

Offering Memorandum

May 1, 2018

Continuous Offering

CMLS Mortgage Fund (the “Fund”)

Minimum Subscription: \$5,000 subject to applicable securities laws

IMPORTANT DISCLOSURE

The offering is being made with reliance on certain exemptions from the prospectus filing requirements available under the securities laws of each of the provinces and territories of Canada. As a result, the securities offered herein will not be listed on any stock exchange and will be subject to the applicable resale and transfer restrictions under these laws. These securities will not be offered for sale in the United States of America. These securities 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.

This Offering Memorandum constitutes a private offering of securities only in those jurisdictions and to those persons where and to whom they may be lawfully sold and therein only by those entities permitted to sell such securities. This Offering Memorandum is not, and under no circumstances is it to be construed as, a prospectus, advertisement or public offering of the securities referred to herein.

If you purchase Units you will have certain rights. See “PURCHASERS’ RIGHTS” in this Offering Memorandum.

This Offering Memorandum does not constitute, and may not be used for or in conjunction with, an offer or solicitation by anyone in any jurisdiction or in any circumstances in which such offer or solicitation is not authorized, or to any person to whom it is unlawful to make such an offer or solicitation. 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 securities 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. The securities offered hereby will be issued only on the basis of information contained in this Offering Memorandum and no other information or representation is authorized or may be relied upon as having been authorized by the trustees and the Fund. Persons who will be acquiring securities pursuant to this Offering Memorandum will not have the benefit of the review of the material by the securities commissions or similar authorities in Canada. Any subscription for the securities offered hereby 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 said person.

See “DEFINITIONS” for the meaning ascribed to certain capitalized terms used in this Offering Memorandum.

The Issuer

Name: CMLS Mortgage Fund (defined above as the “**Fund**”), a trust established under the laws of the Province of British Columbia

Head office: c/o CMLS Asset Management Ltd.
2110-1066 West Hastings Street
Vancouver, British Columbia
V6E 3X2

Phone #: (778) 588-7320

E-mail address: assetmanagement@cmls.ca

Fax #: (604) 687-8011

Currently listed or quoted?: **No. These securities do not trade on any exchange or market.**

Reporting issuer?: No

SEDAR filer?: No

The Trustee

Name: Computershare Trust Company of Canada

The Manager

Name: CMLS Asset Management Ltd.

The Offering

Securities offered: An unlimited number of trust units (each, a “**Unit**” and collectively, “**Units**”) consisting of Class A, Class B, Class F and Class I Units, being offered hereby on a continuous basis. Class A Units are available only to Manager-approved subscribers. Class B Units are available to all subscribers. Class F Units have lower fees than Class A and Class B Units and are only available to subscribers who have fee-based accounts with Representatives (as defined below). Class I Units are available to certain private and institutional subscribers. Each Unit represents an equal, undivided beneficial interest in the Fund. Each Unit has the attributes and characteristics described in this Offering Memorandum. See “BUSINESS OF CMLS MORTGAGE FUND — Material Agreements — Trust Agreement” in this Offering Memorandum.

Price per security: Net Asset Value Per Unit as determined on a monthly basis.

Minimum/Maximum offering: **There is no minimum or maximum. You may be the only purchaser.**

Funds available under the offering may not be sufficient to accomplish the proposed objectives. However, Units have been sold in prior offerings. See “CAPITAL STRUCTURE — Prior Sales” in this Offering Memorandum.

Minimum subscription amount: The minimum subscription amount that may be subscribed for by any one subscriber is \$5,000. The Manager may waive or vary this at its discretion.

Payment terms: For Class A, B and F Units, the subscription price is payable by electronic funds transfer. For Class I Units, the subscription price is payable by certified cheque, bank draft or other electronic funds transfer satisfactory to the Trustee. No financing of the subscription price will be provided by the Fund, the Trustee or the Manager.

Proposed closing dates: Units will be offered on a continuous basis with closings on the last business day of every month.

Income tax consequences: There are important tax consequences to these securities. See “INCOME TAX CONSEQUENCES AND REGISTERED PLAN ELIGIBILITY” in this Offering Memorandum.

Selling agent: None. See “COMPENSATION PAID TO SELLERS AND FINDERS” in this Offering Memorandum.

Resale restrictions

You will be restricted from selling your Units for an indefinite period, and Units are subject to transfer restrictions. See “RESALE AND TRANSFER RESTRICTIONS” in this Offering Memorandum. You may elect to redeem any or all of your Units, subject to certain limitations described herein. See “BUSINESS OF CMLS MORTGAGE FUND — Trust Agreement — Redemption of Units” in this Offering Memorandum.

Purchaser’s rights

You have 2 business days to cancel your agreement to subscribe for Units. If there is a misrepresentation in this Offering Memorandum, you have the right to sue either for damages or to cancel the agreement. See “PURCHASERS’ RIGHTS” in this Offering Memorandum.

No securities regulatory authority or regulator has assessed the merits of these securities or reviewed this Offering Memorandum. Any representation to the contrary is an offence. This is a risky investment. See “RISK FACTORS” in this Offering Memorandum

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DEFINITIONS

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

“**Administration Agreement**” means any administration agreement entered into between the Trustee and an Administrator pursuant to which the Administrator provides Administration Services to the Fund.

“**Administration Services**” means such record keeping, Register management, Unit transaction and similar services as may be provided to the Fund by an Administrator under an Administration Agreement.

“**Administrator**” means any administrator appointed by the Trustee on the direction of the Manager pursuant to an Administration Agreement.

“**Available Cash**” at any date means, as determined by the Manager and notified to the Trustee in writing, an amount equal to the sum of:

- (a) all cash of the Fund on hand or on deposit in any financial institution and all amounts held by the Fund as Liquid Investments; plus
- (b) funds available under any loan facilities established for the Fund; plus
- (c) all proceeds received from the sale of Mortgages in the ordinary course of business, if any;

less the sum of:

- (d) an amount equal to the amount of all Unfunded Commitments of the Fund as at such date; plus
- (e) an amount determined sufficient by the Manager, in good faith, to provide the Fund with sufficient liquidity to negotiate potential investment opportunities known at such date to the Manager; plus
- (f) all costs and expenses of the Fund accrued or due and payable as at such date; plus
- (g) an amount equal to a reasonable reserve or allowance as determined by the Manager as at such date for any costs, expenses or contingencies of the Fund that may become payable after such date.

“**Bridge Loan**” means a short term Single-Family Residential Mortgage provided to an individual to facilitate closing the purchase of a new home prior to the closing of the sale of an existing home.

“**Cash Distribution Option**” means the option of a Unitholder to receive cash distributions of his or her Proportionate Share of net income, as more particularly described in the Trust Agreement.

“**Class A Units**” means the Class A Units offered under this Offering Memorandum, which will be made available to certain Manager-approved subscribers.

“**Class B Units**” means the Class B Units offered under this Offering Memorandum, which will be made available to all subscribers.

“**Class F Units**” means the Class F Units offered under this Offering Memorandum, which will be made available only to subscribers who have fee-based accounts with Representatives.

“**Class I Units**” means the Class I Units offered under this Offering Memorandum, which will be made available only

to certain private or institutional subscribers through the Manager's actions as an exempt market dealer.

“Commercial Mortgage” means a Mortgage secured by property which is commercial in nature. For greater clarity, this includes residential property with greater than four units.

“Commitment” means an accepted, binding commitment approved and issued in writing by the Manager on behalf of the Fund:

- (a) to a borrower stipulating the terms and conditions upon which the Fund is prepared to lend funds to the borrower, but does not include any letters of intent, draft memoranda of terms or other written material issued by the Manager to negotiate the terms of such loan; or
- (b) to a third party in respect to an investment by the Fund in a Mortgage.

“Custodial Agreement” means any custodial agreement entered into between the Trustee and a Custodian pursuant to which the Custodian provides Custodial Services to the Fund.

“Custodial Services” means such custodial, depository and similar services as may be provided to the Fund by a Custodian under a Custodial Agreement.

“Custodian” means any custodian appointed by the Trustee on the direction of the Manager pursuant to a Custodial Agreement, and may include CMLS Financial Ltd.

“Distribution Date” means December 31 in each fiscal year of the Fund.

“Distribution Reinvestment” means the automatic reinvestment on behalf of Unitholders of their Proportionate Shares of distributions of net income in additional Units.

“Extraordinary Resolution” means:

- (a) a resolution proposed as such and passed as such by a majority of not less than 75% of the votes cast by Unitholders who vote in person or by proxy at a meeting of Unitholders called in accordance with the terms of the Trust Agreement; or
- (b) a resolution consented to in writing by Unitholders holding not less than 75% of the Units entitled to vote on such resolution, and any such resolution consented to in writing shall have the same force and effect as if it were passed at a duly called and held Unitholders meeting.

“First Mortgage” means a first mortgage charge over Real Property.

“Fund” means CMLS Mortgage Fund, a trust established under the laws of the Province of British Columbia.

“Initial Closing” means the first closing of subscriptions and issuance of Units to Purchasers pursuant to this Offering Memorandum.

“Liquid Investment” at any date means an investment in or on the security of Canadian dollar obligations:

- (a) that is issued or guaranteed by the government of Canada or a province thereof; or
- (b) that is in term deposit receipts or certificates of deposit issued, or drafts accepted by, a Canadian chartered bank which is referred to in Schedule A or B to the *Bank Act* (Canada); or

- (c) that is issued as bonds and/or debentures by publicly traded Canadian corporations and/or publicly traded Canadian real estate investment trusts.

“**Manager**” means CMLS Asset Management Ltd., a company incorporated under the laws of the Province of British Columbia, in its capacity as manager of the Fund.

“**Management Fees**” means the management fees to be paid by the Fund to the Manager in respect of Class A Units, Class B Units, Class F Units and Class I Units issued and outstanding, in accordance with the Trust Agreement.

“**Management Expense Ratio**” means for any period of time, an amount, expressed as a rate per annum, equal to the sum of:

- (a) the Management Fees; plus
- (b) the fees charged by the Administrator; plus
- (c) the fees charged by the Custodian; plus
- (d) the fees charged by the Trustee, plus
- (e) the fees charged by the auditor; plus
- (f) the fees charged in relation to the servicing and valuation of the mortgage loans; plus
- (g) certain other administrative fees incurred by the Manager necessary or incidental to the carrying out of the purposes of the Trust Agreement and the Fund in accordance with the Trust Agreement,

divided by the average Net Asset Value of the Fund during such period.

“**Mortgage**” means any mortgage containing a fixed charge over Real Property and includes:

- (a) a trust agreement, debenture or similar security instrument containing such a fixed charge and securing bonds, debentures or other evidence of indebtedness;
- (b) a partial interest in a Mortgage, including an interest in the entitlement to receive only the interest payable thereunder or the entitlement to receive only the repayment of the principal amount of the Mortgage, provided that in either case such interest in the Mortgage is evidenced to the satisfaction of counsel for the Fund.

“**Net Asset Value**” or “**NAV**” means at any particular time, in respect of the Fund, the value of the Trust Property at such time determined in accordance with the Trust Agreement.

“**Net Asset Value per Unit**” or “**NAVPU**” means at any particular time, the market value of the Units obtained by dividing the Net Asset Value at that particular time, by the number of issued Units of all classes of Units at that particular time.

“**Net Capital Gains**” means with respect to a particular fiscal year, the capital gains of the Fund for such year less the capital losses of the Fund for such year, calculated in accordance with the Tax Act.

“**Net Income**” means with respect to a particular fiscal year of the Fund, the net income of the Fund calculated in accordance with the Tax Act.

“**Offering Memorandum**” means this offering memorandum dated May 1, 2018.

“**Ordinary Resolution**” means:

- (a) a resolution proposed as such and passed as such by a majority of the votes cast by Unitholders who vote in person or by proxy at a meeting of Unitholders called in accordance with the terms of the Trust Agreement; or
- (b) a resolution consented to in writing by Unitholders holding a majority of the Units entitled to vote on such resolution, and any such resolution shall have the same force and effect as if it were passed at a duly called and held Unitholders meeting.

“**Originator**” means CMLS Financial Ltd., an affiliate of the Manager and the entity through which Mortgages will be sourced for the Fund.

“**Parent**” means CMLS Financial Solutions Inc., the parent company of the Manager and the Originator.

“**Promoter**” means CMLS Asset Management Ltd.

“**Proportionate Share**” means, when used to describe a Unitholder’s interest in any amount, the portion of that amount calculated by multiplying it by a fraction obtained by dividing the number of Units of each class of Units registered in the name of such Unitholder by the total number of Units of all classes of Units of the Fund then outstanding.

“**Purchasers**” means purchasers of Units under this Offering Memorandum.

“**Real Property**” means a fee simple or leasehold interest in real property in Canada.

“**Representative**” means the duly authorized registered dealer, broker or investment advisor acting as the agent for a subscriber or Unitholder.

“**Second Mortgage**” means a second mortgage charge over Real Property.

“**Single-Family Residential Mortgage**” means a Mortgage secured by a residential property containing one to four living units.

“**Subscription Agreement**” means a subscription agreement for Class A Units, Class B Units, Class F Units or Class I Units in the forms set out in the applicable schedules hereto or in such other form as the Manager shall prescribe from time to time.

“**Tax Act**” means the *Income Tax Act* (Canada) and the regulations promulgated thereunder, as amended from time to time.

“**Trust Agreement**” means the amended and restated trust agreement dated May 1, 2018 between the Trustee and the Manager, as such agreement may be amended, modified, supplemented or restated from time to time.

“**Trust Property**” at any time means any and all property, real or personal, tangible or intangible, moveable or immovable, which is hereafter transferred, conveyed or paid to the Trustee or held by it from time to time in its capacity as Trustee hereunder and the proceeds of any subscription for Units together with all renewals thereof, substitutions therefor, accretions thereto, and all income and proceeds thereof and therefrom and all investments held by the Fund, income thereon and proceeds therefrom.

“**Trustee**” means Computershare Trust Company of Canada, in its capacity as the trustee of the Fund, and includes

any additional or substitute trustee or trustees at any time and from time to time appointed and acting as a trustee or trustees of the Fund.

“Unanimous Resolution” means:

- (a) a resolution proposed as such and passed as such by all of the votes cast by the Unitholders who vote in person or in proxy at a meeting of Unitholders called in accordance with the terms of the Trust Agreement; or
- (b) a resolution consented to in writing by all Unitholders entitled to vote on such resolution, and any such resolution shall have the same force and effect as if it were passed at a duly called and held Unitholders meeting.

“Unfunded Commitment” means a Commitment under which the Trustee has not yet advanced funds.

“Unitholder” means a person whose name appears on the register of Unitholders established and maintained pursuant to the Trust Agreement, as a holder of a Unit or Units.

“Units” means all of the trust units representing units of beneficial interest in the Fund offered under this Offering Memorandum consisting of Class A Units, Class B Units, Class F Units and Class I Units, and **“Unit”** means any of them.

“Valuation Date” means the last business day of each month.

USE OF AVAILABLE FUNDS

Available Funds

Units will be offered on a continuous basis. There is no minimum or maximum offering. The following table describes the available funds from two hypothetical fund raising scenarios:

		Assuming offering of \$0	Assuming offering of \$50,000,000
A	Amount to be raised by this offering	NIL	\$50,000,000
B	Selling commissions and fees	NIL	NIL
C	Estimated offering costs (e.g., legal, accounting, audit)	- \$50,000	- \$50,000
D	Available Funds: $D = A - (B+C)$	- \$50,000	\$49,950,000
E	Additional sources of funding required	\$0	\$0
F	Working capital deficiency	\$0	\$0
G	Total: $G = (D+E) - F$	- \$50,000	\$49,950,000

No selling agent is paid a commission or a fee by the Fund or the Trustee. Sales commissions, trailer fees and referral fees are paid by the Manager out of the Manager's Management Fees. See "COMPENSATION PAID TO SELLERS AND FINDERS" in this Offering Memorandum.

Sales commissions charged by a Representative will vary depending on the fee arrangement negotiated by each investor with their Representative, if any.

Use of Available Funds

The Fund will use the total available funds raised pursuant to this Offering Memorandum to invest primarily in Commercial and Single-Family Residential Mortgages.

The Manager expects the portfolio held by the Fund to be comprised of Commercial Mortgages, Single-Family Residential Mortgages and Liquid Investments. Although the portfolio is currently 100% Commercial Mortgages as of the date of this Offering Memorandum, the mix is expected to change over time as opportunities to generate attractive risk-adjusted returns present themselves. The Manager is targeting a 0-20% allocation to Liquid Investments. The target weighted average term is approximately 2-3 years.

The Fund will use the total available funds for the placement of Mortgages and purchase of Liquid Investments in accordance with its investment objectives and strategies set out herein.

Description of intended use of available funds in order of priority	Assuming offering of \$0	Assuming offering of \$50,000,000
Placement of Commercial and Single-Family Residential Mortgages	\$0	\$45,000,000
Purchase of Liquid Investments	\$0	\$4,950,000

The proportion of the Fund's assets invested in Mortgages will vary over time, and any funds not invested in Mortgages will be invested in Liquid Investments.

Asset Class	Targeted Minimum Percentage of Gross Fund Assets	Targeted Maximum Percentage of Gross Fund Assets
Commercial and Single-Family Residential Mortgages	80%	100%
Liquid Investments	0%	20%

Reallocation

The Fund intends to invest the total available funds as stated above. The Manager will reallocate funds only for sound business reasons.

BUSINESS OF CMLS MORTGAGE FUND

Structure

The Fund is a trust established under the laws of the Province of British Columbia pursuant to a trust agreement dated May 2, 2008 between the initial trustee of the Fund, Penmor Capital Partners Ltd., and the Manager, as subsequently amended and restated on May 1, 2018. The head office of the Fund is located at 2110-1066 West Hastings Street, Vancouver, British Columbia, V6E 3X2.

