institutions, including life insurance companies, trust companies, brokerages, banks, pension funds, credit unions and private investors. The Manager sources loans either directly or through intermediaries such as mortgage brokerages, banks, trust companies, lawyers and accountants. All of the Trust Manager's Officers have extensive contacts in the mortgage and real estate industries which allow them to identify quality investment opportunities. The Officers of the Manager have collectively over 100 years experience in the business of sourcing and underwriting Commercial Mortgages and each of these individuals has a comprehensive education, knowledge and understanding of the Mortgage and real estate industries enabling them to make prudent investment decisions and identify sound investment opportunities. The Trust takes advantage of the Trust Manager's experience in these types of activities and thereby maintains access to a source of Mortgage investments to compete for. The Mortgage Manager uses a computerized Mortgage management system that has been in use by major institutions for over 15 years. The software is proven with redundant systems in place for Security, and is currently used by many lenders and institutions to service loan portfolios totalling in the billions.

The Manager may, under the terms of the Trust Management Agreement, delegate its powers to third parties where it deems it advisable. Under the Trust Management Agreement the Manager shall organize the Company's business operations, provide advice and assistance in connection with the determination of the investment guidelines, review all organizational documentation, and distribute Units. The services of a professional Transfer Agent may be utilized for the purposes of recording, documenting and maintaining the record of investments by and on behalf of Unitholders. The Trust Manager shall also review, evaluate and make recommendations concerning the Trust's policies and procedures and investment criteria. At the request of the Trust, the Manager will implement decisions of the Board of Trustees.

The reputations of the Trust Manager and its Officers have been earned over years by providing straight forward quality service and pricing to Borrowers on their Mortgage applications. Lending officers are available to communicate with Borrowers and to approach Loan cases with timeliness and creative flexibility. Timely service earns the Trust Manager repeat business from the brokerage and borrowing communities. The growth of the Trust is dependent on the ability of Trust Manager to continually source safe and secure Loans. The Officers of the Trust Manager are well known in the lending industry in Canada. The Trust Manager sources transactions principally through its reputation and direct contact with Borrowers and licensed Mortgage Brokers across the country.

Licensing and Legislative Regime

Mortgage Brokerages in British Columbia are currently regulated under the British Columbia Mortgage Brokers Act (the "Act"). The Act is administered by the Financial Institutions Commission of British Columbia, "FICOM" and regulates Mortgage Brokerages which must be licensed under the Act. Under the Act a "Mortgage Broker" is a person who does any of the following:

- (i) carries on a business of lending money secured in whole or in part by Mortgages, whether the money is the Mortgage Broker's own or that of another person;
- (ii) holds himself or herself out as, or by an advertisement, notice or sign indicates that he or she is, a Mortgage Broker;
- (iii) carries on a business of buying and selling Mortgages or agreements for sale;
- (iv) in any one year, receives an amount of \$1000 or more in fees or other consideration, excluding legal fees for arranging Mortgages for other Persons;
- (v) during any one year, lends money on the Security of 10 or more Mortgages; or
- (vi) carries on a business of collecting money secured by Mortgages.

As neither the Trust nor the Board of Trustees will be licensed under the Act, neither can engage directly in the business of dealing in Mortgages in British Columbia, and must therefore conduct its Mortgage investment activities under contract with the Trust Manager, a licensed Mortgage Brokerage and Mortgage Administrator.

A Mortgage Brokerage must obtain a license issued by FICOM. The Trust Manager currently holds a valid license under the Act sufficient to permit it to carry on the activities contemplated in the Trust Management Agreement and operates in compliance with the requirements of the Act. FICOM has wide authoritative power over Mortgage Brokerages, including inter alia, the power to grant or renew licenses, to revoke licenses, to attach conditions to a license and to investigate complaints made regarding the conduct of registered Mortgage Brokerages. Under the Act and its regulation there are several requirements a Mortgage Brokerage must meet in order to obtain or renew a license. The Act also imposes a continuing obligation on registered Mortgage Brokerages to remain in compliance, failing which FICOM may revoke the license.

Generally, a Mortgage Brokerage will not be granted a license or a renewal of a license if it could not reasonably be expected that the Mortgage Brokerage would be financially responsible in the conduct of its business. Further, a license will not be granted or renewed if the past conduct of the applicant would cause the regulators to believe that the Mortgage Brokerage will not conduct business legally and with integrity and honesty. In the case of a corporate Mortgage Brokerage, the regulators look to the past conduct of the Directors and Officers of the corporation.

Mortgage Brokerages are regulated provincially and as such the licensing and registration requirements vary by province. The Trust Manager has taken all necessary steps to see it is in compliance with all relevant licensing and registration requirements in all provinces where it conducts business. Subject to certain exceptions, every individual Mortgage Broker and active Officers and Directors of a corporate Mortgage Brokerage must complete an education program approved by FICOM.

The Trust Manager has entered into the Trust Management Agreement with the Trust and is entitled to earn a fee for providing services to the Trust. The Trust Manager must render its services under this agreement honestly, diligently and in good faith and must use reasonable commercial efforts to perform its duties and responsibilities under the agreement. The Trust Manager, its Directors and Officers, its Affiliates, members of its credit committee and their Affiliates may at any time engage in promoting or managing other entities or their investments including Real Property financing that may compete directly or indirectly with the Trust. The Trust Manager may establish other investment vehicles that may involve transactions which conflict with the interests of the Trust. See "Item 3.4 Organization – Duties and Services Provided by the Trust Manager and Details of the Trust Management Agreement" and "Item 8: Risk Factors – (s) Conflicts of Interest".

Although only some of the Officers of the Trust Manager will devote full time effort to the business and affairs of the Trust, others will devote as much time as is necessary to effectively supervise the management and business and affairs of the Trust. Whenever a conflict of interest arises between the interests of the Trust and other affiliated entities, the parties involved in resolving that conflict or determining necessary action or inaction will be entitled to consider the relative interests of all of the parties involved in the conflict as are appropriate for the circumstances.

Trust Manager Reports to Board of Trustees

In accordance with the terms and conditions of the Trust Management Agreement, the Trust Manager shall manage the business and administration of the Trust. The Trustee shall perform no management services and shall act at the instruction of the Trust Manager. In performing its duties, the actions of the Manager will at all times act subject to the terms and conditions of the Trust Management Agreement and the Trust Agreement. It shall be subject to the continuing governance of the Board of Trustees which has final plenary power with respect to governing the affairs of the Trust. The Manager has authority to bind the Trust, has exclusive authority to manage the operations and affairs of the Trust and to make all decisions regarding the business of the Trust, and the Trustee shall not bind itself in its course of business without the Manager. The Manager is required to exercise its powers and discharge its duties honestly, in good faith and in the best interests of the Trust and to exercise the degree of care, diligence and skill that a reasonably prudent professional manager would exercise in comparable circumstances. The Manager shall, at all times, maintain a flow-through of information on the affairs of the Trust to the Board of Trustees.

Term and Resignation of the Manager

The Manager shall be appointed for an initial term of five years and shall renew automatically for consecutive five year terms, unless, not less than 90 days prior to the end of each such five year period, the Board provides written notice to the Manager that the Unitholders have, by Special Resolution, decided to terminate the Manager's appointment. The Manager shall have the right to resign as Manager of the Trust by issuance of notice in writing to the Board and the Unitholders not less than one hundred twenty (120) days prior to the date on which such resignation is to take effect and it shall take effect on the date specified in the notice. The Board of Trustees shall appoint a successor Trust Manager. If, prior to the effective date of the Manager's resignation, a successor Manager is not appointed, the Trust Agreement shall be terminated upon the effective date of resignation of the Manager and the Trust Property shall be distributed and the Board shall continue to act as such until all of the Trust Property has been distributed.

Duties and Services Provided by the Trust Manager and Details of the Trust Management Agreement

The Trust Manager is responsible for the day-to-day activities of the Trust and, as applicable, any Subsidiary entity of the Trust from time to time. Generally, the Manager shall work to develop and implement all aspects of the Trust's marketing and distribution strategies, will manage the ongoing business and general administration of the Trust and will monitor the investment Portfolio of the Trust. The Trust will rely on the expertise and experience of the Manager in the area of credit assessment, Real Property analysis and Loan case analysis and administration to enhance returns and limit risk. The Manager shall have the power to borrow money on behalf of the Trust and charge Trust property to secure borrowed money. The Manager may earn brokerage fees from placing Mortgages and performing due diligence.

Trust Management Services

The **Trust management services** to be provided by the Trust Manager, under the terms of the Trust Management Agreement, may include, without limitation, any or all of the following:

- (i) appointing one or more duly licensed and/or registered investment advisors to manage the

investments of the Trust;

- (ii) appointing one or more licensed and duly authorized investment advisors to seek out and evaluate investment opportunities for the Trust;
- (iii) appointing, supervising and removing service providers for the Trust as the Manager sees fit and in cases where the Trust co-invests in Mortgages with other parties and those other parties administer the collection of a Mortgage, the Manager shall monitor such administration;
- (iv) attending meetings of the Board of Trustees of the Trust;
- (v) carrying out all market responsibilities, such as duties regarding the distribution of and subscription for Units, variously approve or reject subscriptions and submit such subscriptions and associated forms to the Board for processing, and prepare as necessary and file with the appropriate regulatory authorities, any documents as may be necessary in connection with the subscription for and distribution of Units;
- (vi) appointing a registrar of Units and, subject to the approval of the Board, change the registrar of Units;
- (vii) organizing contractual arrangements relating to the Trust;
- (viii) preparing the requisite continuous disclosure documents of the Trust;
- (ix) maintaining proper books, accounts and complete records of transactions of the Trust and its Portfolio, and appoint or change an auditor of the Trust;
- (x) appointing the bankers of the Trust and establish and monitor banking procedures to be implemented by the Trustee;
- (xi) providing employees having the requisite experience and skill to perform the obligations of the Trust Manager under the Trust Management Agreement;
- (xii) from time to time and as necessary, borrow money on behalf of the Trust and charge Trust property to secure borrowed money;
- (xiii) attendance to all matters with respect to Mortgage arrears and enforcement including, but not limited to appointing a receiver or receiver/manager or otherwise become a Mortgagee in possession with the consent of the Board;
- (xiv) prescribing any minimum initial and/or subsequent subscription amounts and minimum aggregate Net Asset Value balances of the Trust, and prescribe any procedures in connection therewith;
- (xv) doing all such other acts or things and entering into agreements or documents on behalf of the Trust to seek to achieve the investment objective of the Trust;
- (xvi) keeping proper records relating to the performance of its duties as Manager, which records shall be accessible for inspection by the Board, its agents, or the auditors, upon reasonable notice during normal business hours;
- (xvii) establishing with the Board of Trustees, investment policies, practices and objectives applicable to the Trust including any restrictions on investments which it deems advisable and to implement such policies, practices and objectives and ensure that the assets of the Trust consist only of "Qualified Investments" for "Registered Retirement Savings Plans" as defined in the Tax Act;
- (xviii) monitor regularly on an ongoing basis the Trust's compliance with the requirements under the Tax Act to qualify as a legally operating entity thereunder; and
- (xix) performing all such other duties and acts as may be necessary or incidental to the foregoing.

The services of the Manager under the Declaration of Trust and Trust Management Agreement are not exclusive, and nothing in the Declaration of Trust will prevent the Manager, or any Affiliate thereof, from providing similar services to other investment funds and other clients or from engaging in other activities. Any

possible investment referred to the Trust by mortgage brokerage businesses in which the Manager has an interest will have to adhere to the investment criteria and objectives of the Trust and the guidelines relating to conflicts of interest and Notwithstanding the foregoing, generally attending to all matters of Trust business.

Duty of Care - Trust Manager

In performing its duties under the Trust Management Agreement, the Trust Manager will be required to exercise its powers and discharge its duties diligently, honestly and in good faith and in the best interests of the Trust, including without limitation exercising the standard of care, diligence and skill that a reasonably prudent person would exercise in similar circumstances. The Trust Manager has agreed to fulfill the role and provide the services set out in the Trust Management Agreement in an honest and diligent manner, in good faith and to the best of its ability. The Trust Manager has further agreed to service the Trust's Portfolio of Authorized Investments in the same manner as it administers its current Mortgage Loans, in the customary industry standard of practice employed by Mortgage Loan Administrators and Mortgage Managers and to exercise reasonable business judgment in accordance with applicable law and the protection of the assets of the Trust.

Termination of Duties as Trust Manager

The Trust Manager will continue as Manager until the termination of the Trust unless:

- (i) the Trust Manager resigns by written notice to the Trust;
- (ii) the Trust Manager is removed by written notice given by the Trust following the occurrence of certain specified events of default (as described herein); or
- (iii) the Trust Manager is removed by written notice given by the Trust following an Extraordinary Resolution of the Board of Trustees directing the Trust to remove the Trust Manager as manager of the Trust.

The following comprise an event of default under the Trust Management Agreement:

- (i) the bankruptcy or insolvency of the Trust Manager, or if the Trust Manager either voluntarily or under an order of a court of competent jurisdiction makes a general assignment for the benefit of its creditors or otherwise acknowledges its insolvency;
- (ii) the Trust Manager's wilful misconduct or bad faith in its standard of care owed under the Trust Management Agreement; or
- (iii) the Trust Manager no longer holds the licenses, registrations or other authorizations necessary to carry out its obligations hereunder and is unable to obtain them principally or by way of agency with an outside source within a reasonable period after their loss.

Indemnification of the Trust Manager

The Trust Management Agreement contains indemnification provisions whereby the Trust indemnifies the Trust Manager against any loss, expense, damage or injury suffered in the scope of its authority under the Agreement, provided the same does not result from wilful misconduct or bad faith in its standard of care owed under the Agreement. The Trust has agreed to indemnify and hold harmless the Trust Manager, as well as its Directors, Officers, shareholders, employees, Affiliates and agents, from and against any and all liabilities, losses, claims, damages, penalties, actions, suits, demands, costs and expenses including, without limiting the foregoing, reasonable legal fees and expenses, arising from or in connection with any actions or omissions which the Trust Manager takes under the Trust Management Agreement, provided that such action or omission is taken, or not taken, in good faith and without wilful misconduct. This indemnity will survive the removal or resignation of the Trust Manager in connection with any and all of its duties and obligations under the Trust Management Agreement.

Trust Manager Remuneration

For its services, the Manager will be paid the Management Fee described hereunder. The Trust Manager will bear all costs and expenses incurred by the Trust Manager in connection with all salaries, employee expenses, office rent and equipment, and other expenses customarily considered to be overhead expenses.

(i) Management Fee

As compensation for the services provided under the Trust Management Agreement, the Trust shall pay to the Trust Manager a fee (the "Management Fee") of 1.2%, calculated and paid monthly on the annualized gross assets of the Trust, together with an Incentive Performance Fee of 20% of the gross earnings over the Hurdle Rate discussed and defined herein. In addition, the Trust Manager will be entitled to all lender, broker, origination, commitment, renewal, extension, discharge, participation, NSF and special and general administration fees ("Lender/Broker Fees") generated on the Authorized Investments it arranges and presents to the Trust. The fees payable to the Trust Manager under the Trust Management Agreement are commensurate with fees paid to other entities providing similar services and to the fees charged by the Trust Manager for similar services provided to its other clients. The obligations of the Trust to the Trust Manager are secured by the Trust Management Agreement. The Trustee has agreed to guarantee payment of the amounts owing to the Trust Manager from time to time under the terms of the Trust Management Agreement.

