

Date: April 3, 2009

## OFFERING MEMORANDUM

The securities described in this offering memorandum are offered for sale only in those Offering Jurisdictions and to those persons where and to whom they may be lawfully offered for sale. This offering memorandum is not, and under no circumstances is to be construed as, a public offering or advertisement of these securities. No securities commission or similar regulatory authority has passed on the merits of the securities offered hereunder nor has it reviewed this offering memorandum and any representation to the contrary is an offence. The securities offered hereunder will be subject to resale restrictions imposed under the securities laws of the jurisdiction in which they are offered.

**Issuer:**



**Northern Citadel**

### **NORTHERN CITADEL MORTGAGE INVESTMENT TRUST**

(the "Trust")

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**Continuous Offering of Trust Units:**

**Maximum Offering: \$100,000,000**

**Minimum Subscription: \$20,000**

**Subscription Price: Net Asset Value per Unit**

**(See "Glossary" for Definitions of terms with initial capitals.)**

The Trust is Offering its redeemable Units on a continuing private placement basis in the Offering Jurisdictions (all Provinces and Territories of Canada), subject to compliance with Applicable Securities Law, to raise up to a maximum of \$100,000,000, at a subscription price equal to the Net Asset Value per Unit. Each Unit represents an undivided beneficial interest in the assets of the Trust, which will primarily comprise interests in mortgage loans. See "Declaration of Trust and Description of Units" and "Description of the Activities of the Trust".

The Offering is being made in reliance on certain exemptions from the registration and prospectus filing requirements available under the Applicable Securities Law of the Offering Jurisdictions. The securities offered herein, which are not transferable except by operation of law, will also be subject to resale restrictions under the Applicable Securities Law. There are certain risk factors inherent in an investment in the Units and in the activities of the Trust. See "Risk Factors".

The Trust is an unincorporated investment trust established under the laws of the Province of Ontario pursuant to a Declaration of Trust dated as of April 3, 2009.

The proceeds of the Offering will be used by the Trust to acquire Authorized Investments (primarily interests in mortgage loans, but including Authorized Interim Investments such as cash and Cash Equivalents) and to establish and maintain appropriate Trust Reserves to meet the current and future expenses, liabilities, commitments and obligations of the Trust and for the conduct, promotion and protection of the purposes and activities of the Trust, its assets and Unitholders. See "Description of the Activities of the Trust". The purpose of the Trust is to provide its Unitholders with stable monthly cash distributions from the Trust's investments in mortgage loans in market segments which are under-

serviced by large financial service providers, and to obtain superior yields and maximize distributions through the efficient management of the Trust's investments. The Trust intends to distribute all Distributable Cash of the Trust by monthly cash distributions to Unitholders as described under "Distributions to Unitholders". Unitholders will have the option of directing that their distributions be reinvested in additional Units. See "Distribution Reinvestment Option".

The Trust is not, and does not carry on business as, a loan or trust company. Accordingly, the Trust is not registered in any jurisdiction under legislation governing such companies. The Units are not "deposits" for the purposes of the Canada Deposit Insurance Corporation Act (Canada) or any other legislation, and are not insured.

**No securities regulatory authority has assessed the merits of these securities or reviewed this Offering Document. Any representation to the contrary is an offence. There is and will be no market through which the Units may be sold and investors will not be able to resell securities purchased pursuant to this Offering Document. The only opportunity for liquidation of a holding of Units is through exercise of the right of redemption attached to the Units. The price of the Units offered hereby is the Net Asset Value per Unit determined on a monthly basis as described under "Determination of Net Asset Value". There are certain risk factors inherent in an investment in the Units and in the activities of the Trust. See "Risk Factors".**

**By notice sent to the Trust by midnight on the second business day after a purchaser signs a Subscription Agreement to buy Units a purchaser can cancel the Subscription Agreement. If there is a misrepresentation in this Offering Document, investors will have the right to sue either for damages or to cancel their agreement to purchase these securities. See "Subscription Procedure" and "Purchasers' Rights".**

#### **ADDITIONAL CAUTIONS**

**This Offering Document 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. Prospective investors are directed to inform themselves of and observe such restrictions and all legal requirements of their jurisdiction of residence in respect of the acquisition, holding and disposition of the securities offered hereby.**

**Investors should thoroughly review this Offering Document and are strongly encouraged 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 Document and provided by the Trustees in writing, and no other information or representation is authorized or may be relied upon as having been authorized by the Trustees and the Trust. Any subscription for the securities offered hereby made by any person on the basis of statements or representations not contained in this Offering Document or so provided, or inconsistent with the information contained herein or therein, shall be solely at the risk of such person. Neither the delivery of this Offering Document at any time nor any sale to an investor of any of the securities offered hereby shall, under any circumstances, constitute a representation or create any implication that there has been no change in the business and affairs of the Trust since the date of the sale to any such investor of the securities offered hereby or that the information contained herein is correct as of any time subsequent to that date.**

**This Offering Document and any information contained herein is confidential. By receipt and acceptance hereof, prospective investors agree that they will not transmit, reproduce or make this Offering Document or any information contained herein available to anyone other than their professional advisors.**

**The Units of the Trust are not transferable (except by operation of law) and will not trade on any exchange or market. The Trust is not a reporting issuer in any jurisdiction and does not file disclosure material on SEDAR.**

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## SUMMARY

*The following is a summary of the principal features of the Offering and should be read together with the more detailed information and financial data and statements contained elsewhere in this Offering Document. All references to dollar amounts in this Offering Document are to Canadian dollars. Please see the Glossary for the Definitions of terms not otherwise defined in the body of this Offering Document.*

### THE OFFERING

<b>Issuer:</b>	Northern Citadel Mortgage Investment Trust (the “Trust”)
<b>Issue Size:</b>	Maximum Offering: \$100,000,000.
<b>Price:</b>	Net Asset Value per Unit. See “Determination of Net Asset Value”.
<b>Minimum Purchase:</b>	\$20,000 (or such lesser amount as may be approved, on a case by case basis, by the Administrator).
<b>Investment Suitability:</b>	The Units would be most suitable for an investor who has medium-term investment goals, wants to diversify an investment portfolio, is comfortable with moderate investment risk, and is looking for stable monthly distributions of income.
<b>Subscription Procedure:</b>	The minimum subscription amount is generally \$20,000. An investor wishing to subscribe for Units may only do so through a Participating Dealer, and must submit, together with payment of the subscription price a duly completed and originally executed Subscription Agreement, together with certain prescribed supporting documents. See “Subscription Procedure”.

### MANAGEMENT

<b>Administrator:</b>	Northern Citadel Bancorp Inc. (the “Administrator”) is the sponsor, promoter and the settlor of the Trust under the Declaration of Trust, and, pursuant to the Administration and Mortgage Banking Agreement, provides the Trust with Administrative Management Services and Mortgage Banking Services. It has taken the steps necessary to permit the public distribution of the Units, will develop and implement all aspects of the Trust's communications, marketing and distribution strategies and will manage or supervise the management of the ongoing business, investment and administrative affairs of the Trust. It is also responsible for the origination, underwriting, syndication and servicing of mortgage investments on behalf of the Trust, subject to the continuing control and direction of the Trustees. The Administrator will be paid fees by the Trust for its services. See “Management of the Trust”.
<b>Trustees:</b>	The Trustees of the Trust are Sam Mizrahi, Greg Van Staveren, John Mallinos, HESSIE RIMON and Jeffrey Halman. See “Management of the Trust – Trustees”.

### PURPOSE, OBJECTIVE AND INVESTMENT POLICY

<b>Purpose:</b>	The purpose of the Trust is to provide its Unitholders with stable monthly cash distributions from the Trust's investments in mortgage loans in market segments which are under-served by large financial service providers, and to obtain superior yields and maximize distributions through the efficient management of the Trust's investments.
<b>Objectives:</b>	The fundamental investment objectives of the Trust are <ol style="list-style-type: none"><li>1. to provide Unitholders with stable monthly distributions of income from the Trust's investments,</li><li>2. to obtain superior yields and maximize distributions and maintain Unit value, and</li><li>3. preservation of capital.</li></ol>
<b>Investment Strategy:</b>	To achieve the Trust's investment objectives, the Trust's assets will be invested primarily in loans secured by first and second mortgages on real property in Canada. The investment strategy of the Trust is to invest in Commercial/Industrial Mortgages and Residential

Mortgages from smaller niche borrowers in the second tier markets for both Conventional and Non-Conventional Mortgages, whose financing needs are not being met by the larger financial institutions. See “Description of the Activities of the Trust – Investment Strategy”.

**Investment Guidelines:** The Trust is subject to prescribed policies and restrictions which impose limits on the composition of the Trust’s investment portfolio, and prescribed operating policies regarding the conduct of its operations and affairs. See “Description of the Activities of the Trust – Investment Strategy” and “Description of the Activities of the Trust – Operating Policies”.

## FINANCIAL ASPECTS

**Use of Proceeds:** The proceeds of the Offering will be used by the Trust to acquire Authorized Investments (primarily interests in mortgage loans, but including Authorized Interim Investments such as cash and Cash Equivalents) and to establish and maintain appropriate Trust Reserves to meet the current and future expenses, liabilities, commitments and obligations of the Trust and for the conduct, promotion and protection of the purposes and activities of the Trust, its assets and Unitholders. See “Description of the Activities of the Trust”.

**Borrowing and Loan Facility:** Borrowing is an important component of the strategy of the Trust. The Trust may incur indebtedness for financing to make additional investments in accordance with its investment objectives, enhance yield, further diversify its investments of the Trust, and maintain liquidity. It is anticipated that the interest payments on any such borrowing generally will reflect short-term interest rates, and the net return on the Trust's portfolio, including the proceeds of any borrowing, should exceed the interest applicable to such borrowing. Whether to borrow and the terms and the timing of borrowing will be determined by the Administrator. The cost of borrowing will be borne by the Trust. See “Description of the Activities of the Trust – Borrowing Strategy” and “Risk Factors”.

**Administrator’s Fees:** For its provision of services under the Administration and Mortgage Banking Agreement, the Administrator will be entitled to fees from the Trust summarized as follows:

*Administrative Management Services Fee:* For Administrative Management Services provided to the Trust, the Trust pays an annual asset management fee equal to 0.99% of the aggregate of invested mortgages or Trust investments in real property.

*Mortgage Banking Services Fee:* A Mortgage Banking Services fee equal to 0.99% per annum on the principal amount of each mortgage investment.

*Performance Fee:* In addition to the Administrative Management Services fee and the Mortgage Banking Services fee, the Administrator is entitled to receive from the Trust, as of December 31 of each year in which the Net Income Before Performance Fee exceeds 10% of the Average Portfolio Principal, a Performance Fee equal to 20% of such excess. Advances on the Performance Fee in respect of any year may be made to the Administrator for Performance Fees earned during each quarter of that year.

In addition to the foregoing fees payable by the Trust, the Administrator will receive and retain fees and reimbursements of costs that are normally payable by borrowers in connection with mortgage loan applications processed by it. The Administrator uses its fee income in part to pay any servicing commissions to Participating Dealers.

See “Compensation of Administrator”.

**Expenses:** In addition to the expenses of the Offering, repayment of amounts borrowed under the Loan Facility and interest thereon, the Trust will pay all of its administrative and operating expenses including: administration expenses, expenses relating to portfolio transactions (including commissions), taxes, legal and audit fees, Unitholder reporting costs, printing and mailing costs, costs to be incurred in connection with the Trust's continuous disclosure obligations and third party custodial or transfer agency costs.

**Compensation of Participating Dealers:** Participating Dealers who facilitate the Offering may receive commissions, fees or other compensation as follows:

*Sales Commissions.* A Participating Dealer that facilitates an investor’s subscription for Units

will generally take a sales commission, in an amount to be agreed between the dealer and the investor. Sales commissions are paid by the investor, not by the Trust or the Administrator.

*Servicing Commissions.* The Administrator may pay Participating Dealers a servicing commission on a quarterly basis to compensate them for the continuing advice and service they provide in connection with Unitholders' investments in the Trust. The Administrator may change or terminate the payment of this servicing commission at any time. Currently, the maximum amount of the servicing commission, expressed as an annual percentage of the value of the Units held by a Participating Dealer's clients, is 1.00%. Servicing commissions are paid by the Administrator and not charged to the Trust.

See "Plan of Distribution".

**Distributions:** The Trust intends to distribute all Distributable Cash of the Trust by monthly cash distributions to Unitholders as described under "Distributions to Unitholders". Unitholders will have the option of directing that their distributions be reinvested in additional Units. See "Distribution Reinvestment Option".

## INCOME TAX MATTERS

**Federal Income Tax Considerations:** **Investors should obtain advice from their professional tax advisors regarding the potential federal and provincial tax considerations of investing in Units.**

**RISK FACTORS** There are certain risks inherent in an investment in the Units and in the activities of the Trust, some of which are summarized below. Investors should thoroughly consider the risk factors described under the heading "Risk Factors" before purchasing Units.

**Liquidity and Return on Investment:** **There is and will be no market through which the Units may be sold and purchasers will not be able to resell Units purchased pursuant to this Offering Document. The only opportunity for liquidation of a holding of Units is through exercise of the right of redemption attached to the Units.**

The Units offered pursuant to this Offering Document are not insured against loss, and there is no guarantee that an investment in Units will earn any positive return in the short or long term.

**Portfolio Risks:** Investments in mortgages are affected by many factors, and are relatively illiquid. The ability of the Trust to make investments in accordance with its objectives and investment policies depends upon the availability of suitable investments and the amount of funds available. There can be no assurance that any of the mortgages comprising the Mortgage Portfolio from time to time can or will be renewed. A lack of diversification may result in the Trust being exposed to economic downturns or other adverse events affecting the mortgage market. Liquidation of investments of the Trust could require time.

To the extent the Trust invests in Non-Conventional Mortgages, including land mortgages, greater risks will be involved than with Conventional Mortgages.

**Borrowing and Leverage:** There can be no assurance that the strategy of limited borrowing to fund investments will enhance returns and in fact the strategy may reduce returns. Limited availability of sources of credit may limit the Trust's ability to take advantage of leveraging opportunities.

**Tax-Related Risk:** Income tax laws and the treatment of mutual fund trusts and unit trusts could be changed in a manner which adversely affects Unitholders. If the Trust fails to qualify or ceases to qualify as a mutual fund trust for the purposes of the Tax Act, the considerations discussed under “Income Tax Considerations and Investment Eligibility” would, in certain respects, be adversely different. If the Trust fails to qualify as a mutual fund trust and is not a registered investment under the Tax Act, Units may not be qualified investments for Exempt Plans. If investments in the Trust become listed or traded on a stock exchange or other public market for the purposes of the SIFT Rules in the Tax Act, the Trust could become subject to tax under the SIFT Rules.

The Trust recommends that prospective investor consult with their tax advisors for advice with respect to the tax consequences to them having regard to their own particular circumstances. See “Income Tax Considerations and Investment Eligibility”.

**Environmental and Other Regulatory Matters:** Environmental legislation and policies have become an increasingly important feature of property ownership and management in recent years. Under various laws, the Trust could become liable for the costs of effecting remedial work necessitated by the release, deposit or presence of certain materials.

**This is a New Venture:** The Trust was established on April 3, 2009 and has no investment history. Investors must rely on the ability, expertise, judgment, discretion, integrity and good faith of the Trustees and management of the Administrator.

**Conflicts of Interest:** The professional services provided by the Administrator are not exclusive to the Trust. It will be sourcing investment opportunities for its own account and the accounts of others.

**Forward-looking Statements.** This Offering Document contains forward-looking statements that involve risk and uncertainties.

## GLOSSARY

**“Administration and Mortgage Banking Agreement”** means the administration and mortgage banking agreement made between the Trust and the Administrator as of April 3, 2009, providing for, among other things, the retention of the Administrator by the Trust to provide Administrative Management Services and Mortgage Banking Services, as the same may be amended, renewed, extended, supplemented or restated from time to time.

**“Administrative Management Services”** means the provision of the services of arranging for distribution of the Units, development and implementation of all aspects of the Trust's communications, marketing and distribution strategies, and management and supervision of the management of the ongoing business, investment and administrative affairs of the Trust.

**“Administrator”** means Northern Citadel Bancorp Inc., the person appointed as such pursuant to the Administration and Mortgage Banking Agreement, and any person that is a successor to such appointment in accordance with the provisions thereof.

