



## **CENTURION REAL ESTATE OPPORTUNITIES TRUST**

**Management's Discussion and Analysis and Annual Report to Unitholders**

**For the Period August 13, 2014 (date of formation) to December 31, 2014**

## Table of Contents

Forward-Looking Statements.....	3
Centurion Real Estate Opportunities Trust.....	4
Declaration of Trust.....	4
Investment Guidelines.....	4
Operating Policies.....	7
Investment Committee.....	10
Accounting Policies.....	12
History of Centurion Real Estate Opportunities Trust.....	13
Founding Transaction – Acquisition of Initial Portfolio.....	14
Investment Strategy.....	14
Targeted Investments.....	15
Warehouse Agreement.....	18
Outlook & Business Strategy.....	20
Centurion Real Estate Opportunities Trust Operating Structure.....	21
2014 Operating Results.....	22
Key Portfolio Metrics.....	23
Portfolio Summary.....	24
Issued and Outstanding Number of Units.....	26
Distributions.....	26
Tax Treatment of Distributions.....	27
Operating Facilities & Liquidity Management.....	27
Capital Raising Activity.....	27
APPENDIX A – Summary Information About the Investment Portfolio.....	28
APPENDIX B – Risks and Uncertainties.....	32
APPENDIX C - Audited Consolidated Financial Statements.....	47

## *Forward-Looking Statements*

### **Caution Regarding Forward-Looking Statements**

The Management's Discussion and Analysis ("MD&A") of Centurion Real Estate Opportunities Trust ("Centurion" or "Centurion REOT" or "REOT" or the "Trust") contains "forward-looking statements" within the meaning of applicable securities legislation. This document should be read in conjunction with material contained in the Trust's audited consolidated financial statements for the period-ended December 31, 2014 along with Centurion REOT documents available on the Trust's website. Forward-looking statements appear in this MD&A under the heading "Outlook" and generally include, but are not limited to, statements with respect to management's beliefs, plans, estimates and intentions, and similar statements concerning anticipated future events, results circumstances, performance or expectations, including but not limited to financial performance and equity or debt offerings, new markets for growth, financial position, and proposed acquisitions. Generally, these forward-looking statements can be identified by the use of forward-looking terminology such as "plans", "expects" or "does not expect", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates" or "does not anticipate", or "believes", or variations of such words and phrases or statements that certain actions, events or results "may", "could", "would", "might" or "will be taken", "occur" or "be achieved".

Forward-looking statements are subject to known and unknown risks, uncertainties and other factors that may cause the actual results, level of activity, performance or achievements of Centurion REOT to be materially different from those expressed or implied by such forward-looking statements, including but not limited to: the risks related to the market for Centurion REOT's trust Units, the general risks associated with real property ownership and acquisition, that future accretive acquisition opportunities will be identified and/or completed by Centurion REOT, risk management, liquidity, debt financing, credit risk, competition, general uninsured losses, interest rate fluctuations, environmental matters, restrictions on redemptions of outstanding Centurion REOT's trust Units, lack of availability of growth opportunities, diversification, potential unitholders' liability, potential conflicts of interest, the availability of sufficient cash flow, fluctuations in cash distributions, the market price of Centurion REOT's trust Units, the failure to obtain additional financing, dilution, reliance on key personnel, changes in legislation, failure to obtain or maintain mutual fund trust status and delays in obtaining governmental approvals or financing as well as those additional factors discussed in Appendix A "Risks and Uncertainties" and in other sections of the MD&A.

In addition, certain material assumptions are applied by the Trust in making forward looking statements including, without limitation, factors and assumptions regarding:

- Overall national economic activity
- Regional economic factors, such as employment rates
- Inflationary/deflationary factors
- Long, medium and short term interest rates
- Legislated requirements
- Development risks
- Mortgage extensions and mortgage defaults

Although the forward-looking information contained herein is based upon what Management believes are reasonable assumptions, there can be no assurance that actual results will be consistent with these forward-looking statements. Centurion REOT has attempted to identify important factors that could cause actual results to differ materially from those contained in forward-looking statements, however there may be other factors that cause results not to be as anticipated, estimated or intended. There can be no assurance that such statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements. Centurion REOT does not intend to update any forward-looking statements that are incorporated by reference herein, except in accordance with applicable securities laws.

Certain statements included herein may be considered "financial outlook" for purposes of applicable securities laws, and such financial outlook may not be appropriate for purposes other than this MD&A.

### ***Centurion Real Estate Opportunities Trust***

Centurion Real Estate Opportunities Trust is a private investment trust focused on investing in a diversified portfolio of mortgages and opportunistic real estate investments. It is organized as an unincorporated open-ended private investment trust created by a declaration of trust made as of August 13, 2014 and as amended and restated, (the “Declaration of Trust”) and governed by the laws of the Province of Ontario and the federal laws of Canada applicable therein. See “Declaration of Trust” and “Description of Units”.

The objectives of Centurion Real Estate Opportunities Trust are to provide Unitholders with stable and growing cash distributions, payable monthly from a diversified portfolio of mortgages, opportunistic real estate investments and other investments.

### ***Declaration of Trust***

The investment policies of the Trust are outlined in the Trust’s Declaration of Trust (the “DOT”) dated August 14, 2014 or as it is amended and restated from time to time. The DOT can be found at: <http://www.centurionapartmentreit.com/current-offering-materials>

The investment guidelines and operating policies set out in the DOT are as follows:

### ***Investment Guidelines***

The assets of the Trust may be invested only, and the Trust shall not permit the assets of any Subsidiary to be invested otherwise, than in accordance with the following investment guidelines (as more particularly set out in the Declaration of Trust):

- (a) the Trust shall focus its activities primarily on Focus Activities;
- (b) notwithstanding anything in the Declaration of Trust to the contrary, no investment shall be made that would result in:
  - i. Units of the Trust being disqualified for any class of any trust governed by a Registered Plan; or
  - ii. the Trust ceasing to qualify as a “mutual fund trust” for purposes of the Tax Act;
- (c) no single asset (except as provided for in the Declaration of Trust), (i) once the Trust has net assets that exceed \$100 million, shall be acquired if the cost of such acquisition (net of the amount of debt secured by such asset) will exceed 15% of Gross Book Value, and (ii) until such time that the Trust has net assets that exceed \$100 million, no single asset (except as provided for in the Declaration of Trust) shall be acquired if the cost of such acquisition (net of the amount of debt secured by such asset) will exceed \$15 million, provided that where such asset is (x) the securities of or an interest in an entity or (y) mortgage investments with a single borrower, the foregoing tests shall be applied individually to each underlying real estate asset of such entity or mortgage investment of such borrower, respectively;
- (d) investments may be made in a joint arrangement only if:
  - i. the arrangement is in connection with a Focus Activity;
  - ii. the arrangement is with others (“joint arrangement partners”) either directly or through the ownership of securities of or an interest in an entity (“joint arrangement entity”);
  - iii. the interest in the joint arrangement entity is an interest of not less than 10% and is not subject to any restriction on transfer other than a right of first refusal, right of first offer or similar events, if any, in favor of the joint arrangement partners;

- iv. the Trust has the ability to provide input in the management decisions of the joint arrangement entity; and
  - v. without limitation, any joint arrangement with a Related Party for the purposes of the related party provisions of the Declaration of Trust has been entered into in accordance with such provisions;
- (e) unless otherwise permitted in Section 4.1 of the Declaration of Trust (Investment Guidelines) and except for temporary investments held in cash, deposits with a Canadian or U.S. chartered bank or trust company registered under the laws of a province of Canada, short-term government debt securities or in money market instruments of, or guaranteed by, a Canadian Schedule I bank maturing prior to one year from the date of issue, the Trust, directly or indirectly, may not hold securities other than (i) currency, commodity or interest rate futures contracts for hedging purposes to the extent that such hedging activity complies with the Canadian Securities Administrator's National Instrument 81-102 – Investment Funds or any successor instrument or rule; (ii) securities of a joint arrangement entity, or any entity formed and operated solely for the purpose of carrying on ancillary activities to any real estate owned, directly or indirectly, by the Trust, or an entity wholly-owned, directly or indirectly, by the Trust formed and operated solely for the purpose of holding a particular real property or real properties; and (iii) securities of another issuer provided either (A) such securities derive their value, directly or indirectly, principally from real property, mortgage investments or other Focus Activities, (B) the principal business of the issuer of the securities is, directly or indirectly, (1) investing in mortgage investments or (2) owning, operating, managing or developing real property, and provided, in either case, the entity whose securities are being acquired are engaged in a Focus Activity, or (C) such securities are of a mortgage investment corporation, mortgage investment trust, real estate investment trust or similar entity;
- (f) no investment will be made, directly or indirectly, in operating businesses unless such investment is incidental to a transaction:
- a. where revenue will be derived, directly or indirectly, principally from a Focus Activity; or
  - b. which principally involves the ownership, maintenance, improvement, development, leasing or management, directly or indirectly, of real property or mortgage investments;
- (g) notwithstanding any other provisions of Section 4.1 of the Declaration of Trust (Investment Guidelines), subject to (u) below, the securities of a reporting issuer may be acquired provided that:
- i. the activities of the issuer are focused on Focus Activities; and
  - ii. (in the case of any proposed investment or acquisition which would result in the beneficial ownership of more than 10% of the outstanding equity securities of the securities issuer, the investment or acquisition is of strategic interest to the Trust as determined by the Trustees in their discretion;
- (h) no investments will be made in rights to or interests in mineral or other natural resources, including oil or gas, except as such investments may be incidental to an investment in real property or mortgage investments;
- (i) mortgage investments may only be made where:
- i. the security thereof is real property;
  - ii. the security interest includes a mortgage or similar security interest registered on title to the real property which is the security thereof; and

- iii. the amount of the mortgage investment (not including any mortgage insurance fees incurred in connection therewith) does not exceed 85% of the market value of the real property which is the security thereof,
- (j) loans (other than mortgage investments) may only be made where:
- i. the security thereof is (a) real property or (b) an asset that the Trust could otherwise hold in accordance with this Section 4.1;
  - ii. the security interest includes a (a) mortgage or similar security interest registered on title to the real property which is the security thereof, (b) security interest registered against such other asset which is the security thereof or (c) other security interest acceptable to the Trustees that, in the opinion of the Trustees, protect the Trust's investment; and
  - iii. the amount of the loan (not including any loan insurance fees incurred in connection therewith) does not exceed 85% of the market value of the asset which is the security thereof,
- (k) the Trust may invest in mortgages of related entities that do not deal at arm's length to the Trust provided that:
- i. the mortgage loan bears interest at a commercial rate of interest;
  - ii. the amount of the mortgage loan is not in excess of 90% of the selling price of the property securing the mortgage;
  - iii. the mortgage loan has a maturity not exceeding five years;
  - iv. the mortgage loan is approved by the Trustees; and
  - v. the aggregate value of mortgage loans with related entities that do not deal at arm's length to the Trust, after giving effect to the proposed investment, will not exceed 15% of Gross Book Value of the Trust calculated at the time of such investment;
- (l) notwithstanding any other provisions of Section 4.1 of the Declaration of Trust (Investment Guidelines), the Trust may invest either directly or indirectly, in the equity of real estate development projects and opportunities and structure the transaction as a mortgage loan or note which will not be subject to the loan to value limits in Section 4.1 of the Declaration of Trust (Investment Guidelines);
- (m) notwithstanding any other provisions of Section 4.1 of the Declaration of Trust (Investment Guidelines), for risk management purposes only, the Trust may increase a given investment to more than the limits referred to in (c) above in order to remedy the default by a borrower of its obligations in respect of a prior ranking security or satisfy the indebtedness secured by a prior ranking security or for any other reason if such action is required to, in the opinion of the Trustees, protect the Trust's investment and if such proposed increase in the Trust's investment is approved by Trustees;
- (n) notwithstanding any other provisions of Section 4.1 of the Declaration of Trust (Investment Guidelines), the Trust may participate in mortgage investments on a syndication basis, subject to the approval by the Trustees of the investment amount and the proposed syndication partners;
- (o) notwithstanding any other provisions of Section 4.1 of the Declaration of Trust (Investment Guidelines), the Trust may acquire mortgage investments (or exposure to mortgage investments) through Approved Warehouse Transactions;
- (p) enter into any arrangement (including the acquisition of securities for the investment portfolio of the Trust) where the result is a "dividend rental arrangement" for the purposes of the Tax Act;

- (q) hold (i) securities of any non-resident corporation or trust or other entity (or of a partnership which holds such securities) if the Trust (or partnership) would be required to include any significant amounts in income pursuant to the offshore investment fund property rules in section 94.1 of the Tax Act, (ii) any interest in a non-resident trust (or a partnership which holds such an interest) other than an “exempt foreign trust” for the purposes of section 94 of the Tax Act, or (iii) any interest in a trust (or a partnership which holds such an interest) which would require the Trust (or the partnership) to report income in connection with such interest pursuant to the rules in section 94.2 of the Tax Act;
- (r) engage in securities lending that does not constitute a “securities lending arrangement” for purposes of the Tax Act;
- (s) invest in any security that would be a “tax shelter investment” within the meaning of the Tax Act;
- (t) make or hold any investments in entities that would be “foreign affiliates” of the Trust for purposes of the Tax Act; and
- (u) notwithstanding any other provisions of Section 4.1 of the Declaration of Trust (Investment Guidelines), the Trust shall not acquire any securities unless the Trust has appointed a service provider that has the necessary registrations under applicable securities laws to permit the Trust to purchase and hold such securities or is exempt from any such requirements.

For the purpose of the foregoing guidelines, the assets, liabilities and transactions of a corporation, trust or other entity wholly or partially owned by the Trust will be deemed to be those of the Trust on a proportionate consolidation basis. In addition, any references in the foregoing to investment in real property will be deemed to include an investment in a joint arrangement or a limited partnership, the whole subject to (a) above. Except as specifically set forth in the Declaration of Trust to the contrary, all of the foregoing prohibitions, limitations or requirements for investment shall be determined as at the date of investment by the Trust, but always subject to (a) above.

For greater certainty, the above Investment Guidelines are intended to set out generally the parameters under which Subsidiaries in which the Trust is permitted to invest will be empowered under their respective constating documents to re-invest. References to the Trust in those paragraphs shall be read as applying to such Subsidiary where the actual activity that is the subject of the policy is carried on by such Subsidiary. Further, any determinations in respect of the investment restrictions that are determinations reserved to the Trustees, where the actual activity is carried on by a Subsidiary, will be made by the trustees or directors of the relevant Subsidiary. Nothing in the Investment Guidelines empowers or entitles the Trust or the Trustees to carry on business or to otherwise undertake any activity that would violate the Trust’s requirement to maintain its status as a “mutual fund trust”.