Under the Trust Management Agreement, the Trust Manager is responsible for the employment expenses of its personnel, including salaries, wages and the cost of employee benefit plans and temporary help expenses, expenses of the Trustees who are Directors, Officers or employees of the Trust Manager (except expenses incurred in attending to Trustee duties), costs associated with the sourcing and arranging of eligible investments for presentation to the Trust, rent, telephone, utilities, office furniture and supplies, equipment and machinery and other office expenses.

(ii) Performance Incentive Fee

In addition, in any calendar year where the Trust has gross earnings in excess of the Hurdle Rate ("Hurdle Rate" means the average 2-Yr GOC benchmark bond yield for the 12-month period then ended [.75% April, 2015] plus 350 basis points), the Trust Manager will be entitled to receive from the Trust a Performance Incentive Fee equal to 20% of the gross earnings over the Hurdle Rate (the "Carried Interest"). In determining the Carried Interest, on a monthly basis the Trust Manager will calculate the gross earnings of the Trust in that month that are required to achieve the Hurdle Rate based on the outstanding capital of the Trust. An amount equal to 20% of gross earnings in excess of the Hurdle Rate in that month will be deducted from the Trust's monthly distribution and paid to the Trust Manager. The Trust Manager will calculate the final Carried Interest performance fee in respect of a completed calendar year based on the audited financial statements for that year. The Carried Interest performance fee in respect of a calendar year will be payable to the Trust Manager within 15 days of the issuance of the Trust's audited financial statements for that year. Fees payable to the Trust Manager shall be, in any calendar year where the Trust has gross earnings in excess of the Hurdle Rate, 20% of such excess.

Mortgage Servicing

The Trust Manager will actively attend to the servicing of all Mortgages in the Portfolio in order to monitor the status of all Loans and react quickly to issues that arise. The Trust Manager will provide day-to-day administration of Loans in the Portfolio either directly or, in instances where the Trust is a participant in a Syndicated Mortgage, another qualified partner in the investment may act as the Mortgage Servicing Agent ("Servicing Agent"). The Trust Manager will ensure that any Servicing Agents appointed to administer the servicing of an individual Mortgage are properly licensed and insured in accordance with the requirements of applicable legislation. The day-to-day administration of individual Mortgages includes, among others things, responsibilities such as the collection of monthly payments, management of property tax and other escrow accounts, regular remittance to the Trust of interest (and other income) collected, monitoring the status of Loans, and regular reporting as required by the applicable servicing agreement.

Regulated Activities on behalf of the Trust

Neither the Trust nor any of its Affiliates other than the Trust Manager are licensed as Mortgage Brokers under the *Mortgage Brokerage Act* (British Columbia). The Trust Manager is licensed as a principal Mortgage Broker in the Province of British Columbia and performs activities on behalf of the Trust which only entities appropriately registered with the FICOM are capable of performing. The Trust has no contract or arrangement with any other broker regarding Mortgage Loan transactions. The business of the Trust is not allocated to the Trust Manager according to any specific formula, method or criteria. The Trust Manager will carry out any regulated activities and other lending activities in the best interests of the Trust and in accordance with applicable legislation in British Columbia.

The regulated Trust Management Services to be provided by the Trust Manager under the terms of the Trust Management Agreement include but are not limited to, without limitation:

- (i) to present to the Trust all investment opportunities originated by the Trust Manager that meet the investment objective of the Trust;
- (ii) to supervise the day-to-day affairs in connection with the Trust Assets on behalf of the Trust;
- (iii) to provide assistance to the Trust with respect to the ongoing evaluation and, as required, adjustment of the Asset Allocation Model;
- (iv) as required to perform its obligations, engage the services of qualified third parties;
- (v) to maintain proper books, accounts and records concerning the Trust Assets;
- (vi) to provide employees having the requisite experience and skill to perform the obligations of the Mortgage servicing by the Trust Manager under the Trust Management Agreement; and
- (vii) all such other services or acts as may be reasonably necessary or ancillary to the performance of the Trust Manager's Mortgage investment obligations under the Trust Management Agreement.

Acknowledgements

It is acknowledged that the Trust Manager, or its Directors, Officers, shareholders, employees and Affiliates, may purchase with their own funds and own as a co-lender, a percentage interest in an investment that the Trust Manager presents to the Trust and is thereafter funded by the Trust and that the Trust Manager may also sell undivided percentage interests in such investments to other co-lenders. It is also acknowledged that the Trust Manager may hold a subordinated portion of a Loan and the rate of return on such subordinated portion may vary from the Trust's rate of return.

The Trust also consents to and acknowledges, among other things, that:

- (i) the services of the Trust Manager and its Directors, Officers and employees are not exclusive to the Trust and they may at any time engage in promoting or managing any other entity or its investments including those which may compete directly or indirectly with the Trust;
- (ii) the Trust Manager may charge brokers' fees, lenders' fees, commitment fees, renewal fees, NSF fees, administration fees, discharge fees and other fees to Borrowers with respect to Mortgage Loans and all of such fees may, at the sole discretion of the Trust Manager, remain the sole property of the Trust Manager;
- (iii) the Trust Manager and its Directors, Officers, employees, Affiliates and associates are engaged in a wide range of investing activities, which may include Real Property financing in direct competition with the Trust; and
- (iv) the Trust Manager is under no obligation to make payments to the Trust under the Trust Management Agreement in respect of a funded Loan unless and until corresponding payments are received by the Trust Manager from the Borrower in any particular month.

C. Trust Governance

The Board of Trustees (the "Board" or "Trustees")

Role of the Board of Trustees and Details of the Board of Trustees Advisory Agreement

A Board of Trustees shall be appointed and shall be composed of a minimum of three and not more than five Trustees. The board is responsible for the stewardship of the Trust and, as fiduciaries; the members are required to act honestly, with care, diligence and good faith in the best interests of Trusts' Unitholders. Trustees shall use their knowledge in carrying out their duties that relate to their general expertise. The Board shall appoint members in conjunction with the Manager. The Board shall be composed of persons from various professions and deemed suitable in knowledge and experience to act responsibly in the interests of Trust beneficiaries and shall have greater than 5 years relevant experience in commercial banking, law, Real Property lending, accounting, real estate brokerage, or another relevant field beneficial to the plenary control of the Trust.

The Board shall establish policies for the Trust, monitor and evaluate the Trust's strategic direction, and retain plenary power for those functions not specifically delegated to the Trust Manager. The Board shall communicate regularly to discuss and monitor Trust and Trust Manager activities and it shall review ongoing finances and audited annual statements. These Board duties of oversight and supervision of the accounting and financial reporting practices and procedures of the Trust are designed to maintain the quality and integrity of the Trust and its financial reporting.

A Trust Advisory Agreement between Pendfund Income Fund I ("Trust"), and the Pendfund Income Fund Inc. Board of Trustees (the "Board") provides for the appointment of the Board of Trustees to provide oversight, governance in general investment advisory and ancillary services to the Trust in conjunction with the Trust Manager and may include, without limitation, advice from the Board to the Manager with respect to the Manager's performance of the following processes:

- (i) acts necessary to the proper management of the investments of the Trust;
- (ii) exercise all rights, powers, options, privileges, and other powers incidental to ownership of the Securities;
- (iii) ensure maintenance of proper books, accounts and records of the Trust's Portfolio;
- (iv) provide that the Trust Manager has properly provided to the Board of Trustees the proxy materials and determine whether and how to vote where necessary on matters concerning Securities held by the Trust;
- (v) maintain the Trust's investments as in compliance with the Asset Allocation Model and properly account for expenses incurred in connection with the operation of the Trust;
- (vi) ensure Trust assets are not invested in: (a) Loans made against the Security of property owned or against which the senior Mortgage interest is held by any Affiliate, the Trust Manager or the Board or Trustees or (b) any other non arms-length Loans unless such loans are approved by a quorum of the Board of Trustees;
- (vii) maintain regularly the Trust's compliance with the requirements under the Tax Act to qualify as a legally operating entity thereunder; and
- (viii) ensure that the Trust shall, on or before March 31st in each calendar year, make available to each Unitholder annual audited financial statements and all other information required to file Canadian income tax returns.

Duty of Care Board of Trustees

In carrying out its obligations under the Trust Advisory Agreement, the Board of Trustees is required to exercise its power and discharge its duties diligently, honestly and in good faith and in the best interests of the Trust, including without limitation exercising the standard of care, diligence and skill that a reasonably prudent person would exercise in similar circumstances.

Termination of Duties as Board of Trustees

Either party to the Trust Advisory Agreement may terminate the Agreement upon written notice to the other. In addition, the Trust may terminate the Trust Advisory Agreement upon delivering a written notice to the Board of Trustees upon the occurrence of the following events of default:

- (i) the dissolution of the Board;
- (ii) the Board's willful misconduct or bad faith in its standard of care owed under the Trust Advisory Agreement.

Each Board Member is responsible for its own actions or inactions and not the actions or inactions of other Board Members.

Indemnification of the Board of Trustees

The Trust Advisory Agreement contains indemnification provisions whereby the Trust indemnifies the Board of Trustees and its Board members against any loss, expense, damage or injury suffered in the scope of its authority under the Agreement, provided same does not result from wilful misconduct or bad faith. This indemnity will survive the removal or resignation of each Board Member in connection with any and all of its duties and obligations under the Trust Management Agreement. No Board Member shall be held liable or accountable for the actions of another Board Member.

Penalties, Sanctions and Bankruptcy: Board of Trustees

It is a requirement for appointment and service on the Board of Trustees that no member or prospective member of the Board has ever:

- (i) been subject to any penalties or sanctions imposed by a court or by a regulatory authority;
- (ii) been a Director, senior Officer or control person of any issuer that has been subject to any penalties or sanctions imposed by a court or by a regulatory authority while the Director, Officer or control person was a Director, Officer or control person of such issuer;
- (iii) made any declaration of bankruptcy, voluntary assignment in bankruptcy or proposal under bankruptcy or insolvency legislation or been subject to any proceedings, arrangement or compromise with creditors or appointment of a receiver, receiver-manager or trustee to hold assets; or
- (iv) been a Director, senior Officer or control person of any issuer that has made any declaration of bankruptcy, voluntary assignment in bankruptcy, proposal under bankruptcy or insolvency legislation, or been subject to any proceedings, arrangement or compromise with creditors or appointment of a receiver, receiver-manager or trustee to hold assets while the Director, Officer or control person was a Director, Officer or control person of such issuer.

Expenses and Remuneration of the Board of Trustees

For its services, the Board of Trustees (Trust Advisor) will be paid by the Trust. Pursuant to the terms of the Trust Advisory Agreement, the Trust will bear all costs and expenses incurred by the Trust Advisor in connection with all salaries, employee expenses, office rent and equipment, other expenses customarily considered to be overhead expenses. Members of the Board shall receive industry-standard compensation from the Trust which will start not sooner than such time as the Trust has reached a critical mass of not less than \$5,000,000. Members will also receive reimbursement for out-of-pocket expenses in relation to the execution of their duties as members of the Board and may be compensated for various services and attendance at meetings.

Trustees and Conflict of Interest

Conflict of interest provisions herein are intended to protect Unitholders without creating unreasonable limitations on either the Trust or the Board Member. Each Board Member shall disclose any material interest in a material contract or transaction which conflicts with the Trust and refrain from voting on matters connected with the Trust. If all of the Trustees have a proposed or a material interest in a material contract or transaction, then, provided the required disclosure has been made by each of the Trustees, the Trustees may proceed to consider and vote on any resolution to approve the contract if they determine in good faith that it is commercially reasonable to do so.

Where a material contract is made or a material transaction is entered into between the Trust and a Board Member, or between the Trust and another Person of which a Board Member is a Director or Officer or in which he has a material interest and such Person disclosed his interest and the contract or transaction was approved in good faith, then such Person is not accountable to the Trust or to the Unitholders for any profit or gain realized from the contract.

The Trust may in the future enter into agreements or transactions with the Trust Manager or its Affiliates or associates for the provision of products or services by the Trust Manager. Some Trustees may be Directors or Officers of the Trust Manager and any amounts charged to the Trust for products or services will be determined in a commercially reasonable manner.

The following are declared Conflicts of Interest of the Members of the Board of Trustees:

- (i) members of the Board may make unfettered investment into the Trust of personal, corporate or other funds in sums regulated according to the terms herein;
- (ii) members of the Board or professional firms they are employed by or affiliated with may be hired or employed by the Trust or the Manager to carry out professional duties for the Trust or the Manager including, but not limited to, legal, accounting, appraisal and general consulting tasks;
- (iii) members of the Board may, as part of a compensation package be permitted to make investment into the Trust with reduced or no sales or processing fee as incentive to carry on in a trustee role and to elevate the grade of fiduciary interest in matters of the Trust;
- (iv) members of the Board may, as a part of a compensation package, be remunerated from time to time for the service of raising capital on behalf of the Trust in the form of a percentage of a sales or processing fee paid to sellers and finders which fee would otherwise be paid to an arms-length Person or entity performing the same service;
- (v) members of the Board may source quality arms-length lending opportunities for normal underwriting scrutiny by the Manager. Board members may, in such cases, be compensated by the Manager with a referral fee paid by the Manager or the Trust or the Borrower, as the case may be. Such cases will be identified and declared to the Board as a referral from a Board member.

Item 4: Capital Structure, Long Term Debt and Prior Sales

General

As at the date of writing of this Offering Memorandum there are no outstanding Securities of the issuer including options, warrants and other Securities convertible into shares, prior sales or outstanding long term debt of the issuer. The issuer has not issued any Securities of the class being offered under the Offering Memorandum (or convertible or exchangeable into the class being offered under the Offering Memorandum) within the last 12 months.

Item 5: Securities Offered

5.1 Terms of Securities

Description of Units

Units are subject to the terms and conditions of the Declaration of Trust. This Offering Memorandum contains statements concerning the Declaration of Trust and is intended to be only a summary of the provisions of the Declaration of Trust and does not purport to be complete. Upon request in writing to the Trustees, a copy of the Declaration of Trust will be provided to each prospective Subscriber. **Prior to executing a Subscription Agreement, each prospective Subscriber should review with his, her or its advisors the provisions of the Declaration of Trust for the complete details of these provisions and all other provisions thereof. All capitalized terms in this section not otherwise defined herein shall have the meaning as set out in the Declaration of Trust.** The Trust is an unincorporated open-end investment trust created pursuant to the Declaration of Trust and governed by the laws of the Province of British Columbia.

The beneficial interests in the Trust are in one class of interests, described and designated as "Units", which are entitled to the rights and subject to the limitations, restrictions and conditions set out in the Declaration of Trust. Each Unitholder's interest in the Trust is determined by reference to the number of Units held. Each Unit ranks equally with all other outstanding Units without discrimination, preference or priority. Units may be issued by the Trust at the times, to the Persons, for the consideration and on the terms and conditions that the Trustees determine in their sole discretion. The Trustees may, subject to applicable Securities laws, authorize the payment of a commission or other fee to any Person, including, specifically, the Trustees, the Trust Manager and its Directors, Officers, employees, subsidiaries, Affiliates and Associates, in consideration of such Person purchasing Units from the Trust or for finding purchasers of Units. The Trustees may also, subject to applicable Securities laws, authorize and allow commercially reasonable discounts to Persons, including, specifically, the members of the Board of Trustees and the Trust Manager and its Directors, Officers, employees, subsidiaries, Affiliates and associates, in consideration of their subscribing for Units.

Fractions of Units will not be issued except pursuant to distributions of additional Units to all Unitholders and distributions of additional Units to those Unitholders exercising the right to purchase additional Units in accordance with the Declaration of Trust. No certificates will be issued for fractional Units. Fractional Units will not entitle the holders thereof to a vote. The Trustees may in their sole discretion without Unitholder approval, create one or more additional classes of Units of the Trust, with each such class of Units in numbers and with rights and subject to such limitations, restrictions and conditions as the Trustees deem advisable notwithstanding that such rights may be more or less favourable or rank in priority to any one or more classes of the existing Units.

