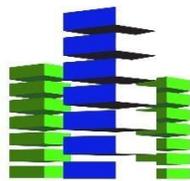


[This confidential Offering Memorandum (the “Offering Memorandum”) constitutes an offering of securities only in those jurisdictions where, and only to those persons to whom, such securities may be lawfully offered for sale. No securities commission or similar authority in Canada has passed on the merits of these securities nor reviewed this Offering Memorandum and any representation to the contrary is an offence. No prospectus has been filed with any such authority in connection with these securities. This Offering Memorandum is confidential and is provided to specific prospective investors for the purpose of assisting them and their professional advisors in evaluating these securities and is not to be construed as a prospectus or advertisement or a public offering of the securities referred to herein.]

OFFERING MEMORANDUM

Continuous Offering

April 5, 2021



FIRST SOURCE
MORTGAGE CORPORATION

FIRST SOURCE MORTGAGE LP

Maximum \$225,000,000 LP Class F Units

Maximum \$25,000,000 LP Class B Units

Unlimited LP Class A, LP Class D and LP Class I Units

\$10.00 per LP Unit

Minimum Purchase: 5,000 Units (\$50,000)

First Source Mortgage LP (the “Limited Partnership”) is a limited partnership formed under the laws of Ontario. The Limited Partnership is offering up to \$225,000,000 of LP Class F Units (formerly Class A Units), \$25,000,000 of LP Class B Units and an unlimited number of LP Class A Units, LP Class D Units and LP Class I Units (collectively, the “LP Units”) in the capital of the Limited Partnership at \$10.00 per LP Unit subject to a minimum initial subscription of \$50,000. Contemporaneously with this Offering, investors who hold certain mortgage interests (“Eligible Mortgage Interests”) and who agree to transfer their right, title and interest in such Eligible Mortgage Interests to the Limited Partnership will have an opportunity to acquire an aggregate \$50,000,000 LP Class OI Units of the Limited Partnership, subject as provided herein. The LP Class OI Units are not part of this Offering. The Limited Partnership also offers LP Class C Units and LP Class M Units to eligible investors. The Limited Partnership has the right to waive the minimum subscription for any particular investor. The LP Units are being offered on a private placement basis to eligible investors in reliance on prospectus exemptions under National Instrument 45-106 – *Prospectus and Registration Exemptions* (“NI 45-106”) as specified in this Offering Memorandum.

The Limited Partnership will invest in mortgages on real property located primarily in Canada. First Source Financial Management Inc. (“FSFMI”) is the general partner of the Limited Partnership. Westboro Management Ltd. (the “Distributor”), an exempt market dealer, will act as distributor in connection with

the Offering. See “Plan of Distribution”. **In connection with the Offering, the Limited Partnership is a “connected issuer” of the Distributor under National Instrument 33-105 – *Underwriting Conflicts* (“NI 33-105”). FSFMI, Velos Capital Corp. and the Distributor are “connected issuers” and “related issuers” under NI 33-105.** See “Conflicts of Interest”.

This is a risky investment. See “Risk Factors”.

PURCHASER’S RIGHTS

You have two (2) business days to cancel your agreement to purchase these securities. If there is a misrepresentation in this Offering Memorandum, you have the right to sue either for damages or to cancel your agreement to purchase these securities.

FORWARD-LOOKING INFORMATION

This Offering Memorandum may contain “forward-looking information” as such term is defined in the *Securities Act* (Ontario). Forward-looking information is disclosure regarding possible events, conditions or results of operations that is based on assumptions about future economic conditions and courses of action and includes future-oriented financial information with respect to prospective results of operations, financial position or cash flows that is presented either as a forecast or a projection. Similarly, a “financial outlook” is forward-looking information about prospective results of operations, financial position or cash flows that is based on assumptions about future economic conditions and courses of action that is not presented in the format of a historical balance sheet, income statement or cash flow statement.

Investors are advised that forward-looking information is subject to a variety of risks, uncertainties and other factors that could cause actual results to differ materially from expectations as expressed or implied herein. Although the forward-looking information contained herein reflects the beliefs and expectations of management of the Limited Partnership at this time, investors are cautioned not to place undue reliance on such information.

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SUMMARY OF THE OFFERING

The following is a summary only and is qualified by the more detailed information appearing elsewhere in this Offering Memorandum. Certain terms used in this Offering Memorandum are defined in the Glossary. All dollar amounts in this Offering Memorandum are in Canadian dollars unless otherwise indicated.

Issuer: First Source Mortgage LP (the “Limited Partnership”) is a limited partnership formed under the laws of Ontario on April 6, 2017. The Limited Partnership provides mortgage financing to selected borrowers as described herein. See “Limited Partnership Agreement”.

The Offering: The Limited Partnership is offering up to \$225,000,000 of LP Class F Units (formerly Class A Units)¹, \$25,000,000 of LP Class B Units, an unlimited number of LP Class A Units, an unlimited number of LP Class D Units and an unlimited number of LP Class I Units (collectively, the “LP Units”) in the capital of the Limited Partnership at \$10.00 per LP Unit.

Prior to the date of this Offering, investors who held certain mortgage interests (“Eligible Mortgage Interests”) and who agreed to transfer their right, title and interest in such Eligible Mortgage Interests to the Limited Partnership were given an opportunity to acquire an aggregate \$50,000,000 LP Class OI Units of the Limited Partnership. The LP Class OI Units will continue to be offered in exchange for Eligible Mortgage Interests and are not part of the Offering being made pursuant to this Offering Memorandum.

In addition, First Source Mortgage Trust (the “Fund”) is offering, without duplicating amounts under this Offering, or in respect of the Limited Partnership, up to \$225,000,000 of Class F Units (formerly Class A Units); \$25,000,000 of Class B Units, \$50,000,000 of Class OI Units and an unlimited number of Class I Units (collectively, the “Fund Units”) in the capital of the Fund.

The LP Units, the LP Class OI Units and the Fund Units are offered on a private placement basis.

The Class F Units (formerly Class A Units) of the Fund and the LP Class F Units (formerly Class A Units), Class A Units and Class D Units of the Limited Partnership are available to all investors who meet the minimum investment criteria.

The Class B Units of the Fund and the LP Class B Units of the Limited Partnership are reserved for investors who purchase Units at the Initial Closing. An aggregate maximum of \$25,000,000 of

¹ The former Class A Units were renamed Class F Units effective February 22, 2019 pursuant to the second amended and restated limited partnership agreement of the Limited Partnership dated as of February 22, 2019.

Class B Units of the Fund and LP Class B Units of the Limited Partnership will be issued.

The Class OI Units of the Fund and the LP Class OI Units of the Limited Partnership are reserved for issuance to investors who transfer Eligible Mortgage Interests to the Limited Partnership. The LP Class OI Units and the Fund OI Units are not part of this Offering. In order to acquire the OI Units, holders of Eligible Mortgage Interests will execute and deliver an Exchange Agreement in prescribed form.

An aggregate maximum of \$50,000,000 of Fund OI Units and LP OI Units will be issued.

The LP Class I Units of the Limited Partnership are reserved for certain institutional investors who negotiate the terms of the purchase and holding of such LP Units with FSFMI on behalf of the Limited Partnership.

The Limited Partnership also offers LP Class C Units and LP Class M Units to eligible investors.

See “The Offering”.

Amounts:

Aggregate Maximum – \$250,000,000, excluding sales of Class I Units of the Fund and the LP Class I Units of the Limited Partnership; (\$300,000,000 including the LP Class OI Units and the Fund Class OI Units).

Minimum – None.

Offering Price:

\$10.00 per LP Unit, payable in full on Closing.

Minimum Purchase:

Minimum purchase is \$50,000 (5,000 LP Units) for LP Class F (formerly Class A Units), LP Class B, LP Class A and LP Class D Units.

Additional investment must be in amounts of not less than \$10,000.

The Limited Partnership may in its discretion waive these minimum amounts for a particular investor.

Use of Proceeds:

The net proceeds of the Offering, after deduction of all fees and expenses (including organizational and offering expenses not to exceed \$100,000, amortized over 5 years), will be used by the Limited Partnership to invest in mortgages on real property located primarily in Ontario as described under Investment Objectives and Strategies.

General Partner:

First Source Financial Management Inc. (“FSFMI” or the “General Partner”) is the general partner of the Limited Partnership, responsible for managing the business and affairs of

the Limited Partnership. Under the terms of the Partnership Agreement, the General Partner has the power and authority on behalf of the Partnership to conduct or arrange for the origination, underwriting, pricing, negotiation, administration and enforcement of the Partnership's mortgage portfolio. The General Partner is also responsible for the overall operations of the Partnership including issuance and redemption of LP Units, financial reporting and arranging for the provision of all other services required by the Partnership. FSFMI provides mortgage servicing and administration to the Limited Partnership under the terms of a Mortgage Administration and Servicing Agreement.

FSFMI is licensed with the Financial Services Commission of Ontario (FSCO) as a mortgage administrator.

Mortgage Lender:

First Source Mortgage Corporation (the "Mortgage Lender"), an affiliate of FSFMI, is the mortgage originator for the Limited Partnership. The Mortgage Lender is licensed with FSCO as a mortgage broker. Application and origination fees earned by the Mortgage Lender in respect of the mortgage portfolio of the Limited Partnership are for the account of the Limited Partnership and are not retained by the Mortgage Lender.

Investment Objectives and Strategies:

There is well established demand for real estate mortgage financing that is not readily provided by banks, trust companies, insurance companies and other conventional lenders. Short-term mortgage financing is a continuing need of individuals, builders and real estate developers, and, because of their need for flexibility and quick response time, they often require the services of private lenders and organizations such as the Fund and the Limited Partnership.

The Limited Partnership's mandate is to generate consistent and attractive risk-adjusted returns on investment through a professionally managed mortgage portfolio. The Limited Partnership's primary revenue source is interest payments received on its mortgage investments. The Limited Partnership generates additional revenues by way of application and commitment fees paid or payable by borrowers and prospective borrowers, as well as through interest bonuses for early prepayment, and late payoff bonuses for payments made after maturity.

The mortgage portfolio consists primarily of commercial and development first mortgages on new projects and refinancings. Real properties are located primarily in Canada, with a concentration in the Greater Toronto Area and the Golden Horseshoe.

A typical loan follows the syndicated model which the General Partner has successfully deployed for the previous ten years, with mortgages generally below 65% of the current value of the

property. In selected instances, loans may be advanced for up to 75% of the value of the property.

See “Investment Objectives and Strategies”.

Operational Risk Management:

Construction and major rehabilitation loans are funded after receipt and review of an appraisal based on the “as is” and/or completed values of the property. The loan is advanced in progress draws as agreed to by the borrower. Prior to each loan advance, the property is re inspected by an appraiser or quantity surveyor or cost consultant who provides a detailed written progress report and monitors costs in relation to an approved budget as required. In addition, all construction loans are funded in compliance with the *Construction Lien Act* of Ontario.

The maximum loan-to-value for any particular mortgage investment will vary depending on a number of factors including the location and marketability of the property, and the condition of the property. Notwithstanding any loan-to-value limits stated herein or other general underwriting criteria outlined herein, the Limited Partnership may advance funds to remedy the default by a borrower of its obligations in respect of a prior ranking security, or to satisfy the indebtedness secured by a prior ranking security, or for any other reason where such action is considered by FSFMI to be in the best interests of the Limited Partnership and its Limited Partners.

Subscription Matters:

The LP Units are distributed through registered dealers (“Registered Dealers”), including Westboro Management Ltd. (“WML”), an affiliate of FSFMI, in reliance on certain prospectus exemptions in all provinces of Canada. Velos Securities Inc. (“VSI”), also an affiliate, will assume responsibility for distributing or arranging for distribution of LP Units from WML upon becoming registered to do so, and as used herein, the “Distributor” refers to WML or to VSI. To qualify, investors must generally be (a) an accredited investor under National Instrument 45 106 – Prospectus Exemptions (“NI 45 106”); or (b) an entity (i.e. non individual) who invests a minimum of \$150,000 (other than in Alberta where this exemption is not available), or (c) another person to whom LP Units may be sold.

Persons interested in investing in the Limited Partnership will be required to complete and return to the Limited Partnership the subscription documents, a copy of which will be made available to each prospective investor upon request. Subscriptions may be rejected in whole or in part in the General Partner’s sole discretion.

See “Subscription Matters.”

Purchases:

Following the Initial Closing, subscriptions will be accepted on a monthly basis, on the last business day in each month or on such

other date as FSFMI may permit, subject to FSFMI's discretion to refuse subscriptions in whole or in part. The price at which LP Units are issued following the Initial Closing will be the Fair Value of the LP Units determined in accordance with the Limited Partnership Agreement. LP Units will be issued as of the following business day. See "The Offering" and "Subscriptions".

Redemption Rights:

A Limited Partners is entitled to require, at any time and from time to time, redemption of all or any part of the LP Units registered in the name of the Limited Partner. A redemption date (the "**Redemption Date**") for both the Fund and the Limited Partnership is established by FSFMI from time to time, not less frequently than weekly. In general, the last Business Day of each calendar week and the last day of each month is a Redemption Date.

The amount payable in respect of each LP Unit redeemed (the "**Redemption Amount**") is equal to the Fair Value of the LP Unit on the Redemption Date, together with all distributions declared and unpaid as at the Redemption Date. Except as described under "Early Redemption Penalty" below, there is no redemption fee, and the Limited Partnership bears handling and processing costs, including any bank charges. Only whole LP Units may be redeemed unless the investor's entire investment is being redeemed. Fair Value is determined by FSFMI in accordance with the Limited Partnership Agreement.

Payment of Redemption Amounts for any Redemption Date is subject to the availability of funds. There is no obligation to redeem LP Units on any Redemption Date if the total amounts to be redeemed on such Redemption Date, together with any amounts requested for redemption on a prior Redemption Date and unpaid as of such Redemption Date, exceed 1% of the aggregate Fair Value of LP Units outstanding on the Redemption Date (the "Redemption Limit"). Proceeds of redemption (less applicable fees and deductions) shall be paid as soon as is practicable after the applicable Redemption Date and in any event within three (3) Business Days following the relevant Redemption Date. The date on which any redemption payment is made is called a "Redemption Payment Date". There may be multiple Redemption Payment Dates in respect of any given Redemption Date, depending on the Redemption Requests received. Unless a suspension of redemptions or other similar event is in effect, redemption requests are processed and paid in the order in which they are received.

In addition to the Redemption Limit, there are other restrictions on redemption as described below. All redemptions are made subject to and in accordance with the terms of the Limited Partnership Agreement.

Once paid, the redeeming Limited Partners have no further claims against the Limited Partnership and no further rights to any distributions.

Early Redemption Penalty:

There is no lock-up period; however LP Units redeemed within the first 12 months of purchase will be subject to early redemption penalties as follows.

| If LP Units held | Amount deducted from redemption proceeds |
|--|---|
| 6 months or less | 2% of the Fair Value of the LP Units |
| more than 6 months but less than 9 months | 1.5% of the Fair Value of the LP Units |
| more than 9 months but less than 12 months | 1% of the Fair Value of the LP Units |
| more than 12 months | nil |

Amounts so deducted are retained by the Limited Partnership.