**“affiliate”** has the meaning ascribed to “affiliate” in the Securities Act.

**“Applicable Securities Law”** means the Securities Act and similar law and regulations in each other province and territory of Canada, and the requirements, rules and policies of the Canadian securities authorities that are applicable to the Trust, the investments of the Trust and the issuance of the Units.

**“associate”** has the meaning ascribed to “associate” in the Business Corporations Act.

**“Audit Committee”** means the audit committee of the Trustees established pursuant to the Declaration of Trust.

**“Authorized Interim Investments”** means investments of or guaranteed by the Government of Canada or a province or territory of Canada, deposits in or receipts, deposit notes, certificates of deposits, acceptances and other similar instruments issued, endorsed or guaranteed by a Schedule I Bank, short-term CMHC insured Residential Mortgages and includes cash and Cash Equivalents.

**“Authorized Investments”** means Authorized Interim Investments, Mortgages and Permitted Real Property.

**“Average Portfolio Principal”**, for the purposes of calculating the Performance Fee in respect of any year, means the aggregate of all individual “principal balances” of Unitholders outstanding for that year. An individual “principal balance” of a Unitholder is calculated by dividing the number of days that the Unitholder’s investment in Units has been invested during the year by the number of days in the year, and multiplying such factor by the aggregate Net Asset Value of the Units held by that Unitholder.

**“business day”** means a day other than a Saturday, Sunday or any day on which the Schedule I Banks located in Toronto, Ontario are not open for business during normal banking hours.

**“Business Corporations Act”** means the *Business Corporations Act* (Ontario), as now or hereafter amended, or successor statutes, and shall include regulations promulgated thereunder.

**“Capital of the Trust”** means the value of the assets of the Trust, including interest accrued due, less the liabilities of the Trust. Assets and liabilities which are the subject of agreements entered into, but not yet carried into effect, shall be included or excluded, as the case may be, as if the agreements were in fact fully completed.

**“Cash Equivalent”** means an evidence of indebtedness that has a remaining term to maturity of 365 days or less and that is issued, or fully and unconditionally guaranteed as to principal and interest, by

- (a) the government of Canada or the government of a jurisdiction of Canada,
- (b) a bank, loan corporation, trust company, insurance company, treasury branch, credit union or caisse populaire that, in each case, is authorized to carry on business in Canada or a jurisdiction, or the Confédération des caisses populaires et d'économie Desjardins du Québec, and has received an approved rating from any approved rating organization.

**“CMHC”** means the Canada Mortgage and Housing Corporation.

**“Commercial/Industrial Mortgage”** means a mortgage granted as security for a loan given in respect of properties, land developments and construction projects which have retail, commercial, service, office or industrial uses.

**“Conventional Mortgage”** means a mortgage for which the principal amount, at the time of commitment, together with all other equal and prior ranking mortgages (a) in the case of a property purchase, does not exceed the lower of 80% of the purchase price of the underlying real property securing the mortgage and 80% of the appraised value of the underlying real property securing the mortgage as determined by a Qualified Appraiser, and (b) in the case of a



refinancing, does not exceed 80% of the appraised value of the underlying real property securing the mortgage as determined by a Qualified Appraiser at the time of such refinancing.

**“Conventional First Mortgage”** means a Conventional Mortgage secured by real property which is not subject to any prior ranking mortgage or other security interest.

**“Conventional Second Mortgage”** means a Conventional Mortgage secured by real property which is subject to a prior ranking mortgage or other security interest.

**“counsel”** means any person engaged in the practice of law and retained by or on behalf of a party.

**“Custodial Account”** means the account or accounts established pursuant to the Declaration of Trust for the purpose of holding Trust Property.

**“Custodian”** means a bank or trust company at which a Custodial Account is established and maintained pursuant to the provisions of the Declaration of Trust, and includes the Administrator, counsel or any professional adviser to the Trust that may from time to time have custody of Trust Property, and NCMIT Nominee Corp. or any other nominee in the name of which mortgage and security documents comprising Trust Property will be registered.

**“Declaration of Trust”** means the declaration of trust made April 3, 2009 by the Administrator, as settlor, and Sam Mizrahi, Greg Van Staveren, John Mallinos, Hessie Rimon and Jeffrey Halman, as trustees, as the same may be amended, consolidated, restated or modified from time to time, including any and every instrument supplemental or ancillary hereto.

**“Distributable Cash”**, for any taxation year of the Trust, means the income for such year computed in accordance with the provisions of the Tax Act, less, at the discretion of the Trustees, amounts of any non-capital losses of the Trust for the prior years that are deductible in computing the Trust's taxable income for the year under the Tax Act; provided, however, that capital gains and capital losses will be excluded from the computation of Distributable Cash. In addition, in computing the Distributable Cash of the Trust for any taxation year of the Trust, the Trustees will have the sole discretion to utilize or not utilize such deductions, provisions and alternate calculations available under the Tax Act, including without limitation, discretion as to timing and amount, in respect of offering expenses, operating expenses and discretionary deductions.

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

**“Distribution Reinvestment Option”** means an option available to Unitholders of the Trust pursuant to which distributions made by the Trust on their Units will be reinvested in additional Units as of the Valuation Date next following the date the distribution becomes payable.

**“Exempt Plans”** means trusts governed by a registered retirement savings plan, registered retirement income fund, deferred profit sharing plan, registered education savings plan, registered disability savings plan or tax-free savings account.

**“Independent Trustee”** means a Trustee who is not an associate, director, officer or employee of the Administrator or of an affiliate of any of the foregoing.

**“Insolvent”** means, when used in reference to any person, that such person shall suffer, or there shall have occurred with respect to such person, one or more of the following events: death, dissolution, termination of existence, insolvency, business failure, appointment of a receiver of any part of the property of, assignment for the benefit of creditors by, or the filing of a petition in bankruptcy or the commencement of any proceedings under any bankruptcy or insolvency laws, or any laws relating to the relief of debtors, readjustment of indebtedness, composition or extension by or against such person.

**“Investment Committee”** means the investment committee of the Trustees established pursuant to the Declaration of Trust.

**“Mortgage Banking Services”** means the provision of origination, underwriting, syndication and servicing of mortgage investments.

**“Mortgage Brokerages, Lenders and Administrators Act”** or **“MBLAA”** means the *Mortgage Brokerages, Lenders and Administrators Act, 2006* (Ontario), as now or hereafter amended, or successor statutes, including regulations promulgated thereunder.

**“Mortgage Portfolio”** means, at any time, the Trust's portfolio of mortgages or interests therein, at such time.

**“mortgage”** means a mortgage, hypothec, deed of trust, charge or other security interest of or in real property used to secure obligations to repay money by a charge upon the underlying real property, whether evidenced by notes, debentures, bonds, assignments of purchase and sale agreements or other evidences of indebtedness, whether negotiable or non-negotiable.

**“Net Asset Value”** means the value of the Trust’s assets, minus its liabilities, determined on each Valuation Date in accordance with the provisions of the Declaration of Trust, the Offering Documents, Applicable Securities Law and valuation policies established by the Trustees.

**“Net Income Before Performance Fee”** for any year, means the amount which would be Distributable Cash in respect of such year without deducting the Administrator’s Performance Fee.

**“Non-Conventional Mortgage”** means a mortgage, other than a Conventional Mortgage, and includes mortgage investments that exceed, or may exceed, 80% of the appraised value of the real property underlying such mortgages as determined by a Qualified Appraiser.

**“Non-Independent Trustee”** means a Trustee who is not an Independent Trustee.

**“Non-Performing Loan”** means a mortgage loan in respect of which (i) payments of interest and principal are past due by 90 days or more, or (ii) at least 90 days of interest payments have been capitalized, refinanced or delayed by agreement, or (iii) payments are less than 90 days overdue, but there are other good reasons to doubt that payments will be made in full; and has been designated as such by the Administrator.

**“Offering”** means the offering of Units pursuant to the Offering Documents.

**“Offering Documents”** means, at any time, the then current offering memorandum, prospectus, simplified prospectus, annual information form, or other similar disclosure documents in the English language relating to the offering for sale of the Units, together with any amendments thereto, or if at such time no such document is current, the most recently current such document.

**“Offering Jurisdiction”** means a Province or Territory of Canada.

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

**“Participating Dealer”** means, in any Offering Jurisdiction, a person that is approved by the Administrator as such and is, in that Offering Jurisdiction (a) a registered investment dealer, (b) a registered limited market dealer or (c) a person entitled to act in connection with a trade in the Units under exemptions from dealer registration requirements in that Offering Jurisdiction.

**“Performance Fee”** means the performance fee payable by the Trust to the Administrator as described under “Management of the Trust - Compensation of Administrator”.

**“Permitted Real Property”** means real property acquired by the Trust as a consequence of a mortgage in default under which the Trust was the mortgagee, provided such real property is offered for sale under reasonable conditions and is sold within a reasonable period of time, such period not to exceed one year from the date of acquisition by the Trust, except in unusual circumstances.

**“person”** includes any individual, corporation, limited partnership, general partnership, joint stock company or association, joint venture, association, company, trust, bank, trust company, land trust, investment trust, society or other entity, organization, syndicate, whether incorporated or not, trustees, executors or other legal personal representatives, and governments and agencies and political subdivisions thereof.

**“Qualified Appraiser”** means a person who is an appraiser accredited or licensed by the Appraisal Institute of Canada or any successor accreditation or licensing body.

**“real property”** means property which in law is real property and includes, whether or not the same would in law be real property, leaseholds, mortgages, undivided joint interests in real property (whether by way of tenancy-in-common, joint tenancy, co-ownership, joint venture or otherwise), any interests in any of the foregoing and securities of corporations the sole or principal purpose and activity of which is to invest in, hold and deal in real property.

**“Register”** means the register in which is recorded, with respect to Units issued, the names and latest known address of the registered holder, the number of Units held by each holder, and the date and particulars of issue of such Units.

**“Registrar”** means the person appointed as transfer agent and registrar and branch transfer agent and registrar, if any, pursuant to the provisions of the Declaration of Trust, or if there is no person so appointed, the Administrator.

**“Residential Mortgage”** means a mortgage loan on the security of real property in Canada consisting of a building or buildings that is used, or is to be used, to the extent of at least one half of the floor space thereof, as one or more private dwellings, which loan is made for the purpose of purchasing, renovating or improving that property.

**“Schedule I Bank”** means a bank listed in Schedule I of the *Bank Act* (Canada).

**“Securities Act”** means the *Securities Act* (Ontario) as now or hereafter amended, or successor statutes, and shall include regulations promulgated thereunder.

**“security”** has the meaning ascribed to the term “security” in the Securities Act.

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

**“subsidiary”** has the meaning ascribed thereto in the Securities Act.

**“Syndication”** means the sharing of a mortgage or other investment by more than one person.

**“Tax Act”** means the *Income Tax Act* (Canada) as now or hereafter amended, or successor statutes, including regulations promulgated thereunder.

**“Termination Date”** means December 31, 2029, or such other date as may be established pursuant to the provisions of the Declaration of Trust.

**“Trust”** means Northern Citadel Mortgage Investment Trust, an unincorporated investment trust established under the laws of Ontario pursuant to the Declaration of Trust.

**“Trust Property”** means the property held from time to time by the Trustees for, on and subject to the trust established under the Declaration of Trust.

**“Trust Reserves”** means the amounts from time to time which the Trustees, acting reasonably, but in their sole discretion, determine are necessary or desirable: (i) to meet the current and future expenses, liabilities, commitments and obligations of the Trust; and (ii) for such other purposes as may be determined by the Trustees to be necessary or desirable for the conduct, promotion and protection of the purposes and activities of the Trust, its assets and Unitholders.

**“Trustees”** means Sam Mizrahi, Greg Van Staveren, John Mallinos, Hessie Rimon and Jeffrey Halman, the initial trustees and any successors thereof as trustees of the Trust.

**“Unit”** means an undivided interest in the net assets of the Trust as described in the Declaration of Trust.

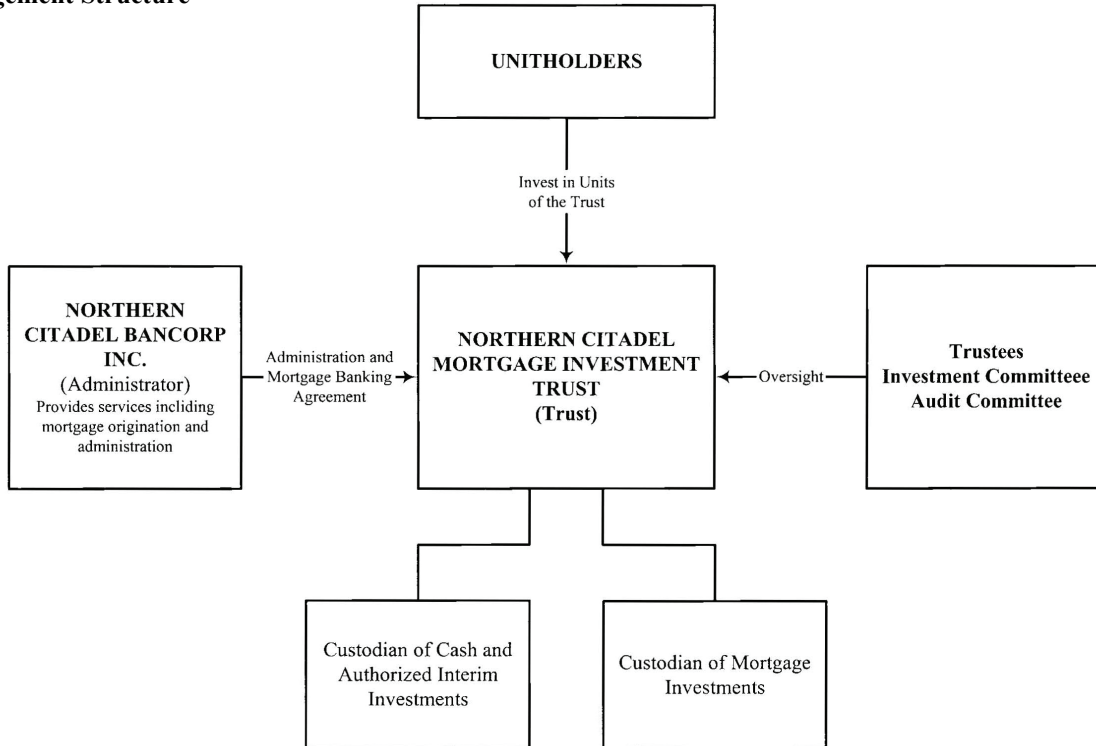
**“Unitholder”** means a person for the time being entered in the register or registers of the Trust as the holder or holders of any of the Units.

**“Valuation Date”** means the last business day of each week, or such other periodic date occurring not less frequently than monthly as the Trustees may determine, and the last business day of each month, upon which date the Administrator will determine the Net Asset Value of the Trust and the Units.

## THE TRUST

Northern Citadel Mortgage Investment Trust is an open-end unit trust established under the laws of Ontario by the Declaration of Trust made April 3, 2009 by Northern Citadel Bancorp Inc., as settlor and Sam Mizrahi, Greg Van Staveren, John Mallinos, HESSIE RIMON and Jeffrey Halman, as trustees. The only undertaking of the Trust is the investing of its funds. It is resident in Canada, with its head and principal office at Suite 5700, One First Canadian Place, 100 King Street West, Toronto, Ontario M5X 1C7. This is also the location of the offices of Northern Citadel Bancorp Inc., the sponsor, promoter and Administrator of the Trust.

### Management Structure



### CANADIAN MORTGAGE MARKET OVERVIEW

The Canadian mortgage market can be segmented into three tiers according to the creditworthiness of the borrower and the value of the property.

The first tier of the mortgage market consists of high quality borrowers and often loan-to-value ratios which are relatively low. This market, known as the conventional mortgage market, is well served by conventional lenders such as banks, life insurance companies, and other institutional lenders. There is strong competition among the conventional lenders in this market segment and consequently the yields available to lenders on these mortgages are relatively low. It is not expected that this market tier will be the source of a material component of the Trust's assets.

The third tier of the mortgage market consists of low quality borrowers and often high loan-to-value ratios. This is a much riskier segment in which to invest and consequently the yields on the mortgage loans are much higher. The Trust is not intended to invest in this segment of the mortgage market.