### *Operating Policies*

The operations and affairs of the Trust will be conducted in accordance with the following operating policies and the Trust shall not permit any Subsidiary to conduct its operations and affairs other than in accordance with the following policies (as more particularly set out in the Declaration of Trust):

- (a) title to each real property shall be held by and registered in the name of a corporation or other entity wholly-owned directly or indirectly by the Trust or jointly owned directly or indirectly by the Trust with joint arrangement partners; provided, that where land tenure will not provide fee simple title, a corporation or other entity wholly-owned, directly or indirectly by the Trust or jointly owned, directly or indirectly, by the Trust with joint arrangement partners shall hold a land lease as appropriate under the land tenure system in the relevant jurisdiction;

- (b) no indebtedness shall be incurred or assumed if, after giving effect to the incurring or assumption thereof of the indebtedness, the total indebtedness as a percentage of Gross Book Value would be more than 75% for indebtedness, including amounts drawn under an acquisition facility, provided that for the purposes of the foregoing, indebtedness shall exclude any obligations of the Trust under or arising out of Approved Warehouse Transactions (including any obligations to purchase mortgage or other investments on demand);
- (c) subject to the approval of the Trustees, the Trust may, directly or indirectly, guarantee any indebtedness, liabilities or other obligations of any kind of a third party, where such indebtedness, liabilities or other obligation, if granted, incurred or assumed by the Trust directly, would not cause the Trust to otherwise contravene the restrictions set out in Section 4.1 of the Declaration of Trust (Investment Guidelines). For greater certainty, the Trust will not directly or indirectly guarantee any indebtedness, liabilities or other obligations of any Person if doing so would contravene restriction (b) of the Investment Guidelines;
- (d) in accordance with the Declaration of Trust, the Trust shall form the Investment Committee, which Investment Committee shall have the rights and responsibilities set out in the Declaration of Trust, as described under “Item 2: Business of Centurion Real Estate Opportunities Trust – 2.1 Structure – Investment Committee”;
- (e) at all times insurance coverage will be obtained and maintained in respect of potential liabilities of the Trust and the accidental loss of value of the assets of the Trust from risks, in amounts and with such insurers, in each case as the Trustees consider appropriate, taking into account all relevant factors including the practices of owners of comparable properties;
- (f) at least 8.5% of gross consolidated annual rental revenues generated from properties where the associated mortgage financing is insured by the Canadian Mortgage and Housing Corporation (“insured properties”) as determined pursuant to IFRS shall be expended annually on sustaining capital expenditures, repairs and maintenance, all determined on a portfolio basis for all insured properties. For this purpose, capital expenditures and repairs and maintenance include all onsite labour costs and other expenses and items associated with such capital expenditures, repairs and maintenance; and
- (g) the Trust may engage service providers, including asset managers and mortgage managers under terms and conditions acceptable to the Trustees. As at the date hereof, the Trust has engaged the Asset Manager pursuant to the Asset Management Agreement.

For greater certainty the operating policies set out in (a) through (g) are intended to set out generally the parameters under which the Trust (and Subsidiaries in which the Trust is permitted to invest) will operate. References to the Trust in those paragraphs shall be read as applying to such Subsidiary where the actual activity that is the subject of the policy is carried on by such Subsidiary (with the exception of policy (b) above which is only intended to apply to the Trust). Further, any determinations in respect of the operating policies that are determinations reserved to the Trustees, where the actual activity is carried on by a Subsidiary, will be made by the trustees or directors of the relevant Subsidiary. Nothing in (a) through (g) empowers or entitles the Trust or the Trustees to carry on business or otherwise undertake any activity that would violate the Trust’s requirement to maintain its status as a “mutual fund trust”.

For the purposes of the foregoing investment guidelines and operating policies, the assets, indebtedness, liabilities and transactions of a corporation, partnership or other entity wholly or partially owned by the Trust will be deemed to be those of the Trust on a proportionate, consolidated basis. In addition, any references in the foregoing investment guidelines and operating policies to investment in real property will be deemed to include an investment in a joint arrangement. A “joint arrangement” means an arrangement through which two or more parties have joint control that has the following characteristics: (a) the parties to the arrangement are bound by a contractual agreement, (b) the contractual agreement gives two or more of those parties joint control of the arrangement, and (c) is either a joint operation or a joint venture.

In addition, the term “indebtedness” means (without duplication):



- (i) any obligation of the Trust for borrowed money;
- (ii) any obligation of the Trust incurred in connection with the acquisition of property, assets or business other than the amount of future income tax liability arising out of indirect acquisitions;
- (iii) any obligation of the Trust issued or assumed as the deferred purchase price of property;
- (iv) any capital lease obligation of the Trust; and
- (v) any obligation of the type referred to in clauses (i) through (iv) of another person, the payment of which the Trust has guaranteed or for which the Trust is responsible for or liable;

provided that (A) for the purposes of (i) through (iv), an obligation will constitute indebtedness only to the extent that it would appear as a liability on the consolidated balance sheet of the Trust in accordance with generally accepted accounting principles; (B) obligations referred to in clauses (i) through (iii) exclude trade accounts payable, distributions payable to Unitholders and accrued liabilities arising in the ordinary course of business, and (C) indebtedness shall exclude any obligations of the Trust under or arising out of Approved Warehouse Transactions (including any obligations to purchase mortgage or other investments on demand).

### *Investment Committee*

The Trust established an Investment Committee to review, approve and make investments that are in accordance with the investment guidelines of the Trust. The Investment Committee Charter is outlined below:

#### Section 1 Purpose.

The Investment Committee (the “Committee”) is a committee of the Trust established by the Board of Trustees of the Trust. The Board of Trustees established the Investment Committee to:

- Review, approve and make investments on behalf of the Trust that:
  - fall within the investment guidelines of the Trust, as set out in the Declaration of Trust, and
  - fall within the prescribed limits (the “sub limits”) set by the Board of Trustees from time to time; and
- Pre-screen potential investments that exceed the sub limits;
- Recommend or refer investments exceeding the sub limits to the Board of Trustees for their consideration; and
- Review and approve minor amendments to investments previously approved by the Board of Trustees, subject to limits described below.

#### Section 2 Sub Limits.

The Investment Committee shall be authorized to approve any individual investment that fits within the criteria established by the sub limits.

The sub limits for each investment are:

- Such investment must have a purchase price equal to the lesser of (i) 5% of the Fair Market Value of the Trust or (ii) \$5 million;
- Such investment complies with the investment guidelines of the Trust.

The Investment Committee shall be authorized, in respect of investments not exceeding the sub limits before or after amendment, to approve any required minor amendments as necessary, and in respect of investments exceeding the sub limits before or after amendment, to approve any required minor amendments thereto, subject to the following limits:

- Amendments to the investment size of up to \$1 million, including additional principal and/or interest capitalization;
- Amendments to investment term of up to 12 months;
- Amendments to interest rate of up to 100 basis points;

Any such amendment approved by the Investment Committee shall require ratification by the Board of Trustees at the next following meeting.

The Asset Manager of the Trust shall be authorized to approve any individual investment with a purchase price of \$1 million or less that fits within the investment guidelines of the Trust, subject to ratification by the Investment Committee at the next following meeting.

The Asset Manager of the Trust shall be authorized to approve amendments of the following nature to approved investments:

- Amendments to the investment size of up to \$250 thousand, including additional principal and/or interest capitalization;
- Amendments to investment term of up to 6 months;
- Amendments to interest rate of up to 25 basis points.

Any such amendments to investments approved by the Asset Manager shall require ratification by the Investment Committee at the next following meeting.

In addition to these sub-limits, the Board of Trustees recently approved expanding the delegated approval authority

granted to the Investment Committee to include changes to security considered minor, substituting collateral in a non-material way, changing guarantees in a non-material way, amending conditions precedent to funding in a non-material way and amending the capital stack provided Centurion's exposure remains the same.

### Section 3 Composition and Meetings.

The Investment Committee shall be composed of, at a minimum, at least one Trustee that is an Independent Trustee or a delegate chosen by a majority of the Independent Trustees that is independent of the Trust and CAMI (or its successor) and such Independent Trustee or delegate thereof shall be the chairperson of the Investment Committee (the "Chairperson").

There shall be no maximum number of members of the Investment Committee in addition to the Chairperson. No business of the Investment Committee may be transacted except at a meeting of its members at which the Chairperson is present or by a resolution in writing signed by the Chairperson. The Chairperson shall constitute a quorum of the Investment Committee, provided that Chairperson will take reasonable efforts to allow other members of the Investment Committee the opportunity to attend meetings of the Investment Committee.

The Chairperson may be removed or replaced at any time by a majority of the Independent Trustees and shall cease to be a member of the Committee upon ceasing to be a trustee.

Any member of the Investment Committee may be removed or replaced at any time by the Chairperson. Each member of the Investment Committee shall hold such office until he or she resigns or is removed from the Investment Committee.

The Committee will meet as many times as is necessary to carry out its responsibilities.

Meetings will be at the call of the Trustees, the Asset Manager, the Chairperson or any other member of the Investment Committee.

The Chairperson shall be entitled to receive such remuneration for acting as the chairperson of the Committee as the Board of Trustees may from time to time determine.

### Section 4 Chairperson.

1. The Chairperson has the discretion to:

- (a) approve an investment within the sub limits of the Investment Committee
- (b) recommend or refer an investment that is above the sub limits to the Board of Trustees;
- (c) refer an investment that is within the sub limits of the Investment Committee to the Trustees for their approval.

2. An investment that does not have the approval of the Chairperson must have the approval of the Trustees to proceed.

### Section 5 General Role.

The Committee should:

- Review the investments of the Trust to ensure that such investments comply with the investment guidelines of the Trust;
- Review this Charter and the sub limits and recommend to the Board of Trustees changes to this Charter and/or the sub limits, as considered appropriate from time to time;
- Report to the Board of Trustees on:
  - the business conducted at meetings of the Committee and any material decision reached by the Committee; and
  - the investments of the Trust.

Section 6            General.

1.        Notwithstanding the appointment of the Committee and the granting of any authority, the Trustees may consider and approve or disapprove any matter which the Committee has the authority to consider or approve.
2.        The Committee is a committee of the Board of Trustees and it is not and shall not be deemed to be an agent of the Trust's Unitholders for any purpose whatsoever. The Board of Trustees may, from time to time, permit departures from the terms hereof, either prospectively or retrospectively. No provision contained herein is intended to give rise to civil liability to security holders of the Trust or any other liability whatsoever.
3.        The duties of the Committee may be changed from time to time by the Trustees and shall be subject to such authority as may be delegated from time to time to officers of the Trust without requiring the approval of or review by the Trustees or the Committee.

*Accounting Policies*

Centurion REOT's significant accounting policies are described in Note 2 of the consolidated financial statements (see "Appendix C") for the period ended December 31, 2014. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") applicable to the preparation of consolidated financial statements, including IAS 34, Interim Financial Reporting, and IAS 1, Presentation of Financial Statements.

In applying these policies, in certain cases it is necessary to use estimates, which Management determines using information available to the Trust at the time. Management reviews key estimates on a quarterly basis to determine their appropriateness and any change to these estimates is applied prospectively in compliance with IFRS. Significant estimates are made with respect to the fair values of investment properties and the fair values of financial instruments.

### *History of Centurion Real Estate Opportunities Trust*

Centurion Asset Management Inc. (“CAMI”), the asset manager, also manages Centurion Apartment REIT, a private real estate investment trust primarily focused on investing in and managing a diversified portfolio of income producing multi-unit residential properties, student housing and mortgages in Canada. In 2012, CAMI identified the provision of debt and equity financing for growth-oriented real estate transactions (including real estate development transactions), particularly in its core area of expertise of apartments and student housing, and the development thereof, as significant opportunities that would be a potentially accretive source of profit and an acquisition pipeline for Centurion Apartment REIT.

Since the beginning of 2013, CAMI has been building this financing business for Centurion Apartment REIT and in May of 2013 began its first capital deployments. As the business grew, CAMI believed that the potential scale of these opportunities, particularly in the development of new apartments and student housing which Centurion Apartment REIT could buy, would ultimately require a larger capital allocation than could be supported on its balance sheet alone. Further, the Asset Manager was seeing a regular flow of other real estate debt and equity investment opportunities that fell outside of the acquisition pipeline goals of Centurion Apartment REIT by virtue of its’ activities in the market that it had to forego. As such, the Asset Manager believed that there was sufficient scope to create a fund to focus on these and other similar opportunities. To maximize the number of opportunities upon which it could execute, the Board of Trustees of Centurion Apartment REIT decided to set up a new fund, the Trust, to which it would contribute the majority of Centurion Apartment REIT’s debt and equity financing portfolio in return for equity in the Trust. Centurion Apartment REIT and the Trust would be strategic partners in providing developers an end-to-end solution for debt and equity financing and ultimately a potential exit in a sale of the stabilized development to Centurion Apartment REIT. This end-to-end solution has been seen by developers as an attractive option and has garnered considerable interest. The strategic partnership between Centurion Apartment REIT and the Trust is intended primarily to have the following benefits:

For Developers and other clients:

- an end-to-end solution to finance, develop, manage and sell their properties

For the Trust:

- a significant starting portfolio with a track record that would allow the Trust to get to scale faster than if it started from scratch;
- the opportunity to invest for income and growth on new opportunities originating from relationships developed by Centurion Apartment REIT;
- via the Warehousing Agreement with Centurion Apartment REIT, the ability to move quickly to commit to investment opportunities to build its portfolio.

For Centurion Apartment REIT:

- the continuing opportunity to participate in the income and growth on its pro-rata holdings in the portfolio it had built and contributed to the Trust;
- the opportunity to use its own operating facilities to fund higher yielding investments on a short term basis via the Warehousing Agreement for short term income;
- the opportunity to build a larger pipeline of potential acquisitions than it could on its own.

### ***Founding Transaction – Acquisition of Initial Portfolio***

On September 12, 2014, Centurion Apartment REIT contributed the Initial Portfolio to the Trust in return for 5,892,722.80 Class “R” Trust Units of the Trust at \$10.00 per Class R Unit, reflecting a purchase price of \$58,927,228, equal to the then gross book value plus accrued interest of the Initial Portfolio as of August 31, 2014. The Initial Portfolio represented 85% of the mortgage investments held by the REIT. Such purchase price was reviewed and approved by the Trustees and the trustees of Centurion Apartment REIT. Centurion Apartment REIT and the Trust signed the Warehousing Agreement and the Asset Transfer Agreement as part of this transaction.