Transfer or Resale:

LP Units may only be transferred with the consent of the General Partner and transfers will generally not be permitted. The transfer or resale of LP Units (which does not include a redemption of LP Units) is also subject to restrictions under applicable securities legislation. See “Transfer or Resale”.

Suspension, Rejection or Deferral of Redemptions:

The redemption right is subject to the Limited Partnership’s ability to liquidate its investments in order to meet the Limited Partnership’s redemption requests. The Limited Partnership is obliged to make all reasonable efforts to meet requests for redemption; however, the Limited Partnership may in certain circumstances defer or delay redemption payments where it determines in good faith that the delay is required to protect the interests of the other investors in the Limited Partnership.

The General Partner has the discretion to suspend, reject or defer redemptions of LP Units where:

- * the Limited Partnership has a working capital deficiency or such redemptions would cause the Limited Partnership to have a working capital deficiency;
- * such redemptions would cause the Limited Partnership to be in default of its financial obligations under bona fide arm’s length loan or credit arrangements; or
- * such redemptions are otherwise prohibited under applicable laws.

If the Limited Partnership is only able to redeem a portion of the LP Units due to the foregoing circumstances, the General Partner will declare that a suspension or deferral of redemptions is in

effect, and LP Units will be redeemed on a pro rata basis, disregarding fractions, based on redemption requests received in good order on the date immediately prior to the effective date of suspension and not withdrawn.

Limited Partners who hold in excess of 10% of the total number of LP Units outstanding may be restricted to redeeming no more than 5% of their LP Units on any Redemption Date.

See “Redemptions”.

Distributions:

The distribution policy of the Limited Partnership is to distribute substantially all Distributable Cash on a monthly basis.

There is no fixed distribution. The Limited Partnership targets providing Limited Partners with a yield of approximately 8% per annum.

The amount of any distributions is entirely at the discretion of the General Partner and there can be no assurance that the Limited Partnership will make any distributions in any particular year.

Fees and Expenses:

The Limited Partnership pays all costs and expenses relating to its operations, including, but not limited to:

- (a) administrative and unitholder recordkeeping and transfer agency fees,
- (b) accounting, auditing, legal, consulting, banking and custody fees and expenses, and fees paid to governmental or regulatory authorities (including costs of reports to Limited Partners, financial statements and tax returns);
- (c) all transactions fees and expenses incurred in connection with the acquisition, valuation, holding and disposition of portfolio investments (to the extent not reimbursed);
- (d) fees and expenses paid to members of any Advisory Committee and related indemnification and insurance expenses; and
- (e) all other expenses reasonably incurred in the operation of the Limited Partnership, including on any liquidation of the Limited Partnership.

The General Partner is responsible for its own operations, including rent, salaries, furniture and fixtures and all other office equipment.

Organizational and Offering Expenses:

Each of the Fund and the Limited Partnership will bear its respective organizational and offering expenses, including the out-of-pocket expenses of FSFMI and its agents actually incurred in the formation of the Fund and the Limited Partnership. Such organizational and offering expenses shall not exceed \$100,000 in the aggregate and will be amortized over five years.

Cap on Expenses:

In any year of the Limited Partnership, the aggregate of fees and expenses charged to the Limited Partnership, including amortized organizational and offering expenses, but excluding transaction fees and expenses referenced in paragraph (c) under “Fees and Expenses” above and excluding taxes, shall not exceed the greater of 0.25% of the Fair Value of the LP Units on December 31 of such year or \$250,000.

GP Priority Distribution

For acting as the general partner of the Partnership, the General Partner is entitled to a distribution (the “GP Priority Distribution”) from the Partnership. The GP Priority Distribution is calculated at an annualized percentage of the Fair Value of the Limited Partnership attributable to LP Units plus HST as follows:

- * 1.75% for LP Class F Units (formerly Class A Units)
- * 1.25% for LP Class B Units
- * 2.75% for LP Class A Units
- * 2.25% for LP Class D Units
- * 1.25% for LP Class OI Units
- * For LP Class I Units, the applicable GP Priority Distribution is negotiated on a case by case basis

The GP Priority Distribution is payable monthly, subject to adjustment following year-end. The GP Priority Distribution is paid prior to any distribution to the Limited Partners.

The Limited Partnership is authorized to issue LP Class M Units and LP Class C Units in addition to the LP Units described above. The General Partner receives a GP Priority distribution of 1.75% plus HST in connection with the LP Class C Units. The LP Class C Units are reserved for investors investing large amounts, and eligibility is determined in the discretion of the General Partner. The General Partner does not receive any GP Priority Distribution with respect to any assets attributable to LP Class M Units. LP Class M Units are reserved for the principals of FSFMI, their immediate family members and their associates and affiliates.

See “Distributions”.

Dealer Compensation:

The General Partner will pay, out of the GP Priority Distribution, a servicing commission to a Registered Dealer through which an investor purchases LP Class A or LP Class D Units based on the aggregate market value of the Registered Dealer’s clients’ investments in LP Class A and LP Class D Units at an annualized

rate of 1.00% for LP Class A Units and 0.50% for LP Class D Units. Servicing commissions are calculated and paid on a monthly basis in arrears approximately 15 days after the calculation of Fair Value per LP Unit of the relevant Class of LP Units, for so long as clients of the Registered Dealer holds LP Units of the relevant Class.

GP Incentive Distribution:

In addition to the GP Priority Distribution, the General Partner is entitled to a distribution (the “GP Incentive Distribution”) in respect of all LP Units other than the LP Class M Units.

The GP Incentive Distribution is payable in respect of a class of LP Units for any fiscal year of the Limited Partnership in which the total return of the class of LP Units exceeds the “Hurdle Rate” of return for such year. For purposes of calculating the GP Incentive Distribution, the “total return” for any fiscal year is the sum of (i) the increase or decrease, if any, in the NAV per LP Unit from the beginning of the fiscal year to the end of the fiscal year; and (ii) all Distributions paid on such LP Units (net of the GP Priority Distribution) during the fiscal year, expressed as a percentage.

The amount of the GP Incentive Distribution in respect of a class of LP Units for any fiscal year is equal to 10% of the total returns (as defined above) of the applicable Class for the fiscal year.

See “Distributions”.

Hurdle Rate of Return:

Government of Canada benchmark 2-Year Bond Yield published by Bank of Canada (averaged through the applicable fiscal year) plus 5%.

Valuation of the Assets:

The Limited Partnership calculates the “Fair Values” of its LP Units from time to time, but no less frequently than quarterly, and the “Net Asset Values” of the LP Units at least annually.

Following the Initial Closing, LP Units are issued and redeemed at Fair Value per LP Unit. The General Partner expects that absent extraordinary circumstances, Fair Value per LP Unit will be \$10. However, there is no guarantee that the Limited Partnership can maintain Fair Value at \$10 per LP Unit.

The Net Asset Value (NAV) of the Limited Partnership is calculated on an annual basis for the purpose of determining the GP Incentive Distribution, if any. The NAV is the total assets, including all cash and cash equivalents, the market value of portfolio investments and the market value of all other assets, and deducting therefrom management fees and expenses accrued or payable and all other liabilities of the Limited Partnership.

Advisory Committee:

Each of the Fund and the Limited Partnership has an advisory committee (the “Advisory Committee”) composed of senior

executives who provide the benefit of their experience and industry knowledge to the investment strategies of the Fund and the Limited Partnership.

Participation in Syndicated Mortgages:

FSFMI and the Mortgage Lender currently carry on a successful mortgage syndication business and will seek to continue to do so following the establishment of the Fund and the Limited Partnership. The Limited Partnership is authorized to participate in mortgage syndications. The syndication may be arranged by a third party or FSFMI. All mortgage investment opportunities originated by FSFMI will be allocated to the Limited Partnership in priority to any third party lender, and only where deemed appropriate to achieve optimal investment size and targeted portfolio construction in the Limited Partnership.

From time to time, a syndicated mortgage may be funded by the Limited Partnership in the first instance, and subsequently a portion of the mortgage may be syndicated to other lenders.

Co-Investment:

FSFMI or any of its officers, shareholders, employees or affiliates (“FSFMI related parties”), may purchase for their own account and own as a co-lender, a percentage interest in any investment held by the Limited Partnership. FSFMI related parties may from time to time hold a subordinate portion in any mortgage which is presented to the Limited Partnership for investment, and the rate of return on such a subordinate portion may vary from the Limited Partnership’s rate of return due to the differing loan-to-value risk assumed by the Limited Partnership. No FSFMI related party will make any such investment unless the opportunity has first been presented to the Limited Partnership and the Limited Partnership has declined all or a portion of the available investment.

Other Risk Factors:

The purchase of LP Units involves a number of risk factors and is suitable only for investors who are aware of the risks inherent in real estate investing and who have the ability and willingness to accept the risk of loss and have no immediate need for liquidity. See “Risk Factors”.

Legal Counsel:

WeirFoulds LLP

Auditors:

KPMG LLP are the auditors of the Limited Partnership

Administrator:

SGGG Fund Services Inc.

GLOSSARY

“**Business Day**” means a day, other than a Saturday or Sunday, on which Schedule I chartered banks are open for business in Toronto, Ontario.

“**Declaration of Trust**” means the fourth amended and restated declaration of trust governing the Fund dated as of April 5, 2021, as it may be amended and restated from time to time.

“**Distributable Cash**” will generally consist of net income (provided that in determining net income, the General Partner has discretion to deduct such amounts as it considers to be proper allowances, reserves, deductions and disbursements applicable thereto in accordance with generally accepted accounting principles), and may include interest income, rental income, dividends and other income received by the Limited Partnership. Distributable Cash may be estimated where the actual amount has not been fully determined.

“**Distribution on Termination**” means the distribution, in cash, made to the Partners on the winding up of the Partnership.

“**Distributor**” means Westboro Management Ltd. (“WML”) until such time as WML transfers responsibility for distribution of the LP Units to Velos Securities Inc. (“VSI”), in which case “Distributor” means VSI, in either case provided that the entity is an exempt market or other dealer affiliated with the Limited Partnership.

“**Fair Value**” means, with respect to the LP Units or a class of LP Units, the fair value of the LP Units or class determined by the General Partner in its sole discretion from time to time, acting reasonably, based upon the price at which LP Units were most recently offered for sale, and adjusted as the General Partner may deem to be fair and equitable, including to reflect profits and losses to the date of determination. In determining Fair Value, the General Partner shall observe the following principles: (i) until default and commencement of enforcement proceedings, mortgages shall be valued at the book value thereof; (ii) on default and commencement of enforcement proceedings, mortgage interests shall be valued at the lesser of the appraised value used for purposes of advancing the mortgage loan and the most recent independent appraisal (and a mortgage that has been written down may subsequently be written up where warranted); (iii) any real property held for sale shall be valued at the lesser of the appraised value used for purposes of advancing the mortgage loan and the most recent independent appraisal; and (iv) cash on hand and short term investments such as commercial paper shall be valued at market value or amortized cost.

“**FSFMI**” means First Source Financial Management Inc.

“**Fund**” means First Source Mortgage Trust.

“**Fund Unit**” means a unit of beneficial interest in the Fund for the time being outstanding and includes a fraction of a unit.

“**GP Priority Distribution**” means the distribution made by the Limited Partnership to the General Partner for acting as general partner, as further described under “Distributions – GP Priority Distribution”.

“**GP Incentive Distribution**” means the distribution made by the Limited Partnership to the General Partner in the circumstances described under “Distributions – GP Incentive Distribution”.

“**General Partner**” means First Source Financial Management Inc.

“**Hurdle Rate**” means the Government of Canada benchmark 2-Year Bond Yield published by Bank of Canada (averaged through the applicable fiscal year) plus 5%.

“**Initial Closing**” means the initial closing of the Offering at which LP Units are issued, to take place at the sole discretion of the Trustees.

“**LP Unit**” means a unit of beneficial interest in the Limited Partnership for the time being outstanding and includes a fraction of a unit.

“**Limited Partner**” means a Person who is recorded as the holder of one or more LP Units and may include, from time to time, for purposes specified in the Limited Partnership Agreement, a Person who was a Limited Partner at any time in the same or previous fiscal year

“**Limited Partnership**” means First Source Mortgage LP.

“**Limited Partnership Agreement**” means the fourth amended and restated limited partnership agreement dated as of April 5, 2021, as it may be amended and restated from time to time.

“**Net Asset Value**” with respect to the Limited Partnership or to a Class of LP Units means the total assets, including all cash and cash equivalents, the market value of portfolio investments and the market value of all other assets of the Limited Partnership or attributable to the Class, and deducting therefrom management fees and expenses accrued or payable and all other liabilities of the Limited Partnership or Class of LP Units, calculated in accordance with the Limited Partnership Agreement.

“**Mortgage Lender**” means First Source Mortgage Corporation.

“**Offering**” means the offering made under this Offering Memorandum of LP Class F Units (formerly Class A Units), Class A Units, Class D Units and LP Class B Units for maximum gross proceeds of \$250,000,000, and unlimited sales of Class I Units.

“**Offering Memorandum**” means this offering memorandum.

“**Person**” means an individual, partnership, limited partnership, corporation, unlimited liability company, limited partnership, unincorporated organization, association, government, or any department or agency thereof and the successors and assigns thereof or the heirs, executors, administrators or other legal representatives of an Individual, or any other entity recognized by law.

“**Subsequent Closing**” means a closing which takes place after the Initial Closing, which may occur at the sole discretion of the General Partner.

“**Subscriber**” means a Person purchasing LP Units pursuant to this Offering.

“**Subsidiary**” means, with respect to any Person (other than an individual), any other Person (other than an individual) the financial results of which would be required to be consolidated with those of the first Person’s in the preparation of the first Person’s consolidated financial statements if prepared in accordance with GAAP.

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

THE LIMITED PARTNERSHIP

First Source Mortgage LP (the “Limited Partnership”) is a limited partnership formed under the laws of Ontario on April 6, 2017. The Limited Partnership provides mortgage financing to selected borrowers as described herein. The Fund is a limited partner of the Limited Partnership. See “Limited Partnership Agreement”.

BUSINESS OF THE LIMITED PARTNERSHIP

Investment Objectives and Strategies

The Limited Partnership’s mandate is to generate consistent and attractive risk-adjusted returns on investment through a professionally managed mortgage portfolio.

The Limited Partnership’s primary revenue source is interest payments received on its mortgage investments. The Limited Partnership generates additional revenues by way of application and commitment fees paid or payable by borrowers and prospective borrowers, as well as through interest bonuses for early prepayment, and late payoff bonuses for payments made after maturity.

The mortgage portfolio consists primarily of commercial and development first mortgages on new projects and refinancings. Real properties are located primarily in Ontario, with a concentration in the Greater Toronto Area and the Golden Horseshoe.