The second, or middle, tier of the mortgage market consists of borrowers and loans which do not fall into the first and third tiers described above. Conventional lenders normally do not participate in this tier of the mortgage market because either the borrower or some other specific factors of the loan do not fit their lending criteria. This market segment is very fragmented as it is serviced by a large number of smaller lenders who are not widely known or accessible. The Administrator believes that this demand/supply imbalance creates an opportunity for the Trust to achieve significantly higher yields than are available to the first tier lenders. Many of the borrowers in this segment of the market are compelled to pay higher interest rates than conventional lenders charge simply because they do not fit the loan criteria of the conventional lender. Furthermore, many of the borrowers in this tier are willing to pay higher rates for timely access to the required funds, and to secure a more flexibly structured mortgage than the major lending institutions are willing to provide.

## **Licensing and Legislative Regime**

Mortgage brokerages in Ontario are currently regulated under the *Mortgage Brokerages, Lenders and Administrators Act, 2006* (Ontario) (the "MBLAA"). The MBLAA is administered by the Superintendent of Financial Services (the "Superintendent") under the authority of the Financial Services Commission of Ontario, which regulates mortgage brokerages who must be licensed under the MBLAA. Under the MBLAA, a "mortgage brokerage" is a person who carries on the business of dealing in mortgages in Ontario. A person is considered to be "dealing in mortgages in Ontario" when such person engages in any of the following activities in Ontario, or holds itself out as doing so: (a) soliciting another person or entity to borrow or lend money on the security of real property; (b) providing information about a prospective borrower to a prospective mortgage lender, whether or not the MBLAA governs the lender; (c) assessing a prospective borrower on behalf of a prospective mortgage lender, whether or not the MBLAA governs the lender; (d) negotiating or arranging a mortgage on behalf of another person or entity, or attempting to do so; or (e) engaging in such other activities as may be prescribed under the MBLAA.

Every mortgage brokerage must obtain a license issued by the Superintendent, which is for a term of two years and is subject to a fee established by the Minister of Finance. The Administrator, which will perform mortgage brokerage services on behalf of the Trust pursuant to the Administration and Mortgage Banking Agreement, currently holds a valid license under the MBLAA which permits it to carry on the activities contemplated in the Administration and Mortgage Banking Agreement and operates in compliance with the requirements of the MBLAA. The Administrator's license under the MBLAA qualifies it to syndicate mortgage loans. As the Trust will not engage directly in the business of dealing in mortgages in Ontario, the Trust itself will not be licensed under the MBLAA, and will conduct all its mortgage investment activities through the Administrator pursuant to the Administration and Mortgage Banking Agreement.

The Superintendent has broad authority over mortgage brokerages, including the power to grant or renew licenses, to revoke licenses, to attach conditions to a license, and to investigate complaints made regarding the conduct of registered mortgage brokerages. A mortgage brokerage must meet several requirements under the MBLAA to obtain or renew a license, and must remain in compliance with the MBLAA on a continuing basis, failing which the Superintendent may revoke the license.

Generally, a mortgage brokerage will not be granted a license or a renewal of a license if, having regard to the financial position of the mortgage brokerage, it could not reasonably be expected that the mortgage brokerage would be financially responsible in the conduct of its business. In addition, a license will not be granted or renewed if the past conduct of the applicant is such that it provides reasonable grounds for the Superintendent to believe that the mortgage brokerage will not conduct business legally and with integrity and honesty. In the case of a corporate mortgage brokerage, the Superintendent will look to the past conduct of the directors and officers of the corporation. Subject to certain exceptions, every individual mortgage broker and active officers and directors of a corporate mortgage brokerage must complete an education program approved by the Superintendent.

## **DESCRIPTION OF THE ACTIVITIES OF THE TRUST**

### **Investment Objectives**

The fundamental investment objectives of the Trust are

1. to provide Unitholders with stable monthly distributions of income from the Trust's investments,
2. to obtain superior yields and maximize distributions and maintain Unit value, and
3. preservation of capital.

### **Investment Strategy**

To achieve the Trust's investment objective, the Trust's assets will be invested primarily in loans secured by first and second mortgages on real property in Canada. The investment strategy of the Trust is to invest in Commercial/Industrial Mortgages and Residential Mortgages from smaller niche borrowers in the second tier markets for both Conventional and Non-Conventional Mortgages, whose financing needs are not being met by the larger financial institutions.

The investment goal of the Trust is to make prudent investments in mortgages which provide financing for real property situated in Canada and primarily in Ontario. The Trust does not invest in real property other than by way of investment in mortgages, subject to certain limited exceptions such as the acquisition of real property through foreclosure of a mortgage held by the Trust, conveyed to the Trust in full or partial satisfaction of indebtedness owed to the Trust. The Administrator, on behalf of the Trust, diligently reviews and selects mortgage investment opportunities to be approved by the Investment Committee or the Trustees (depending on the size of the loan) and manages the Mortgage Portfolio. In making its investment selections to be presented to the Trust, the Administrator adheres to the investment policies

of the Trust and the requirements of such. The Administrator is responsible for ongoing compliance with the Trust's investment and operating policies.

To maintain a stable interest yield on the Mortgage Portfolio, the Trust manages risk through maintenance of a diversified mortgage portfolio, conservative underwriting and diligent and aggressive mortgage servicing. As a result of the minimum level of competition in the market niches in which the Trust invests, the Trust's investment strategy will allow the Trust to have substantial control over interest rate pricing and investment security exposure on its investments and will provide the Trust with an aggregate interest yield on its mortgage investments that is anticipated to exceed 400 basis points above the yield to maturity on one year Government of Canada treasury bills from time to time. There can be no assurance that such yields can be achieved on future mortgage investments of the Trust.

### **Borrowing Strategy**

Borrowing is an important component of the strategy of the Trust. The Trust may incur indebtedness for financing to make additional investments in accordance with its investment objectives, enhance yield, further diversify its investments of the Trust, and maintain liquidity. It is anticipated that the interest payments on any such borrowing generally will reflect short-term interest rates, and the net return on the Trust's portfolio, including the proceeds of any borrowing, should exceed the interest applicable to such borrowing. Whether to borrow and the terms and the timing of borrowing will be determined by the Administrator. The cost of borrowing will be borne by the Trust. See "Risk Factors".

It is the intention of the Administrator to establish a line or lines of credit, secured against the assets of the Trust, that does not exceed an amount equal to 50% of the value of the Trust's Mortgage Portfolio. This line of credit has three potential uses:

***To provide liquidity in the event of Unitholder redemptions.*** It is the intention of the Administrator to keep the Trust as close to fully invested in mortgages as possible at all times. There is no established secondary market for these mortgages so there is relatively little immediate liquidity in the Trust for the Administrator to meet unexpected redemption requests. The line of credit could be used to fund these redemptions and would be paid down as mortgages matured within the portfolio.

***To smooth the timing differences.*** To smooth the timing differences between deal flow (potential mortgage loans) and cash availability in the Trust, the Administrator will attempt to ladder the Trust's investment portfolio such that mortgage loan investments are maturing on a regular basis. However, there will be times when new mortgage loan opportunities are available for a limited time, but the Trust does not have available cash to invest in them at that time. Rather than miss these opportunities, the Administrator may temporarily draw upon the line of credit to invest in these new mortgages and pay down the line of credit as existing mortgages mature within the portfolio or new subscriptions are made in the Trust.

***To enhance the yield of the Trust by leveraging the portfolio.*** By borrowing against the line of credit to invest in further mortgage loans, the Trust will earn the spread between the rate earned on the mortgage loan and the rate paid on the line of credit. The cost of such borrowing must be less than the interest received by the Trust from its mortgage investments, and this interest spread enhances the interest yield on the Mortgage Portfolio. In particular: (i) the Trust is able to charge a premium over the rate of interest which would generally be charged by existing financial institutions to smaller borrowers who are unable to arrange their Residential Mortgage or Commercial/Industrial Mortgage financing with such financial institutions; (ii) the Trust is able to pool a number of its Conventional First Mortgages and pledge them to financial institutions as security for financing; (iii) the financial institutions referred to in (ii) lend to the Trust an amount less than the aggregate principal amounts of such Conventional First Mortgages and are therefore exposed to less risk than the Trust; and (iv) as a result of being exposed to lower risk, such financial institutions require a lower rate of interest than the Trust charges mortgagors.

The Trust's investment policies require that the interest rate payable on any such borrowing must be less than the interest rate charged by the Trust on the corresponding mortgage investment and the Trust will continue to ensure that both rates are at floating rates or matched fixed rates to minimize the risk of mismatching interest rates that is normally associated with borrowing against mortgages. This borrowing strategy further enhances the aggregate interest rate yield on the Trust's mortgage investments. See "Investment Strategy", "Operating Policies" and "Risk Factors".

**The foregoing disclosure of objectives and strategies may constitute "forward-looking information" for the purpose of Ontario securities legislation, as it contains statements of the intended course of conduct and future operations of the Trust. These statements are based on assumptions made by the Administrator of the success of its investment strategies in certain market conditions, relying on the experience of the Administrator's officers and employees and their knowledge of historical economic and market trends. Investors are cautioned that the assumptions made by the Administrator and the success of its investment strategies are subject to a number of mitigating factors. Economic and market conditions may change, which may materially impact the success of the**

**Administrator's intended strategies as well as its actual course of conduct. Investors are urged to read "Risk Factors" below for a discussion of other factors that will affect the operations and success of the Trust.**

### **Investment Policies**

The Declaration of Trust incorporates certain restrictions on investments which may be made by the Trust. The assets of the Trust may be invested only as follows:

1. The Trust may invest only in Commercial/Industrial Mortgages and Residential Mortgages on the security of real estate situated in Canada and primarily within Ontario.
2. 100% of the Capital of the Trust may be invested in Conventional Mortgages.
3. The principal amount of a Conventional Mortgage, at the time of commitment, together with that of all other equal and prior ranking mortgages (a) in the case of a property purchase, shall not exceed the lower of 80% of the purchase price of the underlying real property securing the mortgage and 80% of the appraised value of the underlying real property securing the mortgage as determined by a Qualified Appraiser, and (b) in the case of a refinancing, shall not exceed 80% of the appraised value of the underlying real property securing the mortgage as determined by a Qualified Appraiser at the time of such refinancing.
4. The Trust may not participate in any Non-Conventional Mortgage investment without the prior approval of the Investment Committee and where its interest in such mortgage exceeds 80% of the appraised value of the underlying real property securing the mortgage, the Investment Committee may require additional security.
5. The Trust may not invest in any mortgage where the term of the mortgage exceeds five years, but mortgages in which the Trust invests may contain clauses permitting the mortgagor, when not in default, to renew the mortgage for additional terms.
6. At no time may the Trust hold any real property which is not capital property for the purposes of the Tax Act.
7. Unless approved by a majority of the Independent Trustees, the Trust may not make or dispose of an investment in any mortgage or other investment in real property where a Trustee, the Administrator, any of its officers, directors or employees or any affiliate or associate thereof:
  - a. has or expects to obtain, insofar as the Trust is aware, directly or indirectly, an interest in the transaction;
  - b. has at any time in the period of 24 months preceding the date of the transaction had a direct or indirect material financial interest in the real property being mortgaged, acquired or disposed of; or
  - c. has an interest in any other mortgage on the real property being mortgaged, acquired or disposed of.
8. When not invested in Residential Mortgages or Commercial/Industrial Mortgages, the funds of the Trust are placed in Authorized Interim Investments.
9. Unless approved by a majority of the members of the Investment Committee, the Trust may not make an investment in, or acquisition of, a mortgage with a single borrower (including associates of such borrower) if the aggregate book value of the Trust's mortgages, loans or investments already provided to or with such single borrower (including associates of such borrower) would exceed \$500,000.
10. The Trust may not make any investment in, or acquisition of, a mortgage with a cost to the Trust of \$500,000 or more (other than a renewal of any existing mortgage) without the approval of a majority of the members of the Investment Committee.
11. The Trust may not make any investment, take any action or omit to take any action that would result in Units not being classified as units of an "unit trust" or a "mutual fund trust" for the purposes of the Tax Act, that would result in Units being disqualified as a qualified investment under the Tax Act for Exempt Plans, or that would result in the Trust paying a tax under the registered investment provisions of the Tax Act for exceeding certain investment limits.
12. The Trust may participate in mortgages on a syndication basis, subject to the approval by a majority of the Trustees of the investment amount and the proposed syndication partners.

## **Operating Policies**

The operations and affairs of the Trust will be conducted in accordance with the following operating policies:

1. To the extent the Trustees determine to be practicable and consistent with their fiduciary duty to act in the best interests of the Trust and the Unitholders, any written instrument which is, in the judgment of the Trustees, a material obligation shall contain a provision or be subject to an acknowledgement to the effect that the obligation being created is not personally binding upon, and that resort shall not be had to, nor shall recourse or satisfaction be sought from, the private property of any of the Trustees, Unitholders, annuitants under a plan of which a Unitholder acts as a trustee or carrier, or officers, employees or agents of the Trust, but that only property of the Trust or a specific portion thereof shall be bound (although not required, the Trust uses and will use all reasonable efforts to comply with this policy in respect of obligations that are assumed by the Trust).
2. Before making an investment or an acquisition, the Trust must obtain from a Qualified Appraiser an independent appraisal of the underlying real property which is the primary security for the mortgage, and may or may not obtain additional independent appraisals of additional collateral and other properties securing obligations to the Trust.
3. Before making an investment or an acquisition, the Trust must obtain a Phase I Environmental Audit on the underlying real property provided as security for a mortgage unless the Investment Committee has determined that a Phase I Environmental Audit is not necessary.
4. When deemed necessary by the Administrator, the Trust must obtain title insurance in respect of all real property provided as security for the Trust's mortgage investments in amounts and on such terms as the Administrator considers appropriate.
5. The Trust must establish and manage property tax escrow accounts in respect of each property provided as security for the Trust's mortgage investments, unless the Investment Committee has determined that the establishment of such an account is not necessary.
6. The underwriting policies and procedures to be used by the Trust must involve an evaluation of both the prospective borrower and the proposed real estate collateral. Factors to be analyzed in connection with a mortgaged property include its historical cash flow; age and condition of buildings and structures; appraised value; gross square footage; net rentable area; gross land area; number of units, rooms or beds; current tenants' size, identity and any lease termination or purchase option rights; property interest to be mortgaged; term, expiration and rental rates under current leases; leasing commissions, tenant improvements and concessions; applicable market rentals for similar properties; historical vacancy rate and market vacancy rate; debt service coverage ratio; and loan-to-value ratio. Factors to be analyzed in connection with a prospective borrower will include its credit history, capitalization and overall financial resources and management skill and experience in the applicable property type.
7. The legal title to each mortgage must be held in trust for the benefit of the Trust by and registered in the name of a Custodian which may be a corporation wholly-owned by the Trust. Where the Trust has a partial interest, the trust arrangements must be approved by a majority of Independent Trustees.

The Trust may, at its discretion, invest in other income-generating securities in order to maintain the liquidity of the Trust or to further diversify the investment portfolio in the event of a downturn in the Canadian real estate market. These investments may include Cash Equivalents such as exchange-traded funds, bonds, T-Bills or other money market funds. The Administrator intends to maintain sufficient cash and Cash Equivalents, together with a line of credit, treasury bills and other money market instruments, to fund redemption requests for Units representing up to 10% of the Trust's net assets at all times.

## **Amendments to Investment Objectives, Strategy and Policies**

Any change in the fundamental investment objectives of the Trust requires approval by Ordinary Resolution of the Unitholders. Any material change in the stated investment strategy must be approved by the Trustees, and 90 days prior notice to the Unitholders before becoming effective. Any material change in the stated investment and operating policies of the Trust must be approved by the Trustees and notice thereof to the Unitholders within 30 days following the change.

## **Risk Management**

***Problem Identification and Rectification Experience.*** The Trust minimizes risks associated with defaulting mortgages through diligent monitoring of the Mortgage Portfolio, active communication with borrowers and the institution of aggressive enforcement procedures on defaulting mortgages. The Trust accomplishes this through the Administrator, which has substantial experience in servicing and financing loans, including the institution of enforcement proceedings,



and has a history of entrepreneurial experience. The Administrator's managers also have extensive experience in the domain of its borrowers, such as land development, design/build, planning and zoning, and property management. In addition, the principal and founder of the Administrator holds a property development company, Mizrahi Inc., which is experienced in managing, building, and land development in both the commercial and residential sectors. Mizrahi Inc. is also registered with TARION (Tarion Warranty Corporation, administrator of the Ontario New Home Warranties Plan Act and regulator of Ontario's new home building industry), a member of BILD (the Building Industry and Land Development Association), and is ISO-9001 certified.