On April 26, 2017, Penmor Capital Partners Ltd. resigned in its capacity as the initial trustee of the Fund, and Computershare Trust Company of Canada, a trust company incorporated under the federal laws of Canada, was appointed as successor trustee of the Fund. The head office of the Trustee is located at 100 University Avenue, 11th Floor, Toronto, Ontario M5J 2Y1.

Business

Investment Objectives and Strategies

The investment objectives of the Fund are to generate income from investments in Mortgages and Liquid Investments.

The Fund intends to provide its Unitholders with income while preserving invested capital primarily through the prudent sourcing and management of a diverse pool of Mortgages secured against Real Property located in Canada. In addition, the Fund will also invest a portion of its assets in Liquid Investments. From the income generated by the

Fund's investments, the Manager will calculate and allocate the Fund's distributable net income, and the Fund intends to distribute such net income to Unitholders on a monthly basis in accordance with the Trust Agreement. The Fund also intends to distribute to Unitholders all of the net income earned by the Fund as calculated on the Distribution Date so that the Fund will not be liable for tax under Part I of the Tax Act in any taxation year. Unless Unitholders elect the Cash Distribution Option, their Proportionate Share of any distributions of net income will be reinvested in additional Units of the same class at the NAVPU prevailing at the time. Also see below under "BUSINESS OF THE CMLS MORTGAGE FUND – Trust Agreement – Distribution Policy" in this Offering Memorandum.

Mortgage Investments

Mortgages are a common form of financing within the real estate industry in Canada. To assist in defining its investment strategy the Manager has categorized Mortgages into Single-Family Residential Mortgages and Commercial Mortgages. Single-Family Residential Mortgages are Mortgages secured by residential property containing one to four living units and typically represent credit extended to individuals as opposed to business entities. A Bridge Loan is a short term Single-Family Residential Mortgage provided to individuals by the Fund to facilitate closing the purchase of a new home prior to the closing of the sale of the individual's existing home. Commercial Mortgages are Mortgages secured by properties which are either income-producing or capable of producing income in the future (e.g. land on which the borrower plans to build a retail complex).

All Mortgages will be originated in Canada and the Trustee may acquire interests in Mortgages by way of participation agreements or otherwise. Documentation used with respect to Mortgages will provide that, in the event of a failure by the borrower to pay an amount owing under a Mortgage, the Fund or applicable lender will be entitled to enforce the Mortgage in accordance with applicable law. In the event of a failure by a borrower to make a monthly payment of interest and/or principal, the Fund or applicable lender will communicate with the borrower and failing rectification, the Fund or applicable lender will take steps to protect the Fund's interests by taking enforcement action appropriate under the circumstances provided by the terms of the Mortgage. Each of the Fund's Mortgages will be registered on title against the underlying real property securing the Mortgage. Except in respect of certain Bridge Loans, and in circumstances where the Fund holds an interest in a Mortgage indirectly, title to each Mortgage will be held by and registered in the name of the Trustee (in respect of all Mortgages originated prior to the date of this Offering Memorandum) or the Custodian (in respect of all Mortgages originated after the date of this Offering Memorandum).

Investments in Real Property

The Fund will not make any direct investments in Real Property, but may hold title to Real Property acquired as a result of any foreclosure proceedings associated with the enforcement of any Mortgages held by the Fund, where such foreclosure is deemed necessary to protect the Fund's investment following a default by the borrower under such Mortgage. In these circumstances, the Fund will act prudently with respect to the disposition of any such Real Property, with a view to maximizing its recovery under such Mortgage investment.

Liquid Investments

The Fund may also hold Liquid Investments from time to time as market conditions and cash flows dictate.

Investment Restrictions

The Fund is subject a number of investment restrictions set out in the Trust Agreement. In addition to various investment restrictions relating to certain tax matters, the Trust Property may not be used to:

- (a) invest, directly or indirectly, in securities or property except to the extent consistent with the other investment guidelines of the Fund;
- (b) purchase Real Property, except Real Property acquired as part of the realization or enforcement of a Mortgage;
- (c) purchase securities for the purpose of exercising control or management of the issuer of such securities;

- (d) purchase gold or gold certificates;
- (e) purchase or sell commodities or commodity futures contracts or commodity futures options;
- (f) invest in securities of any mutual fund;
- (g) purchase securities on margin;
- (h) purchase any security which may by its terms require the Fund to make a contribution in addition to the payment of the purchase price;
- (i) engage in the business of underwriting securities or marketing to the public securities of any other issuer;
- (j) lend portfolio securities;
- (k) guarantee the securities or obligations of any other person or corporation;
- (l) purchase securities other than through normal market facilities unless the purchase price approximates the prevailing market price or is negotiated on an arm's length basis; or
- (m) make any other investment not recommended by the Manager and expressly permitted by the Trust Agreement,

provided that none of such investment restrictions shall be interpreted so as to restrict or limit the Trustee from taking enforcement proceedings under any of the Mortgages.

Manager

The Manager will manage the affairs of the Fund in accordance with the terms and conditions of the Trust Agreement, and shall exercise its duties and responsibilities diligently and in good faith and with the degree of care, diligence and skill that a reasonably prudent professional mortgage investment manager would exercise in comparable circumstances. To achieve its objectives, the Fund will benefit from the Manager's experience in analyzing and selecting Mortgages, as well as from the expertise of the Originator in originating, underwriting and servicing mortgage investments.

The Originator is: (i) registered as a "Mortgage Broker" in the Province of British Columbia under the *Mortgage Brokers Act* (British Columbia); (ii) licensed to deal in mortgages in the Province of Alberta pursuant to the *Real Estate Act* (Alberta); (iii) licensed to operate as a financing corporation in the Province of Saskatchewan pursuant to the *Trust and Loan Corporations Act, 1997* (Saskatchewan); (iv) registered as a "Mortgage Broker" in the Province of Manitoba under the *Mortgage Brokers Act* (Manitoba); (v) registered as a "Mortgage Broker" and "Mortgage Administrator" in the Province of Ontario under the *Mortgage Brokerages, Lenders and Administrators Act, 2006* (Ontario); (vi) licensed to operate as a "Real Estate Agency" in the Province of Québec under the *Real Estate Brokerage Act, 2010* (Québec); (vii) registered as a "Mortgage Broker" in the Province of Nova Scotia under the *Mortgage Brokers' and Lenders' Registration Act* (Nova Scotia); (viii) registered as a "Trust Company/Loan Corporation" in the Province of Prince Edward Island pursuant to the *Extra-provincial Corporations Registration Act* (Prince Edward Island); (ix) licensed as a "Mortgage Brokerage" in the Province of New Brunswick pursuant to the *Mortgage Brokers Act* (New Brunswick); and (x) licensed as a "Mortgage Brokerage" in the Province of Newfoundland and Labrador pursuant to the *Mortgage Brokers Act* (Newfoundland and Labrador). The Manager will evaluate and select all investments on behalf of the Fund in accordance with specific investment and operating policies established by the Manager from time to time as are consistent with the provisions of the Trust Agreement. The Originator will engage in the origination, underwriting and servicing of most Mortgage investments of the Fund. All Mortgage investments will be subject to the final approval of the Manager prior to inclusion in the Fund.

In addition, the Manager is registered as a restricted portfolio manager and exempt market dealer under the securities legislation of British Columbia, Alberta, Nova Scotia, Ontario and Quebec, and as an investment fund manager under the securities legislation of British Columbia, Ontario and Quebec.

The Manager will be responsible for execution of the Fund's investment strategy, including the identification and selection of investment opportunities, related due diligence, negotiation, documentation, approval and ongoing

management and administration of assets in the portfolio. All investment opportunities will be subject to specific investment policies, and the operation of the Fund will also be subject to specific operating policies. Investment opportunities will be screened, and those selected by the Manager will be chosen based on their expected return at the time investments are made, relative to the risk characteristics and credit quality of each transaction.

The Manager has engaged an Administrator to provide Administration Services to the Fund, and has engaged a Custodian to provide Custodial Services to the Fund, in each case, at the expense of the Fund.

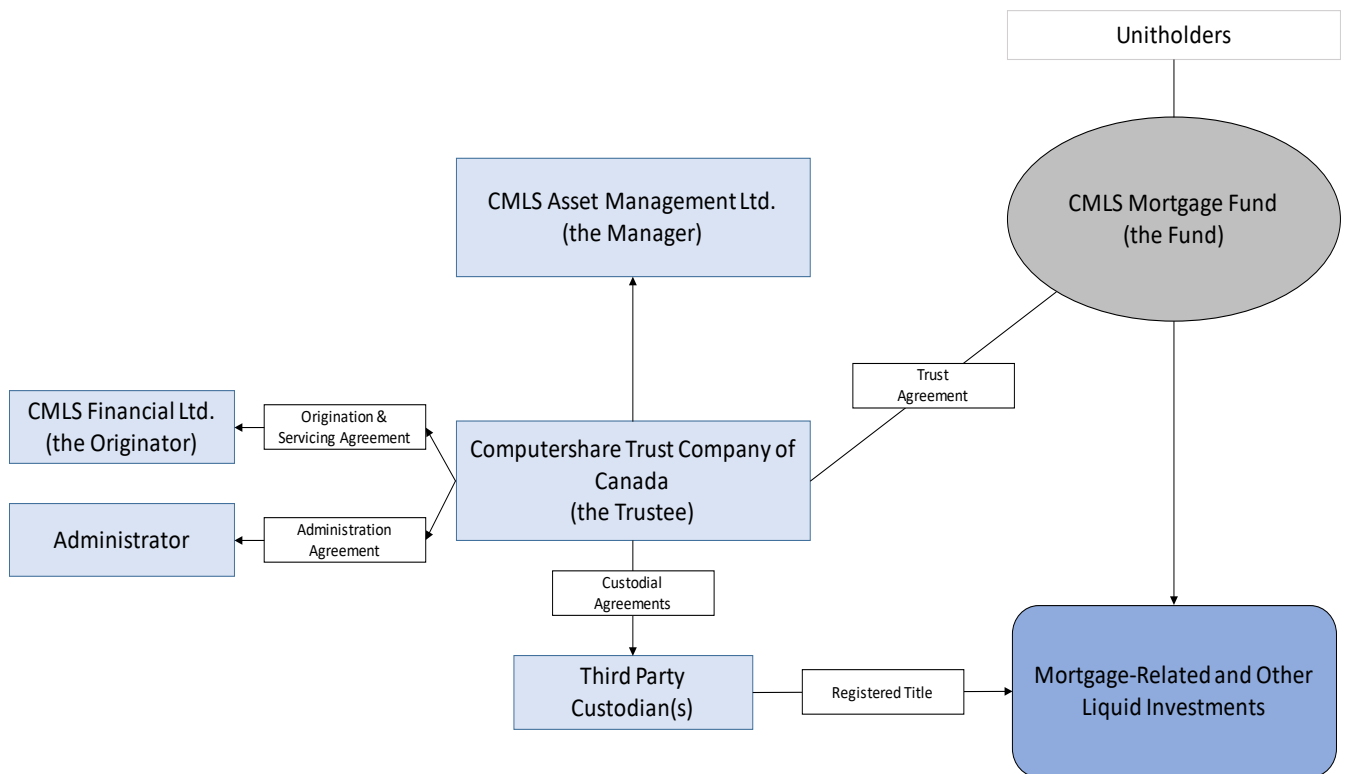
The Manager was incorporated under the laws of the Province of British Columbia on April 30, 2008 under the name “Penmor Capital Partners Ltd.”. The Manager was subsequently renamed as “CMLS Asset Management Inc.” on February 29, 2016. The head office of the Manager is 2110-1066 West Hastings Street, Vancouver, British Columbia, V6E 3X2. The Manager operates a branch office at 4th Floor, 145 Wellington Street West, Toronto, Ontario M5J 1H8. The Manager and Originator are wholly-owned subsidiaries of the Parent. The Manager is also the Promoter of the Fund.

The Originator has been originating, underwriting and servicing mortgages since 1974. The Originator originated approximately \$5.2 billion in mortgages in 2017 and had approximately \$20.0 billion of assets under administration

Trustee

The Trustee has such powers, duties and responsibilities as permitted by the Trust Agreement, which includes the holding of legal or beneficial title to the Trust Property, the making of investments in Mortgages and Liquid Investments as directed by the Manager, and the entering into agreements as required for the operation of the Fund.

The chart below sets out the relationship between the Fund, the Manager and the Trustee.



Development of Business

The Fund first offered Units to subscribers on May 1, 2008 with 30,750 Units subscribed for an initial capitalization of \$307,500. As of December 31, 2017, the gross assets of the Fund were \$12,147,478 and the Net Asset Value of the Fund had grown to \$11,648,041 with total units outstanding of 1,164,804.

Mortgage Portfolio of the Trust as of December 31, 2017

The following table provides a summary of certain financial metrics relating to the loans in the Fund's mortgage portfolio:

Portfolio Metrics (as of Dec 31, 2017)	
Weighted Loan-To-Value Ratio	62.8%
Weighted Debt Service Coverage	1.26x
Weighted Term to Maturity (years)	2.2
Weighted interest rate	6.41%

The following table provides a summary of the loans in the Fund's mortgage portfolio:

#	Location	Property Type	Priority Ranking	Balance	Coupon	Loan-to-appraised value	Portfolio Weighting	Maturity date
1	ON	Retail	Junior First	1,250,000	6.08%	64.29%	10.34%	02/05/2018
2	ON	Retail	Junior First	1,103,418	4.21%	69.03%	9.13%	03/01/2022
3	QC	Multi-family	Second	829,651	6.25%	74.62%	6.87%	01/05/2022
4	AB	Retail	Second	820,000	8.00%	71.42%	6.79%	10/01/2020
5	ON	Mixed Use	First	770,599	6.50%	47.06%	6.38%	06/01/2019
6	ON	Multi-family	Second	748,410	5.75%	62.23%	6.19%	10/01/2021
7	ON	Multi-family	Junior First	741,612	6.23%	53.72%	6.14%	01/05/2019
8	BC	Office	Junior First	739,216	5.95%	54.04%	6.12%	11/01/2022
9	ON	Mixed Use	Junior First	675,394	10.25%	63.76%	5.59%	03/01/2018
10	QC	Office	Second	522,221	5.90%	71.00%	4.32%	03/05/2018
11	BC	Industrial	Second	500,000	7.00%	67.87%	4.14%	04/05/2019
12	ON	Office	Second	490,206	7.00%	76.99%	4.06%	09/01/2018
13	QC	Senior Housing	Second	463,924	7.29%	65.92%	3.84%	01/05/2021
14	QC	Retail	Junior First	390,826	2.34%	65.13%	3.23%	05/09/2020
15	ON	Multi-family	Junior First	405,634	4.41%	0.00%	3.36%	12/05/2018
16	ON	Multi-family	Second	400,000	7.50%	81.27%	3.31%	12/01/2022
17	QC	Multi-family	Second	322,357	6.50%	65.86%	2.67%	08/05/2019
18	ON	Mixed Use	Junior First	243,316	9.40%	68.63%	2.01%	08/05/2018
19	ON	Multi-family	Junior First	232,468	7.24%	63.99%	1.92%	10/01/2018
20	SK	Multi-family	Second	194,419	7.00%	66.58%	1.61%	03/05/2021
21	MB	Office	Second	190,914	7.00%	54.91%	1.58%	02/05/2021
22	ON	Multi-family	Junior First	49,840	6.11%	53.72%	0.41%	01/05/2019
Total/Avg				12,084,424		62.80%	100.00%	

⁽¹⁾ Loan-to-value for Mortgage investments is calculated using the outstanding loan balance divided by the appraised current market value of the underlying collateral. The fair market value of the underlying collateral is updated on an annual basis.

The following table provides a summary of the loans in the Fund's mortgage portfolio categorized by property type:

Property type	Number of mortgages	Outstanding balance	% of portfolio	Weighted avg. interest rate
Multi-family	9	3,924,390	33%	6.20%
Retail	4	3,564,244	29%	5.53%
Office	4	1,942,557	16%	6.30%
Mixed use	3	1,689,309	14%	8.42%
Industrial	1	500,000	4%	7.00%
Senior housing	1	463,924	4%	7.29%
	22	12,084,424	100%	6.41%

The following table provides a summary of the loans in the Fund's mortgage portfolio categorized by priority of the related Mortgage:

Type of mortgage	Number of mortgages	Outstanding balance	% of portfolio	Weighted avg. interest rate
First	1	770,599	6%	6.50%
Junior first	10	5,831,724	49%	6.03%
Second	11	5,482,101	45%	6.79%
Total	22	12,084,424	100%	6.41%

The following table provides a summary of the Fund's mortgage portfolio categorized by province of the related property:

Province	Number of mortgages	Outstanding balance	% of portfolio	Weighted avg. interest rate
ON	12	7,110,897	58%	6.41%
QC	5	2,528,978	21%	5.80%
BC	2	1,239,216	10%	6.37%
AB	1	820,000	7%	8.00%
SK	1	194,419	2%	7.00%
MB	1	190,914	2%	7.00%
	22	12,084,424	100%	6.41%

Long Term Objectives

As the Fund grows, it will benefit from increased diversification, increased liquidity and economies of scale. Although the Fund is currently 100% invested in Commercial Mortgages, the mix may change to include Single-Family Residential Mortgages in the future as opportunities to achieve attractive returns present themselves.

Short Term Objectives

During the 12 month period following the Initial Closing under this Offering Memorandum and all subsequent closings, the Fund intends to invest the total available funds in the manner described in this Offering Memorandum.

It is the intention of the Manager that the proceeds of the Initial Closing and all subsequent closings will be invested as quickly as is reasonably possible subject to the Manager's prudent and rigorous underwriting of all transactions.