A typical loan follows the syndicated model which the General Partner has successfully deployed for the previous ten years, with mortgages generally below 65% of the current value of the property. In selected instances, loans may be advanced for up to 75% of the value of the property.

Investment Policies

The following are the investment policies and restrictions applicable to the Limited Partnership:

- Loans are secured by mortgages in favour of a nominee of the Limited Partnership and each mortgage will be duly registered in the appropriate land title office as a charge against the real property. Additional security for the loan will generally include a promissory note, a general security agreement, assignment of rents, subordination and postponement of claim from shareholders of the borrower, deficiency agreement (for construction projects) and any other security as may be customary or appropriate for similar loans
- Individual first mortgage loans are in the range of \$750,000 - \$15 million
- No more than 10% of the Partnership’s capital may be invested with any one borrower, provided this rule applies after the first anniversary of operations
- No more than 10% of the Partnership’s capital may be invested in any single mortgage investment, provided this rule applies after the first anniversary of operations
- No more than 25% of the Partnership’s capital may be invested in B positions in 1st mortgages
- The Limited Partnership will not advance a new mortgage loan if to do so will cause the weighted loan-to-value (LTV) of the Partnership’s mortgage portfolio to exceed 75%
- Mortgages secured by property located primarily in Canada, with a concentration in the GTA and Golden Horseshoe and urban properties between London and Ottawa.

- All mortgages are vetted by counsel to the Partnership or to the General Partner prior to the advance of funds
- The maximum initial term of a mortgage is 24 months, and the term of any mortgage may not exceed five years. Payments may be interest only but can be either amortized or paid on an interest plus principal basis
- Repayment schedules will consist primarily of interest-only mortgages, paid monthly
- The Limited Partnership may advance additional monies on a mortgage loan in order to protect its mortgage investment, notwithstanding that the additional advance of funds may cause the LTV to exceed the above parameters
- When not invested in mortgages, excess funds will be placed in CDIC insured investments including investments guaranteed by the Government of Canada, a province or territory of Canada, or interest-bearing cash deposits, deposit notes, certificates of deposit or other similar instruments issued, endorsed or guaranteed by a federally regulated financial institution
- Mortgages may be syndicated when it is deemed appropriate to achieve optimal investment size and targeted portfolio construction
- The General Partner may establish and manage property tax escrow accounts as additional security for the Limited Partnership’s mortgage investments. Where considered prudent and reasonable to do so, the General Partner may also establish a loan loss reserve account, which will be an expense of the Limited Partnership, in anticipation of losses which may be realized on the mortgage portfolio in the future
- The Limited Partnership will not borrow more than 30% of the net book value of the mortgage portfolio

To account for potential increased concentration during the initial build-out of the Limited Partnership’s portfolio following launch, the above policies will take effect on the first anniversary following Initial Closing.

Investment Portfolio

Prior to the date of this Offering, investors who held certain mortgage interests (“Eligible Mortgage Interests”) and who agreed to transfer their right, title and interest in such Eligible Mortgage Interests to the Limited Partnership were given an opportunity to acquire an aggregate \$50,000,000 LP Class OI Units of the Limited Partnership. The Limited Partnership’s loan portfolio as at May 31, 2018 was as follows:

| | |
|--------------------------------------|---------------------|
| Total Mortgages (#) | 35 |
| Mortgage Portfolio | \$39,572,831 |
| Cash | \$3,391,890 |
| Total Assets Under Management | \$42,964,721 |

Portfolio Construction

| Property Type | # | \$ | % |
|----------------------|----------|-------------|----------|
| Commercial | 3 | \$2,343,525 | 5.9% |
| Construction | 6 | \$9,401,920 | 23.8% |
| Hospitality | 3 | \$2,179,000 | 5.5% |

| Property Type | # | \$ | % |
|----------------------|-----------|---------------------|---------------|
| Industrial | 2 | \$894,200 | 2.3% |
| Land Development | 20 | \$21,254,186 | 53.7% |
| Residential | 1 | \$3,500,000 | 8.8% |
| Total | 35 | \$39,572,831 | 100.0% |

| Position | # | \$ | % |
|-----------------|-----------|---------------------|---------------|
| 1st | 29 | \$33,510,831 | 84.7% |
| B position* | 6 | \$6,062,000 | 15.3% |
| Total | 35 | \$39,572,831 | 100.0% |

| Property Location | # | \$ | % |
|--------------------------|-----------|---------------------|---------------|
| GTA | 26 | \$34,481,761 | 87.1% |
| North & Barrie | 2 | \$477,000 | 1.2% |
| Ottawa Valley | 1 | \$522,500 | 1.3% |
| Western Ontario | 6 | \$4,091,570 | 10.3% |
| | 35 | \$39,572,831 | 100.0% |

* In an A/B structured loan, two lenders take part in the same first mortgage. The A lender holds a priority or senior position to the B lender and accepts a lower rate for the portion that it funds. The B lender is subordinate to the A lender and receives a higher rate for its portion. The B Lender benefits by participating in a higher quality, lower risk loan that, without structuring, commands an interest rate outside its investment parameters.

OPERATIONAL RISK MANAGEMENT

Prior to funding, the General Partner obtains current appraisals from an accredited appraiser together with other relevant third party reports on the properties that secure each loan including but not limited to environmental reports, planning reports, building condition reports, insurance adequacy reports and such other reports as are customary in the commercial mortgage business. The General Partner also carries out background checks, obtains credit reports and reviews financial projections and pro forma financial statements.

Construction and major rehabilitation loans are funded after receipt and review of an appraisal based on the “as-is” and/or completed values of the property. The loan is advanced in progress draws as agreed to by the borrower. Prior to each loan advance, the property is re-inspected by an appraiser or quantity surveyor or cost consultant who provides a detailed written progress report and monitors costs in relation to an approved budget as required. In addition, all construction loans are funded in compliance with the *Construction Lien Act* of Ontario.

The maximum loan-to-value for any particular mortgage investment will vary depending on a number of factors including the location and marketability of the property, and the condition of the property. Notwithstanding any loan-to-value limits stated herein or other general underwriting criteria outlined herein, the Limited Partnership may advance funds to remedy the default by a borrower of its obligations in respect of a prior ranking security, or to satisfy the indebtedness secured by a prior ranking security, or for any other reason where such action is considered by FSFMI to be in the best interests of the Limited Partnership and its Limited Partners.

Lending Guidelines

The current prime lending area is the Greater Toronto Area and the Golden Horseshoe in Ontario with services in urban centres and towns from London to Ottawa and in smaller centers along Highway 11 to North Bay.

- Urban centres: with populations of 50,000+ (e.g. London, Cambridge, Kitchener, Waterloo, Hamilton, Oshawa, Pickering, Ajax, Bowmanville, Barrie, Belleville and Kingston)
- Smaller centres: typically located within 5 - 10 kilometres of urban centres and/or populations of 5,000+ may be considered selectively.

Maximum Loan-to-Values Considered

| Property Type | Maximum Loan to Value (“LTV”) |
|--|--------------------------------------|
| Commercial / Industrial First Mortgages | 70% |
| A/B Structured Mortgages | 75% |
| Construction Financing | 75% |
| Building lots, Development Land | 75% |
| Mixed Use Properties | 75% |
| Gas station and gas station building and development | 70% |
| Hotels & Special Purpose | 65% |

Exceptions to any of these guidelines will be considered on an individual basis and are subject to reductions in LTV based on assessment of risk of property, location, use, type, function, condition, and generally conservative underwriting practices.

Participation in Syndicated Mortgages

FSFMI and the Mortgage Lender currently carry on a successful mortgage syndication business and will seek to continue to do so following the establishment of the Fund and the Limited Partnership. The Limited Partnership is authorized to participate in mortgage syndications. The syndication may be arranged by a third party or FSFMI. All mortgage investment opportunities originated by FSFMI will be allocated to the Limited Partnership in priority to any third party lender, and only where deemed appropriate to achieve optimal investment size and targeted portfolio construction in the Limited Partnership.

From time to time, a syndicated mortgage may be funded by the Limited Partnership in the first instance, and subsequently a portion of the mortgage may be syndicated to other lenders.

Legal title to the Limited Partnership’s interest in syndicated mortgages may be held in trust by a bare trustee on behalf of the Limited Partnership. When the Limited Partnership’s interest is so held, the trust arrangements must be approved by FSFMI, and any trust document must be satisfactory to legal counsel.

INVESTMENT OVERVIEW

Non-Bank Mortgage Financing in Canada

There is well established demand for real estate mortgage financing that is not readily provided by banks, trust companies, insurance companies and other conventional lenders. Short-term mortgage financing is a continuing need of individuals, builders and real estate developers, and, because of their need for flexibility and quick response time, borrowers often require the services of private lenders and organizations such as the Limited Partnership. Private mortgages have long been an investment option for institutional and high net worth investors. However, due to the substantial capital outlay necessary for a well-diversified mortgage portfolio, individuals with limited amounts of funds and expertise were unable to easily access this asset class. Professional management and diversification through a pooled vehicle offers attractive advantages over individual investments in private mortgages or in mortgage syndications.

Competitive Advantages of the Limited Partnership

A large percentage of the mortgages funded by the Limited Partnership are located in or within commuting distance to Toronto. Key advantages and differentiating factors include:

- Highly desirable territory – Toronto & Golden Horseshoe are characterized by a resilient job market, stable real estate prices and continuing economic development
- Diversified portfolio of primarily commercial and development properties
- At least 80% of the loan portfolio consists of first mortgages
- Unlike most other comparable mortgage income funds, all origination and borrower administration fees (commitment fees) are paid to the Limited Partnership, rather than being retained by the General Partner or the Mortgage Lender. This treatment of fees enhances returns and aligns the interests of the Limited Partners with those of the General Partner.
- The principals of the Mortgage Lender have over 100 years of cumulative mortgage underwriting experience in the region; this deep knowledge of the targeted real estate market enables identification of attractive mortgage opportunities
- Together, the General Partner and the Mortgage Lender represent three tenured mortgage underwriters, eight team members and significant and tested private alternative lending experience
- Strong mortgage deal flow: a substantial and growing asset base combined with a record of reliable service, years of industry involvement and recognized industry leadership drive relationships with mortgage brokers and borrowers
- Appropriate exposure to both first and structured (A/B) commercial mortgages as well as modest leverage enhances opportunities for returns
- Certain tax advantages may be available to certain taxable corporate investors who invest through the Limited Partnership

MANAGEMENT OF THE LIMITED PARTNERSHIP

The General Partner

The investment policies and operations of the Limited Partnership are subject to the control and direction of the General Partner, the principals of whom have decades of substantial experience in the commercial real estate industry.

The General Partner manages the affairs of the Partnership and does not receive fees for the management of the Partnership but is entitled to participate in distributions from the Partnership. See “Distributions”. The General Partner is related to the Distributor in that they have shareholders, directors and officers in common.

First Source Mortgage Corporation (the “Mortgage Lender”, and together with FSFMI, “First Source”) was established in 2006 to carry on the business of a private mortgage lender syndicating mortgages on behalf of its growing base of private “accredited” individual investors and companies seeking stable, conservative and diversified commercial first mortgage investment opportunities with above average returns. The Mortgage Lender is licensed by the Financial Services Commission of Ontario (“FSCO”) as a mortgage brokerage. FSFMI is licensed by FSCO as a mortgage administrator, able to hold mortgages in trust on behalf of investors and provide a full suite of mortgage investment management and administrative services.

First Source has steadily expanded its syndication business since 2007 through astute lending and consistent performance for its private investor base, so that today, it manages \$110 million of syndicated mortgages. In July 2018, First Source will complete its 12th year of operations, marking 144 consecutive months of strong, risk-adjusted distributions to syndicate investors. First Source has originated and managed 170 mortgages totaling over \$340 million within its current strategy and geographic focus. Cumulative loan loss of \$607,000 on three individual mortgages represents 0.18% of assets invested.

In October 2016, First Source partnered with Velos Capital Corp. (“Velos Capital”). A platform for alternative lending businesses, Velos Capital owns Ottawa-based Westboro Mortgage Investment Corporation (“Westboro MIC”). Westboro MIC is a private lender with an investment focus in short duration, single family residential mortgages in the greater Ottawa/Gatineau region. Westboro has a diversified \$180 million portfolio and a successful 13-year track record. The synergies between First Source and Velos Capital provide a path to growth with improved deal flow and expanded investment opportunities in the Ottawa Valley, the GTA and the Golden Horseshoe. Shared resources in administration, distribution and governance will enable both teams to focus on building commercial and residential mortgage origination, driving strong risk-adjusted returns to our investors over the long term.

Directors and Senior Officers of FSFMI

The name and municipality of residence, office held and the principal occupation of each senior officer of the General Partner are as follows:

| <u>Name and Municipality of Residence</u> | <u>Office</u> | <u>Principal Occupation</u> |
|---|---------------|-----------------------------|
| Louis Anagnostakos, Ontario | Director | Entrepreneur, Investor |
| Mr. David Mandel, Toronto, Ontario | Director | Real Estate Executive |

The nature and extent of business and real estate experience is described below:

Louis Anagnostakos - Mr. Anagnostakos is the founder and CEO of Minus Global, a holding company of provide technology or services businesses in the smart waste market. Mr. Anagnostakos began his career as an institutional equity trader at Merrill Lynch and later co-founded Turtle Island Recycling, a company which grew to almost \$100 million of annual revenues and employed over 400 people. In his last role as CEO of the company, Mr. Anagnostakos successfully navigated the sale of Turtle Island Recycling to a private equity-backed strategic buyer in 2011. He currently sits on various public and private company boards and is an active investor in various start-up ventures.

Mr. Anagnostakos is a graduate and Fellow of the Richard Ivey School of Business, Quantum Shift program.

David Mandel, B.A., B.Comm., CPMB – Mr. Mandel and co-founder Lionel Larry founded First Source in 2006. Mr. Mandel has over 25 years of real estate, mortgage brokerage, private lending and syndication experience. David is also a past President of IMBA, now CMBA Ontario, Ontario's premier association of Mortgage Brokers and Agents in the province. Prior to founding First Source, Mr. Mandel founded First Equity Financial in 1998, a residential and commercial mortgage brokerage, after working as an independent mortgage broker with a GTA brokerage since 1989. His many years of service, leadership and outspoken articles on the industry have served to provide recognition among his peers as a reliable, experienced funding partner.

Mr. Mandel holds a B.A. from York University (1981) and a B.Comm from the University of Windsor, Ontario (1984) and has been a licensed mortgage broker since 1989.

Remuneration of Directors and Senior Officers

A person who is employed by and receives salary from FSFMI does not receive any remuneration from the Limited Partnership or the General Partner for serving as a director or executive officer.

Advisory Committee

The Fund has an advisory committee (the “Advisory Committee”) composed of senior executives who provide the benefit of their experience and industry knowledge to the investment strategies of the Fund. The Advisory Committee will be a 4-5 member board that will meet with management on a monthly basis to share their views on mortgage investment opportunities, the Fund’s portfolio construction and provide commentary on market outlook. The Advisory Committee is also charged with oversight of conflicts between the interests of investors and those of management and monitoring related party transactions.