#### ***Default Management and Recovery Program***

The Administrator will implement a default management and recovery program for the benefit of the Trust which will include the following:

- (a) implementation of enforcement proceedings following default under the terms of a mortgage;
- (b) performance of a property inspection following default under the terms of a mortgage and, if necessary, taking possession of the property secured by such mortgage or establishing a property management program for the mortgaged property; and
- (c) strict adherence to the Trust's investment and operating policies.

The Administrator employs the services of Mizrahi Inc. as well as other extensive industry contacts and relationships in order to assist in the rectification of mortgages in default.

***Syndication.*** To manage and diversify risk, the Administrator may syndicate a mortgage investment in which the Trust will participate with one or more lenders. All such syndicated mortgages may initially be funded by the Trust with mortgagors at a specified interest rate and a portion of the mortgage may then be syndicated to an other lender or lenders at a lower interest rate. Syndication may be on a pari passu basis or on a subordinated basis. Syndicating mortgages reduces the Trust's exposure to any one investment the Trust may have. Where a mortgage is syndicated to an other lender on a subordinated basis, the rights of such other lender to receive interest payments and the repayment of principal will rank in priority to the rights of the Trust to receive its share of the interest payments and the repayment of its principal balance; however, in such circumstances, the other lender will have no recourse to the Trust.

The spread between the interest rate paid by borrowers and the interest rate paid to participating other lenders on syndicated investments in which the Trust has a subordinated interest enhances the Trust's overall interest yield on the Mortgage Portfolio. Any such mortgages are subject to the investment policies set out above. See "Investment Policies" and "Operating Policies".

### **MANAGEMENT OF THE TRUST**

In the view of the Administrator and Trustees, the three keys to developing and maintaining a successful mortgage portfolio are: (i) knowledgeable mortgage underwriting; (ii) the ability to source a broad range of investment opportunities thereby allowing the Trustees to be selective and prudent in their choice of mortgage investments; and (iii) disciplined monitoring, servicing and collection enforcement methods. In these respects, the Trust benefits from the experience of the Trustees and the Administrator.

The Trust will enhance interest yields through innovative sourcing practices that are accomplished through the mortgage banking function of the Administrator. Through the Administrator, the Trust will be able to source and fund mortgage investments which satisfy the Trust's investment criteria based on: (i) the specialized lending structures offered to borrowers; (ii) the reputation, experience and marketing ability of the Administrator; (iii) the timely credit analysis and decision-making processes followed by the Administrator and the Trust; and (iv) a lack of significant competitors in the market segments in which the Trust invests, resulting from the consolidation in the financial services industry and the migration by the remaining participants in the industry away from the small and medium sized mortgage market in which the Trust invests.

One of the keys to successful mortgage underwriting is knowing and understanding the real estate markets in which the properties are located. The greater Toronto area and other Ontario urban centres contain a sizeable portion of Canada's population and a well diversified industry base. The Trust will make its mortgage investments on real property located primarily in the greater Toronto area and other Ontario urban centres, areas with which the Administrator's directors and officers are familiar due to their past experiences.

## Trustees

The Trustees of the Trust have overall responsibility and authority for the Trust, the Trust Property, and the investments of the Trust. Under the Declaration of Trust, the Trustees have authority to engage others to assist with and perform these responsibilities, subject to the Trustees' continuing supervision and authority. Currently the Trustees are Sam Mizrahi, Greg Van Staveren, John Mallinos, HESSIE RIMON and Jeffrey Halman. See "Trustees, Directors and Officers, Promoters and Principal Holders – Trustees and Officers of the Trust".

## Investment Committee

The Investment Committee is responsible for the following:

- (a) the approval or rejection of investments in, and acquisitions of, mortgages with a cost to the Trust of \$500,000 or greater (other than the renewal of any mortgage);
- (b) adjudicating and advising on transactions involving potential conflicts of interest or any other transactions which may be detrimental to the interests of the Unitholders;
- (c) reviewing all investments of the Trust on at least an annual basis; and
- (d) dealing with such other matters as may be referred to the Investment Committee by the Trustees.

Currently, the Investment Committee comprises all of the Trustees. The following is a brief summary of the education or experience of each member of the Investment Committee that is relevant to their performance of responsibilities as a member of the Investment Committee:

<b>Name of Investment Committee Member</b>	<b>Relevant Education and Experience</b>
Sam Mizrahi Toronto, Ontario	Mr. Mizrahi is currently the President of Mizrahi Inc. (operating as Mizrahi Design Build (MDB)), a private real estate development company. MDB is the first and only company in Canada to be ISO 9001 Certified in both the residential and commercial development sector, and is registered with both Tarion and BILD. Mr. Mizrahi is also the President of Mizrahi & Mizrahi Ltd., a private company registered with the Ontario Securities Commission as a Limited Market Dealer (LMD). Mr. Mizrahi, an entrepreneur since 1987, has a mosaic of experiences as being the founder of many start-up companies including the transitioning from private to public markets, and has acted as President and CEO of a TSXV traded company from 2005 to 2007. Mr. Mizrahi is a member of the Canadian Association of Accredited Mortgage Professionals.
Greg Van Staveren Toronto, Ontario	Mr. Van Staveren is a Chartered Accountant and a Certified Public Accountant and holds a Bachelor of Math (Honours) degree from the University of Waterloo. From February 1998 until September 2001, Mr. Van Staveren was the Chief Financial Officer of MartinRea International Inc., a TSX traded automotive parts company, and prior to that he was partner in KPMG, a professional services firm. At KPMG he provided accounting, advisory and strategic services to his clients. Mr. Van Staveren is a member of the Canadian Association of Accredited Mortgage Professionals.
John Mallinos Toronto, Ontario	Mr. Mallinos is currently the Vice-President and Principal Broker of the Administrator, and President of John Mallinos Real Estate Limited, a private company founded in 1980 which provides real estate advisory and brokerage services in the residential, commercial, industrial, office and investment property sectors. He holds registration as a Principal Broker with the Real Estate Council of Ontario (since 1980), and as a Principal Mortgage Broker with Financial Services Commission of Ontario. Mr. Mallinos is a member of the Canadian Association of Accredited Mortgage Professionals.
Hessie Rimon Toronto, Ontario	Mr. Rimon graduated in 1970 as a City and Regional planner and holds a Civil Engineering degree from the Israel Institute of Technology. Mr. Rimon served as Commissioner of Planning for the City of Etobicoke from 1975 to 1981, and prior to that was the Commissioner of Planning for the Town of Richmond Hill from 1971 to 1975.
Jeffrey Halman Toronto, Ontario	Mr. Halman is an Ontario lawyer with over 20 years of private practice, specializing in all aspects of real estate law, including: buying, selling and financing of commercial, residential and industrial properties; residential subdivision and condominium development; real estate based syndications and limited partnerships; and commercial landlord and tenant matters. Mr. Halman was an instructor with the Ontario Bar Admission Course for the Real Estate Section for 9 years and was the Legal Editor for the Corporate, Commercial and Real Estate chapters of the text, Legal Office Procedures (4th ed. - 2000, c. 26-44 incl.) published by Owl Publishing.

## Audit Committee

The Declaration of Trust requires the creation of an Audit Committee, comprising at least three Trustees, a majority of whom must be Independent Trustees. The Audit Committee reviews financial statements and payments to the Administrator pursuant to the Administration and Mortgage Banking Agreement. The Audit Committee's terms of reference provide that the Audit Committee shall pre-approve all non-audit services provided by the independent auditor. The Audit Committee's terms of reference are available on request.

Each of the current members of the Audit Committee is considered to be financially literate. The following is a brief summary of the education or experience of each member of the Audit Committee that is relevant to the performance of responsibilities as a member of the Audit Committee, including any education or experience that has provided the member with an understanding of the accounting principles used to prepare the Trust's annual and interim financial statements:

Name of Audit Committee Member	Relevant Education and Experience
Hessie Rimon Toronto, Ontario	Mr. Rimon is currently the President of PMG Planning Consultants, a Private company providing planning and development expertise in the real estate development arena, since 1981. Mr. Rimon graduated in 1970 as a City and Regional planner and holds a Civil Engineering degree from the Israel Institute of Technology. Mr. Rimon served as Commissioner of Planning for the City of Etobicoke from 1975 to 1981, and prior to that was the Commissioner of Planning for the Town of Richmond Hill from 1971 to 1975. He is considered by the Trustees to be well qualified to participate in the audit committee functions with respect to the Trust.
Jeffrey Halman Toronto, Ontario	Mr. Halman is an Ontario lawyer with over 20 years of private practice, specializing in all aspects of real estate law, including: buying, selling and financing of commercial, residential and industrial properties; residential subdivision and condominium development; real estate based syndications and limited partnerships; and commercial landlord and tenant matters. As such, he is considered by the Trustees to be well qualified to participate in the audit committee functions with respect to the Trust.
Greg Van Staveren Toronto, Ontario	Mr. Van Staveren is a Chartered Accountant and a Certified Public Accountant and holds a Bachelor of Math (Honours) degree from the University of Waterloo. He is currently the President of Strategic Financial Services, a private company providing business advisory services. From February 1998 until September 2001, he was the Chief Financial Officer of MartinRea International Inc., a TSX traded automotive parts company, and prior to that he was partner in KPMG, a professional services firm. At KPMG he provided accounting, advisory and strategic services to his clients. He had been with KPMG since 1980. He currently acts as an independent director on the board of three companies that trade on the TSX, and is a member and chairman of the audit committees of each such company.

### The Administrator

The Administrator, Northern Citadel Bancorp Inc., is a corporation incorporated under the laws of the Province of Ontario on January 28, 2009. It is the sponsor, promoter and settlor of the Trust, and has entered into the Administration and Mortgage Banking Agreement with the Trust which provides for, among other things, the retention of the Administrator by the Trust to provide Administrative Management Services and Mortgage Banking Services. The Administrative Management Services include:

- arranging financing and raising capital for the Trust as required;
- providing advice and assistance on behalf of the Trust in connection with the Trust's dealings with investment dealers, institutions and investors regarding sales of securities of the Trust;
- conducting day-to-day relations on behalf of the Trust with other persons, including brokers, consultants, lenders, accountants, lawyers, appraisers, insurers and insurance agents and lenders;
- maintaining the books and financial records of the Trust; and
- providing office space and equipment and the necessary clerical and secretarial personnel for the administration of the day-to-day affairs of the Trust.

The Mortgage Banking Services include the provision of origination, underwriting, syndication and servicing of mortgage investments.

Pursuant to the Declaration of Trust and the Administration and Mortgage Banking Agreement, the Administrator has authority to manage the operations and affairs of the Trust and to make decisions regarding the investments of the Trust, and has certain authorities to bind the Trust. The Administrator is required to exercise its powers and discharge its duties honestly, in good faith and in the best interests of the Trust and to exercise the care, diligence and skill of a prudent and qualified manager.

Unless the Administrator resigns or is removed, it will continue as Administrator until the termination of the Trust. Under the Administration and Mortgage Banking Agreement, the Administrator may resign if the Trust is in breach or default of the provisions of the Administration and Mortgage Banking Agreement and, if capable of being cured, such breach or default has not been cured within twenty business days' notice of such breach or default to the Trust. The Administrator may also resign without cause upon giving no less than 180 days' written notice to the Trustees. During the notice period, the Administrator will use its reasonable efforts to assist in the appointment of a suitable duly qualified replacement in its capacity as Administrator. The Administrator may only be removed by the Trustees when authorized by a Special Resolution of the Unitholders in the event that the Administrator is in breach or default of the provisions

of the Declaration of Trust (breaches and defaults include, among other things, cases of wilful misconduct, bad faith, negligence or disregard of the Administrator's duties or standards of care, diligence and skill) and, if capable of being cured, such breach or default has not been cured within twenty business days' notice of such breach or default to the Administrator, or if the Administrator becomes Insolvent. In the event that the Administrator resigns or is removed as provided above and a successor has not been appointed to carry out the activities of the Administrator the Trust will terminate and the net assets of the Trust will be distributed to the Unitholders.

The Administration and Mortgage Banking Agreement provides that the Trust shall indemnify the Administrator and its officers, directors, employees, partners, members, and affiliates (collectively, "Indemnified Persons"), only out of the assets of the Trust, against all liabilities, losses and expenses incurred by any of them in connection with any matter relating to the Trust, unless such Indemnified Person is finally adjudicated to have committed an act or omission involving wilful misconduct or gross negligence.

Under the Administration and Mortgage Banking Agreement the Trust has granted to the Administrator the irrevocable right at any time to purchase any mortgage investment of the Trust for a purchase price equal to the Trust's interest in the principal amount of such mortgage (which interest may be less than 100% in the case of an interest in a syndicated mortgage), plus any accrued interest payable thereon calculated to the end of business on the day immediately preceding the purchase date.

### **Compensation of Administrator**

For the Mortgage Banking Services provided by the Administrator, the Trust pays a mortgage servicing fee equal to 0.99% per annum on the principal amount of each mortgage investment and will be payable as to 1/12 monthly based on the receipt of interest payments from borrowers (other than syndicated loans). In respect of syndicated loans, the mortgage servicing fee consists of the amount paid by the syndicate in consideration for servicing by the Administrator of each syndicated loan. The fees payable in consideration for servicing syndicated loans will not exceed 0.99% of the principal amount of the investment in the syndicated loan per annum and will be payable as to 1/12 monthly based on the receipt of interest payments from borrowers. Mortgage Banking Services fees are not payable in respect of cash balances of the Trust or Non-Performing Loans held by the Trust. Fees for Mortgage Banking Services on syndicated loans are approved by the Investment Committee on a transactional basis. In addition to such fees, under the Administration and Mortgage Banking Agreement, the Administrator is entitled to retain any overnight float interest on all accounts maintained by it in connection with its originating and servicing of the Trust's mortgage investments.

The Mortgage Banking Services fees payable to the Administrator are commensurate with fees paid to other entities providing similar services on an arm's length basis, including, without limitation, the fees payable to the Administrator for similar services provided to third party institutions and individuals on behalf of which it originates and services mortgages.

For the Administrative Management Services provided to the Trust, the Trust pays an annual asset management fee equal to 0.99% of the aggregate of invested mortgages or Trust holdings of real property acquired as the consequence of mortgage default. Such fee is calculated daily, aggregated and paid monthly on the last day of each month; provided that any fee so calculated in respect of a Non-Performing Mortgage shall be accrued, but not paid until such time as such mortgage is brought into good standing. The fee for any partial month will be pro rated based upon the number of days in such month in respect of which the fee is being paid. In addition, the Administrator will be entitled to all lender, broker, origination, commitment, renewal, extension, discharge, participation, NSF and administration fees payable by borrowers in connection with the Authorized Investments it arranges and presents to the Trust.

The Administrator is responsible for employment expenses of its personnel, rent and other office expenses, and expenses of those Trustees of the Trust who are directors, officers or employees of the Administrator or an affiliate of the Administrator (other than their expenses incurred in attending meetings of the Trustees).

In addition to the Administrative Management Services fee and the Mortgage Banking Services fee, the Administrator is entitled to receive from the Trust, as of December 31 of each year in which the Net Income Before Performance Fee exceeds 10% of the Average Portfolio Principal, a Performance Fee equal to 20% of such excess. Advances on the Performance Fee in respect of any year may be made to the Administrator for Performance Fees earned during each quarter of that year. A Performance Fee earned in a quarter shall be based on the same calculations as the annual Performance Fee, except calculated on a quarterly rather than annual basis. At the end of each year, the final amount of any Performance Fee owing to the Administrator for such year will be calculated based on the Trust's audited annual financial statements, and the final payment of the annual Performance Fee for such year shall be made to (or recovered from) the Administrator as required.

The Administrator is entitled to security by way of a fixed and floating charge over and security interest in the property and assets of the Trust.

## Expenses of the Trust

In addition to the foregoing fees and expenses to be paid to the Administrator, the Trust is responsible for, and must reimburse the Administrator for the Trust's expenses, including the following:

- (a) fees and expenses connected with the acquisition, disposition and ownership of mortgage investments or other investments of the Trust;
- (b) insurance as considered necessary by the Trustees;
- (c) expenses in connection with payments of distributions on Units;
- (d) expenses in connection with communications to Unitholders and other bookkeeping and clerical work necessary in maintaining relations with Unitholders;
- (e) fees and expenses payable under the Administration and Mortgage Banking Agreement (not otherwise payable by borrowers);
- (f) all fees, taxes, expenses, and other costs incurred in connection with the issuance, distribution, transfer and qualification for distribution to the public of Units and any required governmental filings; and
- (g) all costs and expenses in connection with the incorporation, organization and maintenance of corporations formed to hold mortgages, investments or other assets of the Trust.