The Mortgage Assets in the Initial Portfolio have corresponding funding commitments totalling \$33,675,375 that require future investments by the Trust (the “Unfunded Commitments”). In connection with the Founding Transaction and the acquisition of the Initial Portfolio, Centurion Apartment REIT has agreed to fund such Unfunded Commitments which will be treated as a Warehoused Mortgage under the Warehouse Agreement. \$12,186,439 of this unfunded commitment has been funded at December 31, 2014.

REOT utilizes a strategy that is focused on a very specific niche and builds on its relationship with the REIT as a potential end buyer of completed apartment and student properties. REOT’s ability to attract joint venture/developers to its project development program - by being able to offer an end-to-end solution to its partners (debt, equity, property management/lease up, and potential end buyer) - continues to gain traction. As such, REOT has a very robust pipeline of opportunities coming into 2015.

The REIT’s strategy is to increase the number of opportunities to purchase newly built properties upon completion by bringing in additional third party capital through investment in REOT. The REIT has already purchased one property under this strategy and is in the process of preparing to exercise an option on another development which is anticipated to be announced early 2015. As at December 31, 2014, the REIT had purchase options on a number of apartment and student properties currently in various stages of development and construction with a potential market value of \$400 million. The REIT may not exercise its options to purchase all of the properties on which it holds options, however these options provide a strong pipeline of potential acquisition opportunities for the REIT.

### ***Investment Strategy***

The business of the Trust and that of Centurion Apartment REIT, are mutually complementary and that there is a strategic benefit to the relationship between the two trusts that may serve to provide opportunities for investment and to mitigate risks for the Trust in the following ways:

- (a) Centurion Apartment REIT is a long term holder of real estate investments, primarily multi-residential apartments and student housing properties. Aside from its mortgage investments, Centurion Apartment REIT’s investments generally don’t have a maturity date or an anticipated liquidity event. The Trust will focus primarily on investments where there is a maturity date or an anticipated liquidity event and are generally more short or medium term in nature. Thus, Centurion Apartment REIT and the Trust are not naturally competing for the same investments as their primary investment portfolios will generally have different time horizons.
- (b) It is anticipated that a large portion of the opportunities that will be presented to the Trust will be related to multi-residential apartments and student housing. These could be mortgages or developments where Centurion Apartment REIT may have a future interest in owning the property (or a right to acquire the property) and could provide an exit event to the Trust, and thus potentially increase liquidity and reduce lending and/or development risks on the Trusts investment portfolio.
- (c) The Trust affiliates have considerable experience managing multi-residential apartments and student housing and the Trust believes that this experience is a competitive advantage and will help mitigate risks relative to other mortgage lenders that lack this management infrastructure and experience.

- (c) One of the primary areas where the Trust believes there are significant opportunities is in the development of new apartments and student housing. Based on its experience, the Trust believes that developers and joint arrangement partners are attracted to the “end to end” solution that the Trust, its affiliate, Centurion Apartment REIT, as a group brings (e.g. the ability to finance the debt and equity during development, experience in determining project feasibility, understanding what renters want, experience in lease up and management, and ultimately being an interested buyer for the property upon completion). This ability to provide an “end to end” solution is, in the Trust’s view, a strategic advantage in attracting investment opportunities for the Trust and is a potential acquisition pipeline for Centurion Apartment REIT.

The Trust intends to generally pursue a “barbell strategy” for its Portfolio, allocating between Mortgage Assets for income and Other Investments for capital growth. It is anticipated that most of the investments will have either a fixed maturity (like a mortgage) or an exit strategy or event (like an equity interest in a development project), as the Trust does not intend to be “permanent capital” for any particular investment. No specific percentage allocation between the income and capital growth portions of the Portfolio have been set as these allocations will be opportunity driven and determined on an ongoing basis by the Trust. The Trust has a general preference when investing in equity opportunities, to invest in the preferred equity portion of the capital stack to reduce downside risk and to attempt to achieve a preferred return to meet the Trust’s income targets.

### ***Targeted Investments***

Trust is currently targeting the following areas for its investment portfolio.

- Mortgage Assets
- Multi-residential apartment and student housing developments
- Other growth-oriented real estate opportunities

A description of each of these targeted investments follows:

#### **Mortgage Assets**

The traditional sources of real estate mortgage financing include Schedule I and II banks, trust companies, insurance companies and pension funds (“Institutional Lenders”). The larger Institutional Lenders in Canada are generally focused on mortgage loans that comply with lending criteria established by the Canadian banks which are often restrictive. These criteria became much more restrictive after the 2008 credit crisis, resulting in a pullback by traditional lending sources from the mortgage market in general and in particular the commercial mortgage market. Due to the focus of large financial institutions on limited types of mortgage loans and increasingly conservative loan exposure levels, the Asset Manager believes quality lending opportunities exist in some under-served segments of the mortgage market at premium interest rates secured by high quality mortgage loans. Below are the areas of focus for the Trust in the mortgage market.

#### **Construction loans for purpose built rental apartments and student housing buildings**

Mortgage financing to support the construction of purpose built rental apartments and student housing buildings is provided on a strictly limited basis by only a few Institutional Lenders, primarily a few of the Schedule I and Schedule II banks and some trust companies. Despite vacancy rates upon completion and stabilization for these types of projects remaining extremely low, these lending institutions are very conservative and limited in the amount of financing they will provide. The Asset Manager believes that this will allow the Trust to potentially find an abundance of investment lending opportunities on high quality projects, typically structured as either first or second mortgages, in particular for those projects which Centurion Apartment REIT may have an interest in acquiring upon completion. The Trust expects that the loan exposure levels provided by the Trust are typically well within the price point at which Centurion Apartment REIT would be interested in acquiring the completed projects.

#### **Multi-Family Residential, Investment Properties and Commercial Mortgages**

Mortgage lending in the income producing investment property market is dominated by a few large Institutional Lenders. These Institutional Lenders tend to be more conservative and focus only on income producing properties owned by large real estate investors, which are generally considered to be safer investments. As a result, the Trust is

able to find attractive lending opportunities providing first and second mortgage financing on other income producing properties and owners, including attractive lending opportunities on purpose built multifamily rental and student housing.

### **Developer and Builder Pre-construction Loans**

Builders and developers require loans to acquire land to build low rise and high rise developments. The Institutional Lenders lend on a very limited basis on land, presenting potentially attractive lending opportunities to the Trust.

### **Mezzanine and Subordinated Debt Financing**

Mezzanine or subordinated debt financing for residential and commercial development projects is highly fragmented. Institutional Lenders typically do not provide this type of specialized financing for developers, and the capital providers in this market segment are typically small private entities with limited deployable capital. Given the lack of participation from the larger financial institutions, there is less competition in this market segment, which could provide the Trust with opportunities to underwrite mortgage loans that are, in the opinion of the Trust, well-structured, secure and attractively priced.

### **Residential Mortgages**

The single family Conventional Mortgage market in Canada is dominated by the Schedule I Banks which are aggressive in underwriting single family Conventional Mortgage loans provided such mortgages strictly comply in all aspects with rigid underwriting criteria. The five largest Schedule I Banks are generally less aggressive in pursuing single family Conventional Mortgage loans where (i) the borrower is self-employed, (ii) the borrower lacks a well-developed domestic credit history due to having recently immigrated to Canada, (iii) the borrower intends to substantially renovate the property, or (iv) the borrower or the loan is otherwise outside the strict lending guidelines of the Schedule I Banks. Consequently, borrowers who do not meet the rigid underwriting criteria of the Schedule I Banks find it more difficult to obtain financing from traditional Institutional Lenders, regardless of loan-to-value ratios or security offered, which the Trust believes presents attractive lending opportunities to the Trust.

### **Multi-Residential Apartment and Student Housing Developments**

The Trust believes that the construction of new apartments and student housing are currently two of the most compelling opportunities in the multi-residential rental business. These two opportunities were the original core reasons that Centurion Apartment REIT began to build up its financing portfolio to create a pipeline of acquisitions and to profit in the development along the way.

The Trust believes that new apartments are attractive because:

- There has been very limited construction of new apartments in Canada for decades and the existing stock is aging. Even though older properties have been renovated where renters could choose to live, many are willing and able to pay more to get a newer facility with updated amenities.
- Institutional Lenders have significantly restricted lending to condominium developers and thus there are many sites that may be appropriate for apartment construction where developers must now look for either an alternate or deferred exit plan
- Because developers have capital invested in the land on which they may be paying financing costs, and have ongoing infrastructure and employee costs to pay, they may be motivated to consider alternate exits and develop apartments instead
- Condominium unit pre-sales have been much more difficult to obtain, thus preventing these developers from starting their projects
- Capitalization rates have moved to a point where new construction makes sense
- There is extremely strong interest on the part of institutional investors to own well located new apartments



- The Trust believes that there may be a limited window to build apartments in some markets until Institutional Lenders begin lending again to developers, at which time the window may close in these markets for a long time. The Trust believes that given that this window may close, that newly built product may attract significant buyer demand as supply available for sale to the market is likely to be limited.

Centurion Apartment REIT is one of the largest owners and a leader in the student housing business. It has been building its portfolio of student properties since 2011. The Trust believes that student housing is an attractive area of focus for the Trust because:

- Canada is about a decade behind the United States in the development of the student housing industry. Purpose built student housing in Canada is only just beginning in earnest and thus there is scale in this business
- Most of the student housing stock in Canada is on campus and is very old. This stock serves mainly first year undergraduate students leaving upper year and graduate students in either single family houses or regular apartments which are often in student “ghettos”. Not only is there a need in many cases to replace this old stock, but there is an opportunity to provide quality off-campus housing to students after they complete their first year for the remainder of their undergraduate and graduate studies
- The development returns on many student property developments are higher than on standard apartments because rents are generally charged per bedroom creating a higher rental yield.

The Trust believes that there are currently many opportunities to build new multi-residential apartment and student housing properties which may be of interest to Centurion Apartment REIT as an investment upon the completion and stabilization of such properties. Thus, there is a natural home for a number of these projects in Centurion Apartment REIT. Though it is not expected that firm purchase agreements between Centurion Apartment REIT and the Trust will be entered into in advance of the completion of most projects, due to an alignment of interests and expertise of management and the strategic relationship between the Trust and Centurion Apartment REIT, the Trust would likely be focusing on properties that would suit Centurion Apartment REIT’s primary investment objectives and it is expected that Centurion Apartment REIT would have interest in purchasing most of the properties upon stabilization. Such relationship and pre-identified potential exit option may help shorten the time to exit, increase liquidity for the Trust and reduce risk.

In order to maximize returns for the Trust, Centurion Apartment REIT would have to pay fair market value for the properties and in some cases a third party may be willing to pay more than Centurion Apartment REIT. In these cases, it is expected that the property would go to the highest bidder all other things being equal. In order to balance the interests of the Trust and REIT, who although strategic partners, may at times be in conflict, the Trust has appointed different Independent Trustees than Centurion Apartment REIT, with the exception of Martin Bernholtz who is a member of both Boards of Trustees. The intended purpose of having a crossover independent trustee is to act as a bridge between the boards that is at the same time otherwise independent of management (the Trust and its affiliates).

The Trust intends to pursue a primarily joint arrangement model approach to its development and opportunistic real estate investments. This means that most of these types of investments would be with active partners who would approach the Trust with the opportunity and manage the day-to-day development with oversight by the Asset Manager (or its affiliates). The Trust’s responsibilities would be primarily as an investor that brings multi-residential operations experience and the capability and interest from Centurion Apartment REIT to be the end buyer when appropriate. The Asset Manager believes that it will have access to more qualified investment opportunities and can execute on greater scale and with less risk pursuing a strategy of working with local development partners and with Centurion Apartment REIT than if it went searching for opportunities to execute solely on its own.

## **Other Growth-Oriented Real Estate Investment Opportunities**

The Trust believes that in the course of pursuing its core investment targets that it will be presented with other attractive growth-oriented real estate investment opportunities (including real estate development opportunities). The Trust is regularly being presented with attractive opportunities outside of the multi-residential apartments and student housing areas. The Trust intends to be opportunistic in considering other growth-oriented real estate investment opportunities as they present themselves.

### ***Warehouse Agreement***

The Trust has entered into the Warehouse Agreement, pursuant to which Centurion Apartment REIT has agreed to fund (purchase) and warehouse certain mortgage investments originated by (or on behalf of) the Trust (the “Warehoused Mortgages”) and growth-oriented real estate investments, ancillary real estate and other investments (the “Warehoused Other Investments”). The Warehouse Agreement (i) provides the Trust with a non-committed funding facility to fund (A) mortgage investments originated and placed directly or indirectly by the Mortgage Manager on behalf of the Trust and (B) growth-oriented real estate investments (including real estate development), ancillary real estate and other investments identified by the Asset Manager on behalf of the Trust and (ii) grants the Trust an option to repurchase Warehoused Mortgages and Warehoused Other Investments funded (purchased) under the Warehouse Agreement at any time. The Warehouse Agreement also provides Centurion Apartment REIT with an option to sell any Warehoused Mortgages and/or Warehoused Other Investments to the Trust (i) on 180 days’ prior notice for any Warehoused Mortgages and/or Warehoused Other Investments that remain in good standing, (ii) immediately (within three (3) Business Day) for any Warehoused Mortgages and/or Warehoused Other Investments that have been noted in default or that have otherwise experienced a negative credit or other event, as set out in the Warehouse Agreement, or (iii) on thirty (30) days’ prior notice where the Trust has provided a notice to terminate the Warehouse Agreement.

For such time as Centurion Apartment REIT is the beneficial owner of the Warehoused Mortgages and Warehoused Other Investments and it is entitled to all related economic benefits. Until such time as the Trust has acquired such Warehoused Mortgages and Warehoused Other Investments from the REIT, the Trust has no rights to such Warehoused Mortgages or Warehoused Other Investments, but is fully-exposed to the related downside risks by virtue of Centurion Apartment REIT’s unrestricted option to immediately sell any Warehoused Mortgages and/or Warehoused Other Investments that have been noted in default or that have otherwise experienced a negative credit or other event, as set out in the Warehouse Agreement.