The Advisory Committee members represent or are themselves significant investors in the Fund. The below current members will be joined by 2-3 additional members in the coming months.

Conrad Ogniewicz -- Mr. Ogniewicz is the founder of Torbel Group, a Toronto developer and builder. Since 1997, Torbel has developed over 1000 residential units in the GTA including Avanti and Diva condominiums in North York and Wallace Walk in Toronto. In the 4 years prior to founding Torbel, Mr. Ogniewicz resided in Israel where he built approximately 300 mid-rise residential units. From 1987 to 1992, Mr. Ogniewicz built approximately 500 low-rise residential units in the GTA. Mr. Ogniewicz holds a BA and MA in Mechanical Engineering from the University of Waterloo and a Ph.D in Mechanical Engineering from Berkeley University in California.

Other than with respect to conflict of interest matters and related party transactions, recommendations made by the Advisory Committee are not binding on the Fund. The Advisory Committee does not take part in the management of the Fund.

RELATIONSHIP BETWEEN THE FUND, THE GENERAL PARTNER AND THE DISTRIBUTOR

The Limited Partnership is a connected issuer, and may be considered to be a related issuer, of the Distributor.

Mr. David Mandel is a director and an officer of the General Partner and own beneficially a majority of the shares of the General Partner. The General Partner is entitled to participate in distributions from the Partnership as described under “Distributions”. The Limited Partnership has retained the Distributor to provide certain distribution services to it.

FSFMI took the initiative in forming the Partnership. A portion of the proceeds of the Offering will be used by the General Partner to recover certain expenses of the Offering, as described under “Fees and Expenses”.

Conflicts of Interest

The General Partner and senior officers of the General Partner and the Distributor may be engaged in a wide range of real estate and other activities. The Limited Partnership Agreement provides that the General Partner shall be authorized in connection with resolution of any conflict of interest matters to consider: (i) the relative interests of all parties involved in such conflict or affected by such action; (ii) any customary or accepted industry practices; and (iii) any applicable generally accepted accounting practices or principles. The General Partner must act in good faith and make a written record of its consideration of material conflict of interest matters and the resolution thereof. Furthermore, the General Partner has committed to refer material conflict of interest matters to the Advisory Committee for prior approval or resolution, and to be bound by the determination of the Advisory Committee.

Co-Investment

FSFMI and the Mortgage Lender currently carry on a successful mortgage syndication business and will seek to continue to do so following the establishment of the Fund and the Limited Partnership. FSFMI or any of its officers, shareholders, employees or affiliates (“FSFMI related parties”), may purchase for their own account and own as a co-lender, a percentage interest in any investment held by the Limited Partnership. FSFMI related parties may from time to time hold a subordinate portion in any mortgage which is presented to the Limited Partnership for investment, and the rate of return on such a subordinate portion may vary from the Limited Partnership’s rate of return due to the differing loan-to-value risk assumed by the Limited Partnership. No FSFMI related party will make any such investment unless the opportunity has first been presented to the Limited Partnership and the Limited Partnership has declined all or a portion of the available investment.

DESCRIPTION OF UNITS

Units

The beneficial interests in the Limited Partnership are divided into classes, of which the General Partner has designated eight classes as “LP Class F Units” (formerly Class A Units), “LP Class B Units”, “LP Class C Units”, “LP Class A Units”, “LP Class D Units”, “LP Class I Units”, “LP Class M Units” and “LP Class OI Units”. The General Partner may designate other classes of units in its discretion. Each class of LP Units is issuable in series, with each series having such attributes as the General Partner may determine from time to time. The number of LP Units which the Limited Partnership may issue is unlimited. LP Units shall be issued only as fully paid and non-assessable.

Each LP Unit represents an undivided beneficial interest in the Limited Partnership. Each holder of a LP Unit is entitled to participate in distributions of the Limited Partnership, whether of net income, net realized capital gains or other amounts, and, in the event of a liquidation, dissolution, winding-up or other termination of the Limited Partnership, in the net assets of the Limited Partnership remaining after satisfaction of all liabilities. No LP Unit shall have preference or priority over any other LP Unit. See “Distributions”.

Issuance of Units

The General Partner may allot and issue LP Units or other class or series of units at such time or times and in such manner (including pursuant to any plan from time to time in effect relating to reinvestment of distributions) and to such Person as the General Partner in its sole discretion determines. Following the issuance of LP Units at the Initial Closing, LP Units may be issued at Subsequent Closings at Fair Value per LP Unit.

Valuation of Units

The Limited Partnership calculates the “Fair Values” of LP Units from time to time, but no less frequently than quarterly, and the “Net Asset Values” of LP Units at least annually.

Following the Initial Closing, LP Units are issued and redeemed at Fair Value per LP Unit. The General Partner expects that absent extraordinary circumstances, Fair Value per LP Unit will be \$10. However, there is no guarantee that the Limited Partnership can maintain Fair Value at \$10 per LP Unit.

The Net Asset Value (NAV) of the Limited Partnership is calculated on an annual basis for the purpose of determining the GP Incentive Distribution, if any. The NAV is the total assets, including all cash and cash

equivalents, the market value of portfolio investments and the market value of all other assets, and deducting therefrom management fees and expenses accrued or payable and all other liabilities of the Limited Partnership.

REDEMPTION OF UNITS

Redemption Rights

A Limited Partner is entitled to require, at any time and from time to time, redemption of all or any part of the LP Units registered in the name of the Limited Partner. A redemption date (the “Redemption Date”) for both the Fund and the Limited Partnership shall be the last Business Day of each calendar week, the last day of each month, and such other date or dates as the General Partner may establish from time to time in its discretion.

The amount payable in respect of each LP Unit redeemed (the “Redemption Amount”) is equal to the Fair Value of the LP Unit on the Redemption Date, together with all distributions declared and unpaid as at the Redemption Date. Except as described under “Early Redemption Penalty” below, there is no redemption fee, and the Limited Partnership bears handling and processing costs, including any bank charges. Only whole LP Units may be redeemed unless the investor’s entire investment is being redeemed. Fair Value is determined by the General Partner in accordance with the Limited Partnership Agreement.

Payment of Redemption Amounts for any Redemption Date is subject to the availability of funds. There is no obligation to redeem LP Units on any Redemption Date if the total amounts to be redeemed on such Redemption Date, together with any amounts requested for redemption on a prior Redemption Date and unpaid as of such Redemption Date, exceed 1% of the aggregate Fair Value of LP Units outstanding on the Redemption Date (the “Redemption Limit”). Proceeds of redemption (less applicable fees and deductions) shall be paid as soon as is practicable after the applicable Redemption Date and in any event within three (3) Business Days following the relevant Redemption Date. The date on which any redemption payment is made is called a “Redemption Payment Date”. There may be multiple Redemption Payment Dates in respect of any given Redemption Date, depending on the Redemption Requests received. Unless a suspension of redemptions or other similar event is in effect, redemption requests are processed and paid in the order in which they are received.

In addition to the Redemption Limit, there are other restrictions on redemption as described below. All redemptions are made subject to and in accordance with the terms of the Limited Partnership Agreement.

Once paid, the redeeming Limited Partners have no further claims against the Limited Partnership and no further rights to any distributions.

Redemption Request Process

To exercise a redemption right, a duly completed and properly executed request (“Redemption Request”) requesting the Limited Partnership to redeem LP Units, in a form approved by the General Partner, shall be sent to the Limited Partnership at its head office (along with Unit Certificates, if Unit Certificates were issued). Redemption requests must be received by the General Partner by 4:00 p.m. (ET) on a date that is at least one (1) Business Day prior to the applicable Redemption Date. If at least one (1) Business Day’s advance notice is not given to the General Partner, the General Partner is not required to consider redeeming the LP Units until the following Redemption Date. No form or manner of completion or execution is sufficient unless the same is in all respects satisfactory to the General Partner and is accompanied by such supporting documents as the General Partner may reasonably require with respect to the identity, capacity

or authority of the person giving the Redemption Request. The General Partner shall be entitled in its sole discretion to waive any applicable notice period or part thereof.

The General Partner shall time and date stamp all Redemption Requests upon receipt. The Limited Partnership has no obligation to pay Redemption Amounts on a particular Redemption Payment Date in excess of the Redemption Limit. Redemption payments shall be made in order of receipt of Redemption Requests. LP Units for which Redemption Requests have been received but not paid in full on any given Redemption Payment Date shall maintain their order of priority until payment for such LP Unit(s) has been made in full. Additionally, the General Partner shall be entitled in its sole discretion to extend the time for payment of any redemption proceeds, if in the reasonable opinion of the General Partner immediate payment would be materially prejudicial to the interests of the remaining Limited Partners. The General Partner in its sole discretion may waive the Redemption Limit for any given Redemption Date.

Limited Partners will continue to enjoy rights attached to the LP Units tendered for redemption until the redemption proceeds in respect of the LP Units have been paid in full. A holder of LP Units properly tendered for redemption will be entitled to receive aggregate redemption proceeds equal to the Fair Value of the LP Units redeemed (determined as of the applicable Redemption Date), plus any unpaid distributions thereon which have been declared payable but remain unpaid as at the applicable Redemption Payment Date.

Amounts payable on redemption will be paid by cheque or by direct deposit to the account of the registered Limited Partner. Payments are conclusively deemed to have been made when deposited by direct deposit or upon the mailing of a cheque addressed to the payee unless such cheque is dishonoured upon presentment. Upon such payment, the Limited Partnership will be discharged from all liability to the former Limited Partner in respect of the LP Units so redeemed.

Early Redemption Penalty

There is no lock-up period; however, LP Units redeemed within the first 12 months of purchase will be subject to early redemption penalties as follows:

| If LP Units held | Amount deducted from redemption proceeds |
|--|---|
| 6 months or less | 2% of the Fair Value of the LP Units |
| more than 6 months but less than 9 months | 1.5% of the Fair Value of the LP Units |
| more than 9 months but less than 12 months | 1% of the Fair Value of the LP Units |
| more than 12 months | nil |

Amounts so deducted are retained by the Limited Partnership.

Suspension of Redemptions

The redemption right is subject to the Limited Partnership's ability to liquidate its investments in order to meet redemption requests. The Limited Partnership is obliged to make all reasonable efforts to meet requests for redemption; however, the Limited Partnership may in certain circumstances defer or delay redemption payments where it determines in good faith that the delay is required to protect the interests of the other investors in the Limited Partnership.

FSFMI has discretion to suspend, reject or defer redemptions of LP Units where:

- the Limited Partnership has a working capital deficiency or such redemptions would cause the Limited Partnership to have a working capital deficiency;
- such redemptions would cause the Limited Partnership to be in default of its financial obligations under bona fide arm's length loan or credit arrangements; or
- such redemptions are otherwise prohibited under applicable laws.

If the Limited Partnership is only able to redeem a portion of the LP Units due to the foregoing circumstances, the General Partner will declare that a suspension or deferral of redemptions is in effect, and LP Units will be redeemed on a pro rata basis, disregarding fractions, based on redemption requests received in good order on the date immediately prior to the effective date of suspension and not withdrawn.

Substantial Limited Partners

Notwithstanding the redemption rights outlined in the preceding section, in the interests of all Limited Partners, certain restrictions may, in the sole discretion of the General Partner, be placed on Substantial Limited Partners.

A Substantial Limited Partner is defined as a Limited Partner who, together with parties related to that Limited Partner (as defined in the Tax Act) holds a total number of LP Units which is equal to or greater than 10% of the total number of LP Units outstanding.

As long as a particular Limited Partner is classified as a Substantial Limited Partner they may be restricted to redeeming no more than 5% of their LP Units on any Redemption Date, subject to the discretion of the General Partner.

Mandatory Redemption

The Limited Partnership has the right to require a Limited Partner to redeem some or all of the LP Units owned by such Limited Partner on a Redemption Date at the Fair Value thereof, by notice in writing to the Limited Partner given at least 30 days before the designated Redemption Date, which right may be exercised by the General Partner in its sole and absolute discretion.

DISTRIBUTIONS

Distributable Cash

The Limited Partnership intends to distribute, on a monthly basis, substantially all Distributable Cash for the preceding month. "Distributable Cash" will generally consist of an amount equal to the net income (provided that in determining net income, the General Partner has discretion to deduct such amounts as it considers to be proper allowances, reserves, deductions and disbursements applicable thereto in accordance with generally accepted accounting principles), which may include interest income, rental income, dividends and other income received by the Limited Partnership. Distributable Cash may be estimated where the actual amount has not been fully determined. The Limited Partnership targets providing Limited Partners with a yield of approximately 7.5% per annum.

The amount of any distributions is entirely at the discretion of the General Partner and there can be no assurance that the Limited Partnership will make any distributions in any particular year.

If the General Partner is of the view that cash reserves should be provided for any ensuing period and determines that to do so would be in the best interests of the Limited Partnership and the Limited Partners,

it may reduce for any period the percentage of Distributable Cash to be distributed to Limited Partners. Distributions may be adjusted for amounts paid in prior periods if the actual Distributable Cash for the prior periods is greater than or less than the General Partner's estimates for the prior periods.

Each year, the Limited Partners will also receive a distribution equal to their proportionate share of:

- net realized capital gains (i.e., the capital gains for the taxation year, less capital losses for that taxation year) of the Limited Partnership; and
- any excess of the net income of the Limited Partnership for purposes of the Tax Act over distributions otherwise made for the year.

GP Priority Distribution

For acting as the general partner of the Partnership, the General Partner is entitled to a distribution (the “GP Priority Distribution”) from the Limited Partnership. The GP Priority Distribution is calculated at an annualized percentage of the Fair Value of the Limited Partnership attributable to the LP Units plus HST as follows:

- 1.75% for LP Class F Units (formerly Class A Units)
- 1.25% for LP Class B Units
- 2.75% for LP Class A Units
- 2.25% for LP Class D Units
- 1.25% for LP Class OI Units
- For LP Class I Units, the applicable GP Priority Distribution is negotiated on a case by case basis

The GP Priority Distribution is payable monthly, subject to adjustment following year-end. The GP Priority Distribution is paid prior to any distribution to the Limited Partners.

The Limited Partnership is authorized to issue LP Class C Units and LP Class M Units in addition to the LP Units described above. The General Partner receives a GP Priority Distribution of 1.75% plus HST for LP Class C Units. LP Class C Units are reserved for investors investing large amounts, and eligibility is determined in the discretion of the General Partner. The General Partner does not receive any GP Priority Distribution with respect to any assets attributable to LP Class M Units. LP Class M Units are reserved for the employees of FSFMI, their immediate family members and their associates and affiliates.