The Trustees may also create and issue rights, warrants (including so-called "special warrants" which may be exercisable for no additional consideration), subscription receipts, installment receipts, exchangeable Securities, options or other Securities to purchase, convert, redeem or exchange into Units or other Securities of the Trust on such terms and conditions, for such consideration, exercisable at such subscription price or prices and at such time or times as the Trustees in their sole discretion may determine. Such rights, warrants, options or other Securities will not be a Unit and the holder thereof will not be a Unitholder. Upon any issue of Units, the name of the purchaser will promptly be recorded in the Unit Register as the owner of the number of Units issued to such purchaser, or if the purchaser is already a Unitholder, the Register will be amended to include such additional Units. The Trustees shall use their best reasonable efforts to ensure the issuance of such rights, warrants, options or other Securities will not dilute the interests of existing Unitholders.

Unitholders do not have any pre-emptive rights whereby additional Units proposed to be issued are first offered to existing Unitholders. New Units may be issued as a distribution, for cash through rights Offerings to existing Unitholders (i.e., in which Unitholders receive rights to subscribe for new Units in proportion to their existing holdings of Units, which rights may be exercised or sold to other investors) or through private placements (i.e., offerings to specific investors which are not made generally available to the public or existing Unitholders). The price or the value of the consideration for which Units may be issued will be \$10.00 per Unit, unless the Manager determines that the value of a Unit is materially different than \$10.00 in which case each additional Unit shall be issued at such different value.

All Units outstanding from time to time will participate *pro rata* in any distributions from the Trust. In the event of a termination or winding-up of the Trust the Units will participate in the net assets of the Trust remaining after satisfaction of, or provision for, all liabilities. No Person is entitled, as a matter of right, to subscribe for or purchase any Unit. There are no conversion, retraction or redemption rights attached to the Units other than as specifically set out in the Declaration of Trust and described below in this Offering Memorandum. Each Unit confers the right to one vote on any resolution of Unitholders, whether conducted at a meeting of Unitholders or in writing.

The legal ownership of the assets of the Trust and the right to conduct the affairs of the Trust are vested exclusively in the Trustees and the Unitholders will have no interest therein other than as described above. Unitholders will have no right to compel any partition, division or distribution of the Trust or any of the assets of the Trust. The Units are personal property and confer upon the holders thereof only the interest and rights specifically set forth in the Declaration of Trust. A Unit may be transferred by a Unitholder or his agent duly authorized in writing, to any other Person, to the extent permitted under the Declaration of Trust and only in compliance with all applicable Securities and other laws unless, as a result of the transfer, the Trust will cease to qualify as a "mutual fund trust" or a "unit trust" as defined in the Tax Act. See "Item 10: Resale Restrictions".

Unit Certificates

Each Unitholder or his duly authorized agent is entitled to a certificate bearing an identifying number in respect of the Units held by him. The Trustees are not bound to issue more than one certificate in respect of a Unit or Units held jointly or in common by two or more Persons, and delivery of a certificate to one of them will be sufficient delivery to all. The Trustees may establish a reasonable fee to be charged for every certificate issued or re-issued as the case may be. Notwithstanding the preceding paragraph, Units purchased by a Unitholder pursuant to the exercise of the Reinvestment Right will be recorded on the Register in respect of that Unitholder. In lieu of a request by a Unitholder to the contrary, a Unit Certificate in respect of whole Units only will be issued annually or on termination of the Reinvestment Right. In the event that any Unit Certificate is lost, stolen, destroyed or mutilated, the Trustees may authorize the issuance of a new Unit Certificate for the same number of Units as replacement. The Trustees may require the owner of the lost, stolen, destroyed or mutilated certificate, or the legal representative of the owner, to make such affidavit or statutory declaration, establishing facts on the loss, theft, destruction or mutilation and may require the applicant to provide to the Trust a "lost certificate bond" or similar bond in such reasonable amount as the Trustees direct, indemnifying the Trust and its agents for so doing. Notwithstanding the foregoing, it is the Trust's current administrative policy to issue a

certificate to a Unitholder only upon receiving a written request for a certificate.

The Trustees may acquire from an insurer or insurers a blanket lost Security bond or bonds in respect of the replacement of lost, stolen, destroyed or mutilated Unit Certificates. Unit Certificates representing any number of Units may be exchanged, upon payment of any fees required at the time, for Unit Certificates representing an equivalent number of Units. Where any Certificate representing Units is registered in more than one name, the distributions in respect thereof may be paid to the order of all such holders failing written instructions from them to the contrary. In the case of the death of one or more joint holders, the distributions in respect of any Units may be paid to the survivor or survivors of such holders and such payment will be a valid discharge to the Trustees and any transfer agent of the Trust.

Distribution Reinvestment Right

A Unitholder has the right at any time and from time to time to purchase additional Units, subject to availability, using the cash distributions allotted and payable to the Unitholder on account of the its Units held in accordance with the terms outlined in the Declaration of Trust. This right is subject to all applicable Securities and other laws and the right of the Trustees to suspend or terminate such right in accordance with the Declaration of Trust.

Information and Reports

After the close of each Fiscal Year of the Trust (the 31st day of December), the Trust's audited financial statements and auditor's report will be made available to each Unitholder on or before June 31 in each calendar year. They shall account for the immediately preceding fiscal period and contain: (i) audited financial statements of the Trust as at the end of and for the fiscal period, with comparative financial statements as at the end of and for the immediately preceding fiscal period, if any; and (ii) such other information as, in the opinion of the Trustees, is material to the activities of the Trust. A copy of such materials will be provided to a Unitholder upon request in writing to the Trustees.

In addition, on or before March 31 in each calendar year, the Trust will forward to each Person who received a distribution at any time during the previous calendar year, tax reporting information in such a manner as will enable such Person to report the income tax consequences of investment in Units in the Unitholder's annual Canadian income tax return.

The Trust will maintain at its principal office or at any other place in Canada designated by the Trustees, records containing: (i) the Declaration of Trust; (ii) minutes of meetings and resolutions of Unitholders; (iii) the Trustees' regulations (if any); and (iv) a copy of the Register. The Trust will also prepare and maintain adequate accounting records and records containing minutes of meetings and resolutions of the Trustees and any committee thereof subject to all applicable privacy and access to information laws in effect from time to time, a Unitholder may examine the Declaration of Trust and any amendments thereto, any regulations adopted by the Trustees in accordance with the Declaration of Trust, the minutes of meetings and resolutions of Unitholders and any other documents or records which the Trustees, in their sole discretion, determine should be available for inspection by such Persons, during normal business hours at the principal office of the Trust.

Forward-Looking Statements

Prospective Subscribers should be aware that certain statements used herein, including, without limitation, sensitivity analyses, analyses of market trend, trends in revenue and anticipated expense levels as well as other statements about anticipated future events or results, are forward-looking statements. Forward-looking statements often, but not always, are identified by the use of words such as "seek", "anticipate", "believe", "plan", "estimate", "expect", and "intend" and statements that an event or result "may", "will", "should", "could" or "might" occur or be achieved and other similar expressions.

The forward-looking statements that are contained herein involve a number of risks and uncertainties. Should one or more of these risks materialize, or should assumptions underlying the forward-looking statements prove incorrect, actual events or results might differ materially from events or results projected or suggested in these forward-looking statements.

Register

A Register, which contains the names and addresses of Unitholders, the respective numbers of Units held by them, the certificate numbers of the certificates representing such Units, if applicable, and a record of all

transfers thereof will be kept by, or on behalf of and under the direction of the Trustees. The Trustees may appoint one or more Persons, chartered banks or trust companies to act as transfer agents and to act as registrars for the Units (the Registrar) and may provide for the transfer of Units in one or more places within Canada. The Trustees may outsource these tasks to a firm such as Computershare Investor Services Inc. to act as the Trust's transfer agent. The Register will at all reasonable times be open for inspection by the Trustees.

Only Persons whose Units are recorded on the Register are entitled to vote, receive distributions or otherwise exercise or enjoy the rights of Unitholders. The Trustees will have the right to treat the Person registered as a Unitholder on the Register as the owner of such Units for all purposes, including, without limitation, payment of any distribution, giving notice to Unitholders and determining the right to attend and vote at meetings and the Trustees will not be bound to recognize any transfer, pledge or other disposition of a Unit until such Unit has been transferred on the Register of the Trust as herein provided.

The Trust will maintain at its principal office or at any other place in Canada designated by the Trustees, records containing: (i) the Declaration of Trust; (ii) minutes of meetings and resolutions of Unitholders; (iii) the Trustees' regulations (if any); and (iv) a copy of the Register. The Trust will also prepare and maintain adequate accounting records and records containing minutes of meetings and resolutions of the Trustees and subject to all applicable privacy and access to information laws, a Unitholder may examine the above documents or records and others, the Trustees in their sole discretion determine should be available for inspection by such Persons, during normal business hours at the principal office of the Trust.

Net Asset Value

The Net Asset Value of the Trust and the Net Asset Value Per Unit will be computed by the Manager as at the close of business on a Valuation Day in the following manner:

- (i) the Fair Market Value of the Mortgages shall be deemed to be their aggregate principal amount plus accrued unpaid interest, unless the Manager determines that any such Mortgage has a Fair Market Value less than the principal amount thereof, in which event the Manager shall determine the reasonable Fair Market Value thereof;
- (ii) the amount of any undistributed net income or net realized capital gains allocated to Units but not yet distributed on the Valuation Day shall not be included in the assets of the Trust;
- (iii) the Fair Market Value of any cash on hand, on deposit or on call, and prepaid expenses shall be deemed to be the face amount thereof, unless the Manager determines that any of same has a Fair Market Value less than the face amount thereof, in which event the Manager shall determine the reasonable Fair Market Value thereof;
- (iv) the Fair Market Value of any interest accrued and not yet received shall be deemed to be the face amount thereof, unless it is reasonably determined by the Manager that any accrued interest has a Fair Market Value less than the face amount thereof, in which event the Manager shall determine the reasonable Fair Market Value thereof;
- (v) all material expenses or liabilities (including fees payable to the Manager) of the Trust shall be calculated on an accrual basis; and
- (vi) the Fair Market Value of any money market instruments shall be deemed to be cost plus accrued unpaid interest.

Trust Units and Voting Rights

The Trust is authorized to issue ten million (10,000,000) redeemable non-transferable Units of beneficial interest, each of which represents an equal, undivided interest in the net assets of the Trust. Fractional Units will not be issued.

Each Unitholder is entitled to one vote per Unit held and, subject to an adjustment in a Unit's Proportionate Share as a result of the date of first issue of a Unit in the first Fiscal Year, is entitled to participate equally with regard to distributions made by the Trust, including distributions of net income and net realized capital gains, where applicable. On termination, the Unitholders of record holding outstanding Units are entitled to receive all of the assets of the Trust remaining after payment of all debts, liabilities and liquidation expenses of the Trust. See "Item 5.1 Terms of Securities – Terms and Termination of the Trust" below.

Each Unit entitles the holder to the same rights and obligations as a holder of any other Unit and no Unitholder is entitled to any privilege, priority or preference in relation to any other Unitholders.

The legal ownership of the assets of the Trust and the right to conduct the affairs of the Trust are vested exclusively in the Trustees and the Unitholders will have no interest therein other than as described above. Unitholders will have no right to compel any partition, division or distribution of the Trust or any of the assets thereof. The Units are personal property and confer upon the holders thereof only the interest and rights specifically set forth in the Declaration of Trust. A Unit may be transferred by a Unitholder or his agent duly authorized in writing, to any other Person, to the transferor and one or more other Persons jointly, or by two or more joint holders to one or some of them to the extent permitted under the Declaration of Trust and only in compliance with all applicable Securities and other laws unless, as a result of the transfer, the Trust will cease to qualify as a "mutual fund trust" or a "unit trust" as defined in the Tax Act. See "Item 10: Resale Restrictions".

Meetings of Unitholders and Resolutions

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

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

Each Unitholder is entitled to one vote per Unit held.

"Ordinary Resolution" means a resolution passed by a simple majority of the votes cast by those Unitholders who, being entitled to do so, vote in person or by proxy at a duly convened meeting of Unitholders, or, subject to applicable laws, regulations and regulatory policies, a written resolution, in one or more counterparts, consented to in writing by Unitholders holding not less than 50% plus one of the votes attached to Units held by all Unitholders entitled to vote at that time.

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

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

"Special Resolution" means a resolution approved by not less than 75% of the votes cast by those Unitholders who, being entitled to do so, vote in person or by proxy at a duly convened meeting of Unitholders, or, subject to applicable laws, regulations and regulatory policies, a written resolution, in one or more counterparts, consented to in writing by Unitholders holding not less than 66.67% of the votes attached to Units held by all Unitholders entitled to vote at that time.

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

- (a) the amendment of the Trust Agreement (except as provided under "Amendments to the Trust Agreement" below) or changes to the Trust, including the investment objectives of the Trust;
- (b) any amendment to the items requiring approval by Special Resolution;

- (c) any amendment relating to the powers, duties, rights, obligations, liabilities or indemnification or removal of the Trustees;
- (d) any amendment to the Declaration of Trust to reduce or remove a right with respect to any outstanding Units of the Trust;
- (e) the appointment of a new Board Member; and
- (f) the termination of the Manager.

Notwithstanding the foregoing, any amendment to the Trust Agreement which would result in the following requires approval by ***Unanimous Resolution***, which shall specify the date upon which the proposed amendment shall be undertaken and the party who shall undertake the amendment:

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

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

Amendments to the Trust Agreement

Subject to the restrictions described under the last paragraph of "Meetings of Unitholders and Resolutions" above, any provision of the Declaration of Trust may be amended, deleted, expanded or varied by the Board of Trustees, if the amendment is, in the opinion of counsel, not a material change which adversely affects the pecuniary value of the interest of any Unitholder in the Trust and is for the purpose of:

- (i) compliance with applicable laws, regulations, requirements or policies of any governmental or other authority having jurisdiction over the Trustees, the Trust or its assets;
- (ii) the provision of supplementary protection for Unitholders, as determined by the Trustees in their sole discretion;
- (iii) the removal of any inconsistencies or conflicts or the making of corrections in the Declaration of Trust which are necessary or desirable and not prejudicial to the Unitholders in the opinion of the Trustees;
- (iv) a change in or amendment of the Trust's name or identity as deemed necessary by the Trustees ;
- (v) making necessary amendments in response to changes in Canadian taxation laws as necessary in the opinion of counsel;
- (vi) making necessary or desirable amendments to create an additional class or classes of Units of the Trust as on the advice of council;
- (vii) complying with specific requests and requirements of any underwriter, sponsor, regulatory authority or stock exchange having jurisdiction over the Trust or the Trustees if required to create an initial public offering of Securities and listing of the Securities of the Trust on a stock exchange or public trading market provided that such amendments are determined by the Trustees in their sole discretion to be in the best interests of the Unitholders; and
- (viii) making amendments for any purpose which, in the opinion of the Trustees, are necessary or desirable and not prejudicial to Unitholders excluding amendments that Unitholder approval is specifically

otherwise required for under the Declaration of Trust;

but notwithstanding the foregoing and subject to the Trustees ability to create additional classes of Units no such amendment will: (i) modify the right to one vote per Unit; (ii) result in a Unit representing less than an equal undivided interest in any distributions from the Trust or in the net assets of the Trust in the event of a termination or winding up of the Trust without the consent of the holders of Units then outstanding by Special Resolution; or (iii) reduce the percentage of votes required to pass an Ordinary Resolution or a Special Resolution.