Insufficient Funds

The Fund does not anticipate that the funds available as a result of the offering will be insufficient to accomplish its objectives. However, there is no assurance that this will be the case.

Trust Agreement

The following is a summary of certain provisions of the Trust Agreement. Copies of the Trust Agreement are available to Unitholders upon request at the head office of the Manager.

Units

The beneficial interest in the Fund is divided into different classes of Units, each of which will have a separate Management Fee and may have such trailer fees, short-term trading fees, referral fees and sales commissions as the Manager may determine in its discretion. The classes of Units available under this Offering Memorandum are described below.

Class A Units are available to certain Manager-approved subscribers and have trailer fees payable to the Representatives of the subscribers. Class B Units are available to all subscribers and have trailer fees payable to the Representatives of the subscribers. Class F Units have lower management fees than Class A and Class B Units and are only available to subscribers who have fee-based accounts with Representatives. The Manager will not pay trailer fees to Representatives who sell Class F Units, which means the Manager can charge a lower management fee. Representatives will be responsible for determining whether subscribers are eligible to buy and continue to hold Class F Units. If the fee arrangement between a Unitholder and his or her Representative changes from a trailer fee-based account to a fee-based account or vice versa, the Representative may advise the Manager accordingly and can arrange to redeem such Units. Class I Units are available only to certain private or institutional subscribers. Management fees payable by the Fund with respect to the Class I Units will be specified by the Manager at the time of subscription based on the amount of the investment in Class I Units by the investor.

Each Unit and fractions thereof will be issued only as fully paid and non-assessable. There is no limit to the number of Units that may be issued. No Unit or fraction thereof shall have any preference or priority over any other Unit. The Trustee may, upon direction of the Manager, create additional classes of Units with different Management Fees, trailer fees, short-term trading fees, referral fees, and sales commissions or re-designate existing classes of Units. The creation of additional classes of Units or re-designation of existing classes of Units will not require approval of the Unitholders. The Trustee shall give written notice to the Unitholders and to the Manager of any amendment to the Trust Agreement to establish additional classes of Units within 10 business days after the making thereof.

Voting

Each Unitholder will be entitled to one vote for each whole Unit held. No holder of a fraction of a Unit, as such, shall be entitled to notice of, or to attend or to vote at, meetings of Unitholders.

Price of Units

The subscription price per Unit purchased pursuant to a subscription will be the NAVPU determined on the Valuation Date of the calendar month in which the subscription is accepted, unless the subscription is received after 1:00 pm Pacific Standard Time on the Valuation Date, in which case the subscription price per Unit will be based on the NAVPU on the Valuation Date of the subsequent month.

Subscription Procedure

See “SECURITIES OFFERED — Subscription Procedure” in this Offering Memorandum.

Distribution Policy

The Fund will be required to distribute all of its net income and net capital gains in each fiscal year as calculated on the Distribution Date so that no tax under Part I of the Tax Act will be payable. The Fund expects to make monthly distributions of net income to the Unitholders as described under the “BUSINESS OF CMLS MORTGAGE FUND — Business – Investment Objectives and Strategies” in this Offering Memorandum. The distribution may fluctuate on a monthly basis with the income and repayments of the underlying collateral.

Each Unit’s Proportionate Share of the amount of net income and net capital gains will be determined by dividing the amount of such net income or net capital gains, as the case may be, by the number of issued and outstanding Units of all classes on the applicable Valuation Date. The Proportionate Share of each Unitholder will be based upon the number of Units owned by each such Unitholder of record on the Valuation Date.

Distribution Reinvestment

Subject to compliance with applicable securities laws, each Unitholder, except Unitholders who have selected the Cash Distribution Option, shall receive their Proportionate Share of net income by issuance of additional Units of the same class to which the distribution applies, at the NAVPU as of the applicable Valuation Date. The Trustee shall distribute to the Unitholders who have selected the Cash Distribution Option their respective Proportionate Shares of the net income of the Fund for a calendar month by the fifteenth day of the following month.

Redemption of Units

Subject to the restrictions described below, Unitholders are entitled to redeem all or a portion of their Units on the last business day of any month (a “**redemption date**”) by providing the Manager with advance written notice in the form approved by the Manager from time to time. For this purpose, a “business day” is a day (other than Saturday, Sunday or any federal statutory holiday) upon which banks in British Columbia are open for normal banking business. The notice must be received by the Manager not less than 15 days before the proposed redemption date for Class A and Class F Units, not less than 30 days before the proposed redemption date for Class I Units, and not less than 60 days before the proposed redemption date for Units of any class where the redemption amount exceeds \$1 million. The Manager may waive the advance written notice requirement or may accept a redemption of Units at other times, provided that it concludes that such action will not adversely affect the interests of the remaining Unitholders of the Fund.

The Manager may, at its discretion, decide to satisfy any redemption request in full or in part through the transfer *in specie* of such securities or other property of the Fund, which together with payments in cash (if any), in aggregate have a value (determined on the applicable redemption date) of not less than the redemption amount payable to the Unitholder (i.e., the aggregate Classes net asset value of such redeemed Units). The Manager does not anticipate exercising this discretion other than in exceptional circumstances, such as when one or more redemptions by one or more Unitholders will have a materially prejudicial effect on the remaining Unitholders or otherwise materially and adversely affect the Fund.

The Manager also has the right, exercisable at any time at its discretion, to require a Unitholder to redeem its Units. The Manager will provide the affected Unitholder with written notice of its decision to require the Unitholder to redeem its Units at least 10 days prior to the date on when the redemption will occur. The redemption price per Unit will be the applicable classes net asset value per unit determined as at the close of business on the next redemption date following the expiry of the 10 day notice period.

The Manager may suspend, or continue the suspension of, the right of Unitholders to require the Fund to redeem Units (including Units of any particular class) for any period during which the Manager determines that the disposal of the assets of the Fund necessary to satisfy redemptions is not reasonably practicable or it is not reasonably practicable for the Trustee to determine the NAVPU at a particular Valuation Date. Any suspension will take effect at the time declared by the Manager and will terminate on the first day on which the condition giving rise to the suspension has ceased to exist, provided that no other condition under which a suspension is authorized then exists. During the suspension period, no redemptions of units will be permitted. If a Unitholder has requested a redemption and a suspension occurs, the Unitholder may either withdraw the redemption request within three business days of receiving notice of the suspension or receive payment based on the NAVPU next calculated after the termination of the suspension.

Redemption Price and Payment

The proceeds payable on redemption will be the Net Asset Value of the Units redeemed, determined as of the applicable redemption date, less any applicable short-term trading fees as described under “COMPENSATION PAID TO SELLERS AND FINDERS — Short-Term Trading Fees” in this Offering Memorandum. Subject to the restrictions described above, the Trustee will, within 15 business days after the applicable redemption date and upon direction by the Manager, arrange for the payment of the value of the Units being redeemed by electronic transfer, mailing or delivering a cheque in the relevant amount in Canadian funds to the Unitholder or his or her Representative.

Status of Unitholders

The ownership of all property of the Fund of every description and the rights to conduct the affairs of the Fund are vested exclusively in the Trustee, and the Unitholders have no interest other than their beneficial interest in the Units of the Fund.

Unitholder Meetings

The Trustee may at the request of the Manager, and the Trustee shall at the written request of the Unitholders holding not less than 10% of the outstanding Units, call a meeting of Unitholders, to be held in Vancouver, British Columbia or at such other place as the Trustee may determine or approve. The Trustee shall give at least 21 days' notice of every meeting of Unitholders, specifying the place, day and hour of the meeting and the general nature of the reasons for the meeting and matters to be discussed. Except for the purposes of passing an Extraordinary Resolution or Unanimous Resolution, the quorum for a meeting of Unitholders shall consist of persons who are, or who represent by proxy, Unitholders who, in the aggregate, hold at least 10% of the issued Units entitled to be voted thereat. The quorum for passing an Extraordinary Resolution or Unanimous Resolution shall consist of persons who are, or who represent by proxy, Unitholders who, in the aggregate, hold at least 75% of the issued Units entitled to be voted thereat. If a class of Units is affected by any matter requiring the approval of Unitholders in a manner which is different from another class of Units, the Unitholders of such class of Units shall be entitled to vote separately as a class in respect of such matter.

Trustee, Auditors, Registrar and Transfer Agent

Title to the Trust Property will be vested in the Trustee or the Custodian on behalf of the Trustee. The Trustee will be responsible for the maintenance of the register of Unitholders and will retain the Administrator to provide record keeping, register management, Unit transaction and similar services to the Fund. The purchase and redemption of Class A, Class B, and Class F Units will be processed by electronic means by Representatives through Fundserv Inc. The purchase and redemption of Class I Units will be processed directly through the Manager. The fiscal year end of the

Fund will be December 31st of each year. The auditors of the Fund are Deloitte LLP.

Powers and Duties of the Trustee

Subject to the specific limitations contained in the Trust Agreement, the Trustee has full, absolute, and exclusive power, control and authority over the Trust Property and over the business and affairs of the Fund to the same extent as if the Trustee was the sole owner thereof in its own right. The Trustee may from time to time sell any or all of such investments and reinvest the proceeds thereof or exchange any or all of such investments for other investments, in accordance with the directions of the Manager and the investment policies, practices, objectives and investment restrictions contained in the Trust Agreement.

The Trustee may amend the Trust Agreement without prior notice to the Unitholders if it considers that such amendment is advisable for the purpose of curing any ambiguity or typographical error or to correct or supplement any provision contained in the Trust Agreement which may be defective or inconsistent with any other provision thereof, creating one or more new classes of Units, re-designating any existing class of Units, increasing, reducing, waiving or otherwise varying the Management Fees, short-term trading fees, trailer fees, referral fees and sales commissions payable to the Manager or a Representative, complying with applicable laws, maintaining, acquiring or losing any particular status of the Fund under applicable laws, regulations or other requirements. The Trustee will provide written notice to the Unitholders of any such amendment within 10 days after the making thereof. Any other amendment may be made by an Extraordinary Resolution of the Unitholders, except for amendments to the requirement that investments (other than Liquid Investments) of the Fund be in Mortgages in Canada, which amendments may only be made by Unanimous Resolution.

Resignation and Removal of Trustee

The Trustee may resign at any time by giving not less than 90 days' notice to Unitholders and the Manager, and in such event the Manager shall appoint a successor trustee. In addition, the Trustee may be removed by an Ordinary Resolution of the Unitholders provided that the Trustee receives not less than 90 days' notice, in which event the Manager shall appoint a successor trustee.

Powers and Duties of the Manager

The rights and obligations of the Manager are governed by the Trust Agreement. Pursuant to the Trust Agreement, the Manager has exclusive authority to manage the business and affairs of the Fund and has authority to bind the Fund. The Manager may, pursuant to the Trust Agreement, delegate certain powers to third parties where, in the discretion of the Manager, it would be in the best interests of the Fund and Unitholders to do so.

The Trust Agreement grants the Manager exclusive power to manage and direct the investment of the assets of the Fund and the powers necessary to perform its duties. The Trustee has no responsibility for investment management of the securities or other property of the Fund or for any investment decisions.

The Manager is required to exercise its powers and perform its duties honestly, in good faith and in the best interests of Unitholders and to exercise the care, diligence and skill that a reasonably prudent and qualified manager would exercise in comparable circumstances. The Trust Agreement provides that the Manager will not be liable in any way for any default, failure or defect of the Fund and its assets if it has satisfied the duties and the standard of care, diligence and skill set forth above.

Management Fees

The Fund pays the Manager a Management Fee for its services as manager. The Management Fees paid for various classes of Units are outlined below. The fees are calculated as a percentage of the Net Asset Value of the Fund as at each Valuation Date and paid monthly in arrears on or before the fifteenth day of the month which immediately follows

the Valuation Date on which the Management Fees were so calculated. In certain cases and situations, the Manager may waive its right to receive all or any portion of the Management Fees at any time.

Class A Units	1.25% per annum
Class B Units	1.45% per annum
Class F Units	1.00% per annum
Class I Units	Annual percentage to be stipulated by the Manager based on the amount invested

Any originating fees, commitment fees and renewal fees from borrowers on Mortgages of the Fund are earned and collected by the Fund, and not the Manager. The Fund may be required to split a portion of origination, commitment and renewal fees earned with the Originator in order to facilitate mortgage origination

Resignation and Removal of Manager

The Manager may resign at any time by giving not less than 90 days' notice to Unitholders and the Trustee, and in such event the Trustee shall appoint a successor Manager. In addition, the Trustee may be removed by an Extraordinary Resolution of the Unitholders provided that the Manager receives not less than 90 days' notice, in which event the Trustee shall appoint a successor Manager.

Loan Facilities

The Fund may enter into loan facilities with one or more Canadian chartered banks or other institutional lenders, provided that such loan facilities may be secured on economically favourable terms. The loan facilities have several potential uses:

- (a) *To smooth the timing difference between the closing of potential new Mortgage investments and cash availability in the Fund.* The Fund's investment portfolio will be built over time and with various maturities and repayment schedules; however, there may be times when a new Mortgage opportunity is available when the Fund does not have sufficient available cash to invest in it at the time. Consequently, the loan facilities would enable the Manager to draw upon the credit facility to invest in the new Mortgage opportunity with a view to repaying the advance as internally generated cash flow permits or as new Units are issued;
- (b) *To provide liquidity in the event of Unitholder redemptions.* It is the intention of the Manager to keep the Fund as close to fully invested in Mortgages as possible at all times. There is a limited secondary market for Mortgages so there is relatively little immediate liquidity for the Fund to meet unexpected redemption requests. The loan facilities may be used to fund redemptions and would be repaid as cash flow within the Fund permits; and

- (c) *To enhance returns.* The Manager may determine that the added potential returns available through the application of leverage more than compensate the Fund for the increased risk of loss of equity, and may borrow within the Fund's stated constraints in order to take advantage of favourable market conditions. The Manager may choose to lower the risk profile of Fund assets and offset the lower associated returns by adding leverage.

The Manager expects the terms, conditions, interest rate, fees and expenses of loan facilities will be typical for loans of this nature. In connection with any such loans, the Fund may grant security over the assets of the Fund to secure repayment of such loans.

Manager Conflicts

The Fund may not make loans to or invest in the securities of the Trustee, the Manager or the Administrator or their respective affiliates, nor make loans to the directors, officers or employees of any of such parties.

The Manager's services are not exclusive. The Manager may serve as the manager of other investment funds or similar investment vehicles with similar investment objectives and may at certain times be simultaneously seeking to purchase or dispose of investments. The Manager is not under any obligation to recommend an investment in any mortgage investment opportunity of which the Manager becomes aware and is permitted to offer any of such mortgage opportunities to other clients, to other funds the Manager manages or to its affiliates.

Administration Agreement

The Manager has entered into an Administration Agreement with SGGG Fund Services Inc, pursuant to which the Administrator will provide Administration Services to the Fund. The fees of any Administrator will be paid by the Fund.

Custodial Agreement

The Trustee on behalf of the Fund has entered into a Custodial Agreement with Computershare Trust Company of Canada, pursuant to which the Custodian will provide Custodial Services to the Fund. The fees of any Custodian will be paid by the Fund.

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

Compensation and Securities Held

Name and municipality of principal residence	Positions held (for the Manager)	Compensation paid by Fund in year ended Dec. 31, 2017	Number of units held as at Dec. 31, 2017
CMLS Asset Management Ltd., Vancouver	N/A	\$70,176 as management fees inclusive of sales tax	0 Units
Anthony Gage, Victoria	Director	\$Nil	90,000 Units
Chris Brossard, Vancouver	Director	\$Nil	32,927 Units
David Franklin, Vancouver	Director	\$Nil	20,896 Units
Investor A ¹	Principal holder	\$Nil	127,823 Units

Management Experience

The Manager is the entity through which the Parent conducts its investment management activities. The directors and executive officers of the Parent have a broad background of investment and real estate experience which will be brought to bear on the activities undertaken by the Manager on behalf of the Fund. The following table discloses the offices held in the Parent and the Manager for certain individuals influential to the direction of the Manager and, by extension, management of the Fund, and describes each such individuals related experience.

¹ To protect the privacy of individual investors, we have omitted the name of the beneficial owner(s)

Name	Office Held in Parent	Office Held in Manager	Related Experience
Anthony Gage	Director	Director	Mr. Gage is past chair of the Board of Phillips, Hager & North Investment Management (PH&N). His career at PH&N spanned more than 20 years including 5 years as President and CEO. Mr. Gage also served on the Board of Public Service Plan from 2006 – 2015, where he chaired the Investment Committee from 2009 – 2015. As chair of the Investment Committee, he was responsible for overseeing the investment management function.
Chris Brossard	Chief Executive Officer	Director	Mr. Brossard has been involved in real estate finance and investment management for over 20 years. Prior to joining the Parent in 2003, Mr. Brossard held several senior executive positions and has been a principal in private equity, real estate and real estate finance firms. Mr. Brossard holds a Canadian Chartered Accountant designation and a Bachelor of Business Administration from Simon Fraser University.
David Franklin	President	Director	Mr. Franklin has over 30 years of experience in the real estate finance industry. Prior to joining the Parent in 1995, Mr. Franklin held senior managerial positions with some of Canada’s leading private and public sector real estate finance operations, including CMHC. He is a graduate of the University of British Columbia’s Urban Land Economics program and a member of the Real Estate Institute of British Columbia.
Glen Malcolm	Senior Vice President	Director	Mr. Malcolm is responsible for overseeing the securitization programs of the Parent and the direction of the Manager. Mr. Malcolm has more than 30 years of experience in all facets of commercial mortgage investment, including origination, underwriting, realization, securitization, and syndication. Prior to joining the Parent in 2011, Mr. Malcolm held several executive level positions in the finance and real estate industry. He holds a Master of Business Administration and a Bachelor of Science from Dalhousie University.
Jonathan Lee	N/A	Chief Compliance Officer	Mr. Lee is responsible for managing all compliance aspects of the Parent and is involved in the day to day operations of the Manager, including regulatory compliance. Mr. Lee has more than 12 years of experience in the financial services industry. Prior to joining CMLS in 2017, Mr. Lee spent 6 years at the British Columbia Securities Commission overseeing portfolio managers, investments fund managers and exempt market dealers. Mr. Lee is a Chartered Accountant and holds the Chartered Financial Analyst (CFA) designation.