Dealer Compensation

The General Partner will pay, out of the GP Priority Distribution, a servicing commission to a registered dealer (each, a “Registered Dealer”) through which an investor purchases LP Class A or LP Class D Units based on the aggregate market value of the Registered Dealer’s clients’ investments in LP Class A and LP Class D Units at an annualized rate of 1.0% for LP Class A Units and 0.50% for LP Class D Units. Servicing commissions are calculated and paid on a monthly basis in arrears approximately 15 days after the calculation of Fair Value per LP Unit of the relevant Class of LP Units, for so long as clients of the Registered Dealer hold LP Units of the relevant Class.

GP Incentive Distribution

In addition to the GP Priority Distribution, the General Partner is entitled to a distribution (the “GP Incentive Distribution”) in respect of all LP Units other than the LP Class M Units.

The GP Incentive Distribution is payable in respect of a class of LP Units for any fiscal year of the Partnership in which the Total Return of the class of LP Units exceeds the “Hurdle Rate” of return for such year. For purposes of calculating the GP Incentive Distribution, the “Total Return” for any fiscal year is the sum of (i) the increase or decrease, if any, in the NAV per LP Unit from the beginning of the fiscal year to the end of the fiscal year; and (ii) all Distributions paid on such LP Units (net of the GP Priority Distribution) during the fiscal year, expressed as a percentage.

The amount of the GP Incentive Distribution in respect of a class of LP Units for any fiscal year is equal to 10% of the Total Return (as calculated above) of the applicable Class for the fiscal year.

Distribution Reinvestment Plan

The Limited Partnership will adopt a reinvestment plan which will provide that a holder of LP Units may elect to reinvest all or a portion of distributions paid on the LP Units held by such holder in additional LP Units of the same class. Holders of LP Units who wish to reinvest distributions should contact the General Partner or their dealer for details as to enrolment.

THE OFFERING

Prospectus Exemptions

This Offering Memorandum is being delivered in reliance on the exemptions from the prospectus requirements contained in sections 2.3, 2.5 and 2.10 of NI 45-106 (the “accredited investor”, “family, friends, and business associates” and “minimum amount investment” exemptions, respectively). The rights referred to in section 130.1 of the *Securities Act* (Ontario) do not apply in respect of an offering memorandum (such as this Offering Memorandum) delivered to a prospective purchaser in connection with a distribution made in reliance on the accredited investor exemption if the prospective purchaser is:

- (a) a Canadian financial institution or a Schedule III bank (each as defined in NI 45-106);
- (b) the Business Development Bank of Canada incorporated under the *Business Development Bank of Canada Act* (Canada); or
- (c) a subsidiary of any person referred to in paragraphs (a) and (b), if the person owns all of the voting securities of the subsidiary, except the voting securities required by law to be owned by directors of that subsidiary.

Minimum Investment

The minimum investment is \$50,000, provided that the minimum amount may be waived in the case of any Subscriber at the discretion of the General Partner.

PLAN OF DISTRIBUTION

The LP Units of the Limited Partnership will be offered on a private placement basis on behalf of the Limited Partnership by various dealers, including the Distributor and Registered Dealers, as placement agents (collectively, the “Placement Agents”) in reliance upon certain exemptions from the prospectus

requirements of applicable securities legislation. The obligations of the Limited Partnership to issue and sell, and of the Placement Agents to sell the LP Units, are subject to compliance with all necessary legal requirements.

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

All subscription funds received by the Placement Agents will be held in trust pending Closing (for greater certainty, all subscription funds will be held in trust for a minimum of two business day prior to a Closing).

Subscriptions for LP Units will be received subject to rejection or allotment in whole or in part and the right is reserved to close the subscription books for the LP Units at any time without notice. The Limited Partnership may accept subscriptions for additional LP Units to be issued on such dates as it determines and at subscription prices equal to the Fair Value of the LP Units at such time.

SUBSCRIPTION MATTERS

Representations of Subscribers

Subscriptions for LP Units must be made by completing and executing the subscription form and power of attorney (the “Subscription Agreement”) provided by the General Partner. Each Subscriber of LP Units will be deemed to have represented to the Limited Partnership, and any Registered Dealer who sells the LP Units to such Subscriber that:

- the offer and sale of LP Units was made exclusively through the final version of the Offering Memorandum and was not made through an advertisement of the LP Units in any printed media of general and regular paid circulation, radio, television or telecommunications, including electronic display, or any other form of advertising in Canada;
- it has reviewed and acknowledges the terms referred to herein under the section entitled “Resale Restrictions”;
- where required by law, it is purchasing as principal, or is deemed to be purchasing as principal in accordance with applicable Canadian securities laws in which it is resident, for its own account and not as agent for the benefit of another person;
- it is an accredited investor as defined in NI 45-106 or it is entitled to rely on the family, friends, and business associates exemption in NI 45-106 or it will invest subject to the minimum amount investment exemption as defined in NI 45-106; and
- it is not a person created or used solely to purchase or hold the LP Units as an accredited investor or through the minimum amount investment exemption.

Tax Status of Limited Partners

The following persons and entities may not invest in this Limited Partnership:

- (a) “non-residents”, partnerships other than “Canadian partnerships”, “tax shelters”, “tax shelter investments”, or any entities an interest in which is a “tax shelter investment”, or in which a “tax shelter investment” has an interest, all within the meaning of the Tax Act; and
- (b) a partnership which does not have a prohibition against investment by the foregoing persons.

By subscribing for LP Units, a Subscriber represents and warrants that he, she or it is not one of the above and agrees to indemnify and hold harmless the Limited Partnership and each other Limited Partner for any costs, damages, liabilities, expenses or losses suffered or incurred by the Limited Partnership or such other Limited Partner, as the case may be, that result from or arise out of a breach of such representation and warranty. Any Limited Partner who fails to provide evidence satisfactory to the General Partner of such status when requested to do so from time to time may be removed as a Limited Partner by the forced redemption of his Units in accordance with the Limited Partnership Agreement.

Any Limited Partner whose status in this regard changes shall be deemed to have ceased to be a Limited Partner (for all purposes other than taxation and liability) immediately prior to the date on which such status changes and shall thereafter only be entitled to receive from the Limited Partnership an amount equal to the lesser of the Fair Value of such Limited Partner’s LP Units as at the date on which he or she ceases to be a Limited Partner and the Fair Value of such Units as at the date the General Partner learns that such Limited Partner’s status has changed, less all such deductions as provided in the Limited Partnership Agreement as if such Limited Partner voluntarily redeems his or her Units.

In addition, any Subscriber who is, or a Limited Partner who becomes, a “financial institution” within the meaning of Section 142.2 of the Tax Act (as same may be amended or replaced from time to time) shall disclose such status to the General Partner at the time of subscription (or when such status changes) and the General Partner may restrict the participation of any such Limited Partner or require any such Limited Partner at any time to redeem all or some of such Limited Partner’s Units. A Limited Partner who fails to identify itself as a financial institution shall indemnify and hold harmless the Limited Partnership and each other Limited Partner for any costs, damages, liabilities, expenses or losses suffered or incurred by the Partnership or such other Limited Partner, as the case may be, that result from or arise out of such failure. Any Limited Partner who is or who becomes a financial institution after becoming a Limited Partner shall be deemed to have, immediately prior to the date on which it becomes a financial institution (or the date of issue of Units to such financial institution, whichever is later), redeemed some or all of such Limited Partner’s LP Units to the extent necessary to result in financial institutions owning in the aggregate LP Units having a Fair Value that is less than one-half of the Fair Value of all of the LP Units, and shall be entitled to receive from the Limited Partnership as redemption proceeds an amount equal to the lesser of the Fair Value of such redeemed LP Units as at the date on which it is deemed to have redeemed such LP Units and the Fair Value of such LP Units as at the date the General Partner learns that such Limited Partner is a financial institution, less all such deductions as provided in the Limited Partnership Agreement as if such Limited Partner voluntarily redeemed its Units.

Power of Attorney

The Limited Partnership Agreement and the Subscription Agreement (required to be executed by an investor) include an irrevocable power of attorney authorizing the General Partner, on behalf of the investor (as a Limited Partner), to execute any amendments to the Limited Partnership Agreement and all instruments necessary to reflect the formation of, amendment to, or dissolution of, the Limited Partnership

or the registration of the Limited Partnership in any jurisdiction as well as any elections, determinations or designations under the Tax Act or other taxation legislation or laws of like import with respect to the affairs of the Limited Partnership or a Limited Partner's interest in the Limited Partnership.

Use of Personal Information

In addition, each purchaser of LP Units will be deemed to have represented to the Limited Partnership, and each Registered Dealer from whom a purchase confirmation is received, that such Subscriber:

- (a) has been notified by the Limited Partnership:
 - that the Limited Partnership may be required to provide certain personal information (“personal information”) pertaining to the Subscriber as required to be disclosed in Schedule 1 of Form 45-106F1 under NI 45-106 (including its name, address, telephone number and the number and value of any LP Units purchased), which Form 45-106F1 may be required to be filed;
 - that such personal information may be delivered to the securities regulatory authority in the jurisdiction of residence of the purchaser in accordance with NI 45-106 and that this information will not be placed on the public file of any securities regulatory authority or regulator, however, freedom of information legislation may require the securities regulatory authority or regulator to make this information available if requested;
 - that such personal information is collected indirectly by the securities regulatory authority in the jurisdiction of residence of the purchaser under the authority granted to it under applicable securities legislation;
 - that such personal information is collected for the purposes of the administration and enforcement of the applicable securities legislation; and
 - that contact information for the securities regulatory authority in the jurisdiction of residence of the purchaser who can answer questions about the indirect collection of personal information is set out in Annex A of this Offering Memorandum; and
- (b) has authorized the indirect collection of the personal information by the securities regulatory authority in the jurisdiction of residence of the purchaser.

By purchasing LP Units, the Subscriber consents to the disclosure of such information.

Closings

Closings of sales of LP Units (each a “Closing”) will occur at the discretion of the General Partner, as such LP Units are subscribed.

The obligation of the Limited Partnership to issue the LP Units and the obligation of the purchasers to purchase the LP Units will be conditional upon certain matters, including, but not limited to, the following:

- (a) the execution and delivery of a subscription agreement in such form and substance as may be satisfactory to the General Partner;

- (b) if applicable, the execution and delivery of a certificate, in the form prescribed by the General Partner, indicating the category under which the investor qualifies as an accredited investor; and
- (c) if applicable, the execution and delivery of a risk acknowledgement in the form required by applicable securities law.

No Certificates

Generally, the Limited Partnership will not issue Unit certificates but may do so in the discretion of the General Partner. However, on any purchase, redemption or transfer of LP Units, the investor will receive trade confirmations indicating the nature of the transaction effected by the Limited Partner and the number of LP Units held by such Limited Partner after such transaction. Unit certificates, if issued, shall be in such form as the General Partner may from time to time approve.

USE OF PROCEEDS

The net proceeds of the Offering, after deduction of all Fees and Expenses, will be used by the Limited Partnership to invest in mortgages on real property located primarily in Canada as described under Investment Objectives and Strategies.

RIGHTS OF LIMITED PARTNERS

Meetings of Limited Partners

The General Partner may convene a meeting of Limited Partners as it considers appropriate or advisable from time to time. The General Partner must also call a meeting of Limited Partners on the written request of Limited Partners holding not less than 50% of the outstanding LP Units in accordance with the Limited Partnership Agreement.

Distribution on Termination

The Limited Partnership does not have a fixed termination date. The Limited Partnership may be terminated at any time by the Limited Partners by Special Resolution at a meeting of Limited Partners called for that purpose. The General Partner may, in its discretion, on 60 days' notice to the Limited Partners, terminate the Limited Partnership without the approval of Limited Partners if, in the opinion of the General Partner: (a) it would be in the best interests of the Limited Partnership and the Limited Partners to terminate the Limited Partnership; or (b) it is no longer economically feasible to continue the Limited Partnership.

Upon termination, the net assets of the Limited Partnership will be distributed to Limited Partners on a pro rata basis. Prior to the effective date of termination, the General Partner will, to the extent possible, convert the assets of the Limited Partnership to cash and after paying or making adequate provision for all of the Limited Partnership's liabilities, distribute the net assets of the Limited Partnership to the Limited Partners. Any unliquidated assets may be distributed in specie rather than in cash, subject to compliance with any securities or other laws applicable to such distributions. The General Partner may, in its discretion, defer the effective date of termination for up to 90 days if the General Partner provides written notice of such deferral to the Limited Partners.

DESCRIPTION OF THE LIMITED PARTNERSHIP

General

The Partnership is a limited partnership governed in accordance with the laws of the Province of Ontario and the federal laws of Canada applicable therein.

Authorities and Duties of the General Partner

The General Partner has the full power and authority to do such acts and things and to execute and deliver such documents as it considers necessary or desirable in connection with the offering and sale of the LP Units and for carrying on the business of the Limited Partnership for the purposes summarized herein and described more fully in the Limited Partnership Agreement.

The General Partner shall exercise its powers and discharge its duties honestly, in good faith, and with a view to the best interests of the Limited Partnership and in connection therewith shall exercise the degree of care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

Liability of Limited Partners

Subject to the provisions of the *Limited Partnerships Act* (Ontario) (the “LP Act”), the liability of each Limited Partner for the liabilities and obligations of the Limited Partnership is limited to the amount the Limited Partner contributes to the Partnership, less any such amounts properly returned to the Limited Partner. A Limited Partner may lose his, her or its status as a limited partner and the benefit of limited liability if such Limited Partner takes part in the control of the business of the Partnership.

Where a Limited Partner has received the return of all or part of the Limited Partner’s “Contributed Capital” (as defined in the Limited Partnership Agreement), the Limited Partner is nevertheless liable to the Limited Partnership or, following the dissolution of the Limited Partnership, to its creditors for any amount, not in excess of the amount returned with interest (calculated at a rate per annum equal to the prime commercial lending rate of the Limited Partnership’s bankers), necessary to discharge the liabilities of the Limited Partnership to all creditors who extended credit or whose claims otherwise arose before the return of the Contributed Capital. Furthermore, if after a distribution the General Partner determines that a Limited Partner was not entitled to all or some of such distribution, the Limited Partner shall be liable to the Partnership to return the portion improperly distributed, together with interest at a rate per annum equal to the prime commercial lending rate of the Partnership’s bankers if repayment of such excess amount is not made by the Limited Partner within fifteen (15) days of receiving notice of such overpayment. The General Partner may set off and apply any sums otherwise payable to a Limited Partner against such amounts due from such Limited Partner, provided that there shall be no right of set-off against a Limited Partner in respect of amounts owed to the Partnership by a predecessor of such Limited Partner.