Term and Termination of the Trust

Unless sooner terminated as provided in the Declaration of Trust, the Trust will continue until no property of the Trust is held by the Trustee. In the event of a termination of the Trust, after making provision for or paying, retiring or discharging all known liabilities and obligations of the Trust and providing for indemnity against any other outstanding liabilities and obligations, the Trustee will distribute the cash forming part of the Trust assets together with, subject to obtaining all necessary regulatory approvals, the non-cash Trust assets *in specie* among the Unitholders in accordance with their *pro rata* interests. Unitholders may terminate the Trust by Special Resolution, following which the Trustee will commence to wind up the affairs of the Trust.

Reporting Obligations of the Trust

Audited financial statements will be made available to Unitholders annually. In addition, Unitholders will be given a quarterly statement of account and will also be given notice of and be entitled to attend and vote at any meetings of the Unitholders of the Trust. The Trust is not a reporting issuer and is therefore not subject to most of the continuous reporting obligations imposed on reporting issuers by Securities legislation in the jurisdiction in which this Offering is being made.

Unitholder's Right to Redeem

Each Unitholder is entitled to require the Trust to redeem at any time and from time to time at the demand of the Unitholder all or any part of the Units registered in the name of the Unitholder in a minimum amount of **\$50,000** at the prices determined and payable, and in accordance with the conditions, provided in the Declaration of Trust. There will be a redemption date ("Redemption Date") established each month on the 15th day pursuant to the terms of the Declaration of Trust. If the 15th day of the month is not a Business Day, the Redemption Date for that month will be the next succeeding Business Day. In order to exercise this right, a Unitholder must send to the Trustees a duly completed and properly executed Notice in a form approved by the Trustees, requiring the Trust to redeem the Unit(s) and forward the Unit Certificate(s) representing the Unit(s) to be redeemed not less than 30 days before the prescribed Redemption Date. Any form or manner of completion or execution must be accompanied by verification of identity, capacity or authority of the Person giving such Notice. The Trustees shall be entitled in their sole discretion to accelerate the Redemption Date specified by the Unitholder in the Notice. The Unitholder will cease to have rights with respect to the Units tendered for redemption when the Unit Redemption Price therefore (as defined below), plus the *pro rata* share of any unpaid distributions has been paid in full. Units will be considered to be tendered for redemption on the Redemption Date, provided that the Trustees have, to their satisfaction, received the Notice, together with the Unit Certificate(s) representing the Units to be redeemed and other required documents.

The Unit Redemption Price for Units tendered for redemption will be reduced by an amount equal to up to 5% of the original purchase price of the Units if such Units are redeemed within the first year, up to 3%, within the second year and 2% within the third year following the Closing at which such Units were subscribed for. Cash payments of the Unit Redemption Price made by the Trust are conclusively deemed to have been made when deposited by direct deposit or upon the mailing of a cheque to the payee. Upon such payment as set out herein or otherwise in accordance with the Declaration of Trust, the Trustees and the Trust will be discharged from all liability to the former registered Unitholder in respect of the Units so redeemed.

The Trust will not pay the Unit Redemption Price in cash as set out above on a particular Redemption Date if the aggregate number of Units properly tendered for redemption (the "Tendered Units") by Unitholders (the "Tendering Unitholders") exceeds 1% of the total number of Units outstanding on such Redemption Date. Cash payments being paid pursuant to Notices shall be paid in order of receipt of such Notices. The Trustees shall be entitled in their sole discretion to extend the time for payment of any Unit Redemption Prices, if in the reasonable opinion of the Trustees such payment would be materially prejudicial to the interests of the remaining Unitholders in the Trust.

In the extraordinary circumstance where the number of Tendered Units on any given Redemption Date exceeds 3% of the total number of Units outstanding on such Redemption Date, the Trustees are entitled in their sole discretion to modify or suspend Unitholder redemption rights with one of the following measures:

(i) Discounted Redemptions: The Trustees shall give notice to Tendering Unitholders that their Tendered Units shall be redeemed at a redemption price discounted by a discount factor to be determined by the Trustees in their sole discretion, acting reasonably and pursuant to the terms contained herein and in the Declaration of Trust. In determining the discount factor, the Trustees may consider such factors as market prices for similar investments that are traded on a stock exchange in Canada, the variation inherent in any estimates used in the calculation of the Fair Market Value of the Units to be redeemed, the liquidity reasonably available to the Trust and general economic conditions in Canada. Unitholders who retract their redemption request will be prohibited from redeeming the Tendered Units to which their retraction applies for a period of up to 12 months following the date the discounted redemptions are processed. This provision is meant to put the Trust on an equal footing with public companies and income trusts which are able to buy back their shares/Units when the Board of Trustees feel such shares/Units are undervalued in the market.

(ii) Temporary Suspension of Redemptions: The Trustees in their sole discretion may give notice to all Unitholders that normal course redemption rights are suspended for a period of up to six months due to forces beyond the control of the Trustees and for reasons which may negatively affect the value of the Units and of the Trust. Issuance of a suspension notice by Trustees will have the effect of canceling all pending redemption requests. At the end of the suspension period, the Trustees may call a special meeting of Unitholders to approve an extension of the suspension period, failing which normal course redemptions will resume.

Forced Redemption upon Non-Residency

The Trust prohibits non-resident persons from acquiring Units. The Trustees may require declarations as to the jurisdictions in which beneficial owners of Units are resident.

If a Unitholder becomes a non-resident of Canada or otherwise becomes a "designated beneficiary" as defined in section 210 of the Tax Act, the Manager may at its discretion, either forthwith redeem all or a part of the Units held by such Unitholder, or by written notice require the Unitholder to, within thirty (30) days, transfer the Units to a transferee who is not a "designated beneficiary" as defined in section 210 of the Tax Act.

Certificates

Certificates for Units will be issued to Unitholders.

Compassionate Early Redemption

The Issuer, through the Manager, may consider applications for early redemption for compassionate reasons, but only under special circumstances, to the spouse of a deceased shareholder who holds the Issuer's Units. The decision as to whether or not to grant an early redemption is at the sole discretion of the Manager and otherwise dependent upon the Issuer's Articles legally permitting such early redemption. Should a shareholder pass away, the surviving spouse may apply to the Issuer for an early redemption of all or part of the deceased's Shares, provided that the date of application for early redemption is at least ninety (90) days prior to the original redemption date. The Manager may then consider redeeming the requested number of Units on or before the last day of the quarter immediately following the quarter in which the request for compassionate early redemption is made by the surviving spouse.

Trustee Redemption Rights

The Trustees may in their sole discretion at any time, by providing a written redemption Notice to a Unitholder, redeem all or any of the Units held by such Unitholder at a price per Unit to be redeemed equal to the Fair Market Value of the Unit(s) calculated as at the Valuation Date immediately preceding the redemption date (the "Calculation Time"), plus the *pro rata* share of any unpaid distributions thereon. As set out in the Declaration of Trust, the redemption date is set by the Trustees and will be more than 60 days from the date of the redemption Notice, all in accordance with the conditions set out in the Declaration of Trust.

Liability of Unitholders

The Declaration of Trust provides that no Unitholder or Annuitant will be held to have any personal liability and that the assets of the Trust only are intended to be liable and subject to levy or execution for satisfaction of

such liability. No recourse or satisfaction shall be sought from the private property of any Unitholder or Annuitant for any liability whatsoever, in tort, contract, or for the indemnification of a Board Member, or otherwise in connection with the Trust property or the affairs of the Trust. Each Unitholder and Annuitant under a plan of which a Unitholder acts as trustee or carrier will be entitled to be reimbursed out of the assets of the Trust in respect of any payment of a Trust obligation which such Unitholder or Annuitant is required to make.

As a general rule, the Trust Manager making investments for the Trust contracts as principal and therefore, subject to contract, the Manager is liable for all obligations incurred in carrying out such investments for the Trust. This is done with the goal of providing enhanced liability protection for Unitholders. The Declaration of Trust further provides that certain written instruments signed by the Trust shall contain a provision to the effect that such obligation will not be binding personally upon Unitholders.

Notwithstanding the above, to the extent that claims are not satisfied by the Trust, there is a risk that a Unitholder or Annuitant will be held personally liable for obligations of the Trust where the liability is not disclaimed in the contracts or arrangements entered into by the Trust with third parties. Personal liability may also arise in respect of claims against the Trust that do not arise under contracts, including claims in tort, claims for taxes and certain other statutory liabilities. The possibility of any personal liability of this nature arising is considered by the Trust's management to be remote due to the nature of the Trust's activities. In the event that payment of a Trust obligation is required to be made by a Unitholder, such Unitholder is entitled to reimbursement from the available assets of the Trust. In accordance with prudent real estate practice, the Manager will use its best efforts to maintain insurance in respect of the above-mentioned perils and in amounts sufficiently large as to protect the Trust and Unitholders against any foreseeable non-contractual liability.

Distributions

General Policy

It is the Trust's current intention to distribute 100% of the Distributable Cash on an on-going basis. With respect to each Distribution Record Date, the Trustees intend to declare to Unitholders on that Distribution Record Date all of the Distributable Cash for the Distribution Period. Each Unit's Proportionate Share of Distributable Cash will be determined by dividing such amount by the number of issued and outstanding Units on such Distribution Record Date. Each Unitholder's share of such Distributable Cash will be based upon the number of Units owned by each such Unitholder on the Distribution Record Date and paid to Unitholders. Distributable Cash may be estimated whenever the actual amount has not been fully determined, adjusted and dealt with accordingly as of the subsequent Distribution Date.

Quarterly Distributions

The Trust will make a distribution to each Unitholder on a quarterly basis, in an amount equal to the Manager's estimate of net income and net realized capital gains of the Trust, less estimated non-capital losses carried forward, if any, for each quarter (Distribution Dates) ending March 31, June 30 and September 30. For the year ending December 31, the distribution will equal an amount equal to 100% of the Trust's net income and net realized capital gains, less non-capital losses carried forward, if any, for the year, less amounts distributed pursuant to this paragraph for the three previous quarters. Such quarterly distributions (although payable on March 31, June 30, September 30 or December 31) will be paid in arrears on the 15th day following the quarter to which distribution relates, ("Distribution Record Date" or "Distribution Payment Date") except the December 31 distribution will be paid in arrears on the 60th day following that quarter. Distributions are calculated according to a period and payable at the end of that period, if the period is not completed or such amounts are no longer payable, then the distribution will be pro-rated to the end of the shortened period and be payable at that time.

In each Fiscal Year, owners of the Trust Units shall be entitled to a Proportionate Share based on the proportion that the number of days between the date of first issue of such Unit and the last day of the calendar quarter bears to the aggregate total number of days in such calendar quarter all Units are issued and outstanding. In this manner, early Subscribers of Units are compensated for the fact that their investment was made earlier than later Subscribers and that their investment proceeds are accurately paid out as a function of time invested.

The Trust intends to distribute all of the net income and net realized capital gains, if any, of the Trust to Unitholders, so that the Trust will not be liable to pay income tax pursuant to the Tax Act during any year. If distributions to Unitholders are in excess of the net income and net realized capital gains, if any, of the Trust, it will generally result in a reduction in the adjusted cost base of the Units to the Unitholder. See "Item 6: Income

Tax Considerations and RRSP Eligibility". The Manager will be paid the Management Fee and the Performance Incentive Fee monthly.

Method of Payment of Distributions

Distributions will be made by direct deposit or by such other manner of payment approved by the Trustees from time to time. A payment will be conclusively deemed to have been made to a Unitholder upon the Trust receiving confirmation from the financial institution(s) it deals with from time to time that a direct deposit has been made to the order of such Unitholder in accordance with the bank account information provided to the Trust by such Unitholder.

If, on a Distribution Payment Date, the Trust does not have adequate cash to pay the cash distribution on the Date, the Manager may, in its discretion, borrow sufficient funds on such terms as it deems appropriate to make such cash distributions. If, in respect of any distribution or other payment to be made by the Trust to a Unitholder, the Trustees determine that the Trust does not have cash in an amount sufficient to pay some or all of such distribution or payment in cash, the Trustees may, subject to compliance with applicable laws and receipt of all required regulatory approvals, make such distribution or payment by way of Units or notes having a value equal to the cash shortfall, in which case the amount of cash to be distributed will be reduced by the amount of such cash shortfall, and which notes will be issued on such terms as are determined by the Trustees in their sole discretion at the time of issue of the notes.

The value of each Unit issued as set out above will be deemed to be equal to the Fair Market Value of the Units outstanding as of the last Business Day of the calendar month immediately preceding their issuance. Subject to the provisions of the Declaration of Trust, the number of Units calculated to be issued in accordance with this paragraph will be rounded down to the nearest whole Unit and the value of any fractional Units determined to be payable to a Unitholder hereunder will be paid in cash on the Distribution Date in question or the immediately following Distribution Date at the Trustees' discretion, provided that in any event, such amount will be paid to the Unitholder on or before December 31 in each year. In the Trustees sole discretion, immediately after a *pro rata* distribution of such Units or notes to all Unitholders in satisfaction of any non-cash distribution, the number of outstanding Units may be consolidated so that each Unitholder not subject to withholding tax will hold after the consolidation the same number of Units as the Unitholder held before the non-cash distribution. Each such Unit Certificate representing a number of Units prior to the non-cash distribution is deemed to represent the same number of Units after the non-cash distribution and the consolidation. Each Unitholder has the legal right to enforce payment of any amount payable to such Unitholder as a result of any distribution which is declared payable to such Unitholder pursuant to the Declaration of Trust.

The Trustees may change any Distribution Date or Distribution Record Date at any time, subject to having given the Unitholders not less than 30 days prior written notice, and upon compliance with any requirements of applicable law.

Additional Distributions

In addition to the distribution of Distributable Cash, the Trustees may distribute out of Trust Income from time to time, the capital of the Trust or any other amounts received or held by the Trust in any year, in such amount or amounts, and on such dates as the Trustees may determine. All such distributions will be deemed to be distributions of Fund Income, Trust capital or other items in such amounts as the Trustees, will, in their absolute discretion, determine. Any such amount may be estimated if the actual amount has not been fully determined, and that estimate will be adjusted as of the subsequent Distribution Date when such amount in question has been fully determined. It is intended that the Trust will make distributions such that it will not be liable for income tax in any given year, however if there is any change in the Tax Act then notwithstanding anything contained herein or in the Declaration of Trust, the Trustees in their sole discretion may alter the method of calculation, timing or payment of the Distribution without notice or authorization in order to minimize the effect of taxes payable either by the Trust or by Unitholders. In accordance with and to the extent permitted by the Tax Act, the Trustees in each year will make designations in respect of the amounts payable to Unitholders for such amounts that the Trustees consider to be reasonable in all of the circumstances.

Calculation of Trust Income

The income of the Trust ("Trust Income") for any taxation year will be the income computed in accordance with the provisions of the Tax Act less, at the discretion of the Trustees, amounts of any non-capital losses and net capital losses of the Trust for the prior years that are deductible in computing the Trust's taxable income for the year under the Tax Act; provided, however, that capital gains and capital losses will be excluded from the

computation of Trust Income. In addition, in computing the Trust Income for any taxation year of the Trust, the Trustees will have the sole discretion to utilize or not utilize such deductions, provisions and alternate calculations available under the Tax Act, including, without limitation, discretion as to timing and amount, in respect of offering expenses, operating expenses and discretionary deductions.

Mortgages: Each Mortgage investment will be valued at its unpaid principal balance including accrued interest, unless in the opinion of the Manager, its Fair Market Value is less than the principal amount thereof.