## TRUSTEES, DIRECTORS AND OFFICERS, PROMOTERS AND PRINCIPAL HOLDERS

### Trustees and Officers of the Trust

The names, places of residence, present positions and principal occupations during the preceding five years of the Trustees of the Trust, are as follows:

Name and Municipality of Residence	Present Position with the Trust	Principal Occupation During Past Five Years
Sam Mizrahi Toronto, Ontario	Trustee <sup>IC</sup>	Mr. Mizrahi is the President and Chief Executive Officer of the Administrator and the President of Mizrahi Inc. (operating as Mizrahi Design Build (MDB)), a private real estate development company. Mr. Mizrahi is also the President of Mizrahi & Mizrahi Ltd., a private company registered with the Ontario Securities Commission as a Limited Market Dealer (LMD). Mr. Mizrahi, an entrepreneur since 1987, has a mosaic of experiences as being the founder of many start-up companies including the transitioning from private to public markets, and has acted as President and CEO of a TSXV traded company from 2005 to 2007.
Greg Van Staveren Toronto, Ontario	Trustee <sup>IC AC</sup>	Mr. Van Staveren is the Secretary-Treasurer and Chief Financial Officer of the Administrator and is and has been President of Strategic Financial Services, a private company providing business advisory services since 2001.
John Mallinos Toronto, Ontario	Trustee <sup>IC</sup>	Mr. Mallinos is the Vice-President and Principal Broker of the Administrator, and is and has been President of John Mallinos Real Estate Limited, since it was founded in 1980.
Hessie Rimon Toronto, Ontario	Trustee <sup>IT, IC &amp; AC</sup>	Mr. Rimon is and has been President of PMG Planning Consultants, a private company providing planning and development expertise in the real estate development arena, since 1981.
Jeffrey Halman Toronto, Ontario	Trustee <sup>IT, IC &amp; AC</sup>	Mr. Halman is a partner with the law firm of Baldwin Anka Sennecke Halman LLP, and has been a member of this and its predecessor firm since 2002.

<sup>IT</sup> An Independent Trustee.

<sup>IC</sup> Member of Investment Committee.

<sup>AC</sup> Member of Audit Committee.

There are no officers of the Trust as such. Under the Declaration of Trust, the Chief Executive Officer and the Chief Financial Officer of the Administrator are designated as the Chief Executive Officer and the Chief Financial Officer of the Trust.

### Remuneration of Trustees

The Independent Trustees are paid by the Trust a fee of \$1,000 per meeting attended, plus reimbursement of expenses. The Non-Independent Trustees receive no compensation or expense reimbursement from the Trust.

## Principal Holders of Units of the Trust

At the date hereof, the Capital of the Trust is \$100, settled on the Trust by the Administrator for the benefit of the Unitholders. No Units have been issued as of the date hereof.

## Directors and Officers of the Administrator

The names, places of residence, present positions and principal occupations during the preceding five years of the directors and officers of the Administrator, are as follows:

<b>Name and Municipality of Residence</b>	<b>Present Position with the Administrator</b>	<b>Principal Occupation During Past Five Years</b>
Sam Mizrahi Toronto, Ontario	President, Chief Executive Officer and director	Mr. Mizrahi is the President and Chief Executive Officer of the Administrator and the President of Mizrahi Inc. (operating as Mizrahi Design Build (MDB)), a private real estate development company. Mr. Mizrahi is also the President of Mizrahi & Mizrahi Ltd., a private company registered with the Ontario Securities Commission as a Limited Market Dealer (LMD). Mr. Mizrahi, an entrepreneur since 1987, has a mosaic of experiences as being the founder of many start-up companies including the transitioning from private to public markets, and has acted as President and CEO of a TSXV traded company from 2005 to 2007.
Greg Van Staveren Toronto, Ontario	Secretary-Treasurer, Chief Financial Officer and director	Mr. Van Staveren is the Secretary-Treasurer and Chief Financial Officer of the Administrator and is and has been President of Strategic Financial Services, a private company providing business advisory services since 2001.
John Mallinos Toronto, Ontario	Vice President and Principal Broker	Mr. Mallinos is the Vice-President and Principal Broker of the Administrator, and is and has been President of John Mallinos Real Estate Limited, since it was founded in 1980.

## Principal Holders of Shares of the Administrator

All of the issued and outstanding shares in the capital of the Administrator are owned beneficially and of record by Sam Mizrahi and Greg Van Staveren.

## Conflicts and Interests of Trustees, Administrator and Others in Material Transactions

The Administrator took the initiative in creating the Trust and, accordingly, is a promoter as defined in the securities legislation of certain provinces of Canada. The fees paid to the Administrator for the Administrative Management Services and Mortgage Banking Services provided under the Administration and Mortgage Banking Agreement were established to be competitive with disclosed fee structures for other mortgage investment products, and approved by the Independent Trustees.

The Declaration of Trust and the Administration and Mortgage Banking Agreement acknowledge that the Administrator may provide services to the Trust in other capacities, provided that the terms of any such arrangements are no less favourable to the Trust than those which would be obtained from parties which are at arm's-length for comparable services, and may provide services to others.

Under the Administration and Mortgage Banking Agreement the Trust has granted to the Administrator the irrevocable right at any time to purchase any mortgage investment of the Trust for a purchase price equal to the Trust's interest in the principal amount of such mortgage (which interest may be less than 100% in the case of an interest in a syndicated mortgage), plus any accrued interest payable thereon calculated to the end of business on the day immediately preceding the purchase date.

In addition, conflicts of interest may arise with respect to proposed investments of the Trust to the extent that responsible persons associated with the Administrator may also be involved in or associated with borrowers to which the Trust may make mortgage loans or which are in competition with the Trust. In order to deal with such conflicts, the Declaration of Trust imposes certain restrictions on such investments. In this regard, the Declaration of Trust requires that, in the event of a conflict of interest, a Non-Independent Trustee who has a material interest in any proposed investment must disclose such interest and refrain from voting on any such proposed investment at any meeting of the Trustees or any committee of the Trustees.

## DECLARATION OF TRUST AND DESCRIPTION OF UNITS

### Declaration of Trust

The Trust is an open-end unit trust established under the laws of Ontario by the Declaration of Trust made April 3, 2009 by Northern Citadel Bancorp Inc., as settlor and Sam Mizrahi, Greg Van Staveren, John Mallinos, HESSIE RIMON and Jeffrey Halman, as trustees. The only undertaking of the Trust is the investing of its funds. It is resident in Canada, with its head and principal office at Suite 5700, One First Canadian Place, 100 King Street West, Toronto, Ontario M5X 1C7.

### Description of Units

The Trust is authorized to issue an unlimited number of redeemable Units of one class, each of which represents an equal, undivided interest in the net assets of the Trust.

Each Unit entitles the Unitholder to the same rights and obligations as a Unitholder of any other Unit and no Unitholder is entitled to any privilege, priority or preference in relation to any other Unitholder. Each Unitholder is entitled to one vote for each Unit held and is entitled to participate equally with respect to any and all distributions made by the Trust, including dispositions of net income and net realized capital gains, if any. On termination, the Unitholders holding outstanding Units are entitled to receive all of the assets of the Trust remaining after payment of all debts, liabilities and liquidation expenses of the Trust. Units are issued and redeemed at prices determined based on the Net Asset Value per Unit at the time of the issue or redemption.

Units are not transferable, except by operation of law, such as in the case of a transmission to successors on the death of a Unitholder. No Unitholder is entitled to a certificate or other instrument of ownership from the Trust or Registrar.

### Determination of Net Asset Value

#### *Net Asset Value of the Trust*

The Net Asset Value of the Trust (the value of the Trust's assets, minus its liabilities) will be determined by the Administrator as of 4:00 pm local time at Toronto (the "valuation time") on each Valuation Date. The liabilities of the Trust as at any valuation time will be the liabilities at such time determined in accordance with Canadian generally accepted accounting principles. The valuation policies to be applied by the Administrator, as currently established by the Trustees, provide that in determining the value of the Trust's assets as at any valuation time:

- (a) the value of cash, receivables, prepaid expenses, distributions declared and interest accrued but not yet received, will be the amount thereof as at the valuation time;
- (b) the value of mortgage loans, and Cash Equivalents will be the cost of such instruments including the accrued interest to the valuation time;
- (c) the value of any securities for which there is a published market will be the closing market price for such securities (or if there is no closing price the average of the closing bid and ask prices) on the Valuation Date;
- (d) the value of any other property for which a current third party valuation is available will be the value as determined by the third party valuator;

provided always that, if in the opinion of the Administrator any value of an asset so determined does not properly reflect the fair value of the asset, the Administrator shall place such value upon the asset as the Administrator determines in its reasonable discretion most accurately reflects the fair value of such asset as of the valuation time; and

- (e) the value of any other property will be the value that the Administrator determines in its reasonable discretion most accurately reflects its fair value as of the valuation time;
- (f) the value of any asset measured in a foreign currency will be determined by converting the value in the foreign currency into Canadian dollars using the rate of exchange current on the Valuation Date as determined by the Administrator;
- (g) a purchase or sale of an asset by the Trust will be reflected in the determination of the Net Asset Value not later than the first determination of such Net Asset Value made after the date on which such transaction becomes binding; and
- (h) any issue or redemption of Units to be effected as of a Valuation Date will be deemed to take place following the valuation time and shall not be reflected in the determination of Net Asset Value on that Valuation Date.

#### *Net Asset Value per Unit*

The Net Asset Value per Unit on a Valuation Date is calculated by dividing the Net Asset Value of the Trust on that Valuation Date by the total number of Units outstanding on that date (before giving effect to any issue or redemption

of Units to be effected on that Valuation Date). The Net Asset Value per Unit so determined for a Valuation Date will be the Net Asset Value per Unit applicable for the issue or redemption of Units deemed to take place following the valuation time on that Valuation Date.

### **Distributions to Unitholders**

The Trust intends to distribute all of its Distributable Cash in respect of each calendar year. The Trust will declare a distribution payable to Unitholders on the last day in each month other than December of its estimated Distributable Cash for the month then ended, and a distribution payable to Unitholders on the last day of each December of all remaining Distributable Cash for the year then ended. Unitholders are entitled to receive declared distributions if they were Unitholders of record as of 5:00 p.m. (Toronto time) on the relevant distribution payable date. Distributions are made within 20 business days after the relevant distribution payable date.

### **Distribution Reinvestment Option**

The Trust offers a Distribution Reinvestment Option pursuant to which distributions made by the Trust on Units will be reinvested in additional Units as of the Valuation Date next following the date the distribution becomes payable. Enrollment is optional and Unitholders assume full responsibility for their decision to participate in the Distribution Reinvestment Option. The Trust reserves the right not to accept any specific enrollment form. Participation begins with income distributions following receipt and processing of submitted Distribution Reinvestment Option enrollment forms. Participation in the Distribution Reinvestment Option may be terminated at any time, so long as notice in writing is provided to the Trust in acceptable format. Termination will take effect following 30 days after the receipt of the notice of termination.

Information on Distribution Reinvestment Option transactions will be available through Participating Dealers, and reinvestments will be reflected on regular account statements.

### **Redemption of Units**

Subject to compliance with requirements of law and regulatory authorities having jurisdiction and the terms of the Declaration of Trust, any Unitholder may, by at least 90 days prior written notice to the Administrator, request the Trust to redeem any or all of the Units held by such Unitholder with effect as of the Valuation Date next following the 90 days of notice. Unitholders who redeem their Units are entitled to receive a redemption price per Unit equal to the Net Asset Value per Unit that is determined on the applicable Valuation Date. Payment of the redemption price will be made within fifteen business days following the applicable Valuation Date.

The Administrator may in its sole discretion at any time, by providing a written redemption notice to a Unitholder, cause all or any of the Units held by such Unitholder to be redeemed on any Valuation Date that is not less than one day or more than 60 days following the date of the redemption notice, at a redemption price per Unit equal to the Net Asset Value per Unit that is determined on the applicable Valuation Date. Payment of the redemption price will be made within fifteen business days following the applicable Valuation Date. From and after the date of the redemption notice, the holder of the Units to be redeemed will be entitled to exercise any of the rights of a Unitholder in respect thereof until the redemption price has been paid in full.

The Administrator may suspend the redemption of Units or payment of redemption proceeds (i) for any period not exceeding 120 continuous days during which the Administrator determines that conditions exist which impair the determination of the value of the assets of the Trust, or (ii) with the consent of the securities regulatory agencies having authority. The suspension may, at the sole discretion of the Administrator, apply to all requests for redemptions received prior to the suspension but as to which payment has not been made, and will apply to all requests received while the suspension is in effect.

### **Meetings of Unitholders**

The Trustees may, at any time, convene a meeting of the Unitholders and will be required to convene a meeting on receipt of a request in writing of the Administrator or Unitholders holding, in aggregate, 10% or more of the Units outstanding. A quorum consists of two or more Unitholders present in person or by proxy and representing not less than 10% of the Units outstanding.

Certain matters shall require the approval of Unitholders by Special Resolution. A Special Resolution shall be a resolution passed by holders of not less than 66 2/3% of the Units voting thereon at a meeting duly convened for the consideration of such matter. The requirements for Unitholder removal of the Administrator are set forth under "Management of the Trust - The Administrator". A quorum for any meeting convened to consider a matter requiring the approval of Unitholders by Special Resolution shall consist of two or more Unitholders present in person or by proxy and representing not less than 25% of the Units then outstanding. If a quorum is not present at a meeting within 30 minutes after the time fixed for the meeting, the meeting, if convened pursuant to a request of Unitholders, will be



cancelled. Otherwise the meeting will be adjourned to another day, not less than 10 days nor more than 21 days later, selected by the Administrator and notice will be given to the Unitholders of such adjourned meeting. The Unitholders present at any adjourned meeting will constitute a quorum.

The Administrator, in respect of any Units which may be held by it from time to time, insiders of the Trust (as such expression is defined in the Securities Act), affiliates of the Administrator, and any director or officer of such persons who hold Units, shall not be entitled to vote on any Special Resolution to be adopted by the Unitholders.

### **Fundamental Changes and other amendments**

In certain cases the Declaration of Trust may only be amended with the consent of the Unitholders given by Special Resolution. Changes, in any manner, to the investment objectives of the Trust, the liability of any Unitholder, the right of a Unitholder to vote at any meeting or changing the Trust from an investment trust to a different form of issuer require approval by Special Resolution. However, no amendment can be made to the Declaration of Trust which would have the effect of reducing the interest in the Trust of the Unitholders unless all of the Unitholders consent thereto. No amendment can be made to the Declaration of Trust which could create increased liability for the Unitholders.

The Trustees are entitled, without the consent of the Unitholders, to make certain amendments to the Declaration of Trust which are for the purpose of adding any provisions which, in the opinion of counsel to the Trust, are for the protection or benefit of the Unitholders or the Trust, for the purpose of curing an ambiguity or for the purpose of supplementing any provision which may be defective or inconsistent with another provision. The Administrator must disclose such change in the next regularly scheduled report to Unitholders. Such amendments may be made only if they will not materially adversely affect the interest of any Unitholder.

### **Termination of Trust**

Pursuant to the terms of the Declaration of Trust, the Trust will continue until December 31, 2029 (the “Termination Date”), subject to extension or early termination in accordance with the terms of the Declaration of Trust. On the Termination Date, the Trust will terminate and the net assets of the Trust will be distributed to the Unitholders unless an alternative to termination is approved by the Unitholders as described below. Prior to the Termination Date, the assets of the Trust will be converted to cash to the extent practicable. The Administrator may, in its discretion, defer the Termination Date by a maximum of three months if all of the Trust’s assets have not been converted to cash. Should the liquidation of certain securities not be practicable or should the Administrator consider such liquidation not to be appropriate prior to the Termination Date, such securities will be distributed to Unitholders in specie, subject to compliance with any securities or other laws applicable to such distributions. The Unitholders, acting unanimously, are entitled to apply to a court of competent jurisdiction to have the Trust wound up prior to the Termination Date.