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

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

Expenses of the Limited Partnership

The Limited Partnership is responsible for all of its operational expenses (other than expenses assumed by the Fund), including, but not limited to: (a) interest and other costs of borrowed money; (b) fees and expenses of lawyers, accountants, auditors, appraisers, custodians, valuers and other agents or consultants employed by or on behalf of the Limited Partnership or the General Partner; (c) fees and expenses connected with the acquisition, valuation, holding disposition and ownership of real property interests or other property; (d) reasonable expenses in connection the marketing and distribution of LP Units; (e) expenses in connection with unitholder recordkeeping, transfer agency, reporting to Limited Partners and the other bookkeeping and clerical work necessary in maintaining relations with Limited Partners (including reporting to Limited Partners, preparation and delivery of financial statements and tax reporting); (f) expenses of changing or terminating the Partnership; (g) fees and expenses paid to any Advisory Committee and related indemnification and insurance expenses; (h) fees and charges of regulators, transfer agents, registrars, and other custodians; (i) all costs and expenses in connection with the incorporation or establishment, organization and maintenance of corporations and other entities formed to hold mortgage, real property or other property of the Limited Partnership; and (j) all other costs and expenses that the General Partner, acting reasonably, determines to be incurred for the Limited Partnership. See “Fees and Expenses”.

Amendments to the Limited Partnership Agreement

The Limited Partnership Agreement may be amended by a vote of a majority of the votes cast at a meeting of Limited Partners duly called for that purpose, provided that the Limited Partnership Agreement may be amended by the General Partner without the consent, approval or ratification of the Limited Partners or any other person: (a) to reflect a change that, in the sole discretion of the General Partner, is reasonable and necessary or appropriate to qualify or continue the qualification of the Partnership as a partnership in which the Limited Partners have limited liability under the applicable laws; (b) to remove any conflicts or inconsistencies in the Limited Partnership Agreement or making minor corrections including the rectification of any ambiguities, defective provisions, errors, mistakes or omissions that are, in the opinion of the General partner, necessary or desirable and not prejudicial to the Limited Partners; (c) to make amendments which, in the opinion of the General Partner are necessary or desirable to remove conflicts or inconsistencies between the disclosure in this Offering Memorandum and the Limited Partnership Agreement; (d) to reflect a change that, in the sole discretion of the General Partner, is reasonable, necessary or appropriate to enable the Limited Partnership to take advantage of, or not be detrimentally affected by, changes in the Income Tax Act or other taxation laws; (e) to ensure or continue compliance with applicable laws, regulations or requirements of any governmental authority having jurisdiction over the Limited Partnership; or (f) for any purpose (except one in respect of which a vote of Limited Partners is specifically otherwise required) if the General Partner is of the opinion that the amendment is not prejudicial to Limited Partners and is necessary or desirable.

Removal of the General Partner

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

except a deemed resignation arising as a result of (a), above, which shall be effective immediately before the General Partner ceased to be a resident of Canada. The General Partner is permitted to resign as general partner, or to transfer its interest in the Limited Partnership, only on 45 days' prior written notice to the Limited Partnership and the Limited Partners, provided that any resignation by the General Partner will only be effective following the appointment of a replacement general partner. The appointment of such replacement General Partner must be ratified by at least a majority of the Limited Partners within 120 days, failing which the resigning General Partner must reassume the duties of the General Partner (but may seek another replacement General Partner). The General Partner may not be removed and replaced with another person as general partner of the Limited Partnership except where the General Partner has been found by a court of competent jurisdiction to have committed fraud, wilful misconduct, breach of its fiduciary duties or wilful breach of the Limited Partnership Agreement. Notwithstanding anything else contained herein, the General Partner may be summarily removed without notice or penalty in the event that the General Partner has been found to have committed fraud or a criminal offence.

FEES AND EXPENSES

Organizational and Offering Expenses

The Limited Partnership will bear its organizational and offering expenses, including the out-of-pocket expenses of FSFMI and its agents actually incurred in the formation of the Limited Partnership. Such organizational and offering expenses shall not exceed \$100,000 and will be amortized over five years.

Operating Expenses

The Limited Partnership pays all costs and expenses relating to its operations, as described under "Description of the Limited Partnership – Expenses of the Partnership". The General Partner is responsible for its own operations, including rent, salaries, furniture and fixtures and all other office equipment.

Cap on Expenses

In any year of the Limited Partnership, the aggregate of fees and expenses charged to the Limited Partnership, including amortized organizational and offering expenses, but excluding transaction fees and expenses described in paragraph (c) under "Description of the Limited Partnership – Expenses of the Partnership" and excluding taxes, shall not exceed the greater of 0.25% of the Fair Value of the LP Units on December 31 of such year or \$250,000.

CERTAIN CANADIAN FEDERAL INCOME TAX CONSIDERATIONS

The following is a summary of the principal Canadian federal income tax considerations under the Tax Act generally applicable, as of the date of this Offering Memorandum, to a Limited Partner who acquires LP Units pursuant to the Offering. This summary is applicable only to a person who subscribes, as principal, for LP Units in the Limited Partnership pursuant to the terms of this Offering Memorandum and who, for purposes of the Tax Act and at all relevant times, is a resident of Canada, deals at arm's length with the General Partner and the Limited Partnership, is not affiliated with the General Partner or the Limited Partnership, and holds LP Units in the Limited Partnership as capital property (a "**Holder**"). LP Units will generally be considered to be capital property to a Holder, provided that the Holder does not hold the LP Units in the course of carrying on a business and has not acquired the LP Units in one or more transactions considered to be an adventure or concern in the nature of trade.

This summary is not applicable to a Holder (i) that is a "financial institution" as defined in subsection 142.2(1) of the Tax Act, (ii) that is a "specified financial institution" as defined in the Tax Act, (iii) that

reports its “Canadian tax results”, as defined in the Tax Act, in a currency other than Canadian currency, (iv) an interest in which would be a “tax shelter investment” as defined in the Tax Act, (v) that has, directly or indirectly, a “significant interest” as defined in subsection 34.2(1) of the Tax Act in the Limited Partnership, (vi) of which any affiliate of the Limited Partnership is or was at any relevant time a “foreign affiliate” for any purpose of the Tax Act, or (vii) that has entered into or will enter into, with respect to the LP Units, a “derivative forward agreement” as that term is defined in the Tax Act. Such Holders are urged to consult their own tax advisors. In addition, this summary does not address the deductibility of interest expense or other expenses incurred by a Holder in connection with debt incurred in connection with the acquisition or holding of LP Units.

This summary is also not applicable to a Holder who holds more than one class of LP Units at any particular time. The CRA has expressed the view that all interests in a particular partnership held by a taxpayer (such as different classes of LP Units) should be treated as a single property for purposes of the Tax Act, including for purposes of determining the adjusted cost base of such interests. Holders who intend to hold more than one class of LP Units should consult their own tax advisors in this regard.

This summary assumes that at all times: (i) the Limited Partnership is a “Canadian partnership” as defined in the Tax Act, (ii) the Limited Partnership (and each LP Unit) is not a “tax shelter” or “tax shelter investment”, each as defined in the Tax Act, (iii) the Limited Partnership is not a “SIFT partnership” as defined in the Tax Act, (iv) LP Units that represent more than 50% of the fair market value of all interests in the Limited Partnership are held by Limited Partners that are not “financial institutions” as defined in the Tax Act, and (v) no interest in any Limited Partner is a “tax shelter investment” as defined in the Tax Act. However, no assurances can be given in this regard.

This summary is based upon the current provisions of the Tax Act, the regulations thereunder (the “**Regulations**”), all specific proposals to amend the Tax Act and the Regulations publicly announced by or on behalf of the Minister of Finance (Canada) prior to the date of this Offering Memorandum (the “**Tax Proposals**”) and the current published administrative policies and assessing practices of the Canada Revenue Agency (the “**CRA**”). Except as described in the immediately preceding sentence, this summary does not take into account or anticipate any changes in law or administrative policy or assessing practice, whether by legislative, regulatory, administrative or judicial action. Furthermore, this summary does not take into account provincial, territorial or foreign income tax legislation or considerations. This summary assumes that the Tax Proposals will be enacted as proposed, but no assurance can be given in this regard. No ruling has been sought from the CRA as to the tax position of the Limited Partnership or the Limited Partners.

This summary is of a general nature only and is not intended, nor should it be construed, to be legal or tax advice to any particular prospective investor. The income and other tax consequences to a Holder of acquiring, holding or disposing of LP Units in the Limited Partnership vary according to the status of the Holder, the province or territory in which the Holder resides or carries on business and the Holder’s own particular circumstances. Each Holder should obtain independent advice regarding the income tax consequences under federal and provincial tax legislation of acquiring, holding and disposing of LP Units based on such Holder’s own particular circumstances.

Taxation of the Limited Partnership

Under the Tax Act, the Limited Partnership itself is not liable for Canadian federal income tax. However, the income or loss of the Limited Partnership will be computed for each fiscal period as if it were a separate person resident in Canada. The fiscal period of the Limited Partnership will end on December 31 each year. The income or loss of the Limited Partnership, for purposes of the Tax Act, may differ from its income or loss for accounting purposes and may not be matched by cash distributions.

In computing its income or loss for income tax purposes, the Limited Partnership will generally be entitled to deduct its expenses in its fiscal period in which they are incurred provided that such expenses are reasonable and their deduction is permitted by the Tax Act. The Limited Partnership may generally deduct the costs and expenses of issuing LP Units pursuant to the Offering, incurred by the Limited Partnership and not reimbursed, at the rate of 20% per year pro-rated where the Limited Partnership's fiscal year is less than 365 days.

Taxation of Limited Partners

The income or loss of the Limited Partnership for Canadian federal income tax purposes for each fiscal period of the Limited Partnership will be allocated among the partners holding LP Units (or deemed to be holding LP Units) at any time during that fiscal period. In general, a Holder's share of any income or loss of the Limited Partnership from a particular source (including its share of any taxable capital gain or any allowable capital loss) will retain its character as such, and any provisions of the Tax Act applicable to that type of income or loss will apply to the share of such income or loss allocated to the Holder. A Holder's share of the Limited Partnership's income must (or loss may, subject to the "at-risk rules" described below) be included (or deducted) in determining the Holder's income (or loss) for the year, whether or not any distribution has been made by the Limited Partnership.

Subject to the "at-risk rules" and "alternative minimum tax rules" discussed below, a Holder's allocated share of the losses from any source (other than allowable capital losses) of the Limited Partnership for any fiscal period may generally be applied against the Holder's income from any source in order to reduce the Holder's overall net income in the relevant taxation year and, to the extent such amount exceeds other income for that year, may be carried back three years and forward 20 years and deducted in computing taxable income for such other years to the extent and under the circumstances described in the Tax Act.

A Holder's allocated share of the allowable capital losses of the Limited Partnership for any fiscal period may generally be applied against the Holder's taxable capital gains in the relevant taxation year and, to the extent such amount exceeds such taxable capital gains, may be carried back three years and carried forward indefinitely against taxable capital gains realized in such other years to the extent and under the circumstances described in the Tax Act.

The "at-risk rules" contained in the Tax Act generally provide that, notwithstanding the income or loss allocation provisions of the Tax Act, a Holder's allocated share of the losses (other than allowable capital losses) of the Limited Partnership for a fiscal period will be deductible by the Holder in computing its income for a taxation year only to the extent that its share of such losses does not exceed its "at-risk amount" in respect of the Limited Partnership at the end of the fiscal period. In general terms, the "at-risk amount" in respect of the Limited Partnership at the end of a fiscal period of the Limited Partnership is generally equal to (i) the adjusted cost base to the Holder of its LP Units at that time, plus (ii) subject to certain adjustments, the Holder's share of the income from all sources of the Limited Partnership for the fiscal period, less (iii) subject to certain exceptions, all amounts owing by the Holder (or by a person or partnership which does not deal at arm's length with the Holder) to the Limited Partnership (or to a person or partnership that does not deal at arm's length with the Limited Partnership) and less (iv) subject to certain exceptions, any amount or benefit which the Holder (or a person who does not deal at arm's length with the Holder) is entitled to receive where the amount or benefit is intended to reduce the impact of any loss the Holder might sustain by virtue of being a member of the Limited Partnership or of holding or disposing of its LP Units.

A Holder's share of the losses of the Limited Partnership that is not deductible by the Holder in a taxation year as a result of the application of the "at-risk rules" is considered to be that Holder's "limited partnership loss" in respect of the Limited Partnership for the year. Such a limited partnership loss may be deducted by the Holder in any subsequent taxation year against any income for that year from the Limited Partnership

to the extent, generally, that the Holder's "at-risk amount" at the end of the Limited Partnership's last fiscal period ending in that year exceeds the Holder's share of any losses of the Limited Partnership from a business or property for that fiscal period in accordance with the rules contained in the Tax Act.

Disposition of Units

A Holder who disposes, or is deemed to have disposed, of a LP Unit will generally realize a capital gain (or a capital loss) to the extent that the proceeds of disposition of the LP Unit, net of any reasonable costs of disposition, exceed (or are exceeded by) the adjusted cost base to the Holder of the LP Unit.

In general, the adjusted cost base to a Holder of a LP Unit at a particular time will be equal to the actual cost of the LP Unit plus, subject to certain adjustments, the Holder's allocated share of the income of such Limited Partnership from any source for all fiscal periods of the Limited Partnership ending before the particular time, less, subject to certain adjustments, the Holder's allocated share of the losses of such Limited Partnership from any source for all fiscal periods of the Limited Partnership ending before the particular time (other than any portion of the losses not deducted by reason of the application of the at-risk rules) and the amount of any distributions made to the Holder by the Limited Partnership before the relevant particular time.

The allocated income for a fiscal period will not be added to the adjusted cost base of the LP Units until after the end of that fiscal period. If a Holder disposes of all of his, her or its LP Units, income or loss of the Limited Partnership allocated to such Holder for the year of disposition will be added to or subtracted from his, her or its adjusted cost base of the LP Units as if that year was a completed fiscal year. Where the adjusted cost base to a Holder of his, her or its LP Units is negative at the end of a fiscal period of the Limited Partnership, the negative amount will be deemed to be a capital gain of the Holder. The adjusted cost base of the Holder's LP Units will be increased by the amount of this deemed capital gain.

In general, one-half of a capital gain must be included in computing the income of a Holder (a "taxable capital gain"), and one-half of a capital loss (an "allowable capital loss") must be deducted by a Holder from taxable capital gains realized in the year and, to the extent that such allowable capital losses exceed taxable capital gains in the year, may be applied against net taxable capital gains realized in any of the three years preceding the year or any year following the year, to the extent and under the circumstances described in the Tax Act.

A Holder that is a Canadian-controlled private corporation (as defined in the Tax Act) throughout a taxation year may be liable to pay an additional refundable tax on certain investment income, including taxable capital gains.

Dissolution of the Limited Partnership

On the dissolution of the Limited Partnership, Holders will generally be considered to have disposed of their LP Units for proceeds of disposition equal to the fair market value of the property received or receivable by them on the dissolution and the Limited Partnership will be deemed to have disposed of, and the Holders will be deemed to have acquired, such property at its fair market value.