Authorized Interim Investments: Authorized Interim Investments will be valued at market value. Other assets will be valued at market value.

Income recognition: Interest income from Mortgages, bonds, debentures and notes will be recorded for accounting purposes on the accrual basis. Recording of interest income will cease on Mortgages in default if the Manager determines there is some reasonable doubt as to the ultimate collectability of principal and interest. Fees paid to the Trust associated with Mortgage lending transactions are deferred and amortized over the term of the Mortgage. Realized gains and losses from investment transactions will be calculated on a cost basis.

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

Distribution on Termination of the Trust: On the termination of the Trust, the assets of the Trust shall be liquidated and the proceeds distributed in the following order:

- (i) to pay the liabilities of the Trust and to establish reserves for the contingent liabilities of the Trust;
- (ii) to pay the Management Fee owing;
- (iii) to pay any Processing Fee owing;
- (iv) to pay the Incentive Fee owing;
- (v) to pay unpaid fees and expenses of the Trustee; and
- (vi) to redeem the Units on a *pro rata* basis from the Unitholders.

5.2 The Offering and Subscription Procedure

The Offering

The Trust is offering on a private placement basis a maximum of 10,000,000 Units at a price of \$10.00 per Unit (the "Offering"). Each Unit represents an undivided beneficial interest in the assets of the Trust, which will principally be comprised of indirect interests in Conventional First Mortgage Loans. See "Item 2.4 Objectives and Policies – Investment Policy and Procedure".

Certain exemptions from the prospectus requirements available under the Securities laws of the Provinces of Ontario, Quebec, Nova Scotia, New Brunswick, Manitoba, Alberta and British Columbia and the United States of America upon which the Offering relies, make the Offering possible without the filing of a prospectus. As at the date of this Offering Memorandum, the Offering is also being made in reliance on certain exemptions to the registration requirements under the applicable Securities laws of the Offering Jurisdictions. If any new registration requirements are found to be applicable to the Trust and/or its activities, the Trust will take the necessary steps to comply in all regards.

The proceeds of the Offering may not be sufficient to accomplish all of the Trust's proposed objectives. In addition to alternate financing sources, the Trust may conduct future offerings of Units in order to raise additional funds, which may result in a dilution of the interests of Unitholders in the Trust. There is no assurance that the required financing will be available on terms acceptable to the Trust or at all.

All subscriptions are subject to acceptance by the Trust. See "Subscription Procedure" below. The Trust will not generally accept any subscription for less than \$50,000 or 5,000 Units. The Trust will not accept any subscription unless the sale of Securities to the Subscriber would qualify as an exempt distribution under applicable Securities laws. See "Subscription Qualification" below.

Use of Proceeds

The expenses of this Offering are estimated at \$80,000, including advertising, legal and accounting costs and printing. The Trust intends to use the net proceeds of the Offering to acquire Authorized Investments and allow

the Trust capital to make future Mortgage investments which are consistent with the Trust's investment policies.

Additional Information

Prospective Subscribers may ask questions of the Trust representatives concerning the business and financial condition of the Trust and the terms and conditions of this Offering, and request information to enable the prospective Subscriber to make an informed decision on investment. Upon written request, the Trust will provide copies of documents referred to in this Offering Memorandum if it is possible without unreasonable effort or expense.

Subscription Qualification

The Trust is currently offering the Units in reliance on registration and prospectus exemptions available under the Securities laws of the provinces of Ontario, Quebec, Nova Scotia, New Brunswick, Manitoba, Alberta and British Columbia and the United States of America. These exemptions relieve the Trust from the provisions under such legislation which would otherwise require the Trust to sell Units by means of a registered dealer and file a prospectus. Accordingly, purchasers of the Units will not receive the benefits associated with the involvement of such registrants or the benefits associated with purchasing the Units pursuant to a filed prospectus, including the review of the material by the Securities commissions or similar regulatory authority in such jurisdictions. To the extent the new registration requirements are found to be applicable to the Trust and/or its activities, the Trust will take the necessary steps to comply with such requirements.

Eligible Subscribers for Units

Generally, any individual, corporation, partnership or other entity resident in Canada (other than the Provinces of Prince Edward Island, Newfoundland and Labrador and Territories of Canada) may subscribe for the Units.

Each Subscriber will be required to execute a Subscription Agreement, which includes certain representations of the Subscriber including the following:

- (a) If the Subscriber is an individual, the Subscriber has attained the age of majority and has legal capacity and competence to execute the Subscription Agreement and such other forms as may be required under the Securities laws of the jurisdiction of residence of a Subscriber to lawfully subscribe for the Units and to take all actions required pursuant thereto;
- (b) If the Subscriber is a corporation, partnership, syndicate or trust or unincorporated organization (each an "Entity"): (i) the Entity has full power and authority to execute the Subscription Agreement and to take all actions required pursuant thereto and has obtained all necessary approvals of Directors, shareholders, partners, members, or otherwise with respect thereto; and (ii) the Entity was not created solely and is not being used primarily to permit the purchase of the Units without a prospectus, or if the Entity was created or is being used primarily for such a purpose, each shareholder of the corporation, member of the syndicate, partnership or other unincorporated organization or investment club or each beneficiary of the Trust, as the case may be, is an individual who contributed to the Entity an amount of proceeds towards the purchase of the Units which is not less than the statutory minimum requirement for the purchase to have been made pursuant to a prospectus exemption (as to minimum contribution amount) contained in the applicable Securities legislation of the province of Canada in which the individual is a resident; (iii) in the case of a corporation, the Subscriber is duly incorporated and organized under the laws of its jurisdiction of incorporation;
- (c) The Subscriber made the subscription for the Units in compliance with applicable statutory exemptions from prospectus requirements for his, her or its own account for investment and not with a view to or for resale in connection with any distribution or trade within the meaning of applicable Securities legislation;
- (d) The Subscriber deals at arm's length with any corporation that carries on an insurance business; and
- (e) The Subscriber is a Person, corporation or other entity who, by virtue of their net worth and investment experience or by virtue of consultation with or advice from a Person or company who is not a promoter of the Partnership and who is registered to provide financial advice, is able to evaluate the prospective investment on the basis of information respecting the investment provided for in this Offering Memorandum.

Ineligible Subscribers for Units

No individual, corporation, partnership or other entity resident in any of the Territories of Canada, the Provinces of Prince Edward Island, Newfoundland and Labrador nor any Person in whom there is an interest which is a "tax shelter investment" (as that term is defined in the Tax Act), may subscribe for Units. No Person or partnership which is a non-resident of Canada (for purposes of the Tax Act) may subscribe for Units.

Plan of Distribution

Subscriptions received are subject to rejection or allotment by the Trustees in whole or in part. The Trustees reserve the right to close the subscription books at any time without notice. If any subscription is not accepted, all applicable Subscription Agreements and subscription proceeds will be returned to the potential Subscribers, without interest or deduction. There is no market through which the Units may be sold. The Trustees determine the Unit Subscription Price arbitrarily.

The minimum number of Units required to be subscribed for each Subscriber is 5,000 Units. The Trustees reserve the right to waive the minimum number of Units subscribed for, provided that it is in compliance with applicable Securities laws.

Unless relying on an alternate exemption from the prospectus and registration requirements, Subscribers resident in or otherwise subject to the Securities laws of any province where the Units may be sold are required to fall within the definition of "accredited investor" set out under applicable Securities laws or be purchasing Units for aggregate consideration in excess of \$150,000 in order to purchase the Units.

The Units are currently being offered under the prospectus exemptions under National Instrument 45-106 – "Prospectus and Registration Exemptions, as amended, supplemented or replaced from time to time", set out below by province of residence:

Province	Prospectus Exemption
British Columbia	Section 2.3 or 2.10 of NI 45-106
Alberta	Section 2.3 or 2.10 of NI 45-106
Manitoba	Section 2.3 or 2.10 of NI 45-106
Ontario	Section 2.3 or 2.10 of NI 45-106
Quebec	Section 2.3 or 2.10 of Regulation 45-106 respecting prospectus and registration exemptions
New Brunswick	Section 2.3 or 2.10 of NI 45-106
Nova Scotia	Section 2.3 or 2.10 of NI 45-106
Saskatchewan	Section 2.3 or 2.10 of NI 45-106

To the extent any new registration requirements are found to be applicable to the Trust and/or its activities, the Trust will take the necessary steps to comply with such requirements.

Subscription Procedure

Entities wishing to subscribe for Shares under this Offering may do so by completing the following three steps:

- (a) **Subscription Forms**: Investors must complete the appropriate Subscription Agreement for their respective jurisdiction.
- (b) **Method for Payment**: A certified cheque or bank draft made payable from time to time either to Pendfund Income Fund Inc. or to a TRANSFER AGENT as stipulated by the Trustee in an amount equal to \$10.00 multiplied by the number of Units being subscribed.
- (c) **Submitting Subscriptions**: Investors may deliver the completed subscription form and payment either to Pendfund Income Fund Inc. or to a TRANSFER AGENT as stipulated by the Trustee by mail or in person.
- (d) **Two-Day Hold Period**: An investor's subscription funds will be held until midnight on the second (2nd) business day after the investor signs the Subscription Agreement.
- (e) **Acceptance of Subscriptions and Closings**: Subscriptions may be accepted by the Issuer, subject to the terms and conditions of the Subscription Agreement signed by the investor. Subscriptions will be received subject to prior sale and subject to rejection or allotment, in whole or in part, by the Issuer

prior to any Closing.

The Fund anticipates that there will be multiple Closings. The Fund may close any part of the Offering on any date as it may determine in its sole business judgment. At a Closing of the Offering, provided the subscription price has been paid in full, the Fund or a Transfer Agent nominated by the Trust will deliver to Subscribers certified copies of or, if requested, original certificates representing fully paid and non-assessable Units.

The Fund may collect, use and disclose individual personal information in accordance with the privacy policy of the Trust and will obtain consent to such collection, use and disclosure from time to time as required by its policy and the law. A copy of its current privacy policy will be provided with the Subscription Agreement. For more detailed information concerning the rights and obligations of Subscribers, purchasers should carefully review the terms of the Subscription Agreement accompanying this Offering Memorandum. Execution and delivery of a Subscription Agreement will bind Subscribers to the terms thereof, whether executed by Subscribers or by an agent on their behalf. Subscribers should consult with their own professional advisors. See "Item 8: Risk Factors".

The Fund has not filed a prospectus in connection with the issuance of the Units. As a consequence of the Fund offering the Units in reliance upon exemptions from the prospectus and registration requirements under the laws of the Provinces of Ontario, Quebec, Nova Scotia, New Brunswick, Manitoba, Alberta and British Columbia and the United States of America, Persons will be unable to sell, transfer or otherwise deal with the Units offered hereby without the appropriate registration/prospectus-filing with Securities commissions of the relevant provinces or pursuant to available prospectus and registration exemptions.

Subscribers are advised to consult with their legal advisors concerning restrictions on the disposition of their Units and are advised against disposing of any Units until they ascertain that such disposition is in compliance with the requirements of the applicable legislation.

Subscriptions may be accepted or rejected by the Issuer in its sole discretion. The Issuer is not obligated to accept any subscription nor to accept subscriptions in the order the Issuer receives them. If the Issuer rejects a subscription, the subscription funds received will be returned to the Investor, without interest or deduction, along with notification of the rejection.

Resale Restrictions

There has been no prospectus filed in any Province in connection with the issuance of the Units. The Fund is offering the Units in reliance upon exemptions from the prospectus and registration requirements under the laws of the Provinces of Ontario, Quebec, Nova Scotia, New Brunswick, Manitoba, Alberta and British Columbia and the United States of America and as a consequence, Persons will be unable to sell, transfer or otherwise deal with the Units offered hereby without the appropriate registration/prospectus-filing with Securities commissions of the relevant provinces or pursuant to available prospectus and registration exemptions.

Subscribers are advised to consult with their legal advisors concerning restrictions on the disposition of their Units and are advised against disposing of any Units until they ascertain that such disposition is in compliance with the requirements of the applicable legislation.

Item 6: Income Tax Considerations and RRSP Eligibility

CERTAIN CANADIAN FEDERAL INCOME TAX CONSIDERATIONS AND RRSP ELIGIBILITY

ALL INVESTORS SHOULD CONSULT THEIR OWN PROFESSIONAL ADVISORS TO OBTAIN ADVICE ON THE INCOME TAX CONSEQUENCES THAT APPLY, WITH RESPECT TO AN INVESTMENT IN UNITS

General

The following is a current summary of the principal Canadian federal income tax considerations prepared by the Trust's tax counsel Thorsteinssons LLP Tax Lawyers and accordingly is generally applicable to a Unitholder who, for the purposes of the Tax Act, is resident in Canada, holds the Units as capital property and deals at arm's length with the Trust. Units will generally be considered to be capital property to a Unitholder provided it does not hold the Units in the course of carrying on a business and has not acquired them in a manner considered to be an adventure in the nature of trade.

This summary is not applicable to a Unitholder who (i) is a "financial institution", as defined in the Tax Act for

purposes of the "mark-to-market" rules; (ii) is a Unitholder an interest in which is a "tax shelter" or "tax shelter investment" as defined in the Tax Act; (iii) is a "specified financial institution" as defined in the Tax Act; (iv) is a taxpayer whose "functional currency" for the purposes of the Tax Act is the currency of a country other than Canada; or (v) has entered into, or will enter into, a "derivative forward agreement" or a "synthetic disposition arrangement" as defined in the Act with respect to the Units.

This summary is based upon the facts set out in this Offering Memorandum, the provisions of the Tax Act, the regulations thereunder and the publicly available published materials of the administrative and assessing policies of the Canada Revenue Agency ("CRA"). This summary also takes into account all specific proposals to amend the Tax Act and the regulations thereunder (the "Proposed Amendments") announced by the Minister of Finance (Canada) prior to the date hereof and assumes that all the Proposed Amendments will be enacted in the form proposed. If the Proposed Amendments are not enacted as presently proposed, the tax consequences may not be as described below in all cases. This summary does not take into account or anticipate any other changes in law or administrative or assessing practice, whether by legislative, governmental or judicial action or decision, nor does it take into account provincial, territorial or foreign income tax considerations which may differ from the Canadian federal income tax considerations discussed below.

This summary is based upon the assumption that the Trust will, at all times, be a trust described in paragraph 204.4(2)(d) of the Tax Act and be a registered investment

THIS SUMMARY IS OF A GENERAL NATURE ONLY AND IS EXHAUSTIVE OF ALL POSSIBLE CANADIAN FEDERAL INCOME TAX CONSIDERATIONS. THIS SUMMARY IS NOT INTENDED TO BE, NOR SHOULD IT BE CONSTRUED TO BE, LEGAL OR TAX ADVICE TO ANY UNITHOLDER. UNITHOLDERS SHOULD CONSULT WITH THEIR OWN PROFESSIONAL ADVISORS TO OBTAIN ADVICE ON THE INCOME TAX CONSEQUENCES OF ACQUIRING AND OWNING UNITS WITH RESPECT TO THEIR OWN PARTICULAR CIRCUMSTANCES.

Status of the Trust

It is intended that the Trust will at all times meet the conditions to be a "mutual fund trust" as that term is defined under the Tax Act, other than the conditions relating to number of Unitholders and dispersal of ownership. As the Trust is restricted to investing in qualified investments for RRSPs, the Trust will be a quasi-mutual fund trust and hence will qualify for registration under the Tax Act as a "registered investment". The Trustee intends to apply to register the Trust as a registered investment. Consequently, this summary is based on the assumption that the Trust will be a "registered investment" for as a quasi-mutual fund trust at all times until the time it becomes a "mutual fund trust" as that term is defined in the Tax Act.