Penalties, Sanctions and Bankruptcy

With respect to any director, executive officer or control person of the Fund, the Manager or the Trustee, or any issuer of which any such person was a director, executive officer or control person at the time (collectively referred to herein as the “Persons”):

- (a) there have been no penalties or sanctions that have been in effect during the last 10 years, or any cease trade order that has been in effect for a period of more than 30 consecutive days during the past 10 years against any of the Persons; and
- (b) there have been no declarations of bankruptcy, voluntary assignments in bankruptcy, proposals under any bankruptcy or insolvency legislation or proceedings, arrangements or compromises with creditors, or appointments of a receiver, receiver manager or trustee to hold assets, that have been in effect during the last 10 years with regard to any of the Persons.

Loans

As at the date of this Offering Memorandum, the Fund does not have any loans due to or from the Trustee, the Manager, the Promoter, any holder of 10% or more of any class of Units, or any director, executive officer or control person of such persons.

CAPITAL STRUCTURE

Share Capital

Description of security	Number authorized to be issued	Price per security (NAVPU) as at December 31, 2017	Number outstanding as at December 31, 2017	Number outstanding after minimum offering ⁽¹⁾	Number outstanding after maximum offering ⁽¹⁾
Fund Units	Unlimited	\$10	1,164,804	Unknown (1)	Unknown (1)

(1) There is no minimum or maximum offering.

Long Term Debt

As at the date of this Offering Memorandum, the Fund has no long term debt. However, the Fund is authorized under the Trust Agreement to borrow money to smooth the timing differences between the closing of investments in new Mortgages and available cash flow and to provide liquidity in the event of Unitholder redemptions, and to leverage the returns of the Fund. See “BUSINESS OF CMLS MORTGAGE FUND — Trust Agreement — Loan Facilities” in this Offering Memorandum.

Prior Sales

The following table summarizes all issuances of Units by the Fund in the 12 months preceding the date of this Offering Memorandum, exclusive of Distribution Reinvestment.

Date of issuance	Type of security issued	Number of securities issued	Price per security	Total funds received
May 1, 2017	Fund Units	5,000	\$10	\$50,000
June 1, 2017	Fund Units	113,000	\$10	\$1,130,000
September 1, 2017	Fund Units	500	\$10	\$5,000
November 1, 2017	Fund Units	35,000	\$10	\$350,000
January 1, 2018	Fund Units	18,728	\$10	\$187,280

As further detailed in the table above, in the 12 months preceding the date of this Offering Memorandum, a total of 172,228 Units (\$1,722,280) were issued by the Fund, exclusive of Distribution Reinvestment.

Prior Redemptions

In the 12 months preceding the date of this Offering Memorandum, a total of 87,142 Units (\$871,423) were redeemed by the Fund.

SECURITIES OFFERED

Terms of Securities

The beneficial interest in the Fund is divided into different classes of Units, each of which will have a separate Management Fee and may have such trailer fees, short-term trading fees and sales commissions as the Trustee may determine upon direction of the Manager in its sole discretion. The Fund has four different classes of Units that are offered under this Offering Memorandum: Class A Units, Class B Units, Class F Units and Class I Units. Class A Units are available to Manager-approved subscribers. Class B Units are available to all subscribers. Class F Units have lower fees than Class A Units and Class B Units and are only available to subscribers who have fee-based accounts with Representatives. Trailer fees are not paid to Representatives who sell Class F Units. Class I Units are available to larger private and institutional subscribers. All Units are charged their respective Management Fees.

Each Unit and fractions thereof will be issued only as fully paid and non-assessable. There is no limit to the number of Units that may be issued, subject to any determination to the contrary made by the Manager. No Unit or fraction thereof shall have any preference or priority over any other Unit.

An unlimited number of each class of Units described above are being offered hereby on a continuous basis to

subscribers in each of the provinces and territories of Canada, pursuant to exemptions from the prospectus requirements contained in the securities legislation of those provinces and territories. The subscription price per Unit will be based upon the NAVPU as at the applicable Valuation Date. Unitholders may request the redemption of Units in accordance with the redemption procedure described under the “BUSINESS OF CMLS MORTGAGE FUND — Trust Agreement — Redemption of Units”. The Manager reserves the right, in its sole discretion, to accept or reject subscriptions for Units in the Fund.

Subscription Procedure

The minimum initial investment in the Fund is \$5,000 and the minimum additional investment (other than for Units purchased through Distribution Reinvestment) is \$500.

Subscribers may purchase Units of the Fund through the Manager or through qualified Representatives. Qualified Representatives will process orders by electronic means through Fundserv Inc. Class I orders must be sent to the Manager at its principal office or such other address as specified by the Manager by courier, email or telecommunication facilities. The Manager will schedule closings on a monthly basis.

The subscription price is payable upon subscription pursuant to the terms of the applicable subscription agreement(s), by certified cheque, bank draft or other electronic transfer satisfactory to the Trustee. No financing of the subscription price will be provided by the Fund or the Trustee.

Each prospective and qualified investor who desires to subscribe for Units must:

- (i) complete and sign the form of subscription agreement prescribed by the Fund from time to time (the “**Subscription Agreement**”) specifying the investment amount and class of Units being subscribed for; provided that the Fund reserves the right to use different forms of Subscription Agreements for different subscribers;
- (ii) if the investor is an “accredited investor” as defined in National Instrument 45-106 – *Prospectus Exemptions* (“**NI 45-106**”) or the *Securities Act* (Ontario) (the “**Ontario Act**”), complete and sign the Accredited Investor Certificate and (if applicable) Form NI 45-106F9 For Individual Accredited Investors;
- (iii) if the investor is resident in British Columbia or Newfoundland and Labrador and is an individual that does not qualify as an “accredited investor” as defined in NI 45-106 *or* is a non-individual that does not qualify as an “accredited investor” and is purchasing Units with an acquisition cost to the investor of less than \$150,000, complete and sign two copies of the Form 45-106F4 – Risk Acknowledgement;
- (iv) if the investor is an individual, the Form RC518 Declaration of Tax Residence for Individuals or, if the investor is not an individual, the Form RC519 Declaration of Tax Residence for Entities;
- (v) for Class I subscribers, complete and sign the Manager’s New Client Application Form and Suitability Assessment forms;

- (vi) deliver payment of the subscription price for the Units subscribed for, either directly or through his, her or its Representative, to the Trustee by certified cheque, bank draft or other electronic transfer satisfactory to the Trustee. Payments delivered to the Trustee in advance of closing will be held in trust pending closing; and
- (vii) deliver to the Manager those documents outlined in (i) to (vi) above (as applicable) and any other forms, declarations and documents as may be required by the Manager or the investor's Representative to complete the subscription.

Subscriptions will be received subject to prior sale and acceptance of the investor's subscription, in whole or in part (subject to compliance with applicable securities laws), by the Manager on behalf of the Fund.

The subscription price per Unit will be an amount equal to the NAVPU on the Valuation Date of the calendar month in which the subscription is received and accepted, unless the subscription is received after 1:00 pm Pacific Standard Time on the Valuation Date, in which case the subscription price per Unit will be based on the NAVPU on the Valuation Date of the subsequent month.

The aforementioned cash amounts, Subscription Agreements and other documents will be held in trust and released upon closing. Closings will occur on a continuous basis.

Acceptance of Subscriptions

Subscriptions received are subject to rejection or allotment in whole or in part by the Manager on behalf of the Fund within three (3) business days following the applicable Valuation Date. Upon such acceptance or rejection, the Manager will forthwith forward a notice to the subscriber or his or her Representative indicating the number of Units and fractions thereof, if any, purchased by such subscriber, such notice to be delivered not later than fifteen (15) Business Days after the applicable Valuation Date. The Manager is not obligated to accept any subscriptions and will reject any subscription which the Manager considers to be not in compliance with applicable securities laws and regulations. If any subscription is rejected, the Manager will notify the investor or his or her Representative and will return to the investor or his or her Representative the subscription funds comprising such subscription, without interest.

Units of the Fund will be issued to an investor pursuant to the relevant Subscription Agreement if a Subscription Agreement and other documentation requested therein is received by the Fund and accepted by the Manager and if payment of the subscription price is made by certified cheque, bank draft or other electronic transfer satisfactory to the Trustee. An investor who subscribes for Units by executing and delivering a Subscription Agreement and other documentation requested therein will become a Unitholder after the Manager accepts such subscription and the Fund has received the subscription amount.

Qualified Subscribers

The Fund is offering for sale an unlimited number of Units on a continuous basis in each of the provinces and territories of British Columbia, Alberta, Nova Scotia, Ontario and Quebec by way of private placement.

The offering is being conducted:

- (a) in the Provinces of British Columbia pursuant to the exemption from the prospectus requirements afforded by Section 2.9 (offering memorandum) of NI 45-106; and
- (b) in the Provinces and Territories of Provinces of British Columbia, Alberta, Nova Scotia, Ontario and Quebec, pursuant to the exemptions from the prospectus requirements afforded by Section 2.3 (accredited investor) or Section

2.10 (minimum amount - \$150,000 for non-individual subscribers only) of NI 45-106.

The exemption pursuant to Section 2.9 of NI 45-106 is available only for distributions to subscribers in British Columbia purchasing as principal, who receive this Offering Memorandum prior to signing the Subscription Agreement and who sign a risk acknowledgement in the prescribed form.

The exemption pursuant to Section 2.3 of NI 45-106 is available for distributions to subscribers in British Columbia, Alberta, Ontario, Québec, and Nova Scotia purchasing as principals who are “accredited investors” as defined in NI 45-106 and who sign an accredited investor risk acknowledgement in the prescribed form.

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

No Unit Certificates

Units issued by the Trustee will be represented by a book entry in a book-based system maintained by the Administrator on behalf of the Trustee. Certificates evidencing ownership of the Units will not be issued to Unitholders.

Additional Subscriptions

The Manager reserves the right to change the minimum required amount for additional investments in the Fund at any time and from time to time, and to require a Unitholder to resubmit any forms required under “SECURITIES OFFERED — Subscription Procedure” as part of the process of accepting additional subscriptions.

INCOME TAX CONSEQUENCES AND REGISTERED PLAN ELIGIBILITY

Caution

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

Summary of Canadian Income Tax Consequences

The following is, as of the date hereof, a summary of the principal Canadian federal income tax considerations generally applicable to the acquisition, holding and disposition of Units of the Fund by a Unitholder who acquires Units pursuant to this Offering Memorandum. This summary is applicable to a Unitholder who is an individual (other than a trust that is not a Registered Plan), who is the original purchaser and the beneficial holder of the Units and who, for the purposes of the Tax Act, is resident in Canada, deals at arm’s length, and is not affiliated, with any of the Fund, the Trustee or the Manager and holds Units of the Fund as capital property. Generally, Units of the Fund will be considered to be capital property to a holder provided that the holder does not hold the Units in the course of carrying on a business of buying and selling securities and has not acquired them in one or more transactions considered to be an adventure in the nature of trade. Certain persons who might not otherwise be considered to hold their Units of the Fund as capital property may, in certain circumstances, be entitled to have such Units (provided that the Fund qualifies as a mutual fund trust at such time) and all other “Canadian securities” (as defined in the Tax Act) owned or subsequently acquired by them treated as capital property, by making the election permitted by section 39(4) of the Tax Act. Unitholders should consult their own tax advisors with respect to making such election. This summary does not apply to a Unitholder who enters into a “derivative forward agreement”, as defined in the Tax Act, in respect of Units.

This summary is based upon the current provisions of the Tax Act, the regulations thereunder (the “**Regulations**”) and

an understanding of the current administrative and assessing practices and policies of the Canada Revenue Agency (“CRA”) published in writing by it prior to the date hereof and all specific proposals to amend the Tax Act or the Regulations publicly announced by or on behalf of the Minister of Finance prior to the date hereof (collectively the “Tax Proposals”). Except for the Tax Proposals, this summary does not otherwise take into account or anticipate any changes in law, whether by legislative, governmental or judicial decision or action, nor does it take into account provincial or foreign income tax legislation or considerations. There is no certainty that the Tax Proposals will be enacted in the form proposed or at all.

This summary assumes that the Units will not be listed or traded on a stock exchange or other public market and that the Fund will comply with its investment restrictions at all times.

This summary is not exhaustive of all possible Canadian federal income tax considerations applicable to an investment in Units. The income and other tax consequences of acquiring, holding or disposing of Units will vary depending upon the Unitholder’s particular circumstances, including the province(s) or territory(ies) in which the Unitholder resides or carries on business. Accordingly, this summary is of a general nature only and is not intended to be legal or tax advice to any prospective investor. It does not address the considerations applicable to an investor that borrows to acquire Units. Prospective Unitholders should consult their own tax advisors for advice with respect to the income tax consequences of an investment in Units, based on their particular circumstances.

Status of the Fund

The Fund is a “unit trust” for the purposes of the Tax Act and intends to qualify as a “mutual fund trust” as defined in the Tax Act. In order to qualify as a “mutual fund trust” under the Tax Act, the Fund must comply with certain minimum requirements respecting the ownership and dispersal of its Units. There is no assurance that the Fund will so qualify or, if it so qualified, that it would continue to qualify thereafter. As of the date hereof, the Fund does not qualify as a “mutual fund trust” under the Tax Act.

This summary assumes that at no time will “financial institutions” (as defined in section 142.2 of the Tax Act) hold more than 50% of the outstanding Units at any time that the Fund is not a mutual fund trust such that the Fund will not be a “financial institution” at any time.

Taxation of the Fund

The Fund will be subject to tax under Part I of the Tax Act in each taxation year on its income for the year computed in Canadian dollars in accordance with the Tax Act, including net realized taxable capital gains, less the portion thereof that it claims in respect of the amount paid or payable to Unitholders in the year. An amount will be considered to be payable to a Unitholder in a taxation year if it is paid in the year by the Fund or the Unitholder is entitled in that year to enforce payment of the amount. The Fund generally intends to deduct, in computing its income in each taxation year, the full amount available for deduction in each year. Therefore, provided the Fund makes distributions in each year of its net income for tax purposes and net realized capital gains as described under “BUSINESS OF CMLS MORTGAGE FUND — Trust Agreement — Distribution Policy” and “BUSINESS OF CMLS MORTGAGE FUND — Trust Agreement — Redemption of Units”, it will generally not be liable in such year for income tax under Part I of the Tax Act. Despite making such distributions to Unitholders, in certain circumstances the Fund could be liable to pay alternative minimum tax if the Fund is not a mutual fund trust throughout the year. In addition, in a taxation year in which the Fund is not a mutual fund trust throughout the year, the Fund may be required to distribute to Unitholders more of its net realized capital gains than if it so qualified.

The Fund will be required to include in its income for a taxation year all dividends received or considered to be received in the year on shares of corporations.

The Fund will be required to include in its income for a taxation year any interest on debt obligations that accrues to it

or is deemed to accrue to it before the end of the year or that became receivable or was received by it before the end of the year (except to the extent such interest was otherwise included in computing income for the year or for a preceding year).

The Fund is required to compute its net income and net realized capital gains in Canadian dollars for the purposes of the Tax Act. Consequently the Fund may realize income or capital gains by virtue of changes in the value of a foreign currency relative to the Canadian dollar.

The “suspended loss” rules in the Tax Act may prevent the Fund from recognizing capital losses on the disposition of capital property.

The Fund will derive income or gains from investments in countries other than Canada and, as a result, may be liable to pay tax to such countries. To the extent that such foreign tax paid by the Fund qualifies as an income or profits tax (for example, withholdings on foreign source dividends) and does not exceed 15% of such amount and has not been deducted in computing the Fund’s income, the Fund may designate a portion of its foreign source income in respect of a Unitholder so that such income and a portion of the foreign tax paid by the Fund may be regarded as foreign source income of, and foreign tax paid by, the Unitholder for the purposes of the foreign tax credit provisions of the Tax Act. To the extent that such foreign tax paid by the Fund exceeds 15% of the amount included in the Fund’s income from such investments, such excess may generally be deducted by the Fund in computing its income for the purposes of the Tax Act.

In computing its income for tax purposes, the Fund may deduct reasonable administrative and other expenses incurred by it to earn income, including the Management Fees and interest payable by it on money borrowed to purchase securities.

The Fund may generally deduct any costs and expenses of the offering of Units paid by the Fund and not reimbursed at a rate of 20% per year, pro-rated where the Fund’s taxation year is less than 365 days.

Losses incurred by the Fund cannot be allocated to Unitholders but may, subject to certain limitations and to the extent not utilized in the year incurred, be deducted by the Fund in subsequent years.

As a registered investment under the Tax Act for trusts governed by registered retirement savings plans and registered retirement income funds, the Fund would generally be liable to tax under Part X.2 of the Tax Act if it held investments that are not qualified investments for such plans and funds at a time when it is not a mutual fund trust.