A capital gain (or capital loss) will be realized by a Holder on the disposition of such LP Units to the extent that such proceeds, net of reasonable disposition costs, exceed (or are less than) the adjusted cost base of the Holder's LP Units, calculated as described above. Any income, capital gain or loss realized by the Limited Partnership on the disposition of property in the fiscal period ending as a result of the dissolution of the Limited Partnership will be included in the income or loss of the Limited Partnership for that fiscal period and allocated to the partners in accordance with the Limited Partnership Agreement.

Alternative Minimum Tax

A Holder subject to the alternative minimum tax rules in the Tax Act must generally calculate the minimum tax payable without deducting certain partnership losses allocated to the Holder and associated carrying charges from adjusted taxable income. The realization of a capital gain on the disposition of LP Units or the realization by the Limited Partnership of a capital gain may give rise to an increased liability for alternative minimum tax. Holders should consult their own tax advisors for advice respecting the application of the alternative minimum tax rules in their particular circumstances.

Filing Requirements

Each Holder will generally be required to file an income tax return reporting its share of the income or loss of the Limited Partnership. While the Limited Partnership will provide each Holder with the information required for income tax purposes pertaining to him or her, the Limited Partnership will not prepare or file income tax returns on behalf of any Holder. Each person who is a partner of the Limited Partnership at any time in a fiscal period of the Limited Partnership is required to make and file an information return in respect of that period in prescribed form, including the income or loss of the Limited Partnership for that period and the allocation of such income or loss among the partners. The filing of an annual information return by the General Partner on behalf of all Holders will satisfy this requirement, and under the Limited Partnership Agreement the General Partner is required to make such filing.

ELIGIBILITY FOR INVESTMENT

LP Units are not qualified investments under the Tax Act for trusts governed by registered retirement savings plans, registered retirement income funds, deferred profit sharing plans, registered education savings plans, registered disability savings plans and tax-free savings accounts.

Any investor contemplating a purchase of LP Units is strongly advised to consult with their own tax advisors regarding the application of the foregoing having regard to their particular circumstances.

RISK FACTORS

This purchase of LP Units involves a number of risk factors and is suitable only for investors who are aware of the risks inherent in the real estate industry and who have the ability and willingness to accept the risk of loss of their invested capital and who have no immediate need for liquidity.

The Limited Partnership advises that prospective investors should consult with their own independent professional legal, tax, investment and financial advisors before purchasing LP Units in order to determine the appropriateness of this investment in relation to their financial and investment objectives and in relation to the tax consequences of any such investment.

In addition to the factors set forth elsewhere in this Offering Memorandum, prospective investors should consider the following risks before purchasing LP Units. Any or all of these risks, or other as yet unidentified risks, may have a material adverse effect on the Limited Partnership's business, and/or the return to the investors.

Representations of Subscribers

Each Subscriber of LP Units will represent to the Limited Partnership and any dealer who sells the LP Units to such Subscriber that such Subscriber is an "accredited investor" as defined in NI 45-106, or that the Subscriber will subscribe under the "minimum amount investment" exemption as defined in NI 45-106.

Resale Restrictions

The LP Units are not listed on an exchange. There is currently no secondary market through which the LP Units may be sold, there can be no assurance that any such market will develop and the Limited Partnership has no current plans to develop such a market. Accordingly, the sole method of liquidation of an investment in LP Units is by way of redemption of the LP Units. Aggregate redemptions are subject to the Redemption Limit.

Limitations on Redemption

Limited Partners have the right to require the Limited Partnership to redeem LP Units, upon advance written notice of redemption to the General Partner. Payment of redemption proceeds is subject to the availability of funds and payments may be deferred where the total amount to be paid exceeds 1% of the Limited Partnership. Accordingly, this investment may be unsuitable for those prospective investors who require greater liquidity.

Absence of Management Rights

The LP Units being sold under this Offering Memorandum do not carry voting rights, and consequently an investor's investment does not carry with it any right to take part in the control or management of the Limited Partnership's business. In assessing the risks and rewards of an investment in LP Units, potential investors should appreciate that they are relying solely on the good faith, judgment and ability of the directors, officers and employees of the General Partner to make appropriate decisions with respect to the management of the Limited Partnership, and that they will be bound by the decisions of the General Partner, and its directors, officers and employees.

Lack of Separate Legal Counsel

The investors, as a group, have not been represented by separate counsel. Counsel for the Limited Partnership does purport to have acted for the investors nor to have conducted any investigation or review on their behalf.

Reliance on FSFMI

In accordance with the terms of the Limited Partnership Agreement, FSFMI has significant responsibility for assisting the Limited Partnership to conduct its affairs. Any inability of FSFMI to perform competently or on a timely basis will negatively affect the Limited Partnership.

Concentration

The Limited Partnership is a mortgage investment entity and so its investments are concentrated in mortgages. Exposure to a specialized industry, market sector, particular geographical area or asset class involves risk that the Limited Partnership will suffer loss because of market, economic (including interest rate) or regulatory events which affect the sector or asset class. The Limited Partnership is not a broadly diversified investment across many industries and types of economic activity.

Conflicts of Interest

Conflicts of interest exist, and others may arise, between investors and the directors and officers of FSFMI, the Mortgage Lender and the Limited Partnership and their associates and affiliates.

There is no assurance that any conflicts of interest that may arise will be resolved in a manner most favourable to investors. Persons considering a purchase of LP Units must rely on the judgment and good faith of the directors, officers and employees of the General Partner, the Mortgage Lender, and the Limited Partnership in resolving such conflicts of interest as may arise.

The Limited Partnership and its Limited Partners are dependant in large part upon the experience and good faith of FSFMI. FSFMI is entitled to act in a similar capacity for other investment vehicles or private lenders with investment criteria similar to those of the Limited Partnership. Notwithstanding this fact, FSFMI does not anticipate any difficulty in keeping the Limited Partnership fully invested.

Several of the Limited Partnership's mortgages may be shared with other investors affiliated or associated with FSFMI, which parties may include shareholders, directors or staff of FSFMI or FSFMI itself.

The Limited Partnership's investment position may rank either equally with, in priority to, or subordinate to other members of the syndicate or participating investors.

Investors are deemed to have acknowledged that FSFMI, the Mortgage Lender, as well as any of their directors, officers, shareholders, employees and their respective associates and affiliates may purchase for their own account and own as a co-lender a percentage interest in an investment that is held or presented to the Limited Partnership, and that FSFMI or the Mortgage Lender may also sell undivided percentage interests in any such investment opportunities to other co-lenders.

Investors are deemed to have acknowledged that FSFMI or its affiliates may hold a subordinate position in a mortgage which is presented to the Limited Partnership and the rate of return on such subordinated position may be greater than the Limited Partnership's rate of return to reflect the Limited Partnership's risk position relative to the other investors.

The General Partner has committed to refer material conflict of interest matters to the Advisory Committee for prior approval or resolution, and to be bound by the determination of the Advisory Committee.

Future Operations and Possible Need for Additional Funds

Certain uninsurable or uninsured events may occur which can substantially reduce the ability of the Limited Partnership to carry on business in a profitable manner, including natural or man-made disasters.

The Limited Partnership anticipates that a substantial portion of the net proceeds of this Offering will be expended by the Limited Partnership in investing in commercial mortgages, and also anticipates that the net proceeds of the Offering and anticipated cash flow from operating revenues will be sufficient to carry out the Limited Partnership's business plan.

Industry Risk

There are also risks faced by the Limited Partnership because of the industry in which it operates. Real estate investment is subject to significant uncertainties due, among other factors, to uncertain costs of construction, development and financing, uncertainty as to the ability to obtain required licenses, permits and approvals, and fluctuating demand for developed real estate. The anticipated higher returns associated with the Limited Partnership's mortgage loans reflect the greater risks involved in making these types of loans as compared to long-term conventional mortgage loans. Inherent in these loans are completion risks as well as financing risks.

Insurance

The Limited Partnership's mortgage loans will not usually be insured in whole or in part. As well, there are certain inherent risks in the real estate industry, some of which the Limited Partnership may not be able to insure against or which the Limited Partnership may elect not to insure due to the costs of such insurance. The effect of these factors cannot be accurately predicted.

Priority

Financial charges for construction and other financing funded by conventional third party lenders may rank in priority to the mortgages registered in favour of the Limited Partnership. Although the Limited Partnership will have all of the rights of the holder of a subsequent mortgage in this scenario, in the event of default by the mortgagor under any prior financial charge, the Limited Partnership may not recover any or all the monies advanced.

Default

If there is default on a mortgage, it may be necessary for the Limited Partnership, in order to protect the investment, to engage in foreclosure or sale proceedings and to make further outlays to complete an unfinished project or to maintain prior encumbrances in good standing. In those cases, it is possible that the total amount recovered by the Limited Partnership may be less than the total investment, resulting in loss to the Limited Partnership. The General Partner intends to implement a policy of building up a "loan loss reserve" account to absorb such losses but there is no assurance that such losses will not exceed the amount set aside in this account. Equity investment in real property may involve fixed costs in respect of mortgage payments, real estate taxes, and maintenance costs, which could adversely affect the Limited Partnership's income.

Yield

The yields on real estate investments, including mortgages, depend on many factors including economic conditions and prevailing interest rates, the level of risk assumed, conditions in the real estate industry, opportunities for other types of investments, legislation, government regulation and tax laws. The Limited Partnership cannot predict the effect that such factors will have on its operations.

Competition

The earnings of the Limited Partnership depend on the Limited Partnership's ability, with the assistance of the Mortgage Lender, to locate suitable opportunities for the investment and reinvestment of the Limited Partnership's funds and on the yields available from time to time on mortgages. The investment industry in which the Limited Partnership operates is subject to a wide variety of competition from private businesses in Canada and the United States, many of whom have greater financial and technical resources than the Limited Partnership. Although such competition, as well as any future competition, may adversely affect the Limited Partnership's success in the marketplace, at the present time FSFMI has no reason to believe that such competition will prevent the Limited Partnership from successfully executing its business plan or operating profitably.

Mortgage Prepayment

Mortgages comprising the mortgage portfolio from time to time permit the borrower to prepay the principal amount. Any prepayment bonus or penalty may not fully compensate the Limited Partnership for the total

amount of the return foregone had the mortgage been held to term, and the Limited Partnership may not be able to redeploy the capital at the same interest rate.

Mortgage Renewals

There can be no assurances 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 when the same mature, 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, First Source, or both will elect not 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 for such mortgages will be subject to negotiations between the mortgagors, First Source, and the Mortgage Lender at the time of renewal.

Composition of Mortgage Portfolio

The composition of the mortgage portfolio may vary widely from time to time and may be concentrated by type of mortgage, industry, or geographic region, resulting in the mortgage portfolio being less diversified than anticipated. A lack of diversification may result in the Limited Partnership being exposed to economic downturns or other events that have an adverse and disproportionate effect on particular types of mortgage, industry or geographic region.

Appraisals

As a condition of funding all loans, the Limited Partnership and FSFMI will either require the production of an appraisal prepared by an accredited appraiser licensed to prepare appraisals in the province of Ontario, or may rely upon an opinion of value furnished by a reputable realtor with expertise in the subject property. However, preparing appraisals and/or real estate valuations is not an exact science, and there is no guarantee that any such appraiser will not make an error in judgment notwithstanding the experience, training and qualifications of such person. Such errors could result in the realizable value of the underlying security being less than anticipated, causing a loss to the Limited Partnership.

Dependence on Key Personnel

The operations of the Limited Partnership and FSFMI are highly dependent upon the continued support and participation of their key personnel. The loss of their services may materially affect the time or the ability of the Limited Partnership to implement its business plan. FSFMI's management team consists of several key personnel. In order to manage the Limited Partnership successfully in the future, it may be necessary to further strengthen its management team. There can be no assurance of success in attracting, retaining, or motivating qualified individuals. Failure in this regard would likely have a material adverse effect on the Limited Partnership's business, financial condition, and result of operations.

Failure or Unavailability of Computer and Data Processing Systems and Software

FSFMI is dependent upon the successful and uninterrupted functioning of its computer and data processing systems and software. The failure or unavailability of these systems could interrupt operations or materially impact FSFMI's ability to collect revenues and make payments on behalf of the Limited Partnership and to manage risks. If sustained or repeated, a system failure or loss of data could negatively and materially adversely affect the ability of FSFMI to discharge its duties to the Limited Partnership and the impact on the Limited Partnership may be material.

Nature of Units

The LP Units are not the same as shares of a corporation. As a result, the Limited Partners will not have the statutory rights and remedies normally associated with share ownership, such as the right to bring “oppression” or “derivative” actions.

REPORTING TO UNITHOLDERS

Audited financial statements will be provided within ninety (90) days of each fiscal year end and unaudited financial information will be provided on a quarterly basis. The General Partner also provides investors with tax information required to complete tax returns.

RESALE RESTRICTIONS

The distribution of the LP Units in Ontario is being made on a private placement basis only and is exempt from the requirement that the Limited Partnership prepares and files a prospectus with the relevant Canadian securities regulatory authorities. Accordingly, any resale of the LP Units must be made in accordance with applicable Canadian securities laws which may require resales to be made in accordance with prospectus and dealer registration requirements or exemptions from the prospectus and dealer registration requirements. Subscribers of LP Units are advised to seek legal advice prior to any resale of the LP Units.

The LP Units are not listed on an exchange. There is currently no secondary market through which the LP Units may be sold, there can be no assurance that any such market will develop and the Limited Partnership has no current plans to develop such a market. Accordingly, the sole method of liquidation of an investment in LP Units is by way of redemption of the LP Units. Aggregate redemptions are subject to the Redemption Limit per Redemption Date unless approved by the General Partner. See “Redemption of Units”.

PURCHASERS’ RIGHT OF ACTION

General

Securities legislation provides purchasers of LP Units pursuant to this Offering Memorandum with a remedy for damages or rescission, or both, in addition to any other rights they may have at law, where the Offering Memorandum and any amendment to it contain an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to make any statement not misleading in light of the circumstances in which it was made. These remedies, or notice with respect to these remedies, must be exercised or delivered, as the case may be, by the purchaser within the time limits prescribed by applicable securities legislation.

Ontario

Securities legislation in Ontario provides purchasers of LP Units pursuant to this Offering Memorandum with a remedy for damages or rescission, or in both, in addition to any other rights they may have at law, where the Offering Memorandum and any amendment to it contains a “Misrepresentation”. Where used herein, “Misrepresentation” means an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to make any statement not misleading in light of the circumstances in which it was made.

Section 130.1 of the Securities Act (Ontario) provides that every purchaser of securities pursuant to an offering memorandum shall have a statutory right of action for damages or rescission against the issuer and any selling security holder in the event that the offering memorandum contains a Misrepresentation. A

purchaser who purchases securities offered by the offering memorandum during the period of distribution has, without regard to whether the purchaser relied upon the Misrepresentation, a right of action for damages or, alternatively, while still the owner of the securities, for rescission against the issuer and any selling security holder provided that:

- if the purchaser exercises its right of rescission, it shall cease to have a right of action for damages as against the issuer and the selling security holders, if any;
- the issuer and the selling security holders, if any, will not be liable if they prove that the purchaser purchased the securities with knowledge of the Misrepresentation;
- the issuer and the selling security holders, if any, will not be liable for all or any portion of damages that it proves do not represent the depreciation in value of the securities as a result of the Misrepresentation relied upon; and
- in no case shall the amount recoverable exceed the price at which the securities were offered.