In the event that the Trust purchases a Warehoused Mortgages from Centurion Apartment REIT, the purchase price for such Warehoused Mortgage will be: a) the outstanding principal balance owing to the Centurion Apartment REIT in respect of each Warehoused Mortgage plus all interest attributable to such interest accrued and unpaid on such Warehoused Mortgage less (b) the Trust’s pro-rata share of the upfront, ongoing and deferred lender fees payable in respect of such Warehoused Mortgage, if any, to Centurion Apartment REIT as the beneficial owner of the Warehoused Mortgage. Where the purchased Warehoused Mortgage provides for the opportunity to share in the profits of the property underlying the Warehoused Mortgage, all such participating rights and profit sharing shall attribute exclusively to the Trust and shall not be included in the purchase price. In the event that the Trust purchases a Warehoused Other Investment from Centurion Apartment REIT, the purchase price for such Warehoused Other Investment will be determined on the basis, or using the formula, set out in the applicable commitment letter pursuant to which Centurion Apartment REIT agreed to advance funds in respect of such Warehoused Other Investment, or such other price as the Trust and the Centurion Apartment REIT may agree.

The Warehouse Agreement requires that, unless otherwise agreed by the Trust and Centurion Apartment REIT, the Warehoused Mortgages and Warehoused Other Investments funded or purchased by Centurion Apartment REIT be purchased by the Trust on a “first in, first out” basis. The “first in, first out” requirement applies collectively to Warehoused Mortgages and Warehoused Other Investments.

The Trust expects to make use of the facility under the Warehouse Agreement to fund mortgage and other investments in order to (i) permit the continuous deployment of capital and (ii) avoid a reduction of returns associated with delays in the deployment of equity capital that needs to be raised to fund mortgage investments. Centurion Apartment REIT is not required to fund (purchase) any mortgage investments pursuant to the Warehouse

Agreement and has made no commitments to do so. Any funding decision of Centurion Apartment REIT is made independent of the Trust by the independent trustees of Centurion Apartment REIT, provided that the independent trustees of Centurion Apartment REIT may set parameters pursuant to which such funding decisions are delegated to the Asset Manager (or any successor asset manager of Centurion Apartment REIT).

As consideration for Centurion Apartment REIT providing the warehouse facility and entering into the Warehouse Agreement, during the term of the Warehouse Agreement, the Trust has granted Centurion Apartment REIT the exclusive first right to purchase from the Trust and exercise any Property Purchase Option granted to the Trust in connection with the acquisition of any Mortgage Assets and/or other investments. During the Term, such right shall apply to all Mortgage Assets and/or other investments for which the Trust is the beneficial owner regardless of whether or not such Mortgage Assets and/or other investments are warehoused with Centurion Apartment REIT in accordance with the Warehouse Agreement. The purchase price paid by Centurion Apartment REIT for any Property Purchase Option shall be the fair market value of such Property Purchase Option determined at the time Centurion Apartment REIT exercises its right to purchase the Property Purchase Option, acting reasonably and in good faith. Any disputes with respect to the determination of the fair market value of the Property Purchase Option are to be resolved through negotiation between Centurion Apartment REIT and the Trust, failing which either party may request that an independent firm of licensed real estate appraisers resolve the dispute. Centurion Apartment REIT has the option to redeem the number of Class R Units equal to the fair market value of the Property Purchase Option in order to satisfy the purchase price therefor.

As further consideration for Centurion Apartment REIT providing the warehouse facility and entering into the Warehouse Agreement, during the term of the Warehouse Agreement, the Trust has agreed to assign at no cost to Centurion Apartment REIT the exclusive first right to exercise any Property Offer Option granted to the Trust, provided such Property Offer Option is transferable to the Centurion Apartment REIT. During the term, such right shall apply to all Mortgage Assets held by the Trust regardless of whether such Mortgage Assets and/or other investments are warehoused with Centurion Apartment REIT in accordance with the Warehouse Agreement. Centurion Apartment REIT and the Trust have acknowledged in the Warehouse Agreement that the fair market value of each Property Offer Option is expected to be nominal and that unless Centurion Apartment REIT and the Trust, each acting reasonably and in good faith, determine otherwise, the purchase price for each Property Offer Option shall be \$0.

Centurion Apartment REIT has the option to require that the Trust pay the purchase price of any Warehoused Mortgages and/or Warehoused Other Investments in additional Class R Units rather than in cash, or to satisfy the purchase price of a Property Offer Option and any underlying Warehoused Mortgage and/or other investment relating thereto through the redemption of Class R Units.

## ***Outlook & Business Strategy***

Management is focused on a number of key areas for 2015 that can be broken down as follows:

### ***Growth strategy***

The primary goals in 2015 are raising and deploying additional capital and increasing the awareness of the Trust. This involves marketing to the Trust to Centurions existing investment channels as well as new channels. Management is working through the process of getting the Trust approved for distribution among its registered dealer network.

While it is always difficult to predict what opportunities will present themselves over the rest of the year, Management believes that based on its current deal flow and active deals under due diligence, that it will be able to successfully and accretively deploy capital in 2015.

Management continues to believe that the greatest opportunity in the Canadian apartment market right now, and for the next few years, is new apartment construction.

Management also continues to believe that purpose built student housing provides significant opportunities for the Trust. Yields are higher than standard apartments and few significant portfolios of size exist. Significant scope for new construction exists as students move from single family homes into larger service oriented investment grade residences.

Major bank based lenders continue to restrict the availability of funding to developers. Management continues to focus on securing a pipeline of future acquisitions by assisting developer partners with financing to complete properties which the Trust may ultimately buy. Further, due to the reduced availability of prime financing to developers, the Trust will continue to have opportunities to invest some of its surplus liquidity in quality mortgages while it continues to patiently search for acquisition opportunities.

In 2015, Management is targeting yields of 7% - 12% on its non-participating investments and 20+% on its participating investments.

### ***Expense Management- Internalization***

Effective January 1, 2015, Centurion Real Estate Opportunities Trust, along with Centurion Apartment REIT, internalized its property and asset management teams. Management believes that internalizing these teams better aligns the management structure of REOT with the interests of the unitholders.

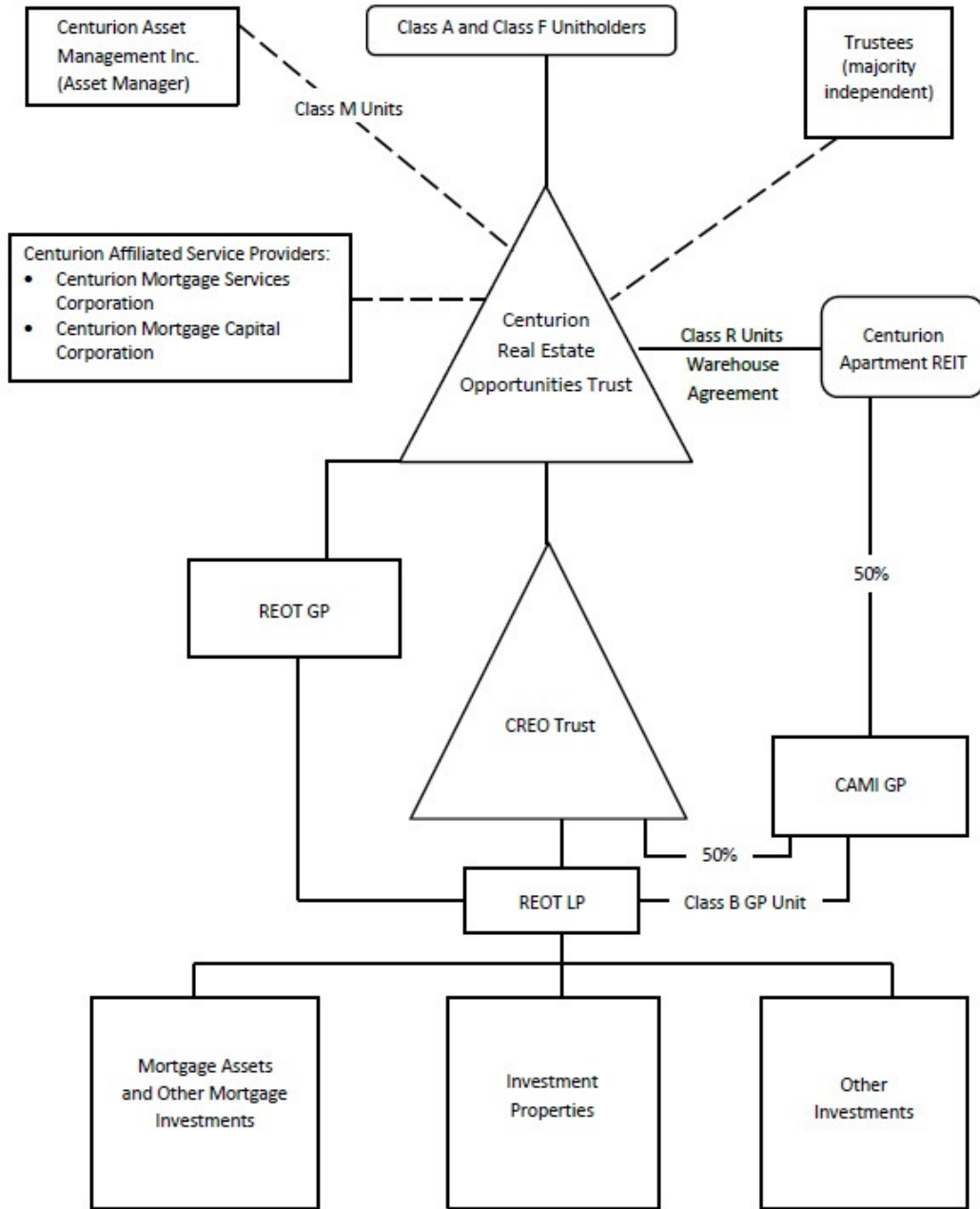
The key benefit of internalization include the elimination of the asset management fees a while maintaining REOT's ability to draw upon the expertise of management.

Some of the material terms of the internalization transaction are as follows:

- The ownership of Centurion Property Associates Inc., the property manager of the REIT will be transferred to the REIT, which will assume its assets and liabilities, including its staff. The REIT will not pay any fee or premium to the asset manager for the transfer.
- As a result of the internalization, the REOT will share certain office, overhead, staffing and other costs with the REIT and any other funds in the future, which would have been previously incurred by Centurion Property Associates Inc. and Centurion Asset Management Inc.
- REOT will no longer pay asset management fees and it is anticipated that there will be substantial cost savings in the future as REOT continues to grow. REOT will have access to all the resources they currently have but will only pay their respective share of current and future expenses.
- Greg Romundt will continue to work for REOT in his current role as President and Trustee.

**Centurion Real Estate Opportunities Trust Operating Structure**

The Trust's operating structure was revised due to internalization. Two general partners, Centurion Real Estate Opportunities GP Inc. and Centurion Asset Management GP Inc. were formed in addition to a limited partner, Centurion Real Estate Opportunities LP. Centurion Asset Management GP Inc. is 50% owned by the operating trust. These entities permit expense allocation, tax efficiencies, and further protection of the mutual fund trust structure. The revised operating structure is as follows:



### *2014 Operating Results*

Since its launch, the Trust has continued to expand its portfolio from an initial \$58.9 million to approximately \$77.6 million at December 31, 2014. The portfolio is now diversified with 30 funded investments, of which 31% are designated as “participating” (meaning that REOT has an equity-type risk position in these projects; so there is the potential for upside beyond the return from the mortgage investment side of the projects).

The following chart shows the growth of the portfolio since the asset manager first began deploying capital to mortgage investments in 2013 in Centurion Apartment REIT:

<b>Historical Investment Information</b>							
<b>Year</b>	<b>At End of Quarter</b>	<b>Number of Committed Investments</b>	<b>Committed (\$M)</b>	<b>Funded (\$M)</b>	<b>Non-participating Wtd Avg Int. Rate (%)</b>	<b>Wtd Avg LTV (%)</b>	<b>Wtd Avg Term to Maturity (Years)</b>
2013	Q2	5	\$ 22.34	\$ 13.13	10.66	74.10	2.10
	Q3	8	\$ 48.03	\$ 37.66	10.17	56.70	1.87
	Q4	10	\$ 48.77	\$ 38.88	10.12	56.30	1.93
2014	Q1	16	\$ 66.97	\$ 55.44	9.76	56.00	1.83
	Q2	18	\$ 62.54	\$ 51.97	9.97	64.10	1.84
	Q3	25	\$ 83.19	\$ 59.12	9.97	61.80	1.62
	Q4	32	\$ 116.57	\$ 77.63	10.14	67.16	2.19

Of the investments categorized as non-participating investments, the weighted average interest rate is 10.14%, with a term to maturity of 2.19 years and weighted average loan to value of 67.16%.

84% of the investments are residential and 16% are commercial. Over 95%, of the investments are in a preferred position in terms of the capital stack.

The investments by rank include first positions (59.55%), second positions (36.02%) and equity positions (4.44%).

Portfolio turnover was light with \$7.1 million in pay-downs and \$43.8 million in funding since the launch in September.

There was no provision for losses required as at December 31, 2014.

Total mortgage and equity accounted investments were \$77.39 million as at December 31, 2014 an increase of 31.4% since inception.

For period from August 14, 2014 to December 31, 2014, the Trust had interest income of \$2,130,411.

General and administrative expenses were incurred of \$366,879. The majority of these expenses related to accounting and legal expenses incurred in relation to the start of the Trust.

While it is always difficult to predict what opportunities will present themselves over the rest of the year, Management believes that based on its current deal flow and active deals under due diligence, that it will be able to successfully and accretively deploy capital in 2015.

The expected returns for the portfolio based on current expectations are as follows:

**Expected returns**

	<b>Weight</b>	<b>Anticipated return</b>
Non-participating investments	69.34%	10.14%
Participating investments	30.66%	25.00% <sup>1</sup>
Weighted anticipated returns	100.00%	14.70%

<sup>1</sup> This represents IRR of deal underwriting over the life of the specific investment. The IRR's on participating investments are estimated, are not guaranteed, may not be realized, are not expected to occur linearly and may change materially. The IRR's are estimated over the investments life and may not be realized in 2015. The weighted anticipated returns are gross returns prior to operating expenses.