Taxation of the Trust

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

In the event a Unitholder is a "designated beneficiary" of the Trust in a taxation year of the Trust, the "designated income" of the Trust for that taxation year will be subject to tax of 36% tax under Part XII.2 of the Tax Act. A portion of the Part XII.2 tax paid by the Trust will, if the Trust makes a designation in its tax return, be credited against tax otherwise payable by Unitholders who are not designated beneficiaries of the Trust. A "designated beneficiary" is defined in the Tax Act to include non-residents of Canada, certain tax-exempt entities and certain trusts. "Designated income" is defined in the Tax Act to include, generally, taxable capital gains from the disposition of taxable Canadian property, and income from Canadian businesses and real estate.

If, as a "registered investment" for a RRSP, at the end of any month the Trust does not qualify as a "mutual fund trust" and holds property that is not a "qualified investment" for RRSPs that holds Units, the Trust may be liable for a penalty tax under Part X.2 of the Tax Act equal to 1% of the fair market value of such property at the time of its acquisition.

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

Taxation of Unitholders

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

Any amount in excess of the net income and the taxable portion of net realized capital gains of the Trust that is distributed to a Unitholder in a year is not included in computing the Unitholder's income for the year. However, the payment of any such excess amount, other than as proceeds of disposition of a Unit or a part thereof, will reduce the adjusted cost base to the Unitholder of his or her Units except to the extent that such amount relates to the non-taxable portion of the net realized capital gains of the Trust distributed to the Unitholder. If the adjusted cost base of the Unit is reduced to a negative amount as a result of this reduction, the negative amount will be a capital gain to the Unitholder. The adjusted cost base of the Unit is then reset to nil.

As the Trust will generate its income principally from interest on mortgages on Canadian real estate, it is unlikely that the Trust will receive dividends or foreign income or that it will realize capital gains. However, if such income or capital gains are received, the Trust intends to make designations under the Tax Act so that taxable dividends received from taxable Canadian corporations, income from foreign sources and net realized capital gains distributed to Unitholders will retain their character when distributed to Unitholders. Distributed amounts that retain their character as taxable dividends on shares of taxable Canadian corporations will be subject to the normal gross-up and dividend tax credit rules in the Tax Act applicable to individuals. Each taxable Unitholder will generally be entitled to a tax credit for any foreign taxes paid by the Trust in respect of his or her share of income from foreign sources.

On a redemption or other disposition of Units, including a redemption of Units on the termination of the Trust, the Unitholder will realize a capital gain (or capital loss) equal to the amount by which the proceeds of disposition, net of any reasonable costs of disposition, exceed (or are less than) the adjusted cost base to the Unitholder of those Units immediately before the disposition. The adjusted cost base of a Unit is equal to the total adjusted cost base of all of the Unitholder's Units divided by the number of Units held. If the Unitholder acquires Units at separate times, the cost of each Unit owned by the Unitholder will be determined by averaging the cost of those Units acquired with the adjusted cost base of the Units then owned by the Unitholder. Generally, the total adjusted cost base of Units is equal to the total cost of all Units acquired by the Unitholder minus the adjusted cost base of Units previously redeemed or otherwise disposed of and the amount by which the adjusted cost base of Units is required to be reduced on account of distributions made by the Trust to the Unitholder, as described above.

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

The Tax Act provides for an alternative minimum tax applicable to individuals (including certain trusts and estates) resident in Canada, which is computed by reference to an adjusted taxable income amount. Eighty percent of capital gains (net of capital losses) and the actual amount of taxable dividends (not including any gross-up) are included in adjusted taxable income. Any additional tax payable by an individual under the minimum tax provisions may be carried forward and applied against certain tax otherwise payable in any of the seven immediately following taxation years to the extent specified by the Tax Act. Amounts distributed by the Trust that are taxable dividends from taxable Canadian corporations or the taxable portion of net realized capital gains, and capital gains realized on the disposition of Units, may result in the Unitholder being liable to alternative minimum tax, or increase the Unitholder's liability for alternative minimum tax.

Investment by RRSPs

The Trust will be a "registered investment" as a quasi-mutual fund trust. A Unit of the Trust will therefore constitute a "qualified investment" under the Tax Act for an RRSP. However, even if the Units are qualified investments for RRSPs, the Units of the Trust will be a "prohibited investment" for Unitholders who hold Units in RRSPs if, among other things, the holder has a "significant interest" in the Trust. A Unitholder will have a

significant interest in the Trust if the Unitholder, either alone or together with persons and partnerships with which the Unitholder does not deal at arm's length, holds interests in the Trust that have a fair market value of at least 10% of the value of all the beneficial interests in the Trust. The interest of a Unitholder who holds less than 10% of the beneficial interests in the Trust cannot be a prohibited investment.

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

Item 7: Compensation Paid to Sellers and Finders

At Closing, the Trust will pay a processing fee (the "Processing Fee") to the Trust Manager, registered dealers, or where permitted, non-registrants, in the amounts as follows:

Capital Subscription Amount	Percentage of Subscription At the time of Subscription	Percentage of Subscription At fifth Year Anniversary
\$50,000 - \$1,000,000	2%	1.2%
\$1,000,001 - \$1,500,000	1.5%	.9%
\$1,500,001 - \$2,000,000	1%	.6%
> \$2,000,000	.75%	.45%

of the subscription monies obtained by such Persons and on the fifth anniversary of the issuance of Units related to such subscription monies (or each fifth year anniversary thereafter) a further amount as above stated of such subscription monies provided that the Units are not redeemed on or before such fifth anniversary. The Trust Manager shall then pay a portion of the Processing Fee to Persons or companies where permitted by the Trust Manager and/or at law, registered dealers, non-registrants as the case may be. This fee is consideration paid to the representative arranging the transaction and to the Trust Manager in consideration of efforts expended in the sourcing, arranging and ultimate investment of proceeds into Commercial Mortgages.

Item 8: Risk Factors

There are certain risks inherent in an investment in the Trust which investors should carefully consider before investing. Some of the following factors are interrelated and, consequently, investors should treat such risk factors as a whole. The following information is a summary only of certain risk factors and must be read in conjunction with the detailed information appearing elsewhere in this information form. Other risks and uncertainties not currently known to the Trust or the Trust Manager or the Trust Advisor may impair the returns, financial condition and results of operations of the Trust. If any such risks actually occur, matters of the Trust could be materially adversely affected and the financial performance of the Trust and the ability of the Trust to make cash distributions or satisfy requests for redemptions of Units could be materially adversely affected.

- (a) **Availability of Investments:** The ability of the Trust to make investments in accordance with its investment objective and investment strategies depends upon the availability of suitable investments and the amount of funds available to make such investments. Additionally, the Trust may occasionally hold excess funds to be invested in additional Mortgage Assets, which may negatively impact returns. There can be no assurance that the yields on the Mortgages comprising the Portfolio will be representative of yields that can be obtained on future investments in Mortgage Assets made by the Trust.
- (b) **Excess Commitments:** The Manager may commit to investments in future Mortgages in anticipation of the repayment of the principal owing under Mortgages in the Portfolio. If the principal is not repaid in a timely fashion and if the Trust is unable to procure the necessary cash to make the advance, this may result in an inability by the Trust to advance some or all of the funds required to be advanced under Trust commitments and the Trust may face liability in connection with that failure.
- (c) **No Guarantees or CMHC Mortgage Insurance:** A Mortgage Borrower's obligations to the Trust are not guaranteed by the Government of Canada, the Government of any Province nor are they insured under the National Housing Act (Canada). In the event that additional Security is given by the Borrower or a third party or that a private guarantor guarantees the Mortgage Borrower's obligations, there is no assurance that such additional Security or guarantee will be sufficient to make the Trust whole if and when resort is to be had thereto.

- (d) **Changes in Land Values:** The Trust's investments in Mortgage Loans are secured by Real Property, the value of which can fluctuate. The value of real estate is affected by general economic conditions, local real estate markets, the attractiveness of the property to tenants where applicable, competition from other available properties, fluctuations in occupancy rates, operating expenses and other factors. The value of income-producing Real Property may also depend on the credit worthiness and financial stability of the tenants. It is possible that adverse changes in market conditions will decrease the value of the secured property and reduce the cash flow from the property.

This may affect the ability of the Borrower to service the debt and/or repay the Loan based on the property income. Foreclosure by the Trust or any creditor holding Security in priority to the Trust may not provide the Trust with proceeds sufficient to satisfy the outstanding principal amount of the Mortgage Loan(s). While independent appraisals or some other established method of valuation are generally required before the Trust makes any Mortgage advance, the appraised values may not necessarily be reflective of the market value of the secured property at the time repayment is demanded.

- (e) **Marketability of Units:** There is no formal market for the Units and it is not anticipated that any market will develop. The Units are not transferable, except if required as a result of a Unitholder becoming a non-resident. In such situations, Securities requirements may prohibit or restrict transferability of Units. Consequently, holders of Units will not be able to resell their Units. See "Item 5.1 Terms of Securities – Forced Redemption Upon and Limitation on Non-Residency" and "Item 10: Resale Restrictions".
- (f) **Subordinated Loans and Mortgages:** Some of the investments in which the Trust invests may be considered to be riskier than senior debt financing because the Trust will not have a first-ranking charge on the underlying property. When a charge on property is in a position other than first-ranking, it is possible for the holder of a senior-ranking charge to take a number of actions against the Borrower and the property to realize on the Security granted. A foreclosure action or the exercise of a giving-in-payment clause may deprive any Subordinate Mortgagee of the Security of the property. If an action is taken to sell the property and sufficient proceeds are not realized from such sale to pay off creditors who have prior charges on the property, the holder of a subsequent charge may lose some or all of his investment unless he can otherwise recover the deficiency from other property owned by the debtor.
- (g) **Fluctuations in Net Asset Value (NAV), Net Redeemable Value (NRV) and Distributions:** The NAV (Net Asset Value) and NRV (Net Redeemable Value) of Units will vary according to, among other things, the value of the Portfolio and the interest earned thereon. Fluctuations in the value of the Portfolio Units may occur for a number of reasons beyond the control of the Trust Manager or the Trust. There can be no assurance regarding the amount of revenue that will be generated by the Mortgage Assets and the amount of distributions will depend upon numerous factors, including the ability of Borrowers to make applicable Mortgage payments on interest rates, unexpected costs, and other factors which may not now be known by or which may be beyond the control of the Trust or the Trust Manager.

If the Trust, on the advice of the Trust Manager determines that it would be in the best interests of the Trust, they may reduce or suspend for any period or altogether cease indefinitely the distributions to be made to the Unitholders. Distributions may exceed actual cash available to the Trust from time to time because of items such as debt payment obligations, fluctuations in Portfolio returns and redemptions of Units, if any. This excess cash required to fund distributions may be funded from an operating credit facility, to the extent that one is available.

- (h) **Competition:** The performance of the Trust depends on the Trust Manager's ability to invest in or acquire Mortgage Loans at favourable yields. The Trust will compete with individuals, corporations and institutions for investment opportunities. While generally slower moving, certain of these competitors may have greater resources than the Trust and may therefore operate with greater risk and flexibility in Loan terms and conditions beyond what the Trust will find acceptable. As a result, the Manager may not be able to acquire sufficient Mortgage Loans at favourable yields.
- (i) **Further Outlays:** In the event of default under a First Mortgage, it may be necessary for the Trust, in order to protect the investment, to engage in foreclosure or sale proceedings and to make further expenditures to complete an unfinished project or to pay off or maintain prior encumbrances in good standing or make other outlays including, but not limited to, property taxes, capital repair and replacement costs, maintenance costs, insurance costs and other customary costs related to the ownership of Real Property.

- (j) **Litigation Risks:** The Trust may become involved in foreclosure or legal proceedings in the course of its business. Due to the inherent uncertainty of the litigation process, the Trust may be unable to enforce its rights and may not be able to recover all of the principal and interest in a Mortgage Loan. During litigation, there is a remote chance the Trust will not receive payments of interest on a Mortgage Loan, thereby impacting cash flows. The unfavourable resolution of any legal actions could have an adverse material effect on the Trust and its financial position.
- (k) **Reliance on the Trust Manager and the Trust Advisor:** When assessing risk potential investors should be aware that they will be relying on the professional judgment, experience and good faith of the Officers of the Manager and Board of Trustees (Trust Advisor). Pursuant to the Trust Management Agreement and the Trust Advisory Agreement, the Trust Manager and the Trust Advisor will advise the Trust in a manner consistent with the investment objective, the Asset Allocation Model and the investment restrictions of the Trust. Although the employees of each of the Trust Manager and the Trust Advisor have extensive experience, there is no certainty that such individuals will continue to be employees of the Trust Manager or the Trust Advisor in the future. Unitholders will be required to rely on the good faith, expertise and judgment of the individuals comprising the management of the Trust Manager and Trust Advisor from time to time. It is contemplated that the Directors, Officers and employees of the Manager will devote to the Trust's affairs such time as may be reasonably necessary to conduct its business.
- (l) **Environmental Matters:** The Trust may in the future take possession, through enforcement proceedings, of properties that secured defaulted Mortgage Loans to recover its investment in those Loans. Prior to lending against or taking possession of such properties the Trust Manager will assess the potential environmental liability. If the Trust Manager takes possession of the property the Trust could be subject to environmental liabilities which could exceed the value of the property. As part of the due diligence performed in respect of the Trust's proposed Mortgage investments, the Trust Manager may obtain an appropriate Environmental Audit on the property. There can be no definitive assurance that any Environmental Audit will reveal all existing or potential environmental liabilities necessary to effectively insulate the Trust from potential environmental liability. If hazardous substances are discovered on a property of which the Trust has taken possession, the Trust may be required to remove such substances. The Trust may also be liable to tenants and other users of neighbouring properties and may find it difficult or not possible to resell the property prior to or following its clean-up.
- (m) **Concentration and Composition of the Portfolio:** The Portfolio is exclusively invested in Mortgage Loans. Given the concentration of the Trust's exposure to the Mortgage lending sector, the Trust is more susceptible to adverse economic or regulatory occurrences affecting that sector than an investment fund that is not concentrated in a single sector. Investments in Mortgages are relatively illiquid and, as such may tend to limit the Trust's ability to vary its Portfolio promptly in response to changing conditions. The Asset Allocation Model, investment objective and investment restrictions of the Trust permit the assets of the Trust to invest in a broad spectrum of Mortgage Assets. Exceptions may be made to the Asset Allocation Model. The Portfolio is invested and may from time to time be concentrated by geography, type of property, or other factors. As a result, the returns of the Portfolio may change as its composition changes.
- (n) **No Assurance of Achieving Investment Objectives or Paying Distributions:** There is no assurance that the Trust will be able to achieve its investment objectives or be able to pay distributions at targeted levels. The funds available for distribution to Unitholders will vary according to, among other things, the interest and principal payments received in the Portfolio. The Trust's distributions are based upon the Trust Manager's ability to source investment opportunities that fit. Should the Trust be unable invest its assets satisfactory to the Asset Allocation Model it may not be able to achieve its targeted level of distributions. An investment in the Trust is appropriate only for investors who have the capacity to absorb the fallout of some of these potential occurrences.
- (o) **The Trustee:** The Trustee is a company without material assets and is beneficially owned by the Manager. Should a claim be made against the Trustee, it will likely be difficult to realize upon any judgment which might be obtained against the Trustee.
- (p) **Role of the Trustee:** The Trustee does not supervise or monitor the Manager in any respect, the Board of Trustees does. The powers, authorities and responsibilities of the Trustee are limited to those expressly set forth in the Trust Agreement. All other powers, authorities and responsibilities are those of the Manager and the Board of Trustees. The Trustee may not in all instances hold all of the Trust property and, for example, may not hold syndicated Loans.