Section 138 of the *Securities Act* (Ontario) provides that no action shall be commenced to enforce these rights:

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

Rights for Limited Partners in Québec

Under legislation adopted but not yet in force in Québec, if this Offering Memorandum, together with any amendment hereto, delivered to a Limited Partner resident in Québec contains a misrepresentation, the Limited Partner will have (i) a right of action for damages against the Limited Partnership, every officer and director of the Limited Partnership, the dealer (if any) under contract to the Limited Partnership and any expert whose opinion, containing a misrepresentation, appeared, with the expert's consent in this Offering Memorandum, or without prejudice to the Limited Partner's right to claim damages (ii) a right of action against the Corporation for rescission of the purchase contract or revision of the price at which the LP Units were sold to the Limited Partner, provided that:

1. no person or company will be liable if it proves that: (a) the Limited Partner purchased the LP Units with knowledge of the misrepresentation; or (b) in an action for damages, that it acted prudently and diligently (except in an action brought against the Limited Partnership).
2. no action may be commenced to enforce such a right of action: (a) for rescission or revision of price more than three years after the date of the purchase; or (b) for damages later than the earlier of (i) three years after the Limited Partner first had knowledge of the facts giving rise to the cause of action, except on proof of tardy knowledge imputable to the negligence of the Limited Partner, or (ii) five years from the filing of the Offering Memorandum with the Autorité des marchés financiers.

British Columbia and Alberta

A purchaser of LP Units pursuant to this Offering Memorandum who is a resident in Alberta or British Columbia has, in addition to any other rights the subscriber may have at law, a right of action for damages or rescission against the Limited Partnership if this Offering Memorandum, together with any amendments hereto, contains a Misrepresentation. A purchaser has additional statutory rights of action for damages against every director of the Limited Partnership at the date of this Offering Memorandum or amendment hereto and every person or company who signed this Offering Memorandum or amendment hereto.

If this Offering Memorandum or any amendment hereto contains a Misrepresentation, which was a Misrepresentation at the time the LP Units were purchased, the purchaser will be deemed to have relied upon the Misrepresentation and will, as provided below, have a right of action against the Limited Partnership for damages or alternatively, if still the owner of any of the LP Units purchased by that subscriber, for rescission, in which case, if the purchaser elects to exercise the right of rescission, the purchaser will have no right of action for damages against the Limited Partnership, provided that:

- (a) no person or company will be liable if it proves that the purchaser purchased the securities with knowledge of the misrepresentation;
- (b) in the case of an action for damages, the defendant will not be liable for all or any portion of the damages that it proves do not represent the depreciation in value of the securities as a result of the misrepresentation;
- (c) in no case will the amount recoverable in any action exceed the price at which the securities were purchased by the purchaser under this Offering Memorandum; and
- (d) in the case of a purchaser resident in Alberta, no person or company, other than the Limited Partnership, will be liable if such person or company is entitled to rely upon certain statutory provisions set out in subsections 204(3)(a)-(e) of the Securities Act (Alberta).

No action may be commenced more than:

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

Saskatchewan

The *Securities Act, 1988* (Saskatchewan) will provide statutory rights to purchasers of LP Units in Saskatchewan as described in the *Securities Act, 1988* (Saskatchewan) upon their coming into force. Such Act provides that, subject to certain limitations, in the event that this Offering Memorandum and any amendment to this Offering Memorandum contain a Misrepresentation, a purchaser who purchases LP Units under this Offering Memorandum or an amendment to this Offering Memorandum, has a right of action for damages against the Limited Partnership, every promoter of the Limited Partnership, every person who signed this Offering Memorandum or the amendment to this Offering Memorandum and every person or company that sells securities on behalf of the Limited Partnership under this Offering Memorandum or amendment to this Offering Memorandum.

Alternatively, where the purchaser purchased LP Units, the purchaser may elect to exercise a right of rescission against the Limited Partnership.

The Securities Act, 1988 (Saskatchewan) also provides that, subject to certain limitations, where any advertising or sales literature (as such terms are defined in *The Securities Act, 1988* {Saskatchewan}) disseminated in connection with the Offering contains a Misrepresentation, a purchaser who purchases LP Units referred to in that advertising or sales literature has a right of action against the Limited Partnership, every promoter of the Limited Partnership and every person who or company that sells LP Units under the Offering with respect to which the advertising or sales literature was disseminated.

In addition, subject to certain limitations, where an individual makes a verbal statement to a prospective purchaser that contains a Misrepresentation relating to the LP Units of the Limited Partnership and the verbal statement is made either before or contemporaneously with the purchase of LP Units of the Limited Partnership, the purchaser has a right of action for damages against the individual who made the verbal statement.

No action shall be commenced to enforce the foregoing rights:

- in the case of an action for rescission, more than 180 days after the date of the transaction that gave rise to the cause of action; or
- 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, or (ii) six years after the date of the transaction that gave rise to the cause of action.

Manitoba

The Securities Act (Manitoba) provides purchasers of securities under a private placement who receive this Offering Memorandum with certain statutory rights in the event there is a Misrepresentation in this Offering Memorandum. In such event, Purchasers would have a statutory right to sue:

- (a) to cancel the agreement to buy LP Units; or
- (b) for damages against the Limited Partnership, every person who is a director at the date of the Offering Memorandum, and every person or company who signed the Offering Memorandum.

The statutory right to sue is available to a purchaser whether or not the purchaser relied on the Misrepresentation. If a purchaser chooses to rescind a purchase, the purchaser cannot then sue for damages. In addition, in an action for damages, a person will not be liable for all or any portion of damages that the person proves do not represent the depreciation in value of the securities as a result of the Misrepresentation. Furthermore, the amount recoverable in an action for damages will not exceed the price at which the securities were offered. There are various defenses available to the persons that a purchaser has a right to sue. For example, a person has a defense if the purchaser knew of the Misrepresentation when the purchaser purchased the securities. If a purchaser intends to rely on the rights described above in paragraph (a) or (b), the purchaser must do so within strict time limitations. A purchaser must commence an action to cancel the agreement within 180 days after the transaction or commence action for damages within the earlier of (i) 180 days after the purchaser first had knowledge of the facts giving rise to the cause of action; or (ii) two years after the day of the transaction.

New Brunswick

In the event that this Offering Memorandum, together with any amendments hereto used in connection herewith, delivered to a purchaser of LP Units resident in New Brunswick, or in any other information provided pursuant to the Offering, contains a Misrepresentation and it was a Misrepresentation at the time of purchase of LP Units by such purchaser, the purchaser will be deemed to have relied upon the Misrepresentation and will, as provided below, have a right of action against the Limited Partnership for damages; or, while still the owner of the LP Units purchased by that purchaser, for rescission against the Limited Partnership, in which case, if the purchaser elects to exercise the right of rescission, the purchaser will have no right of action for damages against the Limited Partnership, provided that:

- (a) the right of action for rescission or damages must be exercisable by the purchaser not later than,
 - i. in the case of an action for rescission, 180 days after the date of the transaction that gave rise to the cause of action; or
 - ii. to cancel your agreement to buy these securities, or in the case of any action, other than an action for rescission, the earlier of (A) one year after the plaintiff first had knowledge of the facts giving rise to the cause of action, or (B) six years after the date of the transaction that gave rise to the cause of action;
- (b) the defendant will not be liable if it proves that the purchaser purchased the LP Units with knowledge of the Misrepresentation;
- (c) in the case of an action for damages, the defendant will not be liable for all or any portion of the damages that it proves do not represent the depreciation in value of the LP Units as a result of the Misrepresentation relied upon; and
- (d) in no case will the amount recoverable in any action exceed the price at which the LP Units were sold to the purchaser.

Nova Scotia

In the event that this Offering Memorandum, together with any amendments hereto used in connection herewith, delivered to a purchaser of LP Units resident in Nova Scotia, or in any advertising and sales literature provided with respect to the Offering, contains a Misrepresentation and it was a Misrepresentation at the time of purchase of LP Units by such purchaser, the purchaser will be deemed to have relied upon the Misrepresentation and will, as provided below, have a right of action against the Limited Partnership for damages; or, while still the owner of the LP Units purchased by that purchaser, for rescission against the Limited Partnership, in which case, if the purchaser elects to exercise the right of rescission, the purchaser will have no right of action for damages against the Limited Partnership, provided that:

- (a) the right of action for rescission or damages must be exercisable by the purchaser not later than,
 - i. in the case of an action for rescission, 180 days after the date of the transaction that gave rise to the cause of action; or
 - ii. in the case of any action, other than an action for rescission, the earlier of, (A) 180 days after the plaintiff first had knowledge of the facts giving rise to the cause of action, or (B) three years after the date of the transaction that gave rise to the cause of action;

- (b) the defendant will not be liable if it proves that the purchaser purchased the LP Units with knowledge of the Misrepresentation;
- (c) in the case of an action for damages, the defendant will not be liable for all or any portion of the damages that it proves do not represent the depreciation in value of the LP Units as a result of the Misrepresentation relied upon; and
- (d) in no case will the amount recoverable in any action exceed the price at which the LP Units were sold to the purchaser.

Newfoundland and Labrador

In the event that this Offering Memorandum, together with any amendments hereto used in connection herewith, delivered to a purchaser of LP Units resident in Newfoundland contains a Misrepresentation and it was a Misrepresentation at the time of purchase of LP Units by such purchaser, the purchaser will be deemed to have relied upon the Misrepresentation and will, as provided below, have a contractual right of action against the Limited Partnership for damages; or, while still the owner of the LP Units purchased by that purchaser, for rescission against the Limited Partnership, in which case, if the purchaser elects to exercise the right of rescission, the purchaser will have no right of action for damages against the Limited Partnership, provided that:

- (a) the right of action for rescission or damages must be exercisable by the purchaser not later than,
 - i. in the case of an action for rescission, 180 days after the date of the transaction that gave rise to the cause of action; or
 - ii. in the case of any action, other than an action for rescission, the earlier of, (A) 180 days after the plaintiff first had knowledge of the facts giving rise to the cause of action, or (B) three years after the date of the transaction that gave rise to the cause of action;
- (b) the defendant will not be liable if it proves that the purchaser purchased the LP Units with knowledge of the Misrepresentation;
- (c) in the case of an action for damages, the defendant will not be liable for all or any portion of the damages that it proves do not represent the depreciation in value of the LP Units as a result of the Misrepresentation relied upon; and
- (d) in no case will the amount recoverable in any action exceed the price at which the LP Units were sold to the purchaser.

Contractual Rights of Action

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

LANGUAGE OF DOCUMENTS

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

MATERIAL CONTRACTS

The only material documents related to the Limited Partnership is the Limited Partnership Agreement. The Limited Partnership Agreement is available for review by potential investors at the offices of the General Partner.

AUDITOR, TRANSFER AGENT AND REGISTRAR

The auditors of the Limited Partnership and the General Partner are KPMG LLP.

The General Partner acts as the transfer agent and registrar for the LP Units.

ANNEX A

CONTACT INFORMATION FOR SECURITIES REGULATORY AUTHORITIES

Alberta Securities Commission

Suite 600, 250 – 5th Street SW
Calgary, Alberta T2P 0R4
Telephone: (403) 297-6454
Toll free in Canada: 1-877-355-0585
Facsimile: (403) 297-2082

British Columbia Securities Commission

P.O. Box 10142, Pacific Centre
701 West Georgia Street
Vancouver, British Columbia V7Y 1L2
Inquiries: (604) 899-6854
Toll free in Canada: 1-800-373-6393
Facsimile: (604) 899-6581
Email: inquiries@bcsc.bc.ca

The Manitoba Securities Commission

500 – 400 St. Mary Avenue
Winnipeg, Manitoba R3C 4K5
Telephone: (204) 945-2548
Toll free in Manitoba 1-800-655-5244
Facsimile: (204) 945-0330

**Financial and Consumer Services Commission
(New Brunswick)**

85 Charlotte Street, Suite 300
Saint John, New Brunswick E2L 2J2
Telephone: (506) 658-3060
Toll free in Canada: 1-866-933-2222
Facsimile: (506) 658-3059
Email: info@fcnb.ca

**Government of Newfoundland and Labrador
Financial Services Regulation Division**

P.O. Box 8700
Confederation Building
2nd Floor, West Block
Prince Philip Drive
St. John's, Newfoundland and Labrador A1B 4J6
Attention: Director of Securities
Telephone: (709) 729-4189
Facsimile: (709) 729-6187

**Government of the Northwest Territories
Office of the Superintendent of Securities**

P.O. Box 1320
Yellowknife, Northwest Territories X1A 2L9
Attention: Deputy Superintendent, Legal & Enforcement
Telephone: (867) 920-8984
Facsimile: (867) 873-0243

Nova Scotia Securities Commission

Suite 400, 5251 Duke Street
Duke Tower
P.O. Box 458
Halifax, Nova Scotia B3J 2P8
Telephone: (902) 424-7768
Facsimile: (902) 424-4625

Government of Nunavut Department of Justice

Legal Registries Division
P.O. Box 1000, Station 570
1st Floor, Brown Building
Iqaluit, Nunavut X0A 0H0
Telephone: (867) 975-6590
Facsimile: (867) 975-6594

Ontario Securities Commission

20 Queen Street West, 22nd Floor
Toronto, Ontario M5H 3S8
Telephone: (416) 593- 8314
Toll free in Canada: 1-877-785-1555
Facsimile: (416) 593-8122
Email: exemptmarketfilings@osc.gov.on.ca
Public official contact regarding indirect collection of information:
Inquiries Officer

Prince Edward Island Securities Office

95 Rochford Street, 4th Floor Shaw Building
P.O. Box 2000, Charlottetown, Prince Edward Island C1A 7N8
Telephone: (902) 368-4569
Facsimile: (902) 368-5283

Autorité des marchés financiers

800, Square Victoria, 22e étage
C.P. 246, Tour de la Bourse
Montréal, Québec H4Z 1G3
Telephone: (514) 395-0337 or 1-877-525-0337
Facsimile: (514) 873-6155 (For filing purposes only)
Facsimile: (514) 864-6381 (For privacy requests only)
Email: financementdessocietes@lautorite.qc.ca (For corporate
finance issuers); fonds_dinvestissement@lautorite.qc.ca (For
investment fund issuers)

Financial and Consumer Affairs Authority of Saskatchewan

Suite 601 - 1919 Saskatchewan Drive
Regina, Saskatchewan S4P 4H2
Telephone: (306) 787-5879
Facsimile: (306) 787-5899

**Government of Yukon
Department of Community Services**

Law Centre, 3rd Floor
2130 Second Avenue
Whitehorse, Yukon Y1A 5H6
Telephone: (867) 667-5314
Facsimile: (867) 393-6251