Not less than 13 months and not more than 15 months prior to the Termination Date, the Administrator may present one or more proposals to Unitholders providing an alternative to the dissolution of the Trust on the Termination Date. Such proposal could include, without limitation, (i) continuing the Trust, or (ii) exchanging the Units for units in one or more open-end or closed-end investment trusts on or after the Termination Date. A meeting of Unitholders to consider such a proposal must be held at least one year prior to the Termination Date in order to give the Administrator the opportunity to conduct an orderly liquidation of the assets of the Trust in the event that the Unitholders do not approve the proposal. In order to be implemented, such proposal must be approved by a Special Resolution of Unitholders. Any such proposal may be conditional on such matters as the Administrator considers are appropriate including, without limitation, obtaining any necessary regulatory approvals.

Any proposal providing an alternative to the dissolution of the Trust on the Termination Date which has the effect of extending the Trust or continuing the investment of Unitholders beyond the Termination Date must contain an option that would allow Unitholders not wishing to continue their participation in the Trust to redeem or sell their Units to the Trust for cash at the Net Asset Value of those Units on the Termination Date.

On the dissolution of the Trust, Unitholders will receive their pro rata share of the net assets of the Trust unless an alternative later termination is approved by Unitholders as provided herein.

## **PLAN OF DISTRIBUTION**

### **Use of Proceeds**

The proceeds of the Offering will be used by the Trust to acquire Authorized Investments (primarily interests in mortgage loans, but including Authorized Interim Investments such as cash and Cash Equivalents) and to establish and maintain appropriate Trust Reserves to meet the current and future expenses, liabilities, commitments and obligations of the Trust and for the conduct, promotion and protection of the purposes and activities of the Trust, its assets and Unitholders. See “Description of the Activities of the Trust”.

## **Method of Distribution**

The offering is made through the facilities of Participating Dealers, who are registered dealers, limited market dealers and persons entitled to act in connection with a trade in the Units under exemptions from dealer registration requirements, under Applicable Securities Law in each Offering Jurisdiction in which they may act in connection with the sale of the Units. Any purchase of Units must be made through a Participating Dealer. Each investor will receive a customer confirmation of purchase from the Participating Dealer from whom such Unit is purchased in accordance with the practices and procedures of such Participating Dealer.

## **Subscription Procedure**

An investor must purchase at least \$20,000 (or such lesser amount as may be approved, on a case by case basis, by the Administrator) of Units. An investor wishing to subscribe for Units may only do so through a Participating Dealer, and must submit, together with payment of the subscription price:

- (i) a duly completed and originally executed Subscription Agreement, in the form provided with this offering memorandum, and
- (ii) an Accredited Investor Certificate (*Appendix 1 to the Subscription Agreement*), unless the investor is either purchasing Units having an aggregate acquisition cost to the investor of not less than \$150,000, or, having previously purchased Units of the same class having an aggregate acquisition cost of at least \$150,000, continues to own Units that have a net asset value or aggregate acquisition cost of at least \$150,000.

Subscription proceeds received by the Participating Dealer will be held in trust in a segregated account until the subscription is accepted at the discretion of the Administrator and Units are issued on the next Valuation Date.

The acceptance by the Administrator of a subscription for Units, whether in whole or in part, constitutes a subscription agreement between the investor and the Trust upon the terms and conditions set out in the Offering Documents. Investors are deemed to make certain representations, warranties and covenants pursuant to the Subscription Agreement accompanying this offering memorandum, and investors should carefully review the terms of the Subscription Agreement for more detailed information concerning the rights and obligations of investors and the Trust. Execution and delivery of a Subscription Agreement will bind investors to the terms thereof.

The Administrator reserves the right to accept or reject in whole or in part any subscription for Units and the right to close the subscription books at any time without notice. Any investment funds for subscription that are not accepted will be promptly returned without deduction or interest after it has been determined not to accept the investment funds.

## **Compensation of Participating Dealers**

Participating Dealers who facilitate the Offering may receive commissions, fees or other compensation as follows:

**Sales Commissions.** A Participating Dealer that facilitates an investor's subscription for Units will generally take a sales commission, in an amount to be agreed between the dealer and the investor. Sales commissions are paid by the investor, not by the Trust or the Administrator.

**Servicing Commissions.** The Administrator may pay Participating Dealers a servicing commission on a quarterly basis to compensate them for the continuing advice and service they provide in connection with Unitholders' investments in the Trust. The Administrator may change or terminate the payment of this servicing commission at any time. Currently, the maximum amount of the servicing commission, expressed as an annual percentage of the value of the Units held by a Participating Dealer's clients, is 1.00%. Servicing commissions are paid by the Administrator and not charged to the Trust.

## **INCOME TAX CONSIDERATIONS AND INVESTMENT ELIGIBILITY**

### **Consult a Tax Advisor**

Prospective investors should consult their own professional advisers to obtain advice on the tax consequences that apply to them.

### **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 Trust and with respect to the acquisition, holding and disposition of Units by an individual (other than a trust) who, for the purposes of the Tax Act, is resident in Canada, deals at arm's length with the Trust and holds Units as capital property. Accordingly, all references made to "Unitholders" below in this summary are limited to such individuals. Generally, Units will be considered to be capital property to a Unitholder provided that the Unitholder does

not hold the Units in the course of carrying on a business of buying and selling securities and has not acquired them as an adventure in the nature of trade.

This summary is based on the current provisions of the Tax Act and the regulations thereunder, our understanding of the current published administrative and assessing practices of the Canada Revenue Agency (“CRA”) and all specific and current proposals (“Proposed Amendments”) to amend the Tax Act and regulations thereunder publicly announced by the Minister of Finance (Canada) prior to the date hereof. This summary does not otherwise take into account or anticipate any changes in law, whether by legislative, governmental or judicial action, nor does it take into account provincial or foreign income tax legislation or considerations. There is no assurance that the Proposed Amendments will be enacted in the form proposed or at all.

This summary is not exhaustive of all possible Canadian federal income tax considerations applicable to the acquisition, holding and disposition of Units. Moreover, the income and other tax consequences of acquiring, holding or disposing of Units will vary depending on the Unitholder's particular circumstances including the province or provinces in which the Unitholder resides or carries on business. **This summary is of a general nature only and is not intended to be legal or tax advice to any Unitholder. Unitholders and prospective Unitholders should consult their own tax advisors for advice with respect to the income tax consequences of the acquisition, holding and disposition of Units, based on their particular circumstances.**

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

This summary assumes that the Trust qualifies, and will continue to qualify, as a “unit trust” and a “mutual fund trust” as defined in the Tax Act. In order to so qualify, the Trust must comply on a continuous basis with certain investment criteria, achieve within a prescribed period certain minimum distribution requirements relating to the Units, and the Trust may not reasonably at any time be considered to be established or maintained primarily for the benefit of non-resident persons. The Trust intends to elect under subsection 132(6.1) of the Tax Act to qualify as a “mutual fund trust” from inception, although no assurances can be made that it will achieve within the prescribed period the minimum distribution requirements. The Administrator monitors the Trust's investments, and to the extent possible, the distribution and ownership of the Units, and expects the Trust to qualify, and continue to qualify, as a “unit trust” and as a “mutual fund trust” or a registered investment at all relevant times. If the Trust were not to so qualify, the income tax consequences described below would in some respects be adversely different.

This summary also assumes that none of the issuers of securities owned or borrowers under mortgages held by the Trust will be foreign affiliates of the Trust or of any Unitholder, that none of the securities owned by the Trust will be “tax shelter investments” for the purposes of section 143.2 of the Tax Act, and that none of the securities owned by the Trust will be participating interests, other than exempt interests, in foreign investment entities or tracking entities or an interest in a non-resident trust other than an exempt foreign trust under proposals to amend the Tax Act released as part of Bill C-10 which was before the 39<sup>th</sup> Parliament (or such proposals as amended or enacted or successor provisions thereto).

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

The taxation year of the Trust is the calendar year. The Trust is subject to tax in each taxation year under Part I of the Tax Act on the amount of its income for the year, including all interest that accrues to it to the end of the taxation year, and 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. For this purpose, an amount will be considered to be payable to a Unitholder in a taxation year if it is paid in the year by the Trust or the Unitholder is entitled in the year to enforce payment of the amount.

The Trust intends to treat gains and losses realized on the disposition of property owned by the Trust as capital gains and capital losses. On such a disposition of capital property held by the Trust, the Trust will realize a capital gain (or a capital loss) to the extent that the proceeds of disposition exceed (or are exceeded by) the aggregate of the adjusted cost base of such property and any reasonable costs of disposition. Allowable capital losses of the Trust may be applied against taxable capital gains, but will not otherwise reduce the income of the Trust. Losses and allowable capital losses incurred by the Trust cannot be allocated to its Unitholders, but may be deducted by the Trust in subsequent years in accordance with the Tax Act.

The Trust generally intends to deduct, in computing its income in each taxation year, the full amount available for deduction in each year, including reasonable administrative, interest and other expenses incurred to earn income, including interest on the Loan Facility generally to the extent borrowed funds are used to purchase portfolio assets.

Provided the Trust makes distributions in each year of its net income and net realized capital gains as described under the heading “Description of Units – Scheduled Distributions”, it will generally not be liable in such year for income tax under Part I of the Tax Act other than such tax on net realized capital gains that would be recoverable by it in such year.

Recent amendments to the Tax Act (the “SIFT Rules”) include provisions relating to the taxation of certain publicly traded partnerships and trusts, referred to as “specified investment flow-throughs” or “SIFTs”, which hold one or more “non-portfolio properties” (as defined in the Tax Act). Provided issued Units of the Trust are not considered to be listed or traded on a stock exchange or other public market for the purposes of the SIFT Rules, the Trust will not be subject to tax as a SIFT trust.

### ***Taxation of Unitholders***

Under the Tax Act, a Unitholder will generally be required to include in the calculation of the Unitholder's income for a taxation year the net income and the net realized taxable capital gains of the Trust paid or payable to the Unitholder in the year (including any net income and net realized taxable capital gains of the Trust accrued or realized by the Trust in the year and not made payable prior to the time of acquisition of Units), whether made payable or paid in cash or reinvested in additional Units. The Net Asset Value per Unit will reflect any such undistributed net income and net realized capital gains of the Trust that has accrued or have been realized but not made payable by the time Units are acquired.

Provided that appropriate designations are made by the Trust, such portion of the net realized taxable capital gains of the Trust, 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. Any loss of the Trust for the purposes of the Tax Act cannot be allocated to, and cannot be treated as a loss of, a Unitholder.

The non-taxable portion of net realized capital gains of the Trust that are paid or become payable to a Unitholder in a year will not be included in computing the Unitholder's income for the year. Any other amount in excess of a Unitholder's share of the net income and the net realized capital gains of the Trust for a taxation year that is paid or becomes payable to the Unitholder in such year will generally not be included in the Unitholder's income for the year but will reduce the adjusted cost base of Units to the Unitholder. To the extent that the adjusted cost base of a Unit would otherwise be a negative amount, 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 will be increased by the amount of such deemed capital gain.

Upon the disposition or deemed disposition by a Unitholder of a Unit, including on a redemption, a capital gain (or capital loss) will be realized by the Unitholder to the extent that the Unitholder's proceeds of disposition exceed (or are less than) the aggregate of the adjusted cost base of the Unit to the Unitholder immediately before the disposition 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, whether on a reinvestment of distributions or otherwise, the cost of a newly-acquired Unit will be averaged with the adjusted cost base of all of the Units owned by the Unitholder as capital property before that time. The cost to a Unitholder of Units received on the reinvestment of distributions of the Trust will be equal to the amount reinvested.

Generally, one-half of any capital gain (a “taxable capital gain”) realized by a Unitholder in a taxation year must be included in computing the income of the Unitholder for that year, and one-half of any capital loss (an “allowable capital loss”) realized by a Unitholder in a taxation year may be deducted from taxable capital gains realized by the Unitholder in that year. 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 those years, to the extent and under the circumstances provided for in the Tax Act.

In general terms, net realized capital gains paid or payable to a Unitholder by the Trust or realized on the disposition of Units may give rise to a liability for alternative minimum tax.

### **Eligibility for Investment by Tax-Deferred Plans**

Provided that the Trust qualifies, and continues at all times to qualify, as a “mutual fund trust”, or is a registered investment in respect of Exempt Plans for the purposes of the Tax Act, the Units will be qualified investments for Exempt Plans.

### **RISK FACTORS**

There are certain risks inherent in an investment in the Units and in the activities of the Trust, including the risks set forth below, which investors should carefully consider before investing in Units.

## **Liquidity and Return on Investment**

**The Units Are Not Insured.** The Trust is not a member institution of the Canada Deposit Insurance Fund and the Units offered pursuant to this Offering Document are not insured against loss through the Canada Deposit Insurance Fund.

**No Market for the Units.** There is and will be no market through which the Units may be sold and purchasers will not be able to resell Units purchased pursuant to this Offering Document. The only opportunity for liquidation of a holding of Units is through exercise of the right of redemption attached to the Units.

As there is no market for the Units, and as the Units are not transferable except by operation of law, and the Units are subject to overall distribution and resale restrictions under securities laws, a Unitholder will not be able to liquidate an investment in Units other than in accordance with the redemption rights attached to the Units. Accordingly, an investment in Units should only be considered by investors who do not require immediate liquidity.

**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 mortgages reflect the general level of interest rates and, as interest rates fluctuate, the Trust's management expects that the aggregate yield on mortgage investments will also change.

## **Portfolio Risks**

**Nature of the Investments.** Investments in mortgages are affected by general economic conditions, local real estate markets, demand for housing or commercial premises, fluctuation in occupancy rates, operating expenses and various other factors. Investments in mortgages are relatively illiquid. This will tend to limit the Trust's ability to vary its portfolio promptly in response to changing economic or investment conditions. The Trust's investments in mortgage loans will be secured by real estate. All real property investments are subject to elements of risk. While independent appraisals may be obtained before the Trust makes any mortgage investments, the appraised values provided therein, even where reported on an "as is" basis are not necessarily reflective of the market value of the underlying real property, which may fluctuate. In addition, the appraised values reported in independent appraisals may be subject to certain conditions, including the completion, rehabilitation or lease-up improvements on the real property providing security for the investment. There can be no guarantee that these conditions will be satisfied and if, and to the extent, they are not satisfied, the appraised value may not be achieved. Even if such conditions are satisfied, the appraised value may not necessarily reflect the market value of the real property at the time the conditions are satisfied.

The Trust's income and funds available for distribution to Unitholders would be adversely affected if a significant number of borrowers were unable to pay their obligations to the Trust or if the Trust was unable to invest its funds in mortgages on economically favourable terms. On default by a borrower, the Trust may experience delays in enforcing its rights as lender and may incur substantial costs in protecting its investment.

**Availability of Investments.** Because the source of all of the Trust's investments is through the Administrator, the Trust is exposed to adverse developments in the business and affairs of the Administrator, to its management and financial strength, to its ability to operate its businesses profitably and to its ability to retain its mortgage broker licenses issued to it under applicable legislation. The ability of the Trust to make investments in accordance with its objectives and investment policies depends upon the availability of suitable investments and the amount of funds available.

There can be no assurance that the yields on the mortgages currently invested in by the Administrator will be representative of yields to be obtained on future mortgage investments of the Trust. The Administrator must render its services under the Administration and Mortgage Banking Agreement honestly and in good faith and must use reasonable commercial efforts to perform its duties and responsibilities under the Administration and Mortgage Banking Agreement in a conscientious, reasonable and competent manner. However, the services of the Administrator and its directors and officers are not exclusive to the Trust. The Administrator, its directors and officers and its affiliates may, at any time, engage in promoting or managing other entities or their investments including those that may compete directly or indirectly with the Trust, and the Administrator has sole discretion in determining which mortgages and investments it will make available to the Trust for investment.

**Renewal of Mortgages.** There can be no assurance that any of the mortgages comprising the Mortgage Portfolio 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. With respect to each mortgage comprising the Mortgage Portfolio, 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 and the Administrator at the time of renewal.

**Composition of the Mortgage Portfolio.** The composition of the Mortgage Portfolio may vary widely from time to time and may be concentrated by type of security, industry or geography, resulting in the Mortgage Portfolio being less

diversified than anticipated. A lack of diversification may result in the Trust being exposed to economic downturns or other events that have an adverse and disproportionate effect on particular types of security, industry or geography.

***Illiquidity of Portfolio Investments.*** In some instances, the liquidation of investments of the Trust may require lengthy negotiations. If the Administrator is unable, or determines that it is inappropriate, to dispose of some or all of the Trust's investments prior to termination of the Trust, then upon the termination of the Trust, subject to applicable laws, Unitholders could receive distributions in specie for which there may be an illiquid market.