Taxation of Unitholders

A Unitholder of the Fund will generally be required to include in computing income for a particular taxation year of the Unitholder such portion of the Fund’s net income, including net realized taxable capital gains, paid or payable to the Unitholder (whether in cash or in Units) in that particular year. The non-taxable portion of the Fund’s net realized capital gains for a taxation year, the taxable portion of which was designated in respect of a Unitholder for such taxation year, paid or payable to the Unitholder for that year will not be included in the Unitholder’s income for the year. Any other amount in excess of the portion of the Fund’s net income for a taxation year paid or payable to the Unitholder for the year, such as a return of capital of the Fund, will generally not be included in the Unitholder’s income. Such an amount, however, will generally reduce the adjusted cost base of the Unitholder’s Units. To the extent that the adjusted cost base of a Unit would otherwise be less than zero, the negative amount will be deemed to be a capital gain realized by the Unitholder from the disposition of the Unit and the Unitholder’s adjusted cost base of the Unit will then be increased by the amount of such capital gain.

Provided that appropriate designations are made by the Fund, such portion of: (i) the net realized taxable capital gains of the Fund, and (ii) the income of the Fund from foreign sources, as is paid or payable to a Unitholder will effectively retain its character and be treated as such in the hands of the Unitholder for purposes of the Tax Act. A Unitholder will

generally be entitled to foreign tax credits in respect of foreign taxes under and subject to detailed foreign tax credit rules under the Tax Act.

Holders of Class I Units, Class A Units, Class B Units and Class F Units may bear different Management Fees in respect of their investment in the Fund. As a result, the tax characterization of distributions may vary between them.

The Net Asset Value per Unit will reflect any income and gains of the Fund that have accrued or been realized but not made payable at the time Units are acquired. Accordingly, a Unitholder who acquires Units may be taxed on the Unitholder's share of such income and gains.

On the disposition or deemed disposition of a Unit, the Unitholder will realize a capital gain (or capital loss) equal to the amount by which the Unitholder's proceeds of disposition exceed (or are less than) the aggregate of the adjusted cost base of the Unit and any reasonable costs of disposition. For the purpose of determining the adjusted cost base to a Unitholder of Units, when a Unit is acquired, the cost of the newly-acquired Unit will be averaged with the adjusted cost base of all identical Units of the Fund owned by the Unitholder as capital property immediately before that time. The cost to a Unitholder of Units received on a distribution by the Fund will be equal to the amount of the distribution.

One-half of any capital gain ("**taxable capital gain**") realized by a Unitholder or designated by the Fund in respect of a Unitholder will be included in the Unitholder's income and one-half of any capital loss (an "**allowable capital loss**") realized must generally be deducted only from taxable capital gains in accordance with the provisions of the Tax Act. Allowable capital losses for a taxation year in excess of taxable capital gains for that year generally may be carried back and deducted in any of the three preceding taxation years or carried forward and deducted in any subsequent taxation year, against taxable capital gains realized in such year, to the extent and under the circumstances provided for in the Tax Act. If a Unitholder disposes of Units of the Fund and the Unitholder, the Unitholder's spouse or another person affiliated with the Unitholder (including a corporation controlled by the Unitholder) has acquired Units of the Fund within 30 days before or after the Unitholder disposes of the Unitholder's Units (such newly acquired Units being considered "substituted property"), the Unitholder's capital loss may be deemed to be a "superficial loss". If so, the Unitholder will not be able to recognize the loss and it would be added to the adjusted cost base to the owner of the Units which are "substituted property".

In general terms, amounts designated as net realized taxable capital gains of the Fund paid or payable to a Unitholder and taxable capital gains realized on the disposition of Units may increase the Unitholder's liability for alternative minimum tax.

Taxation of Registered Plans

Amounts of income and capital gains distributed by the Fund to a Registered Plan, and capital gains realized by a Registered Plan on a disposition of Units, are generally not taxable under Part I of the Tax Act while retained in the Registered Plan, provided that the Units are qualified investments for the Registered Plan. See "INCOME TAX CONSEQUENCES AND REGISTERED PLAN ELIGIBILITY — Summary of Canadian Income Tax Consequences – Eligibility for Investment" in this Offering Memorandum.

Exchange of Tax Information

There are due diligence and reporting obligations in the Tax Act which were enacted to implement the *Canada-United States Enhanced Tax Information Exchange Agreement*. The Fund will be required to provide information to the CRA in respect of its Unitholders. Unitholders may be requested to provide information to identify U.S. persons holding Units. If a Unitholder is a U.S. person (including a U.S. citizen) or if a Unitholder does not provide the requested information, Part XVIII of the Tax Act will generally require information about the Unitholder's investments to be reported to the CRA, unless the investments are held within a Registered Plan. The CRA is expected to provide that information to the U.S. Internal Revenue Service.

Canada has signed the *OECD Multilateral Competent Authority Agreement and Common Reporting Standard* (“**CRS**”) which provides for the implementation of the automatic exchange of tax information. The CRS will be effective in Canada as of July 1, 2017 with the first exchanges of financial account information beginning in 2018. Under the CRS, Unitholders will be required to provide certain information including their tax identification numbers for the purpose of such information exchange unless their investment is held within a Registered Plan. The CRA is expected to provide that information to countries that are party to the CRS.

Eligibility for Investment

The Fund is a registered investment under the Tax Act for trusts governed by registered retirement savings plans and registered retirement income funds. As such, Units of the Fund are qualified investments under the Tax Act for trusts governed by registered retirement savings plans, registered retirement income funds, registered education savings plans, registered disability savings plans and tax-free savings accounts (collectively “**Registered Plans**”).

If the Fund is a “mutual fund trust” for the purposes of the Tax Act at a particular time, Units of the Fund would be qualified investments under the Tax Act for trusts governed by a deferred profit sharing plans. The Fund is not a mutual fund trust on the date hereof so that Units are not qualified investments for trusts governed by deferred profit sharing plans on the date hereof.

Annuitants of registered retirement savings plans and registered retirement income funds and holders of tax-free savings accounts are subject to penalty taxes if their registered retirement savings plan, registered retirement income fund or tax-free savings account acquires or holds a prohibited investment. A “prohibited investment” includes a unit of a trust which does not deal at arm’s length with the annuitant/holder, or in which the annuitant/holder has a “significant interest” which, in general terms, means the ownership of 10% or more of the fair market value of the trust’s outstanding Units by the annuitant/holder either alone or together with persons and partnerships with whom the annuitant/holder does not deal at arm’s length. Under the Tax Proposals, such prohibited investment rules will also apply to a trust governed by a registered education savings plan or registered disability savings plan effective after March 22, 2017. Prospective investors are advised to consult with their own tax advisers in this regard.

COMPENSATION PAID TO SELLERS AND FINDERS

When subscribers purchase Units in the Fund, Representatives may charge a commission or sales charge in addition to those charges noted below. These charges are negotiated between the Representative and their clients and are not paid by the Fund or the Manager.

The Fund may also use qualified Representatives to sell Units of the Fund and may enter into non-exclusive agency agreements with such Representatives in connection with such sales.

Trailer Fees

The Manager will pay trailer fees on Class A Units and Class B Units to Representatives. Trailer fees will be calculated as a percentage of the NAVPU of the applicable Units held by such Representative’s clients or by the Representative on behalf of its clients. The annual trailer fee is payable quarterly in arrears in the amounts outlined in the following table:

Class A Units	0.25% per annum
Class B Units	0.45% per annum

Trailer fees are included in the Management Fees for Class A Units and Class B Units and will affect the return for subscribers of those classes of Units. No trailer fees are payable with respect to Class F Units or Class I Units.

Referral Fees

A referral arrangement is any arrangement in which the Manager agrees to pay a referral or finder's fee to a third-party person who assists the Manager in the capital raising efforts for the Fund as permitted under securities laws. Referral fees will generally be based on the net asset value of all Units purchased by a Unitholder introduced to the Manager by the third-party person. The referral fee payable in such circumstances will be paid entirely out of the Management Fees collected by the Manager, and is not recoverable by or reimbursable to the Manager through the Fund or through Unitholders, either directly or indirectly.

Short-Term Trading Fees

In order to discourage short-term trading and protect the interests of Unitholders of the Fund, Units will be subject to short-term trading fees. If any Unitholder subscribes for Units and redeems such Units within one (1) year after the date of such subscription, the Fund will deduct from the redemption amount otherwise payable to such Unitholder, and retain as Trust Property for the benefit of the Unitholders of the Fund, an amount equal to the product of (i) the subscription price paid by such Unitholder for such Class of Units, multiplied by (ii) 1.0%.

RISK FACTORS

Investing in the Fund entails certain risks and is only suitable for subscribers who understand and are capable of bearing the risks of an investment in the Fund. An investment in the Fund is not intended as a complete investment program. All investments in securities, mortgages and other financial instruments risk the loss of invested capital. Likewise, there is a risk that an investment in the Fund will be lost entirely or in part. There is no assurance that the Fund will achieve its overall investment objective. Prospective subscribers should carefully consider the following risk factors, which do not purport to be a complete list of the potential risks involved in an investment in the Fund. The NAVPU may vary with the market value and returns of the investment portfolio of the Fund.

Risks Related to the Investment

Nature of Investments

Investments held within the Fund will be Mortgages in Canada, which are affected by the health of the Canadian real estate markets. Risks arise from the inherent illiquidity of Mortgages, declines in value and illiquidity of the real property provided as security, fluctuations in interest rates, concentrations in certain property types or geographic areas, and changes in economic conditions or legislative or regulatory changes affecting real estate ownership.

Marketability of Units

There is currently no market through which the Units may be sold nor is one expected to develop. Redemptions are permitted only as described herein and there are circumstances in which the Fund may suspend redemptions. Accordingly, Units of the Fund may not be appropriate for subscribers seeking liquidity and should only be considered by investors who do not require liquidity. Also, Units are only transferable in limited circumstances with the approval of the Manager. The Fund may have the right to defer or suspend a redemption request payment if there is insufficient Available Cash and the Fund qualifies as a "unit trust" under section 108(2)(b) of the Tax Act.

Market

Market risk is the risk of being invested in the fixed income markets. The market value of the Fund's investments may rise and fall based on specific issuer developments and broader fixed income market conditions. Market value may also vary with changes in the general economic and financial conditions as well as the real estate sector.

Performance and Marketability of Underlying Investments

The NAVPU may vary in accordance with the value of the Mortgages and other investments held in the Fund's portfolio as determined from time to time. There is no formal market through which Mortgages can be sold and, accordingly, there is no assurance that the Mortgages invested in by the Fund could be sold for the values used to calculate the NAVPU.

No Guaranteed Return

There is no guarantee that an investment in Units will earn any positive return in the short or long term. Moreover, the interest rates being charged for fund investments reflect the general level of interest rates and as interest rates fluctuate, the Manager expects that the aggregate yield on fund investments will also change.

Large Unitholder

The securities of the Fund may be held in significant percentages by an investor, including another fund. Notwithstanding the Fund's ability to suspend redemptions, in order to meet purchase and redemption requests by the investor, the Fund may have to alter its holdings significantly and purchase or sell investments at unfavourable prices and incur capital gains or losses and transaction costs. This can reduce the returns of the Fund.

Reliance on the Manager

The Fund will be dependent on the knowledge and expertise of the Manager. In assessing the risks and rewards of an investment in Units, potential investors should appreciate that they are relying on the good faith and judgment of the Manager in administering and managing the Fund. Although approval of the Unitholders is required for certain matters, Unitholders have no right to take part in the management of, or the stated purpose of the Fund and the Fund will be bound by the decisions of the Manager as provided in the Trust Agreement. It would be inappropriate for investors who are unwilling to rely on the Trustees to this extent to subscribe for Units. There is no certainty that the persons who are currently officers and directors of the Manager will continue to be officers and directors of the Manager.

Loan Facilities

The Fund may from time to time be utilizing a loan facility, as outlined in "BUSINESS OF CMLS MORTGAGE FUND — Trust Agreement – Loan Facilities" in this Offering Memorandum, to enhance returns, smooth the timing differences between investment funding and cash availability in the Fund or to provide liquidity in the event of redemptions. During which times the loan facilities are available, the lender(s) will have a security interest over the assets of the Fund which rank ahead of the interest of Unitholders. If for any reason such loan facilities are in default, the assets of the Fund will be used firstly to repay all such loan facilities prior to the distribution of any assets to any of the Unitholders. While it is the intention of the Fund to maintain Loan Facilities, there can be no guarantee that credit will be available to the Fund. The Canadian financial marketplace has a limited number of financial institutions that provide credit to entities such as the Fund.

Litigation Risk

The Fund may, from time to time, become involved in legal proceedings in the course of its business. The costs of litigation and settlement can be substantial and there is no assurance that such costs will be recovered in whole or at all. During litigation, the Fund is not receiving payments of interest on a Mortgage loan that is the subject of litigation, thereby impacting cash flows. The unfavourable resolution of any legal proceedings could have an adverse effect on the Fund and its financial position and results of operations that could be material.

Competition for Investments

The Fund will be competing for Mortgage loans with individuals, corporations and institutions (both Canadian and foreign) which are seeking or may seek Mortgage loan investments similar to those desired by the Fund. Many of these investors will have greater financial resources than those of the Fund, or operate without the investment or operating restrictions of the Fund or according to more flexible conditions. An increase in the availability of investment funds and an increase in interest in Mortgage investments may increase competition, thereby increasing purchase prices and reducing the yield on investments, or reducing the number of investment opportunities for the Fund.

Limited Role of the Trustee and Relationship to the Manager

The Trustee does not supervise or monitor the Manager in any respect. The powers, authorities and responsibilities of the Trustee are limited to those expressly set forth in the Trust Agreement. All other powers, authorities and responsibilities with respect to the management and operation of the Fund are delegated to the Manager. The Trustee acts on the basis of instructions from the Manager, without independent investigation. The Trustee may not in all instances hold all of the Trust property.

Operating History

The Fund has been in continuous operation since May 2, 2008. Although the Manager has significant experience and success in making Mortgage investments, the past performance of those investments is not necessarily indicative of the future results of the Fund's performance.

Availability of Mortgage Investments

The Fund primarily invests in Mortgages in Canada which meet the investment criteria of the Fund. There is no guarantee that the Fund will be fully invested in such investments or that it will be able to assemble a portfolio of investments adequate to meet its financial projections of return.

Change in Legislation or Regulations

There is no assurance that the laws, regulations, policies or current administrative practices of any government body, or regulatory agency in British Columbia, or any other jurisdiction will not be changed, applied or interpreted in a manner which will fundamentally alter the ability of the Fund to operate as outlined herein.

Conflicts of Interest

The Manager has sole discretion in determining which mortgages and investments it will make available to the Fund for investment and may, at the same time and on an on-going basis, be sourcing investment opportunities for its own account or the account of others. The Manager, in exercising its discretion, will use its best judgment and act in such manner as it sees fit, having regard to the relative sizes, investment objectives, portfolio composition and financial capabilities of all of the entities involved, including the Fund. See "MANAGER CONFLICTS OF INTEREST" in this Offering Memorandum.

Risks Related to the Underlying Mortgages

Property Characteristics

The location and age of a property, its construction quality and access to transportation generally impacts its attractiveness to potential owners and, with respect to commercial property, specifically its potential to generate sustainable income during its economic life. Unless carefully selected, the characteristics of an area in which a property is located can change over time, thereby adversely affecting the value of the property and by extension the related

Mortgage.

Leases

With respect to commercial property underlying Commercial Mortgages or mixed Single-Family Residential/Commercial Mortgages, borrowers often rely upon periodic lease or rental payments from tenants to pay for a property's maintenance and other operating expenses, to fund capital improvements and to service debt. There is no guarantee that tenants will renew leases upon expiration or that they will continue operations throughout the terms of their leases. Accordingly, repayment of a loan may be affected by the expiration or termination of leases and the ability of the borrowers to renew those leases with the existing occupants or to re-lease the space on economically favourable terms. No assurance can be given that leases that expire can or will be renewed, that the space covered by leases that expire or are terminated can or will be leased in a timely manner at comparable rents or on comparable terms, or that the borrowers will be able to fund any required tenant improvements. If a significant portion of a property is leased to a single tenant, the consequences of the failure of the borrower to re-lease such portion of such mortgaged property in the event that such tenant vacates the space leased to it, or a failure of such tenant to perform its obligations under the related lease will be more pronounced than if such property were leased to a greater number of tenants.

Competition

Real estate is subject to the usual competitive forces of supply, demand and availability of substitutes. These competitive forces may impact the overall financial performance of a property including resale value and, with respect to commercial property, occupancy levels and potential rental rates. As a result, increased competition could adversely affect income from, and the value of, a property and by extension the related Mortgage.

Quality of Property Management

The financial performance of a commercial property is also dependent on the performance, capability and viability of its property manager. Property managers observe and assess market conditions and make recommendations to owners/borrowers regarding capital improvements, ongoing maintenance and changes to rental rate structures. There can be no assurance regarding the performance of any existing or future property manager of a property or that any such property manager will at all times continue to fulfill its management responsibilities under the related management agreement.

Mortgage Loans Not Insured

Generally speaking, Mortgages are not insured or guaranteed, in whole or in part, by any government or governmental entity, underwriter or any other person, except in circumstances where recourse to the borrower and its financial strength is negotiated as part of a particular underwriting. In these cases the ability of any borrower (or guarantor) to satisfy its recourse obligations will be limited by the extent of their respective available assets. No representation is made as to the adequacy of the assets of any borrower or guarantor available to satisfy their respective recourse obligations with respect to any Mortgages.

Portfolio Concentration

A fund with few borrowers or issuers is subject to the potential risk that any such borrower or issuer may have a disproportionately greater effect on the performance of such fund than if such concentration did not exist. Such a fund may be subject to losses that are more severe than other funds having the same or a similar assets under management and composed of smaller average individual investment balances and a great number of individual investments.