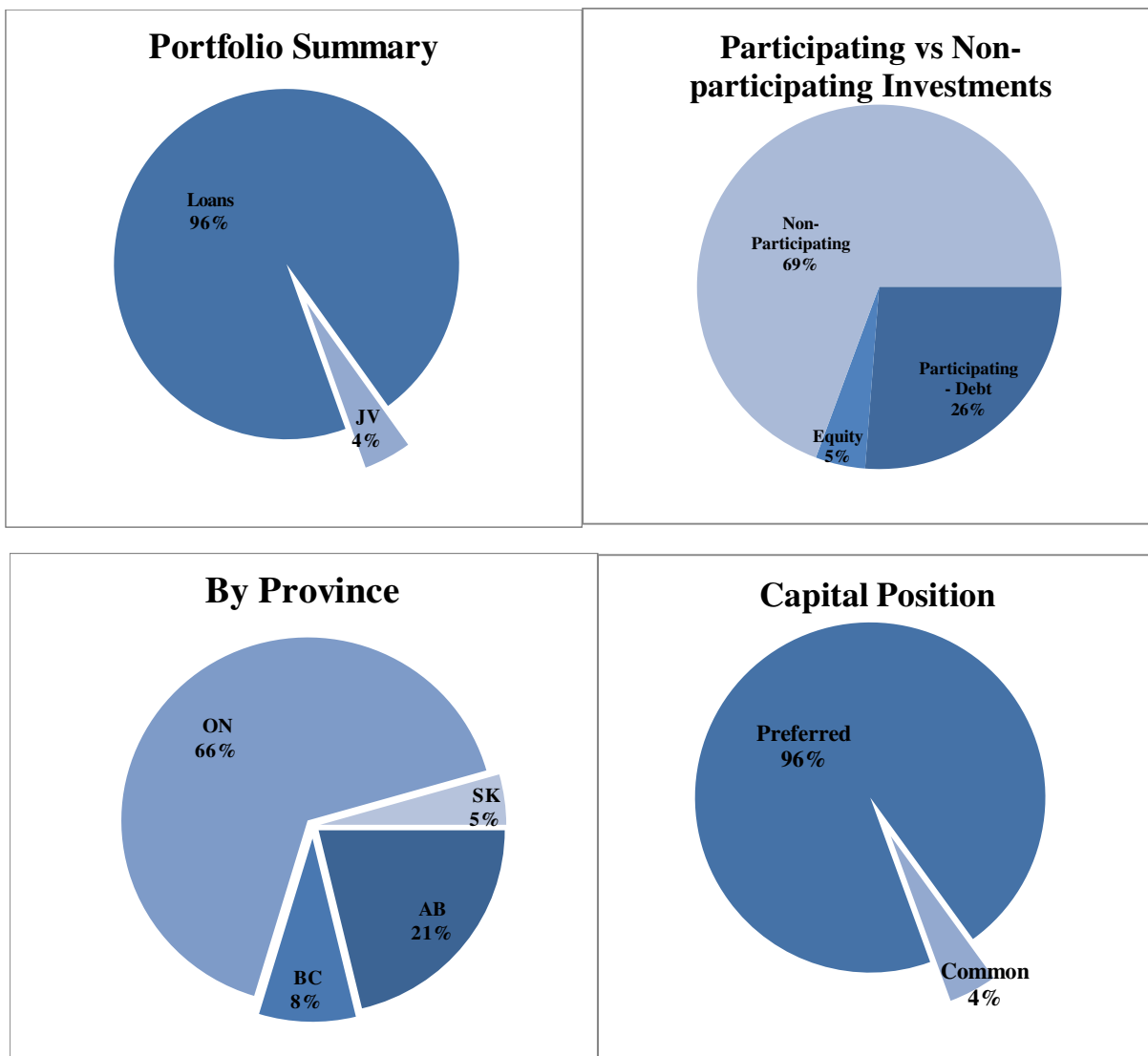
See Appendix A - Summary Information About the Investment Portfolio.

***Key Portfolio Metrics***

	<b>2014</b>
Total investments committed	116,575,125
Total investments funded	77,630,278
Non-participating investments	53,825,806
Participating investments	23,804,472
LTV of Non-participating Investments	67%
Investment Ranking:	
First position	59.55%
Second position	36.02%
Equity position	4.44%
Weighted average term	2.19 Years
Weighted average interest rate	10.14%

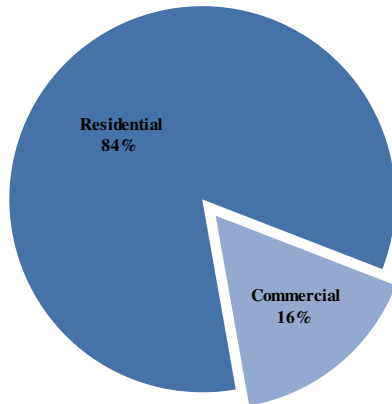
### Portfolio Summary

The following charts provide summary information for the portfolio as at December 31, 2014.

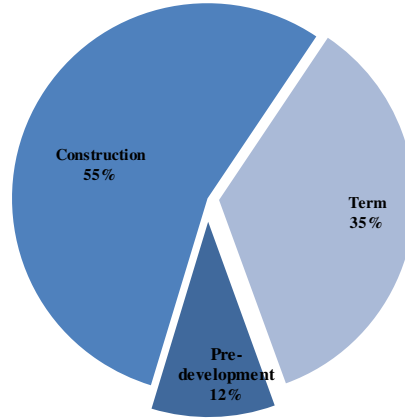




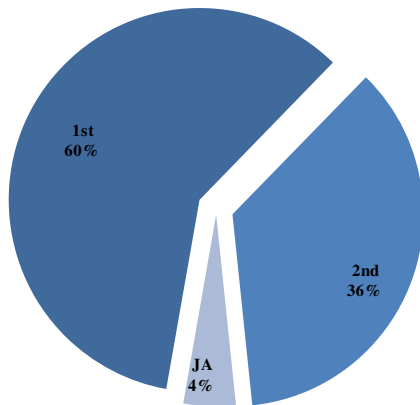
**By Investment Type**



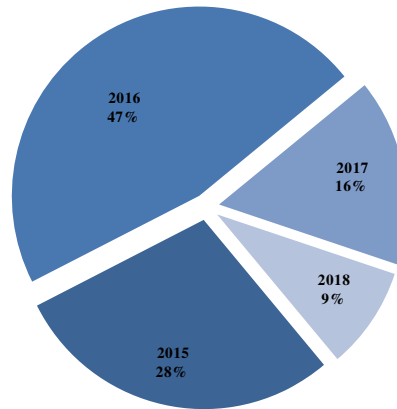
**By Development Stage**



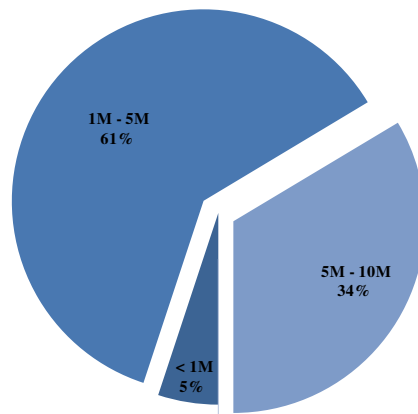
**By Rank**



**By Maturity**



**By Investment Size**



### *Issued and Outstanding Number of Units*

The following table depicts the number of Issued and Outstanding Number of Units as at December 31, 2014:

#### **Summary of Unit Holdings at December 31**

	<b>2014</b>
Class A	661,694
Class F	4,747
Class R	7,153,793
Class M	50,000
<b>Total</b>	<b>7,870,234</b>

As at March 31, 2015, Centurion Apartment REIT held 85.74% of the Trust. Management anticipates that Centurion Apartment REIT's holdings in the Trust will grow in dollar terms but decline in percentage terms as external investors subscribe and the Trust continues to grow. The weighted average units outstanding for the period was 5,243,935.81

#### *Distributions*

Distributions per unit were set at \$0.70/Unit/Annum for Class A Units and \$0.80/Unit/Annum for Class F Units for 2014. The unit price remained at \$10.00, the initial opening unit price, as at December 31, 2014.

Effective May 1, 2015 and going forward, for all unitholders subscribing to Centurion Real Estate Opportunities Trust, the closing date for new subscriptions will become the first business day of the month and will no longer be the last business day of the month. Subscribers will be considered unitholders as of the first business day of the month and not the last business day of the month, provided that their completed subscription documents have been received before this date.

For example, an investor that submits their completed subscription forms on May 25, 2015, will become a unitholder of Centurion on June 1, 2015 with their first distribution being paid on July 15, 2015. A unitholder must be invested for a full calendar month before receiving a distribution. An investor that submits their completed subscription forms on June 2, 2015 will have missed the cut-off of June 1, 2015 and will become a unitholder as of July 1, 2015 with their funds held in a segregated subscription trust account until the next closing.

This change is being made to reduce dilution to existing unitholders. Under the old methodology, new investors would be receiving a distribution for only being invested a single day. When Centurion Real Estate Opportunities Trust was originally formed, its set-up mirrored Centurion Apartment REIT for consistency purposes. This original structure assumed that subscriptions would flow in at a steady pace over the course of the month. It became clear over time that this assumption was incorrect and that the majority of subscriptions flowed in on the final few days of the closing month. Since these funds were held in escrow and not invested, Centurion Real Estate Opportunities Trust had no opportunity to earn the first month's distribution given to new unitholders by being invested. As such, the first month's distribution under the old methodology was a transfer of returns paid for by existing unitholders to new unitholders. The change was proposed to both of the Board of Trustees and passed to take effect May 1, 2015. The last closing under the old methodology will be April 30, 2015. The Board of Trustees believe that the new methodology is a more balanced and fair approach than the old methodology.

All other aspects of the Trust's subscription and distribution policies remain unchanged. Please note distributions are paid out on the 15th of each month, except when the 15th falls on a weekend or legal holiday, in which case distributions are paid out on the first business day following the 15th of the month. Unitholders are entitled to a distribution in a given month if they are unitholders on the last business day of that month.

### ***Tax Treatment of Distributions***

The chart below shows the tax treatment of REOT's distributions in 2014:

<b>Box on T3</b>	<b>Description</b>	<b>2014</b>
26	Other Income	97.98%
42	Return of Capital	2.02%
		<hr/> 100.00%

### ***Operating Facilities & Liquidity Management***

The Trust is currently working on negotiating a credit facility which, combined with the Warehouse Agreement, will provide additional flexibility and enable the Trust to meet its strategic growth goals.

### ***Capital Raising Activity***

In 2014, external equity inflows totaled \$6.6 million. The Trust will continue to increase its market exposure by expanding its investment channels. Since inception, Centurion Apartment REIT has purchased an additional \$10,635,241.80 in Class R units.

*APPENDIX A - Summary Information About the Investment Portfolio*

**Summary**

	<b>Committed</b>	<b>Number</b>	<b>Funded</b>	<b>% of Portfolio</b>	<b>Number</b>
Loans	\$111,652,657	31	\$74,187,166	95.56%	29
Joint arrangements	\$4,922,468	1	\$3,443,112	4.44%	1
<b>Total</b>	<b>\$116,575,125</b>	<b>32</b>	<b>\$77,630,278</b>	<b>100.00%</b>	<b>30</b>

**By Province**

<b>Province</b>	<b>Funded</b>	<b>% of Portfolio</b>	<b># of Investments</b>	<b>Committed</b>	<b>% of Portfolio</b>	<b># of Investments</b>
Alberta	\$16,501,614	21.26%	6	\$42,017,000	36.04%	7
British Columbia	\$6,509,456	8.39%	2	\$9,575,191	8.21%	2
Ontario	\$51,176,097	65.92%	21	\$60,060,466	51.52%	22
Saskatchewan	\$3,443,112	4.44%	1	\$4,922,468	4.22%	1
<b>Total</b>	<b>\$77,630,278</b>	<b>100.00%</b>	<b>30</b>	<b>\$116,575,125</b>	<b>100.00%</b>	<b>32</b>

**Purchase Options Attached to Investments**

<b>Status</b>	<b>Total Balance</b>	<b>% of Portfolio</b>	<b># of Investments</b>
Mortgages with Purchase Options	\$46,659,506	60.10%	15
Mortgages without Purchase Options	\$27,527,660	35.46%	13
Joint Arrangements	\$3,443,112	4.44%	2
<b>Total</b>	<b>\$77,630,278</b>	<b>100.00%</b>	<b>30</b>

**Estimated Built Out Value of Properties Underlying Investments with Purchase Options**

	<b>Undiluted</b>	<b>Diluted</b>
Mortgage Investments	\$337,477,051	\$223,421,090
Joint Arrangements	\$37,393,702	\$17,948,977
<b>Total</b>	<b>\$374,870,753</b>	<b>\$241,370,066</b>

**Capital Position**

<b>Status</b>	<b>Total Balance</b>	<b>% of Portfolio</b>	<b># of Investments</b>
Preferred Position	\$74,187,166	95.56%	29
Common Position	\$3,443,112	4.44%	1
<b>Total</b>	<b>\$77,630,278</b>	<b>100.00%</b>	<b>30</b>

**By Investment Type**

	<b>Total Balance</b>	<b>% of Portfolio</b>	<b># of Investments</b>
Residential	\$64,950,907	83.67%	27
Commercial	\$12,679,371	16.33%	3
<b>Total</b>	<b>\$77,630,278</b>	<b>100.00%</b>	<b>30</b>

**By Development Stage**

	<b>Total Balance</b>	<b>% of Portfolio</b>	<b># of Investments</b>
Pre-development	\$7,944,846	10.23%	3
Construction	\$42,493,706	54.74%	13
Term	\$27,191,726	35.03%	14
<b>Total</b>	<b>\$77,630,278</b>	<b>100.00%</b>	<b>30</b>

**By Underlying Security**

<b>Type</b>	<b>Total Balance</b>	<b>% of Portfolio</b>	<b># of Investments</b>
Multi Residential	\$55,889,797	71.99%	19
Single Family	\$2,563,188	3.30%	5
Retail	\$0	0.00%	0
Office	\$385,350	0.50%	1
Subdivision Land - Residential	\$6,497,922	8.37%	3
Mixed Use	\$12,294,021	15.84%	2
<b>Total</b>	<b>\$77,630,278</b>	<b>100.00%</b>	<b>30</b>

**By Rank**

<b>Position</b>	<b>Total Balance</b>	<b>% of Portfolio</b>	<b># of Investments</b>
First	\$46,227,231	59.55%	14
Second	\$27,959,935	36.02%	15
Joint Arrangement	\$3,443,112	4.44%	1
<b>Total</b>	<b>\$77,630,278</b>	<b>100.00%</b>	<b>30</b>