***Not a Public Issuer.*** The Trust is not a reporting issuer for securities laws purposes and is not subject to the restrictions placed on public mutual funds or other investment funds that are reporting issuers, such as restrictions to ensure diversification and liquidity of the Trust's portfolio. As a result, some of the protections provided to investors in investment funds that are reporting issuers under such laws will not be available to investors in the Trust.

***Value / Marketability of Portfolio Assets.*** The Net Asset Value per Unit will vary in part in accordance with the value of the assets acquired by the Trust and in some cases the value of such assets may be affected by such factors as market demand, general market trends or regulatory restrictions. Fluctuations in the values of such assets may occur for a number of reasons beyond the control of the Administrator or the Trustees and there is no assurance that an adequate and liquid market will exist for assets of the Trust.

***Interest Rate Fluctuations.*** The value of the assets of the Trust may decline with increases in interest rates. Periods of high inflation, together with the various measures which may be adopted in attempts to deal with such inflation, may result in wide fluctuations in interest rates, with corresponding fluctuations in the value of fixed rate debt obligations generally. The Administrator cannot predict whether or to what extent such fluctuations may occur in the future.

***Non-Conventional Mortgages.*** The Trust may invest in Non-Conventional Mortgages which involve greater risks than Conventional Mortgages, including risks of default in the payment of interest and principal and price changes due to such factors as general economic conditions and the borrower's creditworthiness. Secondary financing which may be carried on by the Trust is generally considered to be riskier than primary financing because the Trust will not have a first-ranking charge on the underlying property. When a charge on a real property is in a position other than first-ranking, it is possible for the holder of a prior charge on the 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 to realize on the security given for the loan. Such actions may include a foreclosure action, the exercising of a giving-in-payment clause or an action forcing the real property to be sold. A foreclosure action or the exercise of a giving-in-payment clause 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 creditors who have prior charges on the property, the holder of a subsequent charge may lose its investment or part thereof to the extent of such deficiency unless the holder can otherwise recover such deficiency from other property owned by the debtor. The Trust may remedy a default under the terms of a prior charge on a property or satisfy the obligations of a borrower towards the holder of a prior-ranking charge if required to protect the Trust's investment, subject to the approval of a majority of the Independent Trustees.

***Investment Risk for Land Mortgage Investments.*** Land mortgages pose a unique risk in the event of default in that the work-out period can be lengthy while the asset has no capacity to generate cash flow. As a result, the Trust limits the amount of land mortgage investments it makes, and when possible, structures transactions with interest payment reserve accounts.

***Reliance on Borrowers.*** After the funding of an investment, the Trust relies on borrowers to maintain adequate insurance and proper adherence to environmental regulations during the ongoing management of their properties. The Trust mitigates the insurance risk by monitoring the policies in place, and attempting to have borrowers rectify any deficiencies.

***Failure to Meet Commitments.*** The Trust may commit to making future mortgage investments in anticipation of repayment of principal outstanding under existing mortgage investments. In the event that such repayments of principal are not made in contravention of the borrowers' obligations, the Trust may be unable to advance some or all of the funds required to be advanced pursuant to the terms of its commitments and may face liability in connection with its failure to make such advances.

***Competition.*** The Trust 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 Trust. Many of these investors will have greater financial resources than those of the Trust, or operate without the investment or operating restrictions of the Trust 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 for real property investments, thereby increasing purchase prices and reducing the yield on investments. While management of the Trust

does not anticipate a significant increase in competition in the markets in which it intends to invest, changing market conditions may increase the level of competition for profitable mortgage investments and thus may reduce the number of suitable investment opportunities for the Trust.

### **Borrowing and Leverage**

***Borrowing.*** The Trust is entitled to, and may, incur indebtedness secured by the Trust's assets to purchase mortgages or for ongoing mortgage investments. Such indebtedness may not exceed 50% of the value of the Trust's Mortgage Portfolio. There can be no assurance that such a strategy will enhance returns and in fact the strategy may reduce returns. The security which the Trust is required to furnish may include an assignment of the Trust's mortgages to a third party lender. If the Trust is unable to service the Trust's debt to such lender, a loss could result if the lender exercises its rights of foreclosure and sale.

***Limited Sources of Borrowing.*** The Canadian financial marketplace is characterized as having a limited number of financial institutions that provide credit to entities such as the Trust. The limited availability of sources of credit may limit the Trust's ability to take advantage of leveraging opportunities to enhance the yield on its mortgage investments. This limited availability may be compounded by the fact that the Trust may enter into a loan agreement with a lender pursuant to which the Trust would establish a revolving loan facility in the maximum amount of 50% of the value of its Mortgage Portfolio. This revolving loan facility may make the Trust less attractive as potential borrowers to other sources of credit. The Trust intends to limit its exposure to the potential scarcity of such funds by continuously seeking out new sources of credit.

These loans are liabilities resulting from the funding of the Trust's mortgage investments. Repayment of mortgage investments results in a direct and corresponding pay down of these loans. The obligations for future mortgage advances under the Trust's Mortgage Portfolio are anticipated to be funded from the Trust's credit facility and borrower mortgage repayments. Upon funding of same, the funded amount forms part of the Trust's mortgage investments. If payment under these loans is demanded, including as a result of the Trust's failing to meet certain financial covenants under these loans, and there is not a corresponding repayment of the Trust's mortgage investments or if the Trust is unable to find sources of credit to fund the Trust's mortgage investments, there would be an adverse effect on the Trust's ability to make distributions and there could also be a material adverse affect on the Trust's business, financial condition and results of operation.

### **Tax-Related Risk**

***"Mutual Fund Trust" Status.*** In order for the Trust to maintain its status as a "mutual fund trust" under the Tax Act, the Trust must meet certain conditions on an on-going basis. If the Trust fails or ceases to qualify as a "mutual fund trust" under the Tax Act, the considerations described under "Income Tax Considerations and Investment Eligibility" would, in certain respects, be adversely different.

As the Trust is not a conventional open-end mutual fund, the Trust will not be subject to the Canadian policies and regulations that apply to open-end mutual funds.

***Tax Treatment and Possible Changes in Tax Laws.*** There can be no assurance that income tax laws and the treatment of mutual fund trusts and unit trusts will not be changed in a manner which adversely affects Unitholders. If the Trust fails or ceases to qualify as a "mutual fund trust" and as a registered investment under the Tax Act, the Units may cease to be qualified investments for Exempt Plans. The Trust will endeavour to ensure that the Units continue to be qualified investments for Exempt Plans. The Tax Act imposes penalties for the acquisition or holding of non-qualified or ineligible investments and there is no assurance that the conditions prescribed for such qualified or eligible investments will be adhered to at any particular time. If issued Units of the Trust become listed or traded on a stock exchange or other public market for the purposes of the SIFT Rules, the Trust could become subject to tax as a SIFT trust. The Trust recommends that prospective Unitholders consult with their tax advisors for advice with respect to the tax consequences to them having regard to their own particular circumstances. See "Income Tax Considerations and Investment Eligibility".

### **Environmental and Other Regulatory Matters**

Environmental legislation and policies have become an increasingly important feature of property ownership and management in recent years. Under various laws, the Trust could become liable for the costs of effecting remedial work necessitated by the release, deposit or presence of certain materials, including hazardous or toxic substances and wastes at or from a property, or disposed of at another location. The failure to effect remedial work may adversely affect an owner's ability to sell real estate or to borrow using the real estate as collateral and could result in claims against the owner. It is stated policy that the Trust must obtain a Phase I Environmental Audit on the underlying real property provided as security for a mortgage unless the Investment Committee has determined that a Phase I Environmental Audit

is not necessary. The Trust follows the environmental program of the Administrator, which includes policies and procedures to review and monitor environmental matters associated with its properties.

In addition, the Trust may from time to time take possession, through enforcement proceedings, of properties that secured defaulted mortgage loans to recover the Trust's investment in such mortgage loans. Prior to taking possession of properties which secure a mortgage investment, the Trust will assess the potential environmental liability associated with such investment and determine whether it is significant, having regard to the value of the property. If the Trust subsequently determines to take possession of the property, it could be subject to environmental liabilities in connection with such real property, which could exceed the value of the property. As part of the due diligence performed in respect of the Trust's mortgage investments, the Trust requires a Phase I Environmental Audit on the underlying real property provided as security for a mortgage, unless the Investment Committee has determined that a Phase I Environmental Audit is not necessary. However, there can be no assurance that such Phase I Environmental Audits will reveal any or all existing or potential environmental liabilities necessary to effectively insulate the Trust from potential liability for a materially adverse environmental condition at any mortgaged property. If hazardous substances are discovered on a property on which the Trust has taken possession, it may be required to remove such substances and clean up the property. The Trust may also be liable to tenants and other users of neighbouring properties and may find it difficult to resell the property prior to or following such clean-up

***Unitholder Liability.*** Under the Declaration of Trust, no Unitholder shall be subject to any liability whatsoever, in tort, contract or otherwise, to any person in connection with the investment obligations, affairs or assets of the Trust and all such persons shall look solely to the Trust's assets for satisfaction of claims of any nature arising out of or in connection therewith and the Trust's assets only shall be subject to levy or execution. There is a risk, which is considered to be remote, that a Unitholder could be held personally liable, notwithstanding the foregoing statement in the Declaration of Trust, for obligations of the Trust to the extent that claims are not satisfied out of the assets of the Trust. It is intended that the operations of the Trust be conducted in such manner so as to minimize such risk. It is considered that the risk of personal liability of Unitholders is minimal in view of the large anticipated equity of the Trust, the Trust's investment objectives and the requirement of the Trust that any agreement which is related to the borrowing of money or creates any liability of the Trust include an express disavowal of liability of Unitholders.

In conducting its affairs, the Trust may acquire mortgage investments that are subject to existing contractual obligations. The Trustees will use all reasonable efforts to have any such obligations, other than leases, modified to eliminate any risk of personal liability of Unitholders. However, the Trust may not be able to obtain such modification in all cases. Personal liability could also be alleged in respect of claims that do not arise under contracts, including claims in tort, claims for taxes and possibly certain other statutory liabilities. The possibility of any personal liability of this nature arising is considered by management to be remote as the nature of the Trust's activities will be such that most of the Trust's obligations will arise by contract and non-contractual risks are largely insurable. In the event that a Unitholder should be required to satisfy any obligation of the Trust, such Unitholder will be entitled to reimbursement from any available assets of the Trust.

### **This is a New Venture**

***Limited History of Operation.*** The Trust has been operating only since April 3, 2009. However, each of the Trustees and the directors and officers of the Administrator has had substantial experience in the real estate and/or mortgage industries. Investors must rely on the ability, expertise, judgment, discretion, integrity and good faith of the Trustees and Administrator.

***Reliance on Trustees.*** 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 Trustees in administering and managing the Trust. There is no certainty that the persons who are currently Trustees will continue to be available to the Trust for the entire period during which it requires the provision of their services.

### **Conflicts of Interest**

***Administrator.*** Investors are relying on the expertise and competence of the Administrator. The professional services provided by the Administrator are not exclusive to the Trust. Where the investment objective and policies of other clients for which the Administrator provides its services are substantially similar to those of the Trust, there is a potential conflict of interest arising by reason of the Administrator providing similar professional services to those clients and the Trust.

The Administrator has entered into the Administration and Mortgage Banking Agreement with the Trust and is entitled to earn a fee for providing services to the Trust and to earn various fees from mortgagors on loans under its administration. The Administrator must render its services under the Administration and Mortgage Banking Agreement honestly and in good faith and must use reasonable commercial efforts to perform its duties and responsibilities under



the Administration and Mortgage Banking Agreement in a conscientious, reasonable and competent manner. However, the Administrator, its directors and officers and its affiliates may at any time, and currently do, engage in promoting or managing other entities or their investments including real property financing that may compete directly or indirectly with the Trust. The Administrator may establish other investment vehicles which may involve transactions which conflict with the interests of the Trust.

In addition, the Administrator has sole discretion in determining which mortgages and investments it will make available to the Trust for investment and will, at the same time and on an on-going basis, be sourcing investment opportunities for its own account or the account of others. The Administrator, 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, specifically the Trust.

Under the Administration and Mortgage Banking Agreement the Trust has granted to the Administrator the irrevocable right at any time to purchase any mortgage investment of the Trust for a purchase price equal to the Trust's interest in the principal amount of such mortgage (which interest may be less than 100% in the case of an interest in a syndicated mortgage), plus any accrued interest payable thereon calculated to the end of business on the day immediately preceding the purchase date.

**Trustees.** Three out of five of the Trustees of the Trust are also directors or officers of the Administrator and accordingly, there may be conflicts of interest if the interests of these persons or entities are inconsistent.

Although none of the Trustees, the directors or officers of the Administrator will devote all of his or her full time to the business and affairs of the Trust, each will devote as much time as is necessary to supervise the management of, to manage or to advise on the business and affairs of, the Trust and its individual members and business.

The Administrator may in its sole discretion at any time, by providing a written redemption notice to a Unitholder, cause all or any of the Units held by such Unitholder to be redeemed on any Valuation Date that is not less than one or more than 60 days following the date of the redemption notice, at a redemption price per Unit equal to the Net Asset Value per Unit that is determined on the applicable Valuation Date. Payment of the redemption price will be made within fifteen business days following the applicable Valuation Date. From and after the date of the redemption notice, the holder of the Units to be redeemed will be entitled to exercise any of the rights of a Unitholder in respect thereof until the redemption price has been paid in full.

As the Trust is not a reporting issuer for securities laws purposes, it is not subject to the restrictions placed on investment funds that are reporting issuers relating to conflicts of interest.

Whenever a conflict of interest arises between the Trust, on the one hand, and the Administrator on the other hand, the parties involved, in resolving that conflict or determining any action to be taken or not taken, will be entitled to consider the relative interests of all of the parties involved in the conflict or that will be affected by such action, any customary or accepted industry practices, and such other matters as the parties deem appropriate in the circumstances. The Declaration of Trust contains conflicts of interest provisions requiring the Trustees to disclose material interests in material contracts and transactions.

## ADDITIONAL INFORMATION

### Reporting

The Trust will mail to each Unitholder a copy of the audited financial statements of the Trust within 90 days following the end of each fiscal year, and interim unaudited financial statements and other reports as are from time to time required by applicable law.

In addition, the Trust will, by March 31 of each year or as soon as possible thereafter and within 60 days following the date of dissolution of the Trust, forward to each Unitholder of record on December 31 of the preceding year or on the date of dissolution, as the case may be, information in a suitable form to enable the Unitholder to complete income tax reporting relating to the Unitholder's interest in the Trust. The Trust will comply with all other reporting and administrative requirements.

The Trust is not a reporting issuer in the Offering Jurisdictions and does not file disclosure material on SEDAR. The Administrator will provide access to the Trust's disclosure documents at [www.northerncitadel.com](http://www.northerncitadel.com).

### Material Contracts

- The Declaration of Trust. See "The Trust" and "Declaration of Trust and Description of Units".
- The Administration and Mortgage Banking Agreement. See "The Administrator" and "Compensation of the Administrator".

**Legal Proceedings**

The Administrator and the Trustees are not aware of any legal or administrative proceedings material to the Trust, to which the Trust or the Administrator is or may be a party.

**Legal Matters**

Legal counsel to the Trust is Baldwin Anka Sennecke Halman LLP, of Suite 900, 25 Adelaide Street East, Toronto, Ontario M5C 3A1.

**Auditors, Custodian and Registrar**

The auditor of the Trust is Collins Barrow, of 20 Eglinton Avenue West, Suite 2100 / P.O. Box 2014, Toronto, Ontario, M4R 1K8. The Bank of Nova Scotia is the custodian of the Trust's cash and securities. Mortgage and security documents will be registered in the name of the Trust's nominee, NCMIT Nominee Corp., and held by the Administrator and the Trust's legal counsel. The Administrator acts as the Registrar of the Trust.