Refinancing Issues

The availability of credit for borrowers to refinance or repay a Mortgage will be significantly dependent on economic

conditions in the markets where related properties are located, the creditworthiness of the borrower, as well as the willingness and ability of lenders to make such loans. The availability of funds in the credit markets fluctuates and there can be no assurance that Mortgages from time to time can or will be renewed at the same interest rates and terms, or in the same amounts as are currently in effect. It is possible that the mortgagor, the mortgagee or both, will not elect to renew such Mortgage. In addition, if the Mortgages in the Mortgage Portfolio are renewed, the principal balance of such renewals, the interest rates and the other terms and conditions of such Mortgages will be subject to negotiations between the mortgagors, the mortgagee at the time of renewal.

Interest Rates

The Fund's value may be influenced by changes in the general level of interest rates. The Fund's income will consist primarily of interest payments on the Mortgages. If there is a decline in interest rates, the Fund may find it difficult to lend money bearing rates sufficient to achieve the targeted payment of distributions on the Units. There can be no assurance that an interest rate environment in which there is a significant decline in interest rates would not adversely affect the Fund's ability to maintain distributions at a consistent level. As well, if interest rates increase, the value of the Fund may be negatively affected.

Credit

Credit risk is the possibility that a borrower or issuer is unable or unwilling to repay its loan, obligation or interest payment, either on time or at all. The Fund can lose money if the borrower or the issuer of a bond or other fixed income security cannot pay interest or repay principal when it is due.

The debt securities issued by companies, governments and special purpose entities (such as entities that issue commercial mortgage-backed securities) that act as a counterparty or borrow money are often rated by specialized rating agencies. Debt securities issued by well-established companies or by governments tend to have lower credit risk (higher rated debt). A downgrade in an issuer's credit rating or other adverse news regarding an issuer can influence a debt security's market value. There is no guarantee that third party credit ratings represent an accurate assessment of the risk of owning a particular issuer's securities. If a rating agency has given a higher rating to an issuer's securities than those securities inherently deserve, the value of the securities may decrease substantially as the market becomes aware of the issuer's true risk. Other factors can also influence a debt security's market value or the ability of an issuer to pay interest or repay principal when due, such as a change in the market perception of the creditworthiness of the security, the parties involved in structuring the security and the underlying assets or collateral, if any. Lower rated and unrated debt instruments generally offer a higher return than higher grade debt instruments but have the potential for substantial loss. A credit spread is the difference between interest rates payable on an issuer's fixed income security and a government-issued fixed income security that are similar in term. If the market determines that a higher return is necessary to compensate for the higher risk of a lower rated fixed income security, the credit spread will increase. If a credit spread increases after the purchase of a fixed income security, the value of that security will decrease.

Subordinate and Non-conventional Financing

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

recover such deficiency from other property owned by the debtor.

Liquidity

Liquidity refers to the speed and ease with which an asset can be sold and converted into cash. In highly volatile markets, such as in periods of sudden interest rate changes, certain securities may become less liquid, which means they cannot be sold as quickly or easily. Some securities may be illiquid because of legal restrictions, the nature of the investment (e.g., mortgages), certain features (such as guarantees), or a lack of buyers interested in the particular security or market. Difficulty in selling securities may result in higher volatility, a loss or reduced return for the Fund.

Non-performing Loans

One or more borrowers could fail to make payments according to the terms of their loan, and the Fund could therefore be forced to exercise its rights as mortgagee. The recovery of a portion of the Fund's assets may not be possible for an extended period of time during this process and there are circumstances where there may be complications in the enforcement of the Fund's rights as mortgagee. Legal fees and expenses and other costs incurred by the Fund in enforcing its rights as mortgagee against a defaulting borrower are usually recoverable from the borrower directly or through the sale of the mortgaged property by power of sale or otherwise, although there is no assurance that they will actually be recovered. In the event that these expenses are not recoverable they will be borne by the Fund. Furthermore, certain significant expenditures, including property taxes, capital repair and replacement costs, maintenance costs, mortgage payments, insurance costs and related charges must be made through the period of ownership of real property regardless of whether the property is producing income or whether mortgage payments are being made. The Fund may therefore be required to incur such expenditures to protect its investment, even if the borrower is not honouring its contractual obligations.

MANAGER CONFLICTS OF INTEREST

Under applicable securities legislation, the Manager is required to identify material conflicts of interest which may arise between it (including any individual acting on its behalf) and its clients. Further, the Manager must inform an investor of the nature and extent of an identified conflict if a reasonable investor would expect to be informed of such conflict.

Below, the Manager has identified and described potential conflicts of interest that it believes are relevant to you. Additional potential conflicts of interest related to the Fund are disclosed elsewhere in this Offering Memorandum or other disclosure documents, as applicable.

The Manager seeks to avoid or minimize conflicts where reasonably possible; however, some conflicts cannot be avoided and in certain circumstances, while others could be avoided, the Manager may choose to manage these conflicts. The Manager has policies and procedures in place to manage conflicts of interest which it believes are sufficient to protect the interests of, and fulfill its obligations to, its clients. The following are examples of significant conflicts of interest that may affect the services provided to you.

Related and Connected Issuers

An issuer of securities is “related” to the Manager if, through ownership or direction and control over voting securities, it exercises a controlling influence over that issuer or that issuer exercises a controlling influence over the Manager or the same third party exercises a controlling influence over both the Manager and the issuer. An issuer is “connected” to the Manager if, due to indebtedness or other relationships, a reasonable prospective purchaser might question whether that issuer and the Manager are independent of each other.

In carrying on business as an exempt market dealer with respect to securities of related and/or connected issuers and in the course of a distribution, the Manager may:

- (a) make recommendations regarding these securities to you; and
- (b) sell these securities to you.

These related and connected issuers will include investment funds, or other similar collective investment vehicles established, managed, administered and promoted by the Manager and/or its related companies. In addition, in the course of providing services to you, the Manager may also enter into transactions or arrangements and perform services for or accept services from entities that are related to or connected to it. These services, transactions and arrangements will be carried on in the ordinary course of business in accordance with usual practices and procedures, and in accordance with all applicable disclosure and other regulatory requirements. It is the Manager's policy to comply fully with all applicable securities laws and to make all required disclosures.

Manager Conflicts

Services provided by the Manager are not exclusive. The Manager may provide services to other investment funds or similar investment vehicles with similar investment objectives and may at certain times be simultaneously seeking to purchase or dispose of investments. The Manager is not under any obligation to recommend an investment in any mortgage investment opportunity of which it becomes aware; in addition, it is permitted to offer any of such mortgage opportunities to other clients, to other funds that it manages or to any of its affiliates.

Outside Activities

Individuals acting on behalf of the Manager are prohibited from engaging in any outside activity which could interfere with the proper discharge of the individual's duties to it and its clients.

REPORTS TO UNITHOLDERS

The Manager shall provide to each Unitholder, or cause the Administrator to provide to each Unitholder, a quarterly statement reflecting the Unitholder's Proportionate Share of Net Asset Value and the NAVPU as at the applicable Valuation Date. In addition, on or before March 31 in each year, the Manager shall provide the Unitholders with all information regarding the Fund for the prior year which they require for income tax purposes.

The Fund does not currently intend on becoming a reporting issuer and therefore obligations of the Fund to publicly disclose documents are limited.

Authorization of Collection, Use and Disclosure of Personal Information

By subscribing for Units in the Fund, each investor acknowledges that its name, residential address and telephone number and other specified information, including the number of Units it has purchased, the aggregate purchase price paid by the investor therefore and the prospectus exemption relied upon in making the investor's purchase, may be disclosed to Canadian securities regulatory authorities and other authorities governing the operations of the Fund, the Trustee and the Manager, and may therefore become available to the public in accordance with the requirements of applicable Canadian laws. By subscribing for Units in the Fund, each investor shall authorize such indirect collection of personal information. The Manager's Privacy Policy governing the collection, use and disclosure of Unitholder's personal information is disclosed on the Manager's relationship disclosure documents.

RESALE AND TRANSFER RESTRICTIONS

The Units are being offered on a private placement basis in reliance upon prospectus exemptions under applicable securities legislation in each of the provinces and territories of Canada. Resale of the Units offered hereby will be subject to restrictions under applicable securities legislation. You cannot trade units before the date that is four months and a day after the date that the Fund becomes a reporting issuer in any province or territory of Canada. Generally, the Units

may be resold only pursuant to an exemption from the prospectus requirements of applicable securities legislation or pursuant to an order of the appropriate securities regulatory authorities granting an exemption from prospectus requirements because the Fund will not become a reporting issuer. A purchaser engaged in a resale of Units may also have reporting and other obligations. In addition, in order to comply with the dealer registration requirements of Canadian securities legislation, any resale of Units must be made by a person or company that is not subject to the dealer registration requirements; by a person or company that is registered in an appropriate category of dealer registration; or in reliance upon a dealer registration exemption, including an exemption that is available for trades conducted solely through an appropriately registered dealer. Investors are therefore advised to seek legal advice with respect to such resales of Units. Resales of Units are also restricted under the terms of the Trust Agreement. Accordingly, each prospective investor must be prepared to bear the economic risk of the investment for an indefinite period.

PURCHASERS' RIGHTS

Rights of Action for Damages or Rescission

Securities legislation in Alberta (depending on the exemption relied upon), Saskatchewan, Manitoba, Ontario, New Brunswick, Nova Scotia, Prince Edward Island, Newfoundland and Labrador, Yukon and Northwest Territories provides investors resident in those jurisdictions with certain rights of action if this Offering Memorandum, any amendment hereto or any document incorporated herein by reference, or in some cases, any advertising or sales literature used in connection with the Offering Memorandum, contains a misrepresentation. A summary of these rights is set out below. Such summaries are subject to the express provisions of applicable securities legislation, and the rules, regulations and other instruments thereunder, and reference is made to the complete text of such provisions contained therein. Such provisions may contain certain limitations and statutory defences on which the Fund may rely. These rights are in addition to, and without derogation from, any other right an investor may have at law. Although securities legislation in British Columbia, Alberta (depending on the exemption relied upon) and Québec do not provide or require the Fund to provide to investors resident in these jurisdictions any rights of action if the Offering Memorandum, any amendment hereto or any document incorporated herein by reference, contains a misrepresentation, the Fund hereby grants to such investors the contractual rights of action in each of British Columbia, Alberta and Québec that are described below.

For these purposes, “misrepresentation” means an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to make any statement in the Offering Memorandum or any amendment hereto not misleading in light of the circumstances in which it was made. A “material fact” means a fact that significantly affects, or would reasonably be expected to have a significant effect on, the market price or value of the units.

Two Day Cancellation Right for All Subscribers

You can cancel your agreement to purchase these securities. To do so, you must send a notice to the Manager by midnight on the 2nd business day after you sign the agreement to buy the securities.

Statutory Rights for Subscribers in British Columbia

If there is a misrepresentation in this Offering Memorandum, together with any amendment hereto, subscribers resident in British Columbia who purchase securities in reliance on the Offering Memorandum exemption set out in NI 45-106 will have a statutory right to sue:

- (a) the Fund, while still the owner of these securities, for rescission against the Fund, or
- (b) the Fund, every Trustee at the date of the Offering Memorandum or any amendment thereto and every person who signs the Offering Memorandum or any amendment thereto for damages.

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

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

Your right of action against the Fund, every Trustee at the date of the Offering Memorandum and every person who signs the Offering Memorandum for damages or, alternatively, while still the owner of these securities, for rescission against the Fund, is subject to the following qualifications:

(a) no person or company (but excluding the Fund) will be liable if the person or company proves that (i) the Offering Memorandum was delivered to the purchaser without the person's or company's knowledge or consent and that, on becoming aware of its delivery, the person or company gave written notice to the Fund that it was delivered without the person's or company's knowledge or consent, (ii) on becoming aware of any misrepresentation in the Offering Memorandum, the person or company withdrew the person's or company's consent to the Offering Memorandum and gave written notice to the Fund of the withdrawal and the reason for it, or (iii) with respect to any part of the Offering Memorandum purporting to be made on the authority of an expert or to be a copy of, or an extract from, a report, an opinion or a statement of an expert, the person or company had no reasonable grounds to believe and did not believe that there had been a misrepresentation, or the relevant part of the Offering Memorandum did not fairly represent the report, opinion or statement of the expert, or was not a fair copy of, or an extract from, the report, opinion or statement of the expert;

(b) no person or company (but excluding the Fund) will be liable with respect to any part of the Offering Memorandum not purporting to be made on the authority of an expert, or to be a copy of, or an extract from, a report, opinion or statement of 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;

(c) in an action for damages, the defendant will not be liable for all or any portion of the damages that the defendant proves does not represent the depreciation in value of these securities as a result of the misrepresentation; and

(d) in no case will the amount recoverable exceed the price at which these securities were sold to the purchaser.

Statutory Rights for Subscribers in Alberta

If the Offering Memorandum or any amendment hereto contains a misrepresentation, and is delivered to a purchaser resident in Alberta in reliance on the prospectus exemption in section 2.10 (the minimum amount investment) of NI 45-106, an investor is deemed to have relied upon the misrepresentation and will have a right of action for damages against the Fund, every director of the Fund and every person who signed the Offering Memorandum (if applicable), or alternatively, while still the owner of the purchased units, for rescission against the issuer, provided that:

1. no action may be commenced to enforce a right of action:

- (a) for rescission more than 180 days after the date of the purchase; or
 - (b) for damages more than the earlier of (i) 180 days after the purchaser first had knowledge of the facts giving rise to the cause of action, or (ii) three years after the date of purchase;
2. no person or company will be liable if the person or company proves that the purchaser purchased the securities with knowledge of the misrepresentation;
 3. no person or company (but excluding the Fund) will be liable if the person or company proves that:
 - (i) the Offering Memorandum was delivered to the purchaser without the person's or company's knowledge or consent and that, on becoming aware of its delivery, the person or company gave reasonable notice to the Fund that it was delivered without the person's or company's knowledge or consent; (ii) on becoming aware of any misrepresentation in the Offering Memorandum, the person or company withdrew the person's or company's consent to the Offering Memorandum and gave reasonable notice to the Fund of the withdrawal and the reason for it; or (iii) with respect to any part of the Offering Memorandum purporting to be made on the authority of an expert or to be a copy of, or an extract from, a report, an opinion, or a statement of an expert, the person or company had no reasonable grounds to believe and did not believe that there had been a misrepresentation, or the relevant part of the Offering Memorandum did not fairly represent the report, opinion, or statement of the expert, or was not a fair copy of, or an extract from, the report, opinion, or statement of the expert;
 4. no person or company (but excluding the Fund) will be liable with respect to any part of the Offering Memorandum not purporting to be made on the authority of an expert, or to be a copy of, or an extract from, a report, opinion, or statement of expert unless the person or company failed to conduct an investigation to provide reasonable grounds for a belief that there had been no misrepresentation, or believed that there had been a misrepresentation;
 5. in an action for damages, the defendant will not be liable for all or any portion of the damages that the defendant proves does not represent the depreciation in value of the securities as a result of the misrepresentation; and
 6. in no case shall the amount recoverable exceed the price at which the securities were sold to the purchaser.

Statutory Rights for Subscribers in Saskatchewan

If the Offering Memorandum, together with any amendment to the Offering Memorandum, is sent or delivered to an investor resident in Saskatchewan and contains a misrepresentation at the time of purchase, the investor is deemed to have relied upon that misrepresentation and will have a right for damages against the Fund, every promoter and director of the Fund, every person or company whose consent has been filed respecting the offering, but only with respect to reports, opinions or statements that have been made by them, every person who signed the Offering Memorandum (if applicable) and every person or company who sells securities on behalf of the Fund, or alternatively, while still the owner of the purchased units, for rescission against the Fund, provided that:

1. no action shall be commenced to enforce the foregoing rights:
 - (a) in the case of an action for rescission, more than 180 days after the date of the transaction that gave rise to the cause of action; or
 - (b) in the case of any action, other than an action for rescission, more than the earlier of (i) one year after the investor first had knowledge of the facts giving rise to the cause of action, or (ii) six years after the date of the transaction that gave rise to the cause of the action;

2. no person or company will be liable if the person or company proves that the investor purchased the units with knowledge of the misrepresentation;
3. no person or company (other than the Fund) will be liable if the person or company proves that (i) the Offering Memorandum or amendment was sent or delivered without the person's or company's knowledge or consent and that, on becoming aware of it being sent or delivered, the person or company immediately gave reasonable general notice to the Fund that it was sent or delivered without the person's or company's knowledge, (ii) on becoming aware of any misrepresentation, the person or company withdrew the person's or company's consent to the Offering Memorandum and gave reasonable general notice to the Fund of the withdrawal and the reason for it, or (iii) with respect to any part of the Offering Memorandum purporting to be made on the authority of an expert or to be a copy of, or an extract from, a report, an opinion or a statement of an expert, the person or company had no reasonable grounds to believe and did not believe that there had been a misrepresentation, or the relevant part of the Offering Memorandum 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;
4. no person or company (other than the Fund) will be liable with respect to any part of the Offering Memorandum not purporting to be made on the authority of an expert, or to be a copy of or an extract from a report, opinion or statement of an expert, unless the person or company (i) failed to conduct a reasonable investigation sufficient to provide reasonable grounds for a belief that there had been no misrepresentation or (ii) believed there had been a misrepresentation; and
5. in no case shall the amount recoverable exceed the price at which the units were sold to the investor.

An investor resident in Saskatchewan who has entered into an agreement for the purchase of units, which has not yet been completed, and who receives an amendment to the Offering Memorandum that discloses (i) a material change in the affairs of the Fund, (ii) a change in the terms or conditions of the offering as described in the Offering Memorandum or (iii) securities to be distributed that are in addition to the units described in the Offering Memorandum, that occurred or arose before the investor entered into the agreement for the purchase of the units, may within two business days of receiving the amendment deliver a notice to the Fund or agent through whom the units are being purchased indicating the investor's intention not to be bound by the purchase agreement.