**By Loan to Value ("LTV")**

LTV	Total Balance	Running Total	% of Portfolio	# of Investments
<b>Non-Participating Investments (Mortgages)</b>				
50% or Lower	\$6,402,451	\$6,402,451	8.25%	3
51% - 55%	\$6,140,119	\$12,542,571	7.91%	2
56% - 60%	\$385,350	\$12,927,921	0.50%	1
61% - 65%	\$12,036,552	\$24,964,472	15.50%	2
66% - 70%	\$1,709,680	\$26,674,152	2.20%	2
71% - 75%	\$2,668,671	\$29,342,823	3.44%	2
76% - 80%	\$21,206,317	\$50,549,141	27.32%	7
81% - 85%	\$3,276,666	\$53,825,806	4.22%	4
Above 85%	\$0	\$53,825,806	0.00%	0
<b>Sub-Total</b>	<b>\$53,825,806</b>	<b>\$53,825,806</b>	<b>69.34%</b>	<b>23</b>
<b>Participating Investments</b>				
<b>Sub-Total</b>	<b>\$23,804,472</b>	<b>\$23,804,472</b>	<b>30.66%</b>	<b>7</b>
<b>Total</b>	<b>\$77,630,278</b>	<b>\$77,630,278</b>	<b>100.00%</b>	<b>30</b>

The Weighted Average LTV of Non-participating Investments (Mortgages) is 67.16% (First Positions - 59.83%, Second Positions - 76.94%)

**By Minimum Return Coupon**

<b>By 50 basis point buckets</b>				
Coupon Rate	# of Investments	Total Balance	% of Portfolio	Average Interest Rate %
7.5% or Lower	0	\$0	0.00%	0.00%
7.51%-8%	2	\$926,016	1.19%	8.00%
8.01%-8.5%	3	\$13,577,623	17.49%	8.50%
8.51%-9%	1	\$1,435,391	1.85%	8.90%
9.01%-9.5%	2	\$5,882,650	7.58%	9.50%
9.51% - 10%	10	\$27,743,028	35.74%	10.00%
10.01% - 10.5%	0	\$0	0.00%	0.00%
10.51% - 11%	8	\$10,166,626	13.10%	11.00%
11.01% - 11.5%	1	\$4,498,131	5.79%	11.50%
11.51% - 12%	2	\$9,957,702	12.83%	12.00%
12.01% - 12.5%	0	\$0	0.00%	0.00%
<b>Total</b>	<b>29</b>	<b>\$74,187,166</b>	<b>95.56%</b>	<b>10.14%</b>

The Weighted Average Minimum Coupon Rate of the Portfolio is 10.14%

**By Maturity**

<b>Maturity</b>	<b>Balance Maturing</b>	<b>% of Portfolio</b>
Maturing 2015	\$21,226,671	27.34%
Maturing 2016	\$34,602,238	44.57%
Maturing 2017	\$11,848,801	15.26%
Maturing 2018	\$6,509,456	8.39%
<b>Total</b>	<b>\$74,187,166</b>	<b>95.56%</b>

The Weighted Average Maturity of the Portfolio is 2.19 Years

**Investments by Size**

	<b>Total Balance</b>	<b>% of Portfolio</b>	<b># of Investments</b>
<=\$1 million	\$3,944,185	5.08%	8
>\$1 to <=\$5 million	\$47,603,481	61.32%	18
>\$5 to <=\$10 million	\$26,082,612	33.60%	4
>\$10 million	\$0	0.00%	0
<b>Total</b>	<b>\$77,630,278</b>	<b>100.00%</b>	<b>30</b>
Average Investment Size	\$2,587,676		
Median Investment Size	\$1,832,043		

## *APPENDIX B – Risks and Uncertainties*

There are certain risk factors inherent in an investment in the Units and in the activities of the Trust, including the following, which Subscribers should carefully consider before subscribing for the Units. Although investments made by the Trust will be carefully chosen by the Asset Manager, there is no representation made by the Asset Manager that such investments will have a guaranteed return to Unitholders nor that losses will not be suffered by the Trust from such investments. This Offering is not suitable for investors who cannot afford to assume significant risks in connection with their investments.

### *Development Risks*

The Trust may, directly or indirectly, invest in real estate development projects. Any existing or future development investments of the Trust will entail certain risks, including the expenditure of funds on and devotion of management's time to evaluating projects that may not come to fruition; the risk that development costs of a project may exceed original estimates, possibly making the project uneconomical; the risk of construction overrun or other unforeseeable delays, during which the interest rate and leasing risk may fluctuate; the risk that occupancy rates and rents at a completed project will be less than anticipated or that there will be vacant space at the project; the risk that expenses at a completed development will be higher than anticipated; and the risk that permits and other governmental approvals will not be obtained. In addition, the Trust's future real estate development investments may require a significant investment of capital. The Trust may be required to obtain funds for its capital expenditures and operating activities, if any, through cash flow from operations, property sales or financings. If the Trust is unable to obtain such funds, it may have to defer or otherwise limit certain development activities.

### *Risks Related to Mortgage Extensions and Mortgage Defaults*

The Asset Manager may from time to time deem it appropriate to extend or renew the term of a mortgage past its maturity, or to accrue the interest on a mortgage, in order to provide the borrower with increased repayment flexibility. The Asset Manager generally will do so if it believes that there is a relatively low risk to the Trust of not being repaid the full principal and interest owing on the mortgage. In these circumstances, however, the Trust is subject to the risk that the principal and/or accrued interest of such mortgage may not be repaid in a timely manner or at all, which could impact the cash flows of the Trust during and after the period in which it is granting this accommodation. Further, in the event that the valuation of the asset has fluctuated substantially due to market conditions, there is a risk that the Trust may not recover any of the principal and interest owed to it in respect of such mortgage.

When a mortgage is extended past its maturity, the loan can either be held over on a month-to-month basis, or renewed for an additional term at the time of its maturity. Notwithstanding any such extension or renewal, if the borrower subsequently defaults under any terms of the loan, the Mortgage Servicer has the ability to exercise its mortgage enforcement remedies in respect of the extended or renewed Mortgage. Exercising mortgage enforcement remedies is a process that requires a significant amount of time to complete, which could adversely impact the cash flows of the Trust during the period of enforcement. In addition, as a result of potential declines in real property values, the priority ranking of the mortgage and other factors, there is no assurance that the Trust will be able to recover all or substantially all of the outstanding principal and interest owed to it in respect of such mortgages by the Mortgage Servicer's exercise of Mortgage enforcement remedies for the benefit of the Trust. Should the Trust be unable to recover any portion of the principal and interest owed to it in respect of such mortgage, the assets of the Trust would be reduced, and the returns, financial condition and results of operations of the Trust could be adversely impacted.



### *Foreclosure or Power of Sale and Related Costs on Mortgage Investments*

One or more borrowers could fail to make payments according to the terms of their loan, and the Trust could therefore be forced to exercise its rights as mortgagee. The recovery of a portion of the Trust's assets may not be possible for an extended period of time during this process and there are circumstances where there may be complications in the enforcement of the Trust's rights as mortgagee. Legal fees and expenses and other costs incurred by the Trust in enforcing its rights as mortgagee against a defaulting borrower are usually recoverable from the borrower directly or through the sale of the mortgaged property by power of sale or otherwise, although there is no assurance that they will actually be recovered. In the event that these expenses are not recoverable they will be borne by the Trust.

Furthermore, certain significant expenditures, including property taxes, capital repair and replacement costs, maintenance costs, mortgage payments to prior charge holders, insurance costs and related charges must be made through the period of ownership of real property regardless of whether mortgage payments are being made. The Trust may therefore be required to incur such expenditures to protect its investment, even if the borrower is not honoring its contractual obligations.

### *Critical Estimates, Assumptions and Judgments*

The preparation of financial statements as per IFRS requires the Asset Manager to make judgments, assumptions and estimates that affect the reported amounts in the consolidated financial statements. Actual results could differ from these estimates. Financial statement carrying values, in addition to other factors (as described under "Item 4: Capital Structure – 4.1 Share Capital – Valuation Policy"), serve as the basis for the calculation of the Fair Market Value of Units. For example, the Trust takes into account the anticipated increase in development equity investments when calculating their carry value, a practice which involves numerous assumptions and uncertainty. If such carrying values should prove to be incorrect, the Fair Market Value of the Units could be different. To the extent that the carrying values or critical estimates, assumptions and judgments are inaccurate, and given that investment portfolio values are calculated quarterly on a lagging basis, the Posted Price per Unit in any given month may be understated or overstated as the case may be. In light of the foregoing, there is a risk that a Unitholder who redeems all or part of its Units will be paid an amount less than it would otherwise be paid if the critical estimates, assumptions and judgments were different, or if the calculation of property values was not calculated on a quarterly basis and thus potentially lagging the market. Similarly, there is a risk that such Unitholder might, in effect, be overpaid if the actual Fair Market Value is lower than the calculated Fair Market Value. In addition, there is a risk that an investment in the Trust by a new Unitholder (or an additional investment by an existing Unitholder) could dilute the value of such investments for the other Unitholders if the Posted Price of the Units is higher than the actual Fair Market Value of the Units. Further, there is a risk that a new Unitholder (or an existing Unitholder than makes an additional investment) could pay more than it might otherwise have paid if the actual Fair Market Value of the Units is lower than the Posted Price. The Trust does not intend to adjust the Fair Market Value of the Trust retroactively.

As set forth in the definitions of "Fair Market Value", the value of the Units is determined by the Trustees, in their sole discretion, using reasonable methods of determining fair market value. Fair Market Value of the Units may or may not be equal to the net asset value of the Units. The description of the methodology of investment portfolio valuations and the calculation of Fair Market Value and Posted Prices of Units reflects the methodology used by the Trustees as at the date hereof in calculating Fair Market Value. The Trustees may, in their discretion, adopt alternative methodologies to calculate investment property values and Fair Market Value from time to time, such as obtaining independent quarterly appraisals, which the Trust does not currently receive, without notice to, or approval by, Unitholders. Such alternative methodologies may present the same or additional risks.

The Trust may sell properties to Centurion Apartment REIT which would be effected at a purchase price equal to fair market value. The determination of fair market value will be made in part by the Asset Manager and will be

reviewed and approved by the Independent Trustees. Such determination will involve numerous estimates, assumptions and uncertainties. To the extent that these estimates and assumptions are incorrect, the Trust may be adversely affected. See “also “Mortgage Warehouse Arrangements” below.

#### *No Guarantees or Insurance on Mortgage Investments*

A mortgage borrower’s obligations to the Trust or any other person are not guaranteed by the Government of Canada, the government of any province or any agency thereof nor are they insured under the National Housing Act (Canada). In the event that additional security is given by the borrower or a third party or that a private guarantor guarantees the mortgage borrower’s obligations, there is no assurance that such additional security or guarantee will be available or sufficient to make the Trust whole if and when resort is to be had thereto.

#### *Mortgage Warehouse Arrangements*

The Trust may own certain rights to Warehoused Mortgages and Warehoused Other Investments pursuant to the Warehouse Agreement. The Warehouse Agreement provides the Trust with a facility to fund the purchase of additional Mortgage Assets and other investments. For such time as Centurion Apartment REIT is the beneficial owner of the Warehoused Mortgages and Warehoused Other Investments it is entitled to all related economic benefits. Until such time as the Trust has acquired such Warehoused Mortgages and Warehoused Other Investments from the REIT, the Trust has no rights to such Warehoused Mortgages or Warehoused Other Investments, but is fully-exposed to the related downside risks by virtue of Centurion Apartment REIT’s unrestricted option to immediately sell any Warehoused Mortgages and/or Warehoused Other Investments that have been noted in default or that have otherwise experienced a negative credit or other event, as set out in the Warehouse Agreement. In the event that the Trust purchases Warehoused Mortgages and Warehoused Other Investments from Centurion Apartment REIT, the calculation of the purchase price involves numerous estimates, assumptions and uncertainties, especially with respect to the purchase of Warehoused Other Investments. To the extent that these estimates and assumptions are incorrect, the Trust may overpay for such Warehoused Mortgages and Warehoused Other Investments. There is no guarantee that Centurion Apartment REIT will accept the warehousing of any particular Mortgage Asset or other investment and Centurion Apartment REIT may terminate the Warehouse Agreement on six (6) months’ prior written notice.

#### *Availability of Cash for Distributions*

There can be no assurance that the Trust will be able to achieve its distribution targets or that the Trust will make any distributions in any particular month. Distributable Income is calculated before deducting items such as principal repayments and capital expenditures and, accordingly, may exceed actual cash available to the Trust from time to time. The Trust may be required to use part of its debt capacity or raise additional equity in order to accommodate such items, and there can be no assurance that funds from such sources will be available on favorable terms or at all. In such circumstances, distributions may be reduced or suspended. Accordingly, cash distributions are not guaranteed and cannot be assured. The funds available for distribution to Unitholders will vary according to, among other things, the return on the assets in the Portfolio and the value of the assets in the Portfolio. Further, Distributable Income can exceed net income and have the result of an erosion of Unitholder’s equity.

Distributable Income is calculated in accordance with the Declaration of Trust. Distributable Income is not a measure recognized under Canadian generally accepted accounting principles and does not have a standardized meaning prescribed by IFRS. Distributable Income is presented herein because management of the Trust believes this non-IFRS measure is a relevant measure of the ability of the Trust to earn and distribute cash returns to Unitholders. Distributable Income as computed by the Trust may differ from similar computations as reported by other similar organizations and, accordingly, may not be comparable to distributable income as reported by such organizations. Distributable Income is calculated by reference to the net income of the Trust on a consolidated basis, as determined in accordance with IFRS, subject to certain adjustments as set out in the constating documents of the Trust.

### *Potential Conflicts of Interest*

The Trust may be subject to various conflicts of interest because the Trustees and senior officers of the Trust, senior officers of the Asset Manager, the Property Manager, the Mortgage Manager and the Mortgage Servicer are each engaged in a wide range of mortgage investment, real estate and other business activities. The Trust may become involved in transactions which conflict with the interests of one or more of the foregoing individuals and/or entities.

The Trustees may from time to time deal with persons, firms, institutions or corporations with whom the Trust may be dealing, or that may be seeking investments similar to those desired by the Trust. The interests of these persons could conflict with those of the Trust. In addition, from time to time, these persons may be competing with the Trust for available investment opportunities.

The Asset Manager, the Property Manager, the Mortgage Manager, and the Mortgage Servicer (collectively, the “Service Providers”) are not owned by the Trust but are related by common management and personnel to the Trust. This could create conflicts of interest between any of the Service Providers and the Trust.