- (q) **Risks Related to Mortgage Defaults:** Exercising Mortgage enforcement remedies is a process that requires time to complete, which could adversely impact the cash flows of the Trust during the period of enforcement. There is no assurance that the Trust will be able to recover the entire outstanding principal and interest owed it. Should the Trust be unable to recover the entire principal and interest owed it, and if the interest reserve established by the Trust and the Trust Manager is not sufficient to offset the unrecoverable amount, the NAV of the Trust would be reduced, and the returns, financial condition and results of operations of the Trust could be adversely impacted.
- (r) **Foreclosure and Related Cost:** If a Borrower fails to make payments according to the terms of their Loan, the Trust could be forced to exercise its rights as Mortgagee. Legal fees and expenses and other costs incurred by the Trust in enforcing its rights as Mortgagee against a defaulting Borrower are usually recoverable from the Borrower directly or through the sale of the Mortgaged property although there is no assurance that they will actually be recovered. Expenditures including property taxes, capital repair, maintenance costs, and insurance costs must be made through the period of ownership of Real Property regardless of whether the property is producing income.
- (s) **Conflicts of Interest:**
- (i) Agreements Between the Trust and the Manager: The Trust Manager and Trust Advisor, their respective Officers, Directors, employees, or shareholders and their respective Affiliates and associates are not limited or affected in their ability to carry on other business ventures for their own account, or for the account of others, and may be engaged in the development of, investment in, or management of businesses that may compete with the business of the Trust.
 - (ii) Non-Competition: The Trust has not entered into any noncompetition agreements with any of the Trust Manager or Trust Advisor or their respective Directors, Officers or employees. Accordingly, any one or more of the Trust Manager or Trust Advisor and their respective Directors, Officers and employees may compete with the Trust.
 - (iii) Time Allocation: The Trust relies upon the Trust Manager to manage the business of the Trust. The Directors and Officers of the Trust Manager have agreed to devote as much time to the Trust as is required for the effective management of the Trust but there can be no assurance same will occur.
 - (iv) Fees: In addition to the Management Fee and the Performance Incentive Fee, the Manager and its Affiliates may earn fees from placing or arranging Mortgages against the properties and performing due diligence. The Trustee is an Affiliate of the Manager. Affiliates and associates of the Manager may receive a portion of the Processing Fee paid to Sellers and Finders.
- (t) **Tax Matters:** The return on the Unitholder's investment in the Units is subject to changes in Canadian federal and provincial tax laws, other governmental policies or regulations and governmental or judicial interpretation of the same. There can be no assurance that tax laws, tax proposals, policies or regulations, or the interpretation thereof, will not be changed in a manner which will fundamentally alter the tax consequences to Unitholders acquiring, holding or disposing of Units. If the Trust ceases to meet the requirements for a registered investment as a quasi-mutual fund trust, registration of the Trust may be revoked. In such a case, the Units of the Trust will cease to be qualified investments for RRSPs. This could result in RRSPs which hold Units becoming liable for a penalty tax.
- (u) **General Economic Conditions and Nature of the Investments:** The value of Real Property is affected by general economic conditions, local real estate markets, the attractiveness of the property to prospective tenants, purchasers and demand for leased premises, fluctuations in occupancy rates, operating expenses, competition from other available properties, and other factors. Investments in First Mortgages for development or renovations may be riskier than in loans on completed buildings. Investments in Mortgages can be relatively illiquid. Investments in Authorized Interim Investments may include shares, notes and other investments in the discretion of the Manager.
- (v) **Sensitivity to Interest Rates:** It is anticipated that the volume and success of the Trust's investments in Loans may be affected by the level of prevailing interest rates. If there is a decline in prevailing interest rates the Trust may find it difficult to secure Mortgage Assets bearing rates sufficient to consistently achieve the targeted payment of yield on the Units.
- (w) **Borrowing and Leverage:** The Trust has the power to borrow funds using its Mortgage Assets as Security in order to maximize returns on capital deployed. Although this would be an unusual event, there is no

restriction on the amount of funds which the Trust may borrow from time to time. The Trust could incur costs to protect its investments in the repayment of such a Loan. The Trust may not be able to renew a credit facility on acceptable terms or at all. There can be no assurance that a borrowing strategy employed by the Trust will enhance returns.

- (x) **Restrictions on Ownership and Repurchase of Units:** No Unitholder of the Trust together with Related Persons is permitted at any time to hold more than 40% of issued Units of the Trust. If the portion of Units held by a Unitholder, together with Related Persons, that exceeds 39.9% of the issued Units, then the Units shall be repurchased by the Trust at cost. Such repurchases of Trust could be significant and could engender similar risks to those that arise in the context of significant redemptions of Units.
- (y) **Personal Liability of Unitholders:** The Declaration of Trust provides that no Unitholder shall be held to have any personal liability as such, and no resort shall be had to a Unitholder's private property for satisfaction of any obligation in respect of any contract or obligation of the Trust or of the Trustee or any obligation in respect of which a Unitholder would otherwise have to indemnify the Trustee for any liability incurred by the Trustee. Only the Trust Property is intended to be liable and subject to levy or execution for satisfaction of any obligation or claim.

Because of uncertainties in the law relating to investment trusts such as the Trust, there is a risk that a Unitholder could be held personally liable, notwithstanding the foregoing statement in the Trust Agreement, for obligations in connection with the Trust (to the extent that claims are not satisfied by the Trust). It is intended that the Trust's operations be conducted in such a way as to minimize any such risk and, in particular and where practical, to cause every written contract or commitment of the Trust to contain an express statement that liability under such contract or commitment is limited to the value of the assets of the Trust. In any event, the Manager considers that the risk of any personal liability of Unitholders is minimal in view of the size of the anticipated equity of the Trust, the nature of its activities and the requirement of the Trust that any written contract or commitment of the Trust (except where such inclusion is not reasonably possible) include an express limitation of liability. In the event that a Unitholder should be required to satisfy any obligation of the Trust, such Unitholder will be entitled to reimbursement from any available assets of the Trust.

- (z) **Investment Restrictions:** Unlike mutual funds, the Trust, as a non-redeemable investment Fund, is not subject to or managed in accordance with the investment restrictions and practices prescribed by Securities legislation for mutual funds. The Trust differs from a publicly-offered mutual fund and accordingly the Trust is not subject to the prescribed investment restrictions of NI 81-102 and accordingly is permitted to borrow funds.

The investment objective of the Trust, with a primary focus on capital preservation, is to acquire and maintain a diversified Portfolio of Mortgage assets that generates attractive, stable returns in order to permit the Trust to pay monthly distributions to its shareholders. The Trust Manager has initiated and the Trust Advisor (the Board of Trustees, "Board") has adopted an Asset Allocation Model in order to seek to manage the risk profile of the Portfolio. Accordingly, the Board will actively and regularly evaluate the Portfolio for compliance with the Asset Allocation Model. The Asset Allocation Model, as contained herein, dictates the allocation of the Aggregate Funded and Committed Assets based upon geographical, economic sector, term, Borrower and loan-to-appraised-value criteria. The Trust Manager will identify and present certain Mortgage investment opportunities to the Board and they together will assess the file to determine whether a file constitutes a desirable investment opportunity for the Trust. Exceptions to the Asset Allocation Model may be made by the Trust Manager provided that: (i) each individual exception, excluding the effect of any subsequent exceptions, must be remedied within 120 days from the date of funding of the subject Mortgage; and (ii) in the aggregate at any given time, permitted exceptions to the Asset Allocation Model shall not represent more than 15% of the NAV of the Trust. There are various circumstances where exceptions to the Asset Allocation Model may be required. For example, if a default occurs where the Trust owns a Second Mortgage Loan or a Loan which represents a Subordinate Position in a syndicated Loan, and the Trust needs to enforce its Security to preserve the investment, the Trust may need to borrow capital to repay the First Mortgage Loan or Senior Position lender in a syndicated Loan to most effectively and efficiently enforce its Security.

Unless expressly approved by the Board of Trustees, Trust assets will not be invested in Loans made against the Security of property owned or against which the senior Mortgage interest is held by any Affiliate of the Trust, the Trust Manager, or the Trust Advisor, or any other non arms-length loans.

As a general rule, the assets of the Trust will be invested in accordance with its investment objective and the Asset Allocation Model, subject to exceptions to the Asset Allocation Model that may be from time to time

approved pursuant to the approval process described above. However, the Trust is subject to certain investment restrictions that, among other things, limit the investments that may be made by the Trust. The following investment restrictions may not be changed without the approval of the Unitholders by Extraordinary Resolution:

- (i) The Trust will not make any investment or conduct any activity that would result in the Trust failing to qualify as a RRSP approved Mortgage investment corporation under the *Income Tax Act* (Canada), as amended (the "Tax Act");
- (ii) The Trust will not invest in Securitized pools of Mortgage Loans, including Securitized pools of sub-prime Mortgage Loans;
- (iii) The Trust will not invest in Securities other than first and Subordinate Mortgages secured by Real Property and, on a temporary basis only, interim investments consisting of cash and cash equivalents (as defined in NI 81-102), Government of Canada treasury bills and Government of Canada bonds with a term to maturity of 3 years or less ("Authorized Investments");
- (iv) The Trust will not guarantee Securities or obligations of any Person or company;
- (v) The Trust will not engage in Securities lending; and
- (vi) The Trust will not engage in derivative transactions for any purpose.

Item 9: Continuous Reporting Obligations to Unitholders

As the Trust is not a "reporting issuer" as defined in the B.C. Securities Act or the Alberta Securities Act, the continuous reporting requirements of those acts do not generally apply to the Trust. The Trust is not required to send the purchaser any documents on an annual or ongoing basis. The Trust will, however, on or before March 31 in each calendar year, provide to each Unitholder annual audited financial statements and all other information required to file Canadian income tax returns. The Manager will, from time to time, circulate periodicals describing the activities of the Trust in order that Unitholders remain informed on where and how capital is invested on behalf of the Trust.

Item 10: Resale Restrictions

10.1 General Statement

With respect to trades in Alberta, British Columbia, New Brunswick, Newfoundland and Labrador, Northwest Territories, Nova Scotia, Nunavut, Prince Edward Island, Québec and Saskatchewan, 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.

10.2 Restricted Period

For trades in Alberta, British Columbia, New Brunswick, Newfoundland and Labrador, Northwest Territories, Nova Scotia, Nunavut, Prince Edward Island, Québec and Saskatchewan, unless permitted under Securities legislation, you cannot trade the Securities before the date that is 4 months and a day after the date the Trust becomes a reporting issuer in any province or territory of Canada.

10.3 Manitoba Resale Restrictions

For trades in Manitoba, the issuer will not be a reporting issuer in Manitoba at the time the Security is acquired by the purchaser, therefore unless permitted under Securities legislation, you must not trade the Securities without the prior written consent of the regulator in Manitoba unless:

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

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

Item 11: Rights of Action for Damages or Rescission

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.

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 after you sign the agreement to buy the securities.

Securities legislation in certain of the Provinces of Canada provides or requires Subscribers to be provided with, in addition to any other rights they may have at law, a right of action for rescission or damages where an Offering Memorandum, records or amendments thereto, or advertising and sales literature contains a Misrepresentation. As in this Offering Memorandum "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. Purchasers of Units should refer to the applicable provisions of the Securities legislation of their provinces for the particulars of these rights or consult with a legal advisor. The following is a summary of the rights of the rescission or damages, or both, available to investors under the Securities legislation of the provinces of Canada. Such rights will be expressly conferred upon investors in the Subscription Agreement to be executed by investors in connection with the offering of Securities hereunder.

As summarized below, these statutory rights of action, or notice of them, must be exercised by a Subscriber within the time limit prescribed by the applicable Securities legislation. The 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.

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

Statutory Rights of Action

Rights for Subscribers in British Columbia, Alberta and Ontario

Where this Offering Memorandum contains a Misrepresentation, a Subscriber who purchases the Units offered by this Offering Memorandum during the period of distribution has, without regard to whether the Subscriber relied on the Misrepresentation, the following rights:

- (a) the Subscriber has a rights of action for damages against the Trust; or
- (b) the Subscriber may elect to exercise a right of rescission against the Trust.

If the Subscriber elects to exercise a right of rescission against the Trust, then the Subscriber shall have no right of action for damages against the Trust.

The Trust shall not be liable if the Trust proves that the Subscriber purchased the Units with knowledge of the Misrepresentation.

The Trust shall not be liable for a Misrepresentation in forward-looking information, if the Trust proves all of the following:

- (a) this Offering Memorandum contains, proximate to the forward-looking information: (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.

A Person or company is not relieved of liability respecting forward-looking information in a financial statement. In an action for damages, the Trust shall not be liable for all or any portion of the damages that the Trust proves does not represent the depreciation in value of the Units as a result of the Misrepresentation relied on. In no case shall the amount recoverable exceed the price at which the Units were offered.

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

The rights of action for rescission or damages summarized herein is in addition to and do not derogate from any other right that the Subscriber may have at law.

Rights for Subscribers in Saskatchewan

If a Subscriber purchases Units, the Subscriber will have certain rights, some of which are described below. For information about such rights, a Subscriber should consult a lawyer.

A Subscriber is given certain statutory rights under the *Securities Act* (Saskatchewan). Those rights are:

- (a) Subsection 80.1(4) – the right to withdraw from an agreement to purchase Securities by giving written notice to the Trust within two Business Days after receipt of any amendment to this Offering Memorandum;
- (b) Subsection 138(1) – a right of action for rescission or for damages where this Offering Memorandum and any amendment to this Offering Memorandum contains a Misrepresentation;
- (c) Subsection 138.1(1) – a right of action for rescission or for damages where advertising or sales literature used in connection with this Offering contains a Misrepresentation;
- (d) Subsection 138.2(1) – a right of action for damages where a verbal statement made in connection with this Offering contains a Misrepresentation;
- (e) Subsection 141(1) – a right to void the Subscription Agreement and recover the Subscription Price if the Units are sold in contravention of the *Securities Act* (Saskatchewan), the regulations to the Act or a decision of the Saskatchewan Financial Services Commission, Securities Division; and
- (f) Subsection 141(2) – a right of action for rescission or for damages if the Offering Memorandum is not delivered to a prospective purchaser before the Subscription Agreement, as required by section 80.1 of the *Securities Act* (Saskatchewan).

A prospective purchaser should refer to the provision of the *Securities Act* (Saskatchewan) for the particulars of these rights or consult with a lawyer.

These statutory rights given by the *Securities Act* (Saskatchewan) are in addition to and without derogation from any other right or remedy which a Subscriber might have at law.

This statutory right to sue is available to a Subscriber whether or not the Subscriber relied on the Misrepresentation. However, there are various defences available to the Persons or companies that the Subscriber has a right to sue. In particular, they have a defence if the Subscriber knew of the Misrepresentation when the Subscriber purchased the Units.

Statutory rights of action must be exercised within certain time periods. Those time periods are:

- (a) an action for rescission must be started within 180 days of the purchase; and
- (b) an action for damages must be started by the earlier of: (i) one year after the Subscriber first had knowledge of the facts giving rise to the action; or (ii) six years after the Units were purchased.

Rights for Subscribers in Manitoba

A Subscriber for Units to whom this Offering Memorandum is required to be sent, may *rescind* the subscription for Units by sending written notice to the Trust not later than the 2nd day, exclusive of Saturdays and holidays, after the Subscriber signs the Subscription Agreement to purchase Units.