These rights are (i) in addition to and do not derogate from any other right the investor may have at law; and (ii) subject to certain defences as more particularly described in *The Securities Act, 1988* (Saskatchewan).

Contractual Rights for Subscribers in Manitoba

If the Offering Memorandum or any amendment hereto contains a misrepresentation, an investor is deemed to have relied on the misrepresentation and has a right of action for damages against the Fund, every director of the Fund at the date of the Offering Memorandum and every person who signed the Offering Memorandum (if applicable), or alternatively, while still the owner of the purchased units, a right of rescission against the Fund, provided that:

1. no action may be commenced to enforce a right of action:
 - (a) for rescission more than 180 days after the date of the purchase; or
 - (b) for damages, more than the earlier of (i) 180 days after the investor first had knowledge of the facts giving rise to the cause of action, or (ii) two years after the date of the purchase;
2. no person or company will be liable if the person or company proves that the investor purchased the units with knowledge of the misrepresentation;

3. no person or company (other than the Fund) will be liable if the person or company proves that (i) the Offering Memorandum was sent to the investor without the person's or company's consent, and that, after becoming aware of its delivery, the person or company promptly gave reasonable notice to the Fund that it was sent without the person's or company's knowledge or consent, (ii) on becoming aware of the misrepresentation, the person or company withdrew their respective consent to the Offering Memorandum and gave reasonable notice to the Fund of the withdrawal and the reason for it, or (iii) with respect to any part of the Offering Memorandum purporting to be made on the authority of an expert or to be a copy of, or an extract from, an expert's report, opinion or statement, the person or company proves that they had no reasonable grounds to believe and did not believe that there had been a misrepresentation, or the relevant part of the Offering Memorandum did not fairly represent the expert's report, opinion or statement, or was not a fair copy of, or an extract from, the expert's report or statement;
4. no person or company (other than the Fund) will be liable with respect to any part of the Offering Memorandum not purporting to be made on the authority of an expert and not purporting to be a copy of, or an extract from, an expert's report, opinion or statement, 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 that there had been a misrepresentation; and
5. in no case shall the amount recoverable exceed the price at which the units were sold to the investor. The summary above is subject to the express provisions of the *Securities Act* (Manitoba) and the rules, regulations and other instruments thereunder, and reference is made to the complete text of such provisions contained therein. These provisions may contain limitations and statutory defences on which the Fund may rely.

Statutory Rights for Subscribers in Ontario

If the Offering Memorandum, together with any amendment hereto, is delivered to an investor resident in Ontario and contains a misrepresentation, without regard to whether the misrepresentation was relied upon by the investor, the investor will have a right of action against the Fund for damages or, alternatively, while still the owner of the purchased units, for rescission, provided that:

1. no action may be commenced to enforce a right of action:
 - (a) for rescission more than 180 days after the date of the purchase; and
 - (b) for damages more than the earlier of (i) 180 days after the investor first had knowledge of the facts giving rise to the cause of action, and (ii) three years after the date of purchase;
2. the Fund will not be liable if it proves that the investor purchased the units with knowledge of the misrepresentation;
3. in an action for damages, the Fund will not be liable for all or any portion of the damages that it proves do not represent the depreciation in value of the units as a result of the misrepresentation relied upon;
4. in no case shall the amount recoverable exceed the price at which the units were sold to the investor; and
5. the Fund will not be liable for a misrepresentation in forward-looking information if the Fund proves that:
 - (a) the Offering Memorandum contains, proximate to the forward-looking information,

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 a statement of 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 Fund had a reasonable basis for drawing the conclusions or making the forecasts and projections set out in the forward-looking information.

The rights referred to in section 130.1 of the *Securities Act* (Ontario) do not apply in respect of an Offering Memorandum (such as this Offering Memorandum) delivered to a prospective purchaser in connection with a distribution made in reliance on the exemption from the prospectus requirements in section 2.3 of 45-106 (the “accredited investor” exemption) if the prospective purchaser is:

1. a Canadian financial institution or a Schedule III bank;
2. the Business Development Bank of Canada incorporated under the *Business Development Bank of Canada Act* (Canada); or
3. a subsidiary of any person referred to in paragraphs (a) and (b), if the person owns all of the voting securities of the subsidiary, except the voting securities required by law to be owned by directors of that subsidiary.

The summary above is subject to the express provisions of the *Securities Act* (Ontario) and the rules, regulations and other instruments thereunder, and reference is made to the complete text of such provisions contained therein. These provisions may contain limitations and statutory defences on which the Fund may rely.

Statutory Rights for Subscribers in New Brunswick

Section 150(1) of the *Securities Act* (New Brunswick) provides that where an Offering Memorandum, such as this Offering Memorandum, is delivered to a subscriber resident in New Brunswick and contains a misrepresentation that was a misrepresentation at the time of purchase, the subscriber will be deemed to have relied on the misrepresentation and will have a right of action against the issuer or selling security holder for damages or, alternatively, while still the owner of the purchased securities, for rescission, provided that:

- (a) no action may be commenced to enforce a right of action:
 - (i) for rescission, more than 180 days after the date of the purchase; or
 - (ii) for damages, more than the earlier of (A) one year after the subscriber first had knowledge of the facts giving rise to the cause of action, and (B) six years after the date of the purchase;
- (b) no person will be liable if it proves that the subscriber purchased the securities with knowledge of the misrepresentation;
- (c) in an action for damages, no person will be liable for all or any portion of the damages that it proves do not represent the depreciation in value of the securities as a result of the misrepresentation relied upon; and
- (d) in no case shall the amount recoverable exceed the price at which the securities were offered under the Offering Memorandum; and

- (e) no person will be liable for a misrepresentation in forward-looking information if the person proves that:
 - (i) the Offering Memorandum contains, proximate to the forward-looking information, 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 a statement of material factors or assumptions that were applied in drawing a conclusion or making a forecast or projection set out in the forward-looking information; and
 - (ii) the person had a reasonable basis for drawing the conclusions or making the forecasts and projections set out in the forward-looking information.

An issuer shall not be liable where it is not receiving any proceeds from the distribution of the securities being distributed and the misrepresentation was not based on information provided by the issuer unless the misrepresentation:

- (a) was based on information that was previously publicly disclosed by the issuer;
- (b) was a misrepresentation at the time of its previous public disclosure; and
- (c) was not subsequently publicly corrected or superseded by the issuer before the completion of the distribution of the securities being distributed.

Statutory Rights for Subscribers in Nova Scotia

Section 138 of the *Securities Act* (Nova Scotia) states that in the event that an Offering Memorandum, such as this Offering Memorandum, together with any amendment thereto, or any advertising or sales literature (as defined in the *Securities Act* (Nova Scotia)) used in connection with an Offering Memorandum, contains a misrepresentation, any subscriber in Nova Scotia who purchases securities offered thereunder shall be deemed to have relied on such misrepresentation, if it was a misrepresentation at the time of purchase, and shall have, subject as hereinafter provided, a right of action either for damages against the seller, every director of the seller at the date of the Offering Memorandum and every person who signed the Offering Memorandum, or alternatively for rescission, exercisable against the seller provided that:

- (a) no person or company will be held liable if it proves that the subscriber purchased the securities with knowledge of the misrepresentation;
- (b) in an action for damages, the seller will not be liable for all or any portion of such damages that it proves does not represent the depreciation in value of the securities as a result of the misrepresentation relied upon;
- (c) no person or company will be liable if the person or company proves that (i) the Offering Memorandum or amendment thereto 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 the Offering Memorandum or amendment thereto and before the purchase of the securities by the subscriber, on becoming aware of any misrepresentation in the Offering Memorandum, the person or company withdrew the person's or company's consent to the Offering Memorandum and gave reasonable general notice of the withdrawal and the reason for it, or (iii) with respect to any part of the Offering Memorandum or amendment thereto

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 the relevant part of the Offering Memorandum or amendment thereto did not fairly represent the report, opinion or statement of the expert, or was not a fair copy of, or an extract from, the report, opinion or statement of the expert;

- (d) no person or company will be liable with respect to any part of the Offering Memorandum not purporting to be made on the authority of an expert, or to be a copy, or an extract from, a report, opinion or statement of 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; and
- (e) in no case shall the amount recoverable exceed the price at which the securities were offered under the Offering Memorandum or amendment thereto.

No action shall be commenced to enforce the rights of action more than 120 days after the date on which payment was made for the securities or after the date on which the initial payment for the securities was made where payments subsequent to the initial payment are made pursuant to a contractual commitment assumed prior to, or concurrently with, the initial payment.

For investors resident in Prince Edward Island, Yukon and Northwest Territories

If the Offering Memorandum, together with any amendment to the Offering Memorandum, delivered to an investor resident in Prince Edward Island, Yukon and Northwest Territories contains a misrepresentation and it was a misrepresentation at the time of purchase, the investor will be deemed to have relied upon the misrepresentation and will have a right of action against the Fund, every director of the Fund at the date of the Offering Memorandum and every person who signed the Offering Memorandum (if applicable), for damages or, alternatively, while still the owner of the purchased units, for rescission against the Fund, provided that:

1. no action shall be commenced to enforce the foregoing rights:
 - (a) in the case of an action for rescission, more than 180 days after the date of the transaction that gave rise to the cause of action; or
 - (b) in the case of any action, other than an action for rescission, more than the earlier of (i) 180 days after the date the investor first had knowledge of the facts giving rise to the cause of the action, or (ii) three years after the date of the transaction that gave rise to the cause of the action;
2. no person or company will be liable if the person or company proves that the investor purchased the units with knowledge of the misrepresentation;
3. no person or company (other than the Fund) will be liable if it proves that (i) the Offering Memorandum was delivered to the investor without the person's or company's knowledge or consent and that, on becoming aware of its delivery, the person or company gave reasonable general notice that it was delivered without the person's or company's knowledge or consent, (ii) after the delivery of the Offering Memorandum and before the purchase of the units by the investor, on becoming aware of any misrepresentation in the Offering Memorandum, the person or company withdrew the person's or company's consent to the Offering Memorandum and gave reasonable general notice of the withdrawal and the reason for it, or (iii) with respect to any part of the Offering Memorandum purporting to be made on the authority of an expert or to be a copy of, or an extract from, a report,

an opinion or a statement of an expert, the person or company had no reasonable grounds to believe and did not believe that there had been a misrepresentation, or the relevant part of the Offering Memorandum did not fairly represent the report, opinion or statement of the expert, or was not a fair copy of, or an extract from, the report, opinion or statement of the expert;

4. no person or company (other than the Fund) will be liable with respect to any part of the Offering Memorandum not purporting to be made on the authority of an expert or to be a copy of, or an extract from, a report, an opinion or a statement of an expert unless the person or company (i) failed to conduct a reasonable investigation to provide reasonable grounds for a belief that there had been no misrepresentation or (ii) believed that there had been a misrepresentation;
5. in an action for damages, the defendant will not be liable for all or any portion of the damages that it proves do not represent the depreciation in value of the units as a result of the misrepresentation relied upon;
6. in no case shall the amount recoverable exceed the price at which the units were sold to the investor; and
7. the Fund will not be liable for a misrepresentation in forward-looking information if the Fund proves that:
 - (a) the Offering Memorandum contains, proximate to the forward-looking information, 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 a statement of 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 Fund had a reasonable basis for drawing the conclusions or making the forecasts and projections set out in the forward-looking information.

The summary above is subject to the express provisions of the *Securities Act* (Prince Edward Island), the *Securities Act* (Yukon) and the *Securities Act* (Northwest Territories) and the rules, regulations and other instruments thereunder, respectively, and reference is made to the complete text of such provisions contained therein. These provisions may contain limitations and statutory defences on which the Fund may rely.

Statutory Rights for Subscribers in Newfoundland and Labrador

Section 130.1 of the *Securities Act* (Newfoundland and Labrador) provides that where an offering memorandum, such as this Offering Memorandum, is delivered to a purchaser to a purchaser resident in Newfoundland and Labrador and it contains a misrepresentation, without regard to whether the purchaser relied on the misrepresentation, a right of action for damages against the issuer, every director of the issuer at the date of the Offering Memorandum, and every person or company who signed the Offering Memorandum. In addition, such purchaser has a right of rescission against the issuer. If a purchaser elects to exercise a right of rescission against the issuer, the purchaser has no right of action for damages.

Where a misrepresentation is contained in an Offering Memorandum, a person or company shall not be liable for an action for damages or rescission:

- (a) where the person or company proves that the purchaser had knowledge of the misrepresentation;

- (b) where the person or company proves that the Offering Memorandum was sent to the purchaser without the person's or company's knowledge or consent and that, on becoming aware of its being sent, the person or company promptly gave reasonable notice to the issuer that it was sent without the knowledge and consent of the person or company;
- (c) if the person or company proves that the person or company, on becoming aware of the misrepresentation in the Offering Memorandum, withdrew the person's or company's consent to the Offering Memorandum and gave reasonable notice to the issuer of the withdrawal and the reason for it;
- (d) if, with respect to any part of the Offering Memorandum purporting to be made on the authority of an expert or purporting to be a copy of, or an extract from, a report, opinion or statement of an expert, the person or company proves that the person or company did not have any reasonable grounds to believe and did not believe that:
 - (i) there had been a misrepresentation; or
 - (ii) the relevant part of the Offering Memorandum:
 - (A) did not fairly represent the report, opinion or statement of the expert; or
 - (B) was not a fair copy of, or an extract from, the report, opinion or statement of the expert; and
- (e) with respect to any part of the Offering Memorandum not purporting to be made on the authority of an expert and not purporting to be a copy of, or an extract from, a report, opinion or statement of an expert, unless the person or company:
 - (i) did not conduct an investigation sufficient to provide reasonable grounds for a belief that there had been no misrepresentation; or
 - (ii) believed there had been a misrepresentation.

Of the above defences, the issuer shall only be able to rely on (a) above.

The amount recoverable shall not exceed the price at which the securities were offered under the Offering Memorandum.

In an action for damages, the defendant is not liable for all or any part of the damages that the defendant proves do not represent the depreciation in value of the security as a result of the misrepresentation.

No action may be commenced to enforce a right of action:

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

Investors in Quebec

In addition to any other right or remedy available to you at law, if there is a misrepresentation in this Offering Memorandum together with any amendments to the Offering Memorandum, and regardless of whether you relied on this misrepresentation in making your purchase decision, you have a statutory right to:

- (i) a right of action against the Fund to cancel the purchase contract or revision of the price at which the Units were sold to you; or

(ii) a right of action for damages against the Fund, every officer and director of the Manager, the dealer (if any) under contract to the Fund and any expert whose opinion, containing a misrepresentation, appeared with the expert's consent in this Offering Memorandum.

This statutory right to sue is available to you whether or not you relied on the misrepresentation. If you choose to rescind your purchase, such a choice is not prejudicial to any claim of damages. There are also various defences available to the Fund and other defendant parties should you exercise a right to sue. Specifically, no person or company will be liable to you if it proves that you purchased the Units with knowledge of the misrepresentation, nor if that person or company acted prudently and diligently (except in an action brought against the Fund).

Forward-looking information

Defendants will not be liable for a misrepresentation in forward-looking information if the Fund proves that:

- (a) this Offering Memorandum contains, proximate to the forward-looking information, 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 a statement of 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 Fund has a reasonable basis for drawing the conclusion or making the forecasts and projections set out in the forward-looking information.

Limitation Periods

If you intend to rely on the rights described above, you must do so within strict time limitations.

In Quebec, no action may be commenced to enforce such a right of action:

- 1. for rescission or revision of price, more than three years after the date of the purchase; or
- 2. for damages, the later of: (i) three years after you first had knowledge of the facts giving rise to the cause of action, except on proof of tardy knowledge is imputable to your negligence, or (ii) five years from the filing of the Offering Memorandum with the *Autorité des marchés financiers*, if applicable

Subscribers should consult their own legal advisers with respect to their rights and the remedies available to them.

THE FOREGOING IS A SUMMARY ONLY AND SUBJECT TO INTERPRETATION. REFERENCE SHOULD BE MADE TO THE APPLICABLE SECURITIES LEGISLATION, THE REGULATIONS AND THE RULES THEREUNDER FOR THE COMPLETE TEXT OF THE PROVISIONS UNDER WHICH THE FOREGOING RIGHTS ARE CONFERRED. THE FOREGOING SUMMARY IS SUBJECT TO THE EXPRESS PROVISIONS THEREOF.

FINANCIAL STATEMENTS

Financial statements of
CMLS Mortgage Fund
(formerly Penmor Mortgage Fund II)

December 31, 2017

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Independent Auditor's Report

To the Unitholders of
CMLS Mortgage Fund

We have audited the accompanying financial statements of CMLS Mortgage Fund (formerly Penmor Mortgage Fund II), which comprise the statement of financial position as at December 31, 2017, and the statement of income and comprehensive income, statement of changes in unitholders' equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of CMLS Mortgage Fund as at December 31, 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other Matter

The statement of financial position as at December 31, 2016, and the statement of income and comprehensive income, statement of changes in unitholders' equity and statement of cash flows for the year ended December 31, 2016, are unaudited.