The Service Providers’ services are not exclusive to the Trust, as each Service Provider provides services to several other clients. In particular, each Service Provider also provides similar services to Centurion Apartment REIT, a real estate investment trust with overlapping investment objectives to those of the Trust. Centurion Apartment REIT and the Trust operate independently from one another and have separate boards of trustees, with Mr. Gregory Romundt, Mr. Wayne Tuck and Mr. Martin Bernholtz serving as trustees for both Centurion Apartment REIT and the Trust. Although Mr. Martin Bernholtz serves as a trustee of both Centurion Apartment REIT and the Trust, he is otherwise independent of the Asset Manager and its affiliates.

Additionally, the Warehouse Agreement among the Trust, Centurion Apartment REIT and the Asset Manager and the arrangements thereunder may give rise to certain conflicts of interest, including with respect to (i) any Property Purchase Options or Property Offer Options (and the valuation and transfer thereof), (ii) the valuation and transfer of Warehoused Mortgages and/or Warehoused Other Investments between the Trust and Centurion Apartment REIT and (iii) the allocation of risk as between the Trust and Centurion Apartment REIT. The Asset Manager will follow procedures established by the Board of Trustees that are designed to ensure an appropriate allocation of risk under the Warehouse Agreement and related arrangements.

The Trust is a connected issuer, and may be considered to be a related issuer, of Centurion Asset Management Inc., its asset manager and an exempt market dealer, restricted portfolio manager and investment fund manager in certain jurisdictions, in connection with the distribution of the Units hereunder, which may result in potential conflicts of interest.

### *Allocation of Investment Opportunities*

While Centurion Apartment REIT and the Trust are not naturally competing for the same investments as their primary investment portfolios will generally have different time horizons, there may be instances in which the Trust and Centurion Apartment REIT both have an interest in the same investment opportunity. For example, the Trust may invest in long term real-estate properties and Centurion Apartment REIT may from time to time invest in Mortgage Assets. In the event that the Trust and Centurion Apartment REIT are both interested in pursuing the same investment opportunity, the Asset Manager will seek to allocate investment opportunities on a basis which it determines to be fair and reasonable. However, there is no requirement that the Asset Manager allocate investment opportunities on a pro rata basis between the Trust and Centurion Apartment REIT. Additionally, there may be situations where an investment opportunity is allocated to Centurion Apartment REIT despite the Trust having an interest in such investment opportunity.

### *Interest Rates*

The Trust's income will consist primarily of interest payments on the Mortgage Assets comprising the Portfolio. If there is a decline in interest rates (as measured by the indices upon which the interest rates of the Trust's mortgages are based), the Trust may find it difficult to purchase additional Mortgage Assets bearing rates sufficient to achieve the Trust's investment objectives. A decrease in interest rates may encourage tenants to purchase condominiums or other types of housing, which could result in a reduction in demand for rental properties. Changes in interest rates may also have effects on vacancy rates, rent levels, refurbishing costs and other factors affecting the Trust's business and profitability.

Additionally, an increase in interest rates increase may negatively affect the value of the Portfolio.

### *Availability of Investments in Mortgage Assets*

The ability of the Trust to make investments in accordance with the objectives of the Trust will depend upon the availability of suitable Mortgage Assets and other investments. The Trust will compete with individuals, corporations, trusts and financial institutions (both Canadian and foreign) for Mortgage Assets and the investment in the financing of real properties. A number of these investors may have greater financial resources than the Trust or operate without the investment or operating guidelines of the Trust, thus having greater flexibility when investing. An increase in the availability of funds for investment in Mortgage Assets, may increase the competition for Mortgage Assets investments, thereby decreasing the yields which are now available and increasing the risk/reward ratio.

### *Risks Relating to the Unfunded Commitments*

In connection with the Founding Transaction and the acquisition of the Initial Portfolio, Centurion Apartment REIT has agreed to fund the Unfunded Commitments. If the Trust is required to hold reserves of cash for an extended period of time in anticipation of funding the Unfunded Commitments, the returns generated by the Trust may be significantly reduced.

### *Real Property Ownership*

All real property investments are subject to elements of risk. Such investments are affected by general economic conditions, local real estate markets, demand for multi-unit residential premises, competition from other available residential premises and various other factors.

Certain significant expenditures, including property taxes, capital repair and replacement costs, maintenance costs, mortgage payments, insurance costs and related charges must be made throughout the period of ownership of real property regardless of whether the property is producing any income. If the Trust is unable to meet mortgage payments on any property, losses could be sustained as a result of the mortgagee's exercise of its rights of foreclosure or sale.

Real property investments tend to be relatively illiquid, with the degree of liquidity generally fluctuating in relation to demand for and the perceived desirability of such investments. Such illiquidity may tend to limit the Trust's ability to vary its portfolio promptly in response to changing economic or investment conditions. If the Trust was required to liquidate its real property investments, the proceeds to the Trust might be significantly less than the aggregate value of its properties on a going-concern basis.

The Trust will be subject to the risks associated with debt financing, including the risk that existing mortgage indebtedness secured by the Properties will not be able to be refinanced or that the terms of such refinancing will not be as favorable as the terms of existing indebtedness.

### *Future Property Acquisitions*

While the Trust may enter into non-binding letters of intent with respect to properties under review, there can be no assurance that such properties will be acquired. Accordingly, there can be no assurance that the Trust will be able to acquire Properties at the rates of return that the Asset Manager is targeting. No forecast has been made for the acquisition of properties under review.

### *Revenue Producing Properties*

The Properties generate income through rental payments made by the tenants thereof. Upon the expiry of any lease, there can be no assurance that such lease will be renewed or the tenant replaced. The terms of any subsequent lease may be less favorable to the Trust than the existing lease. Unlike commercial leases which generally are “net” leases and allow a landlord to recover expenditures, residential leases are generally “gross” leases and the landlord is not able to pass on costs to its tenants.

### *Litigation Risks*

The Trust may, from time to time, become involved in legal proceedings in the course of its business. The costs of litigation and settlement can be substantial and there is no assurance that such costs will be recovered in whole or in part. During litigation involving a borrower in respect of a mortgage, the Trust may not be receiving payments of interest on the mortgage that is the subject of litigation, thereby impacting the Trust’s cash flows. The unfavorable resolution of any legal proceedings could have a material adverse effect on the Trust and its financial position and results of operations.

### *Competition for Real Property Investments*

The Trust competes for suitable real property investments with individuals, corporations and institutions (both Canadian and foreign) and other real estate investment trusts which are presently seeking, or which may seek in the future, real property investments similar to those desired by the Trust. A number of these investors may have greater financial resources than those of the Trust, or operate without the investment or operating guidelines of the Trust or according to more flexible conditions. An increase in the availability of investment funds, and an increase in interest in real property investments, may tend to increase competition for real property investments, thereby increasing purchase prices and/or reducing the yield on them.

### *Competition for Tenants*

The real estate business is competitive. Numerous other developers, managers and owners of properties compete with the Trust in seeking tenants. The existence of competing developers, managers and owners for the Trust’s tenants could have an adverse effect on the Trust’s ability to lease suites in its properties and on the rents charged.

### *Debt Financing*

If the Trust enters into an operating credit facility, the Trust will be subject to the risks associated with debt financing, including the risk that the Trust may be unable to make interest or principal payments or meet loan covenants, the risk that defaults under a loan could result in cross defaults or other lender rights or remedies under other loans, and the risk that existing indebtedness may not be able to be refinanced or that the terms of such refinancing may not be as favorable as the terms of existing indebtedness. A portion of any such operating credit facility may be at floating interest rates, and accordingly, changes in short-term borrowing could affect the Trust’s costs of borrowing. The total indebtedness of the Trust, including amounts drawn under an acquisition facility, is limited to no more than 75% of the Gross Book Value, provided that indebtedness shall exclude any obligations of the Trust under or arising out of Approved Mortgage Transactions (including any obligations to purchase mortgage or other investments on demand).

### *General Economic Conditions*

The Trust is affected by general economic conditions, local real estate markets, competition from other available rental premises, including new developments, and various other factors. The competition for tenants also comes from opportunities for individual home ownership, including condominiums, which can be particularly attractive when home mortgage loans are available at relatively low interest rates. The existence of competing developers, managers and owners for the Trust's tenants could have an adverse effect on the Trust's ability to lease suites in its properties and on the rents charged, increased leasing and marketing costs and increased refurbishing costs necessary to lease and re-lease suites, all of which could adversely affect the Trust's revenues and, consequently, its ability to meet its obligations. In addition, any increase in the supply of available space in the markets in which the Trust operates or may operate could have an adverse effect on the Trust.

### *General Uninsured Losses*

The Trust carries comprehensive general liability, fire, flood, extended coverage, rental loss and pollution insurance with policy specifications, limits and deductibles customarily carried for similar properties. There are, however, certain types of risks (generally of a catastrophic nature such as from wars) which are either uninsurable or not insurable on an economically viable basis. The Trust has insurance for earthquake risks, subject to certain policy limits, deductibles and self-insurance arrangements, and will continue to carry such insurance if economical to do so. Should an uninsured or underinsured loss occur, the Trust could lose its investment in, and anticipated profits and cash flows from, one or more of its Properties, but the Trust would continue to be obligated to repay any recourse mortgage indebtedness on such Properties.

### *Government Regulation*

The Trust currently has interests in developments and development properties located in provinces across Canada. The nature of apartment development, construction and operation is such that the going concern is generally subject to rental legislation and other legislation relating to, among other things, environmental and fire safety standards, which are continually evolving. Changes thereto may favorably or unfavorably impact project pro-formas or give rise to ongoing financial and other obligations of the Trust or its related parties, the costs of which may not be fully recoverable from tenants. See below for further restrictions in the respective jurisdictions:

#### **Alberta**

In Alberta, the Residential Tenancies Act, Statutes of Alberta, 2004 (the "RTA") applies to most people who rent the place where they live. This law sets out the rights and responsibilities that apply to landlords and tenants in the province. In Alberta, residential tenancy agreements may be either periodic or fixed term. A fixed term tenancy begins and ends on specific dates, while a periodic tenancy has a start date but no end date. Either the landlord or tenant may end a periodic tenancy by giving notice. Landlords cannot increase the rent payable by a tenant under a fixed term or periodic tenancy agreement until a minimum of one year (365 days) has passed since the last rent increase or since the start of the tenancy, whichever is later. There is no limit on the amount by which the landlord may raise the rent. Landlords are entitled to require a security deposit, sometimes called a damage deposit. The RTA limits the maximum amount a landlord may ask for as a security deposit to the equivalent of one month's rent at the time the tenancy starts. Amendments to the Residential Tenancies Act and regulations in 2004 and 2005 allowed for the creation of the Residential Tenancy Dispute Resolution Service (the "RTDRS") which offers landlords and tenants an alternative means of resolving serious disputes outside of court. The RTDRS is designed to be faster, more informal and less expensive than the courts. A tenant or a landlord who has concerns related to termination of a tenancy, unpaid rent/utilities, security deposit, damages, repairs or other common disagreements may use the service. Once someone chooses to use the service they must submit to the RTDRS their completed application form. The RTDRS will file their application and set a date and time for the hearing to take place. The matter will be heard before a Tenancy Dispute Officer who is authorized to make binding decisions on claims up to

\$25,000. The decision of the Tenancy Dispute Officer is binding on all parties. Where there is a dispute, the Landlord may pursue the tenant through the RTDRS or Court for any damages not covered by the security deposit. Where an eviction is contemplated, the tenant may object to the reasons stated for the termination and the Landlord must apply to the RTDRS for a court order to terminate the tenancy; until the RTDRS or the Court issues the order, the tenant may remain on the rental premises. As these proceedings may need to be brought before the RTDRS, it may take several months to terminate a residential lease, even where the tenant's rent is in arrears. Further, the applicable legislation may be subject to further regulations or may be amended, repealed or enforced, or new legislation may be enacted, in a manner which will materially adversely affect the ability of the Trust to realize the full economic potential of any contemplated project or to maintain the historical level of earnings of its development properties.

### **British Columbia**

In British Columbia, the Residential Tenancies Act, SBC 2002, c78 (the "RTA") applies to tenancy agreements, rental units and residential properties. This law sets out the rights and responsibilities that apply to landlords and tenants in the province. British Columbia has rent control. Landlords can only increase the rent once a year by an amount permitted by law, and must use the approved form "Notice of Rent Increase" providing the tenant 3 months' notice to increase rent. Tenants cannot dispute the rent increase unless the increase is more than the annual allowable amount. The allowable rent increase for 2015 will be set in September of 2014; the allowable rent increase for 2014 was 2.2%. To raise the rent above the annual allowable amount, the landlord must have either the tenant's written agreement or an RTB order. An order approving the increase might be issued where the landlord can demonstrate the rent for a rental unit is significantly lower than that of similar rental units in the area; completed significant repairs or renovations that could not reasonably have been foreseen and will not recur within a reasonable period; incurred a financial loss from an extraordinary increase in operating expenses; incurred a financial loss for the financing costs of purchasing the property that could not reasonably have been foreseen; is the head tenant of a rental unit; or, has received an additional rent increase, and wishes to increase the rent of a sub-tenant. As a result, the Trust may, in the future, incur capital expenditures which may not be fully recoverable from tenants. Disputes under the RTA are sent to a dispute resolution officer ("DRO"); a form of face-to-face administrative tribunal with flexible rules of procedure. The DRO has the right to refuse to hear a dispute which he or she considers to be "frivolous, vexatious, trivial or has not been initiated in good faith". The arbitrator is not bound by legal precedent, but must make his or her decision based on the merits of the matter. As these proceedings may need to be brought before the DRO, it may take an extended period of time to terminate a residential lease, even where the tenant's rent is in arrears. Further, because the arbiter is not bound by legal precedent, any decision could be subject to bias in the interpretation of facts by the arbitrator. The applicable legislation may also be subject to further regulations or may be amended, repealed or enforced, or new legislation may be enacted, in a manner which will materially adversely affect the ability of the Trust to realize the full economic potential of any contemplated project or to maintain the historical level of earnings of its development properties.