**FINANCIAL STATEMENT**  
**Northern Citadel Mortgage Investment Trust**  
Statement of Net Assets (Opening Balance Sheet)  
as at April 3, 2009

**Assets**

Cash	\$ <u>100</u>
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**Net Assets Representing Unitholder's Equity**

**Authorized: (note 1)**

An unlimited number of trust units without par value

**Issued:**

Nil	Nil
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<b><u>Net asset value per unit</u></b>	n/a
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(See accompanying note)

Approved on behalf of the Board of Trustees,

(signed) "Sam Mizrahi"

Sam Mizrahi

**Note to Statement of Net Assets**  
as at April 3, 2009

**1. Creation of the Trust and Operations:**

Northern Citadel Mortgage Investment Trust (the "Trust") was created under the laws of Ontario by a Declaration of Trust dated April 3, 2009. Under the terms of the Declaration of Trust, the Trust is authorized to issue an unlimited number of units without par value. The fundamental investment objectives of the Trust are to provide unitholders with stable monthly distributions of income from the Trust's investments, to obtain superior yields and maximize distributions and maintain unit value, and preservation of capital, through investment of the Trust's assets. The Trust primarily invests in loans secured by first and second mortgages on real property in Canada or such other investments as may from time to time be determined by the Administrator of the Trust and as described in the then current offering memorandum or other similar disclosure documents of the Trust. This balance sheet includes the accounts of the Trust and of its wholly owned subsidiary, NCMIT Nominee Corp.

## PURCHASERS' RIGHTS

Investors who purchase Units (referred to in this section as “purchasers”) have certain rights, some of which are described below. Prospective investors should consult a lawyer for information about their rights.

### **Two Day Cancellation Right for All Purchasers**

Purchasers can cancel their agreement to purchase the Units. To do so, the purchaser must send a notice to the Trust by midnight on the second business day after the purchaser signs the Subscription Agreement to buy the Units.

### **Purchasers' Rights of Action in the Event of a Misrepresentation**

Securities legislation in certain provinces and territories of Canada requires purchasers to be provided with a remedy for rescission or damages, or both, in addition to any other right that they may have at law, where an offering memorandum and any amendment to it contains a misrepresentation. These remedies must be exercised by the purchaser within the time limits prescribed by the applicable securities legislation. Purchasers should refer to the applicable provisions of the securities legislation in their province for the complete text of these rights or consult with a lawyer.

There are various defences available to the Trust and other persons or companies that an investor has a right to sue for damages or rescission if the offering memorandum or any amendment to it contains a misrepresentation. These defences generally include the following:

- (i) no person or company will be liable if the person or company proves that the purchaser had knowledge of the misrepresentation;
- (ii) in an action for damages, the defendant will not be liable for all or any part of the damages that it proves do not represent the depreciation in value of the Units as a result of the misrepresentation relied upon; and
- (iii) the amount recoverable by the investor will not exceed the price at which the Units were offered under this offering memorandum.

Investors should refer to the applicable provisions of the securities legislation in their province for particulars of all of the defences that may be available to the Trust and to other persons or companies in an action for damages or rescission, or consult with a lawyer.

For the purposes of this section, “misrepresentation” means an untrue statement of a material fact, or an omission to state a material fact that is required to be stated, or that is necessary to make a statement not misleading in the 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.

The applicable statutory and contractual rights are summarized below. The contractual rights will be embodied in the Subscription Agreement to be executed and delivered by each investor to the Trust prior to the issuance of Units. By its execution of the Subscription Agreement, the Trust will be deemed to have granted these rights to the particular investor.

The following summaries are subject to the express provisions of the securities laws of the applicable province and reference is made thereto for the complete text of such provisions. The rights of action described below are in addition to and without derogation from any right or remedy available at law to the investor and are intended to correspond to the provisions of the relevant securities legislation and are subject to the defences contained therein.

### ***Rights for Purchasers in British Columbia and Alberta***

Securities legislation in British Columbia and Alberta provides that in the event that this offering memorandum or any amendment hereto contains a misrepresentation, the purchaser shall be deemed to have relied upon the misrepresentation if it was a misrepresentation at the time of purchase, and shall have, in addition to any other rights they may have at law, a right of action for damages or rescission against the Trust and the Administrator, and a right of action for damages against every Trustee of the Trust who was a Trustee of the Trust at the date of this offering memorandum and against every person who signs this offering memorandum or any amendment hereto.

There are various defences available to the persons or companies that an investor has a right to sue, including a defence that the investor knew of the misrepresentation at the time of purchase. Investors should refer to the applicable provisions of the securities legislation in British Columbia and Alberta for particulars of such rights and defences, or consult with a lawyer.

No action shall be commenced to enforce the foregoing statutory rights of action unless the right is exercised:

- (a) in the case of an action for rescission, not later than 180 days from the day of the transaction that gave rise to the cause of action, or

- (b) in the case of an action for damages, not later than the earlier of
  - (i) 180 days from the day the purchaser first had knowledge of the facts giving rise to the cause of action, or
  - (ii) three years from the day of the transaction that gave rise to the cause of action.

#### ***Rights for Purchasers in Saskatchewan***

Securities legislation in Saskatchewan provides that in the event that this offering memorandum or any amendment hereto contains a misrepresentation, the purchaser shall be deemed to have relied upon the misrepresentation if it was a misrepresentation at the time of purchase, and shall have, in addition to any other rights they may have at law, a right of action for damages or rescission against the Trust and the Administrator, and a right of action for damages against the Trust, the Administrator, every promoter of the Trust, every Trustee of the Trust who was a Trustee of the Trust at the date of this offering memorandum, every person or company whose consent has been filed with the offering memorandum or amendment hereto (but only with respect to reports, opinions or statements that have been made by them), every person who signed the offering memorandum or amendment hereto, and every person who or company that sells the Units on behalf of the Trust under the offering memorandum or amendment hereto.

In addition, subject to certain limitations, where any advertising or sales literature used in connection with this offering memorandum contains a misrepresentation, or where an individual makes a verbal statement to a prospective purchaser that contains a misrepresentation and such statement is made either before or contemporaneously with the purchase of the Units, the purchaser will be deemed to have relied upon that misrepresentation if it was a misrepresentation at the time of purchase. In the case of a verbal statement containing a misrepresentation, the purchaser has a right of action for damages against the individual who made the verbal statement, and in the case of advertising or sales literature containing a misrepresentation, the purchaser has a right of action for damages against the Trust, every promoter of the Trust and every Trustee of the Trust at the time the advertising or sales literature was disseminated, and every person who or company that sells the Units on behalf of the Trust.

There are various defences available to the persons or companies that an investor has a right to sue, including a defence that the investor knew of the misrepresentation at the time of purchase. Investors should refer to the applicable provisions of the securities legislation in Saskatchewan for particulars of such rights and defences, or consult with a lawyer.

No action may be commenced to enforce any of the foregoing rights:

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

#### ***Rights for Purchasers in Manitoba***

When an offering memorandum or any amendment thereto (hereinafter, collectively, an “offering memorandum”) contains a misrepresentation, a purchaser who purchases a security offered by the offering memorandum is deemed to have relied on the representation if it was a misrepresentation at the time of purchase, and the purchaser has

- (a) a right of action for damages against
  - (i) the Trust,
  - (ii) every director of the Trust at the date of the offering memorandum, and
  - (iii) every person or company who signed the offering memorandum; and
- (b) a right of rescission against the Trust.

If the purchaser chooses to exercise a right of rescission against the Trust, the purchaser has no right of action for damages against a person or company referred to above.

If a misrepresentation is contained in a record incorporated by reference in, or is deemed to be incorporated into, an offering memorandum, the misrepresentation is deemed to be contained in the offering memorandum.

When a misrepresentation is contained in an offering memorandum, no person or company is liable

- (a) if the person or company proves that the purchaser had knowledge of the misrepresentation;
- (b) other than with respect to the Trust, if the person or company proves

- (i) that the offering memorandum was sent to the purchaser without the person's or company's knowledge or consent, and
- (ii) that, after becoming aware that it was sent, the person or company promptly gave reasonable notice to the Trust that it was sent without the person's or company's knowledge and consent;
- (c) other than with respect to the Trust, if the person or company proves that, after becoming aware of the misrepresentation, the person or company withdrew the person's or company's consent to the offering memorandum and gave reasonable notice to the Trust of the withdrawal and the reason for it;
- (d) other than with respect to the Trust, if, 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 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 expert's report, opinion or statement, or
    - (B) was not a fair copy of, or an extract from, the expert's report, opinion or statement; or
- (e) other than with respect to the Trust, with respect to any part of the offering memorandum not purporting to be made on an expert's authority 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 there had been a misrepresentation.

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.

All or any one or more of the persons or companies that are found to be liable or accept liability in an action for damages are jointly and severally liable. A defendant who is found liable to pay a sum in damages may recover a contribution, in whole or in part, from a person who is jointly and severally liable to make the same payment in the same cause of action unless, in all circumstances of the case, the court is satisfied that it would not be just and equitable.

No action may be commenced to enforce a right

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

### ***Rights for Purchasers in Ontario***

Securities legislation in Ontario provides that in the event that this offering memorandum or any amendment hereto contains a misrepresentation, the purchaser shall be deemed to have relied upon the misrepresentation if it was a misrepresentation at the time of purchase, and shall have, in addition to and without derogation from any other rights they may have at law, a right of action for damages or rescission against the Trust.

The right of action for rescission or damages will be exercisable by a purchaser resident in Ontario only if the purchaser gives written notice to the Trust not later than 180 days after the date on which payment was made for the Units (or after the initial payment was made for the Units, where payments subsequent to the initial payment are made pursuant to a contractual commitment assumed prior to or concurrently with the initial payment), that the purchaser is exercising this right, or alternatively, in an action for damages, the right of action will be exercisable by a purchaser only if the purchaser gives notice to the Trust not later 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 the transaction giving rise to the cause of action.

The Trust will not be liable if it proves that the investor purchased the Units with knowledge of the misrepresentation. In the case of an action for damages, the Trust will not be liable for all or any portion of such damages that it proves do not represent the depreciation in value of the Units as a result of the misrepresentation relied upon. In no case will the amount recoverable in any action exceed the price at which the Units were sold to the investor.

Investors should refer to the applicable provisions of the securities legislation in Ontario for particulars of the foregoing rights and defences, or consult with a lawyer.

### ***Rights for Purchasers in Nova Scotia***

Where an offering memorandum or any amendment thereto or any advertising or sales literature (as defined in the *Securities Act* (Nova Scotia)) contains a misrepresentation, a purchaser to whom the offering memorandum has been delivered and who purchases a security referred to therein shall be deemed to have relied upon such misrepresentation if it was a misrepresentation at the time of purchase and the purchaser has a right of action for damages against the Trust or other seller and, subject to certain additional defences, against directors of the seller and persons who have signed the offering memorandum, but may elect to exercise a right of rescission against the seller, in which case he shall have no right of action for damages against the seller, directors of the seller or persons who have signed the offering memorandum, provided that, among other limitations:

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

In addition no person or company other than the Trust is liable if the person or company proves that

- (a) the offering memorandum or the amendment to the offering memorandum was sent or delivered to the purchaser without the person's or company's knowledge or consent and that, on becoming aware of its delivery, the person or company gave reasonable general notice that it was delivered without the person's or company's knowledge or consent;
- (b) after delivery of the offering memorandum or the amendment to the offering memorandum and before the purchase of the securities by the purchaser, on becoming aware of any misrepresentation in the offering memorandum, or amendment to the offering memorandum, the person or company withdrew the person's or company's consent to the offering memorandum, or amendment to the offering memorandum, and gave reasonable general notice of the withdrawal and the reason for it; or
- (c) with respect to any part of the offering memorandum or amendment to the offering memorandum purporting (i) to be made on the authority of an expert, or (ii) to be a copy of, or an extract from, a report, an opinion or a statement of an expert, the person or company had no reasonable grounds to believe and did not believe that (iii) there had been a misrepresentation, or (iv) the relevant part of the offering memorandum or amendment to 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.

Furthermore no person or company other than the Trust is liable with respect to any part of the offering memorandum or amendment to the offering memorandum not purporting (a) to be made on the authority of an expert; or (b) to be a copy of, or an extract from, a report, opinion or statement of an expert, unless the person or company (c) failed to conduct a reasonable investigation to provide reasonable grounds for a belief that there had been no misrepresentation; or (d) believed that there had been a misrepresentation.

If a misrepresentation is contained in a record incorporated by reference in, or deemed incorporated into, the offering memorandum or amendment to the offering memorandum, the misrepresentation is deemed to be contained in the offering memorandum or amendment to the offering memorandum.

Pursuant to section 146 of the *Securities Act* (Nova Scotia), no action shall be commenced to enforce the right of action conferred by section 138 thereof unless an action is commenced to enforce that right not later than 120 days after the date on which payment was made for the security or after the date on which the initial payment for the security 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.

The right of action for rescission or damages described herein is conferred by section 138 of the *Securities Act* (Nova Scotia) and is in addition to and without derogation from any right the purchaser may have at law.

#### ***Rights for Purchasers in New Brunswick***

Subject to certain limitations, where any information relating to this offering that is provided to an investor in the Trust contains a misrepresentation, a purchaser who purchases Units shall be deemed to have relied on the misrepresentation if it was a misrepresentation at the time of purchase and the purchaser has, subject to certain defences, a right of action for damages against the Trust or may elect to exercise a right of rescission against the Trust, in which case the purchaser shall have no right of action for damages, provided that:

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

No action shall be commenced to enforce a right of rescission unless such action is commenced not later than 180 days after the date of the transaction that gave rise to the cause of action and in the case of any action, other than an action for rescission, such action shall be commenced before the earlier of: (i) one year after the plaintiff first had knowledge of the facts giving rise to the cause of action; and (ii) six years after the date of the transaction that gave rise to the cause of action.

Every person or company who becomes liable to make any payment for a misrepresentation may recover a contribution from any person or company who, if sued separately, would have been liable to make the same payment, unless the court rules that, in all the circumstances of the case, to permit recovery of the contribution would not be just and equitable.

#### ***Rights for Purchasers in Prince Edward Island***

Where this offering memorandum contains a misrepresentation, a purchaser who purchases Units offered by this offering memorandum during the period of distribution has, without regard to whether the purchaser relied on the misrepresentation, a right of action for damages against the Trust and every person who signed this offering memorandum, or a right of action for rescission against the Trust. If the purchaser elects to exercise a right of action for rescission against the Trust, then the purchaser shall have no right of action for damages against the Trust or any person who signed this offering memorandum.

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

No person or company (other than the Trust) 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 promptly gave reasonable notice to the Trust that it was delivered without the person's or company's knowledge or consent, (ii) on becoming aware of the 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 Trust 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.

No person or company (other than the Trust) 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.

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

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

In the case of an action for rescission, no action may be commenced more than 180 days from the day of the transaction that gave rise to the cause of action. In the case of an action for damages, no action may be commenced more than the



earlier of (i) 180 days from the day that the purchaser first had knowledge of the facts giving rise to the cause of action, or (ii) 3 years from the day of the transaction that gave rise to the cause of action.

***Rights for Purchasers in Québec, Newfoundland and Labrador, Yukon, Northwest Territories and Nunavut***

If there is a misrepresentation in this offering memorandum or in any record incorporated or deemed to be incorporated by reference into this offering memorandum, purchasers in Québec, Newfoundland and Labrador, Yukon, Northwest Territories and Nunavut will have, in addition to and without derogation from any other rights that may be available to them, a contractual right to sue the Trust and the Administrator:

- (a) to cancel their agreement to buy the Units; or
- (b) for damages.

This contractual right to sue is available to purchasers whether or not they relied on the misrepresentation. However, in an action for damages, the amount the purchaser may recover will not exceed the price at which the Units were offered and will not include all or any part of the damages that the Trust or the Administrator proves does not represent the depreciation in value of the Units resulting from the misrepresentation. The Trust and the Administrator have a defence if they prove that the purchaser knew of the misrepresentation when the purchaser purchased the Units.

If a purchaser intends to rely on the rights described in (a) or (b) above, the purchaser must do so within strict time limitations. A purchaser must commence an action to cancel the agreement within 180 days after the purchaser signed the agreement to purchase the Units. A purchaser must commence an action for damages within the earlier of 180 days after learning of the misrepresentation and three years after the purchaser signed the agreement to purchase the Units.

**CERTIFICATES OF TRUST AND ADMINISTRATOR**

This Offering Document does not contain a misrepresentation.

**ON BEHALF OF THE TRUST**

(Authorized individuals who perform the functions of  
chief executive officer and chief financial officer of the Trust)

(Signed) "*Sam Mizrahi*"

Sam Mizrahi

Chief Executive Officer

(Signed) "*Greg Van Staveren*"

Greg Van Staveren

Chief Financial Officer

**ON BEHALF OF THE ADMINISTRATOR**

**NORTHERN CITADEL BANCORP INC.**

**(Administrator and a Promoter)**

(Signed) "*Sam Mizrahi*"

Sam Mizrahi

Chief Executive Officer

(Signed) "*Greg Van Staveren*"

Greg Van Staveren

Chief Financial Officer