Deloitte LLP

Chartered Professional Accountants
March 19, 2018
Vancouver, British Columbia

CMLS Mortgage Fund (formerly Penmor Mortgage Fund II)**Statement of income and comprehensive income**

Year ended December 31, 2017

	Notes	2017	2016
		\$	\$
			(Unaudited)
Investment income			
Interest		759,921	752,177
Lender fees		28,100	36,710
		788,021	788,887
Expenses	7		
Management fee		70,176	115,791
Fund administration expenses		34,656	35,348
Mortgage service fees		11,685	11,403
Interest expense		15,170	1,497
Other		756	—
		132,443	164,039
Income and comprehensive income		655,578	624,848

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

CMLS Mortgage Fund (formerly Penmor Mortgage Fund II)**Statement of changes in unitholders' equity**

Year ended December 31, 2017

	Number of units outstanding	Unit transactions	Retained earnings	Total
		\$	\$	\$
Unitholders' equity balance, December 31, 2015 (unaudited)	1,235,013	12,350,136	—	12,350,136
<i>Unit capital</i>				
Proceeds from issuance of units	44,290	442,900	—	442,900
Redemption of units	(267,940)	(2,679,406)	—	(2,679,406)
<i>Earnings</i>				
Income and comprehensive income for the year	—	—	624,848	624,848
<i>Distributions</i>				
Reinvested distributions	40,268	402,677	—	402,677
Distributions to unitholders	—	—	(624,848)	(624,848)
Unitholders' equity balance, December 31, 2016 (unaudited)	1,051,631	10,516,307	—	10,516,307
<i>Unit capital</i>				
Issue of units	168,000	1,680,000	—	1,680,000
Redemption of units	(98,304)	(983,037)	—	(983,037)
<i>Earnings</i>				
Income and comprehensive income for the year	—	—	655,578	655,578
<i>Distributions</i>				
Reinvested distributions	43,477	434,771	—	434,771
Distributions to unitholders	—	—	(655,578)	(655,578)
Unitholders' equity balance, December 31, 2017	1,164,804	11,648,041	—	11,648,041

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

CMLS Mortgage Fund (formerly Penmor Mortgage Fund II)

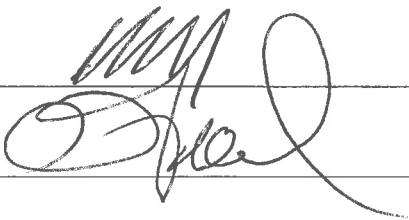
Statement of financial position

As at December 31, 2017


	Notes	2017	2016
		\$	\$
			(Unaudited)
Assets			
Mortgage investments	4	12,084,424	11,206,134
Mortgage interest receivable		63,054	73,571
Other receivable		—	15,995
		12,147,478	11,295,700
Liabilities			
Bank indebtedness	6	455,277	744,508
Accounts payable and accrued liabilities	7	8,454	13,935
Distributions payable		22,361	20,950
Deferred revenue		13,345	—
		499,437	779,393
Commitments	10		
Equity			
Unitholders' equity		11,648,041	10,516,307
		12,147,478	11,295,700
Redeemable units outstanding at December 31, 2017	5	1,164,804	1,051,631
Net asset value per unit	5	\$ 10.00	\$ 10.00

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

On behalf of the Fund Manager,
CMLS Asset Management Ltd.



 _____, Director



 _____, Director

CMLS Mortgage Fund (formerly Penmor Mortgage Fund II)**Statement of cash flows**

Year ended December 31, 2017

	2017	2016
	\$	\$
		(Unaudited)
Operating activities		
Income for the year	655,578	624,848
Changes in non-cash working capital		
Mortgage interest receivable	10,517	(13,062)
Other receivable	15,995	(10,995)
Mortgage investments	(878,290)	(524,284)
Distributions payable	1,411	618
Accounts payable and accrued liabilities	(5,481)	(120,093)
Deferred revenue	13,345	—
	(186,925)	(42,968)
Financing activities		
Units issued	1,680,000	442,900
Units redeemed	(983,037)	(2,679,406)
Distributions	(220,807)	(222,170)
	476,156	(2,458,676)
Cash inflow (outflow)	289,231	(2,501,644)
(Bank indebtedness) cash, beginning of year	(744,508)	1,757,136
(Bank indebtedness), end of year	(455,277)	(744,508)

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

CMLS Mortgage Fund (formerly Penmor Mortgage Fund II)

Notes to the financial statements

December 31, 2017

1. Nature of operations

CMLS Mortgage Fund (the "Fund") (formerly Penmor Mortgage Fund II) was established on May 2, 2008 to provide its unitholders with stable income while preserving invested capital through the prudent sourcing and management of a diverse pool of mortgages secured by real estate located in Canada.

The Fund is a trust established under the laws of, and domiciled in, British Columbia, Canada. The registered address is 2110-1066 West Hastings Street, Vancouver, British Columbia, Canada, V6E 3X2.

The trustee of the Fund is Computershare Trust Company of Canada, and CMLS Asset Management Ltd, a corporation incorporated on April 30, 2008, is the investment manager of the Fund (the "Fund manager").

2. Basis of presentation

These financial statements have been prepared in accordance with International Financial Reporting Standards on a historical cost basis, except for the valuation of mortgage investments which are at fair value. These financial statements are presented in Canadian dollars, which has been determined to be the Fund's functional currency, and have been approved by the Fund manager on March 19, 2018.

3. Significant accounting policies

The significant accounting policies adopted in the preparation of the financial statements are set forth below:

(a) Accounting estimates and judgements

The preparation of these financial statements require the Fund manager to make certain estimates, judgements and assumptions about the carrying amounts of assets and liabilities at the date of the financial statements that are not readily apparent from other sources. These estimates and associated assumptions are based on historical experience, current and future economic conditions and other factors that are considered to be relevant. Actual results may differ from these estimates.

The Fund manager uses its judgement in selecting an appropriate valuation technique for the mortgage investments not quoted in an active market. Valuation techniques commonly used by market practitioners are applied.

The estimation of fair value is based on industry acceptable market inputs and valuation techniques that use available information of recent market transactions, values of comparable financial instruments and discounted cash flow analyses. The estimation of fair value may include assumptions that are not supported by observable market data such as the length of time the mortgage has been in arrears, the overall financial strength of the borrowers and the residual value of the security pledged.

CMLS Mortgage Fund (formerly Penmor Mortgage Fund II)

Notes to the financial statements

December 31, 2017

3. Significant accounting policies (continued)

(b) Financial instruments

Financial instruments are recognized when the Fund becomes a party to the contractual provisions of the instrument. Financial assets and liabilities are initially measured at fair value including transaction costs, other than financial instruments measured at fair value through profit and loss ("FVTPL").

Financial assets are derecognized when the contractual rights to the cash flows from the financial assets expire or when the entity transfers the financial asset and the transfer qualifies for de-recognition. Financial liabilities are derecognized when they are extinguished, discharged, cancelled or expire.

The Fund's financial assets consist of mortgage investments and mortgage interest receivable. Mortgage interest receivable is classified as loans and receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Fund provides money, goods or services directly to a debtor with no intention of trading the receivable. After initial recognition, the mortgage interest receivable is measured at amortized cost.

Mortgage investments are classified as financial assets measured at FVTPL. Financial assets in this category are subsequently measured at fair value. Realized and unrealized gains or losses arising from changes in the fair value are recognized in profit or loss in the period in which they arise. Gains or losses are based on changes in fair value determined by a range of fair values of mortgage investments based on current interest yields for similar mortgage loans and appropriate valuation models.

Upon a mortgage becoming non-performing, the Fund manager will obtain an appraisal to determine whether an impairment exists, and include this in the determination of fair value. Interest on non-performing loans is provided for and no longer accrued. No impairment was recognized during the year ended December 31, 2017.

The Fund's financial liabilities include bank indebtedness, distributions payable and accounts payable. These are classified as other financial liabilities and are measured after initial recognition at amortized cost.

(c) Revenue recognition

Interest is recorded as earned on an accrual basis. Lender fees and expenses are recognized in the year incurred. Any discount on mortgages purchased below their face value is amortized to income over the mortgage term using the effective interest method. If a mortgage is impaired, interest is no longer accrued for.

Realized gains or losses on the disposition of mortgage investments and unrealized appreciation or depreciation of mortgage investments are reflected in the statement of income and comprehensive income.

(d) Income taxes

The Fund is commonly called a "quasi-mutual fund trust", which is a "unit trust" and a "registered investment" as described in paragraph 204.4(2)(d) of the Income Tax Act that meets the redemption requirements of paragraph 108(2)(a) of the Income Tax Act. As such, the Fund is also a "qualified investment" for registered retirement savings plans, registered retirement income funds and deferred profit sharing plans. The Fund distributes all of its annual taxable income to its unitholders, including the taxable portion of its net realized capital gains. As a result, the Fund is not subject to income taxes and no provision for income taxes has been provided for in these financial statements.

CMLS Mortgage Fund (formerly Penmor Mortgage Fund II)

Notes to the financial statements

December 31, 2017

3. Significant accounting policies (continued)

(e) *Adoption of new and revised International Financial Reporting Standards issued but not yet effective*

Effective January 1, 2018

- IFRS 9, Financial Instruments ("IFRS 9") - replaces IAS 39, *Financial Instruments: Recognition and Measurement*. IFRS 9 introduces amendments to classification and measurement for financial assets, a new expected loss impairment model and a new hedge accounting model.
- IFRS 15, *Revenue from Contracts with Customers* - provides a single, principles based five-step model to be applied to all contracts with customers. Guidance is provided on the point at which revenue is recognized, accounting for variable consideration, costs of fulfilling and obtaining a contract and various other matters. New disclosures about revenue are also introduced.

The Fund manager is still assessing the impact of the new and revised standards for future periods.

4. Mortgage investments

The following is a summary of the Fund's mortgage investments as at December 31:

	2017			2016		
	Number of mortgages	Cost	Fair value	Number of mortgages	Cost	Fair value
		\$	\$		\$	\$
First mortgages	10	5,863,107	5,863,107	7	4,072,070	4,072,070
Second mortgages	12	6,221,317	6,221,317	13	7,134,064	7,134,064
	22	12,084,424	12,084,424	20	11,206,134	11,206,134

The mortgages are secured by real property and bear interest at a weighted average rate of 6.38% as at December 31, 2017 (6.9% in 2016).

Number of mortgages and principal repayments based on contractual maturity dates are as follows:

	Number of mortgages	\$
2018	7	4,062,996
2019	5	2,580,080
2020	2	1,426,314
2021	4	1,667,830
2022 and thereafter	4	2,347,204
	22	12,084,424

Seven out of 22 mortgage investments include terms that allow the borrower to repay the principal prior to maturity without penalty. The principal value of these investments is \$4,619,833.

CMLS Mortgage Fund (formerly Penmor Mortgage Fund II)

Notes to the financial statements

December 31, 2017

4. Mortgage investments (continued)

Fair value of financial instruments

IFRS 13 establishes enhanced disclosure requirements for fair value measurements of financial instruments and liquidity risks.

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Fund's financial mortgage investments have been classified as follows:

	Level 1	Level 2	Level 3	Total financial assets at fair value
	\$	\$	\$	\$
Financial assets				
Mortgage investments	—	—	12,084,424	12,084,424

The Fund's mortgage investments are measured at fair value using unobservable inputs. As a result, all mortgage investments have been classified in Level 3 of the valuation hierarchy.

Fair value of the portfolio is the amount of consideration that would be agreed upon in an arm's-length transaction between knowledgeable, willing parties under no compulsion to act. As there is no quoted price in an active market for these mortgages, the Fund manager makes its determination of the fair value based on the assessment of the current lending market for mortgage investments of same or similar terms. When collection of the principal amount of a mortgage is no longer reasonably assured, the fair value of the investment is adjusted to the fair value of the underlying security.

The Fund regularly reviews significant unobservable inputs and valuation adjustments and will use market observable data when available.

The following table reconciles the fair value of the mortgage investments classified in Level 3 from the beginning balance to the ending balance:

	2017	2016
	\$	\$
Fair value, beginning of year	11,206,134	10,681,850
Funding	4,799,400	3,529,798
Repayment	(3,799,927)	(3,005,514)
Discount on mortgage investments purchased	(121,183)	—
Fair value, end of year	12,084,424	11,206,134

CMLS Mortgage Fund (formerly Penmor Mortgage Fund II)

Notes to the financial statements

December 31, 2017

5. Units issued and outstanding, net asset value per unit

The beneficial interests in the Fund are represented by a single class of units which are unlimited in number. Units outstanding are of equal value and share the same rights, preferences and priorities. Each unitholder is entitled to one vote for each whole unit held. These units are classified as equity as they are puttable instruments that entitle the unitholder to a pro-rata share of the Fund's net assets in the event of the Fund's liquidation. They are a class of instruments that are subordinate to all other classes of instruments and have identical features.

At December 31, 2017, the Fund had 1,164,804 units outstanding (1,051,631 in 2016). The units are redeemable at the holder's option, in accordance with the provisions of the trust agreement, at the prevailing net asset value per unit plus any allocated but undistributed income and realized capital gains.

The Fund may issue an unlimited number of units, or fractions thereof.

It is the policy of the Fund to make distributions of the taxable income to unitholders on a monthly basis.

Net asset value per unit is calculated as total assets less total liabilities allocable to outstanding units, excluding units submitted for redemption of nil, as at December 31, 2017 (nil in 2016), divided by the number of units outstanding as at December 31.

6. Bank indebtedness

The Fund has a demand operating credit facility to a maximum of \$2,500,000, bearing interest at prime plus 0.75% per annum, of which \$455,277 (2016 - \$744,508) was drawn and outstanding at year end. The credit facility is secured by the assets of the Fund as described in the general security agreement.

Under the terms of the demand operating credit facility, the Fund must satisfy certain restrictive covenants as to minimum financial ratios such as total liabilities to unitholders' equity ratio and earnings before income taxes to interest expense ratio. As at December 31, 2017, the Fund was in compliance with these covenant requirements.

7. Related party transactions

CMLS Asset Management Ltd., the manager of the Fund, is responsible for the day-to-day management and administration of the Fund and its investment portfolio. Management fees are payable on a monthly basis. For the year ended December 31, 2017, the Fund incurred \$70,176 (\$115,791 in 2016) in management fees, of which \$4,888 (\$9,318 in 2016) was payable to the Fund manager at December 31, 2017.

The Fund manager directly absorbs administrative expenses of the Fund in exchange for an administration fee. In 2017, expenses paid by the Fund manager were \$52,121 in excess of administration fees charged (\$5,910 in 2016).

The above transactions were in the normal course of operations and are measured at the exchange amounts of the consideration received or receivable, which was established and agreed to by the related parties.

CMLS Mortgage Fund (formerly Penmor Mortgage Fund II)

Notes to the financial statements

December 31, 2017

8. Financial instruments and financial risk

(a) Interest rate risk

Interest rate risk is the risk that the fair value of the Fund's interest-bearing investments will fluctuate due to changes in market interest rates.

The Fund manages risk by investing primarily in high-yield short-term mortgages, the principal of which may be repaid prior to maturity without penalty. The fair value of such mortgages do not tend to increase in response to decreases in the prevailing market interest rates, assuming a parallel shift in the yield curve and all other variables held constant. The fair value of such mortgages may decrease, however, if market interest rates increase to levels above the interest rate fixed on these mortgages. As at December 31, 2017, there was one floating rate mortgage, subject to an interest rate floor, in the portfolio valued at \$1,250,000 (\$1,366,992 in 2016). The remainder were fixed rate mortgages at interest rates that approximate market levels.

The Fund monitors financial markets and can adjust the pricing of renewals and new mortgages when it deems appropriate.

(b) Credit risk

Credit risk is the risk that a counterparty will be unable to pay amounts in full when due. The Fund only transacts with reputable, credit-worthy counterparties and therefore the risk of default is considered minimal. The Fund does not have significant credit risk related to cash as amounts are held with a major Canadian bank.

The Fund has engaged in mortgage investing activities. In accordance with the Fund's investment policy, the Fund manager monitors the Fund's credit position. In order to mitigate the risks associated with mortgage investing, the Fund generally invests in mortgages with a target loan to value of no greater than 80%.

(c) Liquidity risk

Liquidity risk is the risk that the Fund will be unable to meet its financial obligations on a current basis. The following table details the Fund's expected maturity of its financial obligations, excluding mortgage commitments (Note 10), as at December 31, 2017:

	Within 1 year	> 1 year	Total
	\$	\$	\$
Accounts payable and accrued liabilities	8,454	—	8,454
Bank indebtedness	455,277	—	455,277
Distributions payable	22,361	—	22,361
	<u>486,092</u>	<u>—</u>	<u>486,092</u>

The Fund's objective is to have sufficient liquidity to meet its liabilities when due. The Fund monitors its cash balances and cash flows generated from operations to meet its requirements. The Fund's exposure to liquidity risk arises primarily from the redemption of units at the option of the holder. Redemption of units is subject to available cash and a minimum notice period. The Fund has established a revolving line of credit with its bank to help manage this risk.

CMLS Mortgage Fund (formerly Penmor Mortgage Fund II)

Notes to the financial statements

December 31, 2017

9. Capital risk management

The capital structure of the Fund consists of net assets attributable to unitholders.

The Fund manages its capital structure and may make adjustments to it to respond to changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust its capital structure, the Fund may issue new units, redeem units or draw on its line of credit.

The Fund is not exposed to externally imposed capital requirements.

10. Commitments

As at December 31, 2017, the Fund had mortgage commitments of \$500,000 (2016 - nil).

DATE AND CERTIFICATE

Dated: May, 1 2018

This Offering Memorandum does not contain a misrepresentation.

BY THE ISSUER

CMLS MORTGAGE FUND

Per: (Signed) "Christopher Brossard"
Christopher Brossard, in the capacity of
Chief Executive Officer

Per: (Signed) "Elaine Freeman"
Elaine Freeman, in the capacity of
Chief Financial Officer

ON BEHALF OF THE BOARD OF DIRECTORS

Per: (Signed) "Chris Brossard"
Chris Brossard, Director

Per: (Signed) "Dave Franklin"
Dave Franklin, Director

Per: (Signed) "Glen Malcolm"
Glen Malcolm, Director

Per: (Signed) "Tony Gage"
Tony Gage, Director