If this Offering Memorandum contains a Misrepresentation, a Subscriber who purchases Units offered by this Offering Memorandum has, without regard to whether the Subscriber relied on the Misrepresentation, a right of action:

- (a) for damages against: (i) the Trust; (ii) every Director of the Trust at the date of this Offering Memorandum; and (iii) every Person or company who signed this Offering Memorandum; or
- (b) for rescission against the Trust.

If a Subscriber elects to exercise a right of rescission against the Trust, the Subscriber shall have no right of action for damages against a Person or company referred to in (a) above. All or any one or more of the Persons or companies referred to in (a) above that are found to be liable or accept liability are jointly and severally liable.

Where a Misrepresentation is contained in this Offering Memorandum, no Person or company, including the Trust, is liable in respect of an action for damages or rescission as described above:

- (a) if the Person or company proves that the Subscriber had knowledge of the Misrepresentation;
- (b) in respect of a Misrepresentation in forward-looking information, if the Person or company proves all of the following:
 - (i) this Offering Memorandum contains, proximate to the forward-looking 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;
 - (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.

A Person or company is not relieved of liability respecting forward-looking information in a financial statement. Where a Misrepresentation is contained in this Offering Memorandum, no Person or company, other than the Trust, is liable in respect of an action for damages or rescission as described above:

- (a) if the Person or company proves that this Offering Memorandum was sent to the Subscriber 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 Trust 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 this Offering Memorandum, withdrew the Person's or company's consent to the Offering Memorandum and gave reasonable notice to the Trust of the withdrawal and the reason for it;
- (c) if, with respect to any part of this 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 this 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 this 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.

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

The amount recoverable shall not exceed the price at which the Units were offered under this Offering Memorandum. In an action for damages, the defendant is not liable for all or any part of the damages that the defendant proves does not represent the depreciation in value of the Units resulting from the Misrepresentation. If a Misrepresentation is contained in a record incorporated by reference in this Offering Memorandum, the Misrepresentation is deemed to be contained in the Offering Memorandum.

The right of actions for rescission or damages summarized herein is in addition to and does not derogate from any other right that the Subscriber may have at law.

Rights for Subscribers in Nova Scotia

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

- (a) no action shall be commenced to enforce the right of rescission or damages created under Section 138 of the *Securities Act* (Nova Scotia) more than 120 days after the date payment was made for the Units (or after the date on which initial payment was made for the Units where payments subsequent to the initial payment are made pursuant to a contractual commitment assumed prior to, or concurrently with, the initial payment);
- (b) no Person or company is liable under Section 138 of the *Securities Act* (Nova Scotia) if the Person or company proves that the Subscriber purchased the Units with knowledge of the Misrepresentation;
- (c) no Person or company, other than the Trust, is liable under Section 138 of the *Securities Act* (Nova Scotia) if the Person or company proves that:
 - (i) this Offering Memorandum, or the amendment to this Offering Memorandum, was sent or delivered to the Subscriber without the Person's or company's knowledge or consent and that, on becoming aware of its delivery, the Person or company gave reasonable general notice that it was delivered without the Person's or company's knowledge or consent;
 - (ii) after delivery of this Offering Memorandum, or the amendment thereto and before the purchase of the Units by the Subscriber, on becoming aware of any Misrepresentation in this Offering Memorandum, or the amendment thereto, or any record incorporated or deemed incorporated by reference herein, the Person or company withdrew the Person's or company's consent to this Offering Memorandum, or amendment to this Offering Memorandum, or such record, and gave reasonable general notice of the withdrawal and the reason for it; or
 - (iii) with respect to any part of this Offering Memorandum, or amendment thereto, or any record incorporated or deemed to be incorporated by reference herein, purporting to be made on the authority of an expert, or to be a copy of, or an extract from a report, an opinion or a statement of an expert, the Person or company had no reasonable grounds to believe and did not believe that there had been a Misrepresentation, or that the relevant part of this Offering Memorandum, or amendment thereto, or such record, did not fairly represent the report, opinion or statement of the expert, or was not a fair copy of, or extract from, the report, opinion or statement of the expert;

- (d) no Person or company, other than the Trust, is liable under Section 138 of the *Securities Act* (Nova Scotia) with respect to any part of this Offering Memorandum, or amendment thereto or any record incorporated or deemed incorporated by reference therein, not purporting to be made on the authority of an expert, or to be a copy of or an extract from, a report, opinion or statement of an expert, unless the Person or company failed to conduct a reasonable investigation to provide reasonable grounds for a belief that there had been no Misrepresentation, or believed that there had been a Misrepresentation;
- (e) in an action for damages under Section 138 of the *Securities Act* (Nova Scotia), the defendant is not liable for all or any part of the damages that the defendant proves does not represent the depreciation in value of the Units resulting from the Misrepresentation;
- (f) the amount recoverable by a plaintiff under Section 138 of the *Securities Act* (Nova Scotia) may not exceed the price at which the Units were offered under this Offering Memorandum or amendment thereto. A Person or company is not liable for a Misrepresentation in forward-looking information if the Person or company proves all of the following:
 - (i) this Offering Memorandum contains, proximate to the forward-looking 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;
 - (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.

A Person or company is not relieved of liability respecting forward-looking information in a financial statement.

Rights for Subscribers in New Brunswick

Where this Offering Memorandum provided to a prospective Subscriber contains a Misrepresentation, a Subscriber who purchases Units offered by this Offering Memorandum shall be deemed to have relied on the Misrepresentation if it was a Misrepresentation at the time of purchase, and:

- (a) the Subscriber has a right of action for damages against the Trust; or
- (b) the Subscriber may elect to exercise a right of rescission against the Trust, in which case the Subscriber shall have no right of action for damages against the Trust.

The Trust shall not be liable if the Trust proves that the Subscriber purchased the Units with knowledge of the Misrepresentation.

The Trust shall not be liable for a Misrepresentation in forward-looking information, if the Trust proves all of the following:

- (a) this Offering Memorandum contains, proximate to the forward-looking information:
 - (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.

A Person or company is not relieved of liability respecting forward-looking information in a financial statement.

In an action for damages, the Trust shall not be liable for all or any portion of the damages that the Trust proves does not represent the depreciation in value of the Units as a result of the Misrepresentation relied on.

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

In the case of an action for rescission, no action may be commenced more than 180 days from the day of the transaction that gave rise to the cause of action. In the case of an action for damages, no action may be commenced more than the earlier of: (i) one year from the day that the Subscriber first had knowledge of the

facts giving rise to the cause of action; or (ii) six years from the day of the transaction that gave rise to the cause of action.

The rights of action for rescission or damages summarized herein is in addition to and do not derogate from any other right that the Subscriber may have at law.

Item 12: Financial Statement

See below for the opening financial statement of the Trust as at April 15th, 2015.

Opening Statement of Net Assets

PENDFUND INCOME FUND I

(PENFUND INCOME FUND INC. AS TRUSTEE)

As at April 15, 2015

PENDFUND INCOME FUND I

Opening Statement of Net Assets as at April 15, 2015

Assets

Cash	\$	10
Net assets representing Unitholder's equity (note 2)	\$	10
Net asset value per unit outstanding	\$	10.00

See accompanying notes to financial statement.

Approved on behalf of the Board of Trustees,
Pendfund Income Fund Inc. (Trustee)

(SIGNED) TIMOTHY J. TUTTLE
President

(SIGNED) KEVIN R. MACLEAN
Director

(SIGNED) RICHARD A. BAILEY
Director

PENDFUND INCOME FUND I

Notes to Financial Statement as at April 15, 2015

1. Structure of the Trust

Pendfund Income Fund I (the "Trust") is an unincorporated trust established under the laws of British Columbia pursuant to the Trust Agreement dated April 20, 2015 between Pendfund Income Fund I as Trust and Pendfund Income Fund Inc., as Trustee. The Trust has been created for the purpose of generating a stream of income by making loans secured on real property mortgages. A Manager, Canada Pendfund Mortgage Corporation is responsible for administering the affairs of the Trust including the management of the Trust's mortgage portfolio. On the termination of the Trust, the assets of the Trust will be liquidated and the proceeds distributed to pay liabilities of the Trust and to establish reserves for contingent liabilities of the Trust. The remaining proceeds will be distributed to pay the Manager's fees and, thereafter, to redeem Units of the Unitholders.

2. Significant Accounting Policies

The financial statements have been prepared in accordance with Canadian accounting standards for private enterprises, and include the following significant accounting policies:

Valuation of investments

Mortgages

Each real property mortgage investment will be valued at its unpaid principal balance including accrued interest, unless the Manager determines that any such mortgage has a fair market value less than the face amount thereof, in which event such value shall be determined by the Manager.

Authorized interim investments

Authorized interim investments consist of shares, bonds, debentures, notes, marketable securities and cash and will be valued at market value.

Revenue recognition

Interest income from mortgages, bonds, debentures and notes are recorded when earned. Recording of interest income will cease on Mortgages in default if the Manager determines there is some reasonable doubt as to the ultimate collectability of principal and interest. Fees associated with Mortgage lending transactions may be deferred and amortized over the term of the Mortgage. Realized gains and losses from investment transactions are calculated on a cost basis.

Foreign currency conversion

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

Income taxes

The Trust intends to qualify as a qualified investment for a "registered retirement savings plan" under the Income Tax Act (Canada) and will allocate to its Unitholders net income and net realized capital gains, that would otherwise attract tax in the Trust. Accordingly, it is expected that no provision for income tax will be reflected in the financial statements.

PENDFUND INCOME FUND I

Notes to Financial Statement as at April 15, 2015

2. Significant Accounting Policies (continued)

Use of estimates

The preparation of financial statements in accordance with Canadian accounting standards for private enterprises requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and may have impact on future periods.

Financial instruments

The Trust initially measures its financial assets and financial liabilities at fair value adjusted by, in the case of a financial instrument that will not be measured subsequently at fair value, the amount of transaction costs directly attributable to the instrument.

The Trust subsequently measures all its financial assets and financial liabilities at amortized cost, except for cash, which is measured at fair value. Changes in fair value are recognized in income in the period incurred.

Transaction costs are recognized in income in the period incurred, except for financial instruments that will subsequently be measured at amortized cost.

3. Unitholders' Equity

	<u>2014</u>
Units authorized	10,000,000
Units issued	1

Units are redeemable at the demand of the Unitholder. The Unit issued and outstanding is owned by a Unitholder affiliated with the Manager.

4. Fees and other Trust Expenses

Manager's fees and Sales Fee

Pursuant to the Trust Agreement, the Manager has agreed to manage the Trust and will be entitled to receive an annual fee (the "Management Fee") equal to 1.2% of the Average Annual Gross Assets of the Trust and a "Performance Incentive Fee equal to 20% of gross Trust earnings in excess of the "Hurdle rate" which is an aggregate gross annualized yield equal to the two year Government of Canada bond yield plus 350 basis points. Such amounts are to be paid monthly, in arrears. The Trust will be obligated to pay any applicable GST or other taxes on such fees. The Trust will pay a sales fee (the "Sales Fee") to registered dealers, or where permitted non-registrants in the amount of 2% of the subscription monies obtained by such persons. A similar but smaller sales fee will be payable upon the fifth anniversary of the issuance of the Units related to such subscription monies (or each fifth anniversary thereafter) provided that the Units are not redeemed on or before such fifth anniversary.

Other Trust expenses

The Trust will reimburse Manager for its expenses Incurred in connection with the management of the Trust including the expenses of the initial offering of Units (other than brokerage fees), including legal, accounting and printing expenses and for the employment expenses of its personnel, rent and other office expenses amounting to \$80,000.

PENDFUND INCOME FUND I

Notes to Financial Statement as at April 15, 2015

5. Financial Risks and Concentration of Risks

The Trust has a comprehensive risk management framework to monitor, evaluate and manage the principal risks assumed with financial instruments. The risks that arise from transacting financial instruments include credit risk, currency risk, interest rate risk and liquidity risk.

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Trust does not face significant credit risk exposure.

Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Trust does not face significant currency risk exposure.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Trust does not face significant interest rate risk exposure.

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Trust does not face significant liquidity risk exposure.

Item 13: Date and Certificate of the Issuer

The foregoing contains no misrepresentation or untrue statement of a material fact, as such terms is defined in the British Columbia Act, and does not omit to state a material fact that is necessary to make a statement not misleading in light of the circumstances in which it was made. **This Offering Memorandum does not contain a misrepresentation.**

The preparation and contents of this Offering Memorandum have been approved by the Trustees of the Fund.

DATED this 20th day of April, 2015.

(SIGNED) TIMOTHY J. TUTTLE, President of Pendfund Income Fund Inc.
Chairman of the Board of Trustees of Pendfund Income Fund I

(SIGNED) KEVIN R. MACLEAN, Director of Pendfund Income Fund Inc.
Trustee of Pendfund Income Fund I

(SIGNED) RICHARD A. BAILEY, Director of Pendfund Income Fund Inc.
Trustee of Pendfund Income Fund I

Ontario Securities Commission

Box 55 Suite 1903 – 20 Queen Street West Toronto, ON M5H 3S8 Tel: (416) 593-8314 Toll Free (Ontario): 1-877-785-1555 Fax: (416) 593-8122 Website: www.osc.gov.on.ca Inquiries: Inquiries@osc.gov.on.ca

Autorité des marchés financiers

800, Square Victoria, 22^e étage CP 246, Tour de la Bourse Montréal, QC H4Z 1G3 Tel Montréal: (514) 395-0337 Tel Québec: (418) 525-0337 Toll Free: 1-877 525-0337 Fax: (514) 873-3090 WebSite: www.lautorite.qc.ca

Nova Scotia Securities Commission

Joseph Howe Building 2nd Floor, 1690 Hollis Street PO Box 458 Halifax, NS B3J 2P8 Tel: (902) 424-7768 Fax: (902) 424-4625 Website: www.gov.ns.ca/nssc

New Brunswick Securities Commission

606 –133 Prince William Street Saint John, NB E2L 2B5 Tel: (506) 658-3060 Fax: (506) 658-3059 Website: www.nbsc-cvmnb.ca Inquiries: information@nbsc-cvmnb.ca

Department of Government Services

Consumer & Commercial Affairs Branch 2nd Floor, West Block Confederation Building PO Box 8700 St. John's, NL A1B 4J6 Tel: (709) 729-4189 Fax: (709) 729-6187 Website: www.gov.nl.ca/gs

Securities Office

Consumer, Corporate and Insurance Services Division Office of the Attorney General 95 Rochford Street PO Box 2000 Charlottetown, PE C1A 7N8 Tel: (902) 368-4569 Fax: (902) 368-5283 Website: www.gov.pe.ca/Securities

Registrar of Securities

Legal Registries Division Department of Justice Government of the Northwest Territories 1st Floor Stuart M. Hodgson Building 5009 – 49th Street PO Box 1320 Yellowknife, NT X1A 2L9 Tel: (867) 920-3318 Fax: (867) 873-0243 Website: www.justice.gov.nt.ca/SecuritiesRegistry/SecuritiesRegistry.htm

Registrar of Securities

Corporate Affairs C-6 Community Services PO Box 2703 Whitehorse, YT Y1A 3C6 Courier: 2130 Second Avenue, 3rd Floor Whitehorse, YT Y1A 5H6 Tel: (867) 667-5225 Fax: (867) 393-6251

Registrar of Securities

Legal Registries Division Department of Justice Government of Nunavut 1st Floor, Brown Building PO Box 1000 – Station 570 Iqaluit, NU X0A 0H0 Tel: (867) 975-6590 Fax: (867) 975-6594