### **Manitoba**

In Manitoba, the Residential Tenancies Act, C.C.S.M. c. R119 (the "RTA") applies to most people who rent the place where they live. This law sets out the rights and responsibilities that apply to landlords and tenants in the province. Manitoba has rent control. In most cases, a landlord can legally increase the rent only once every 12 months. A landlord must give a tenant 3 months' written notice of a rent increase. Each year, the government sets a limit on the amount that rents can be increased. This limit is called a rent increase guideline, and applies to most rental units. Manitoba rent regulations do not apply to new developments. Rental complexes built and occupied after March 7, 2005 are exempt from the guideline for a period of 20 years, so developers who build new units can set their rental rates as they wish and raise them as they wish. After 20 years, they will be bound by the guidelines in place at that time. Rent regulations also currently do not apply to units with monthly rents in excess of \$1,395 (2014). The rent increase guideline for 2015 has yet to be set; the rent increase guideline for 2014 was 2.0%. Landlords wishing to rehabilitate their units can apply for exemptions to allow them to increase rents beyond the

rent guidelines after improvements have been made. Landlords who want to increase the rent by more than the guideline must receive approval from the Residential Tenancies Branch (the “RTB”). As a result, the Trust may, in the future, incur capital expenditures which may not be fully recoverable from tenants. Tenants in Manitoba have the right to object to any rent increase, whether the increase is above, below or equal to the guideline, and must do so before the RTB. Decisions made by the RTB can be appealed to the Residential Tenancies Commission if the landlord or the tenant is dissatisfied. As such, it may take an extended period of time to terminate a residential lease, even where the tenant’s rent is in arrears. The applicable legislation may also be subject to further regulations or may be amended, repealed or enforced, or new legislation may be enacted, in a manner which will materially adversely affect the ability of the Trust to realize the full economic potential of any contemplated project or to maintain the historical level of earnings of its development properties.

### **Nova Scotia**

Changes to Nova Scotia’s Residential Tenancies Act, R.S., c. 401, s. 1. (the “RTA”) came into effect on November 15, 2012. The purpose of the Act is to provide landlords and tenants with an efficient and cost-effective means for settling disputes. Landlords may establish fixed-term, month-to-month, or yearly leases, and a Landlord can only increase the rent once every 12 months. Written notice of any increase in rent for fixed-term leases must be stipulated in the agreement; written notices for increases on rent for month-to-month or yearly leases must be provided 4 months prior to the anniversary date. There are no limits on the amount a Landlord can increase the rent. In Nova Scotia, a tenant has immediate Security of Tenure. This means that Landlords cannot terminate the rental agreement unless legal authority can be established. As certain proceedings may need to be brought before Residential Tenancies, it may take several months to terminate a residential lease, even where the tenant’s rent is in arrears. The applicable legislation may be subject to further regulations or may be amended, repealed or enforced, or new legislation may be enacted, in a manner which will materially adversely affect the ability of the Trust to realize the full economic potential of any contemplated project or to maintain the historical level of earnings of its development properties.

### **Ontario**

The Government of Ontario drafted and finalized new residential tenancy legislation, The Residential Tenancies Act, 2006 (the “RTA”), which it characterized as “effective tenant protection.” The RTA received Royal Assent June 22, 2006, and is now law, replacing the Tenant Protection Act, 1997 (Ontario) (the “TPA”). The RTA provides restrictions upon the ability of a landlord to increase rents above a prescribed guideline, which is established annually. The rent increase guideline is calculated under the RTA, and is based on the Ontario Consumer Price Index, which is calculated monthly by Statistics Canada. On June 13, 2012, the Government of Ontario passed legislation to amend the RTA, to ensure that the Rent Increase Guideline is capped at 2.5%. There is no prescribed guideline applicable to residential complexes constructed on or after November 1st of 1991, so Landlords can increase the rent on these complexes without limitation on the amount. The guideline increase for 2015 is 1.6%; the 2015 guideline increase has been calculated by averaging the percentage increase in the Ontario Consumer Price Index during the previous 12 months, from June 2013 to May 2014. Since the average CPI was 1.6%, the guideline is 1.6%. By comparison, the guideline increase for 2014 was 0.8%. In order to increase rents above the maximum guideline increase of 1.6% per annum for 2015, a landlord must make an application based on an extraordinary increase in the cost for municipal or utility levies and charges and/or capital expenditures incurred with respect to a residential complex or suite therein. As a result, the Trust may, in the future, incur capital expenditures which may not be fully recoverable from tenants. The RTA also permits tenants to bring proceedings to reduce rent due to reductions or discontinuances in services or facilities or due to a reduction in the applicable municipal taxes. The RTA provides tenants of residential rental properties with a high level of security of tenure and prescribes certain procedures, including mandatory notice periods, which must be followed by a landlord in order to terminate a residential tenancy. As certain proceedings may need to be brought before the Ontario Rental Housing Tribunal, it may take several months to terminate a residential lease, even where the tenant’s rent is in



arrears. The applicable legislation may be subject to further regulations or may be amended, repealed or enforced, or new legislation may be enacted, in a manner which will materially adversely affect the ability of the Trust to realize the full economic potential of any contemplated project or to maintain the historical level of earnings of its development properties.

## **Québec**

The Government of Québec relies upon the Civil Code of Québec, C.C.Q. (“C.C.Q.”) and the Act Respecting the Régie du logement, R.S.Q. c. R-8.1 (the “Act”) in administering landlord tenant concerns through the Régis du logement (the Régis). Similar to Ontario, there are restrictions upon the ability of a landlord to increase rents above a prescribed guideline, which is established annually. If the method to fix the rent of the Régie is applied, the guideline increase for the period starting after April 1st 2014 but before April 2nd, 2015 ranges between 0.6% and 1.1% depending on the type of heating employed. By comparison, the range for the previous period was between 0.9% and 1.7%. A landlord, who undertakes major repairs or renovations, may make changes to the conditions of a lease, including an increase in the rental rate above the guideline that is based upon a prescribed calculation to justify the increase. Should the tenant, within his or her right, refuse modifications and the new rental rate, the landlord may apply to the Régie (within 1 month of refusal, otherwise the lease is renewed under previous conditions) (1947 C.C.Q.). As a result, the Trust may, in the future, incur capital expenditures which may not be fully recoverable from tenants. In Québec, the cornerstone principle is the tenant’s right to maintain occupancy (1936 C.C.Q.), and barring notice from either party to the contrary, automatic renewal for fixed term leases (maximum 12 months) (1941 C.C.Q.). Further, the landlord must provide notice to any new lessee, presenting the lowest rent paid in the preceding 12 months (1896 C.C.Q.); should the tenant dispute the new rental rate, they may make application to the Régis to set the rent.

## **Saskatchewan**

The Residential Tenancies Act, 2006 (the “RTA”) and Regulations came into force on March 1, 2007, to help meet the changing needs of residential landlords and tenants in Saskatchewan. The legislation is meant to support a balance between the needs of tenants for safe, secure and affordable living accommodations, and the legitimate need for landlords to earn reasonable profits from their rental properties. Amendments to the legislation came into effect December 2008 and June 2009 that deal with rent increases, the handling of security deposits and evictions. In Saskatchewan, residential tenancy agreements may be either periodic or fixed term. A fixed term tenancy begins and ends on specific dates, while a periodic tenancy has a start date but no end date. Either the landlord or tenant may end a periodic tenancy by giving notice. In most cases, a landlord can legally increase the rent only once every 12 months. A landlord must give a tenant 12 months' written notice of a rent increase. However, for new tenancies, notice may only be provided after the first 6 months, meaning the first rental increase is not effective until 18 months from the date of residency. Should a Landlord be a member of the Saskatchewan Rental Housing Industry Association (“SRHIA”), the notice period is 6 months, and members may increase the rent once every 6 months, except for new tenancies for which a rent increase is permitted 12 months from the date of residency. There are no limits on the amount a Landlord can increase the rent. The Office of Residential Tenancies (Rentalsman) is responsible for administering the provisions of the RTA in Saskatchewan, providing a forum for residential landlords and tenants to resolve their disputes. A Landlord cannot regain possession unless the tenant vacates or abandons the unit or the landlord obtains an order for possession and writ of possession directed to the Sheriff from the Office of Residential Tenancies. As these proceedings may need to be brought before Residential Tenancies, it may take several months to terminate a residential lease, even where the tenant’s rent is in arrears. The applicable legislation may be subject to further regulations or may be amended, repealed or enforced, or new legislation may be enacted, in a manner which will materially adversely affect the ability of the Trust to realize the full economic potential of any contemplated project or to maintain the historical level of earnings of its development properties.

### *Environmental Matters*

Environmental and ecological legislation and policies have become increasingly important, and generally restrictive in recent years. Under various laws, the Trust could become liable for the costs of removal or remediation of certain hazardous or toxic substances released on or in its properties or disposed of at other locations. The failure to remove or remediate such substances, if any, may adversely affect an owner's ability to sell such real estate or to borrow using such real estate as collateral, and could potentially also result in claims against the owner by private plaintiffs. Where a property is purchased and new financing is obtained, Phase I Environmental Assessments are performed by an independent and experienced environmental consultant. In the case of mortgage assumption, the vendor will be asked to provide a satisfactory Phase I and/or Phase II Environmental Assessment that the Asset Manager will rely upon and/or determine whether an update is necessary.

### *Dependence on Key Personnel*

In assessing the risk of an investment in the Units offered hereby, potential investors should be aware that they will be relying on the good faith, experience and judgment of the directors and officers of the Asset Manager to manage the business and affairs of the Trust and the members of the Investment Committee to provide investment advice to the Trust. The management of the Trust depends on the services of certain key personnel. The termination of employment by the Asset Manager or the Property Manager of any of these key personnel could have a materially adverse effect on the Trust.

There is no guarantee that the directors and officers of the Asset Manager or the Board of Trustees of the Trust will remain unchanged. It is contemplated that the directors, officers and employees of the Asset Manager will devote to the Trust's affairs only such time as may be reasonably necessary to conduct its business.

### *Tax Related Risks*

There can be no assurance that income tax laws and the treatment of mutual fund trusts will not be changed in a manner which adversely affects the Trust or the Unitholders.

If the Trust fails or ceases to qualify as a mutual fund trust for the purposes of the Tax Act, the tax consequences described under "Item 6: Tax Consequences and RRSP Eligibility – Canadian Federal Income Tax Considerations" and "Item 6: Tax Consequences and RRSP Eligibility – Eligibility for Investment" would in some respects be materially and adversely different. In addition, Unitholders may become subject to provincial taxes, such as Ontario Land Transfer Tax, in respect of their Units.

If investments in the Trust become publicly listed or traded for the purposes of the Tax Act, there can be no assurances that the Trust will not be subject to the SIFT Rules at that time. If the Trust were a SIFT Trust and therefore subject to SIFT Rules, to the extent that it earns "non-portfolio earnings," as defined in the Tax Act, its Fair Market Value could be reduced and the tax consequences to the Trust and its Unitholders could be materially different.

The Foreign Account Tax Compliance provisions of the U.S. Hiring Incentives to Restore Employment Act of 2010 (or "FATCA") impose a 30% U.S. withholding tax on "withholdable payments" made to the Trust, unless the Trust complies with certain information reporting and other requirements. Withholdable payments include (i) certain U.S. source income (such as interest, dividends and other passive income) and (ii) gross proceeds from the sale or disposition of property that can produce U.S. source interest or dividends. The withholding tax applies to withholdable payments made on or after July 1, 2014, unless the Trust complies with certain due diligence and reporting obligations under the intergovernmental agreement in effect between the United States and Canada in respect of FATCA (the "**Canada-U.S. IGA**"). The Trust intends to comply with these obligations so as to ensure that the 30% U.S. withholding tax does not apply to any payment they receive. Accordingly, under the Canada-U.S.

IGA, the Trust generally will be required to conduct due diligence regarding all Unitholders and (where applicable) their beneficial owners, and to report to the CRA certain information regarding their U.S. Unitholders, including information regarding their name, address, and U.S. Taxpayer Identification Number. The information reported to the CRA is expected to be exchanged with the U.S. Internal Revenue Service. Notwithstanding the foregoing, the Trust's due diligence and reporting obligations under FATCA will not apply with respect to certain accounts and products established in Canada and maintained by Canadian Financial Institutions. These accounts and products, as described in the Canada-U.S. IGA, include the following: registered retirement savings plans, registered retirement income funds, pooled registered pension plans, registered pension plans, tax-free savings accounts, and deferred profit-sharing plans. Any due diligence or reporting obligations imposed on the Trust under the Canada-U.S. IGA will apply only after Canada has ratified the Canada-U.S. IGA and enacted legislation to facilitate FATCA compliance by Canadian residents. Although Canada has yet to ratify the Canada-U.S. IGA or to enact such legislation, it is expected to do so in 2014. If the Trust fails to meet its obligations under the Canada-U.S. IGA, it may be subject to the offences and Trust provision of the Tax Act, that is proposed to be amended consequential to the introduction of the proposed new Enhanced International Information Reporting regime in Part XVIII of the Tax Act. The administrative costs arising from compliance with FATCA may cause an increase in the operating expenses of the Trust or other underlying fund(s) in which the Trust has invested, directly or indirectly, thereby reducing returns to Unitholders. Investors should consult their own tax advisors regarding the possible implications of FATCA and the Canada-U.S. IGA on their investment and the entities through which they hold their investment.

#### ***Dilution***

The Trust is authorized to issue an unlimited number of Units. The Trustees have the discretion to issue additional Units in other circumstances, pursuant to the Trust's various incentive plans. Any issuance of additional Units may have a dilutive effect on the holders of Units, whether through the Trust's incentive plans, the DRIP or to new investors. Additional Units are generally issued at the Posted Price, which may be less than the net asset value of the Units, and such issuances may have a dilutive effect on the holders of Units.

Notwithstanding the different upfront and ongoing trailer commissions with respect to each purchase option for the Class A Units, such commissions are borne by all holders of Class A Units. To the extent that the Trust is responsible for the payment of compensation to securities dealers, including upfront and ongoing trailer commissions, the funds available to the Trust for investment purposes and distributions will be reduced. Such pooling of commissions amongst all holders of Class A Units may have a dilutive effect on certain holders of Class A Units.

To the extent that the Trust experiences redemptions of Investor Units, the percentage entitlement of the Class M Units will increase above 5% and the Investor Units will be accordingly affected. See "Item 5: Securities Offered – 5.1 Terms of Securities – Description of the Units".

#### ***Restrictions on Potential Growth and Reliance on Credit Facilities***

The payout by the Trust of a substantial part of its operating cash flow could adversely affect the Trust's ability to grow unless it can obtain additional financing. Such financing may not be available, or renewable, on attractive terms or at all. In addition, if current credit facilities were to be cancelled or could not be renewed at maturity on similar terms, the Trust could be materially and adversely affected.

### ***Potential Inability to Fund Investments***

The Trust may commit to making future investments in anticipation of warehousing such investments under the Warehouse Agreement, repayment of principal outstanding and/or the payment of interest under existing mortgage investments and/or in reliance on its credit facilities, if any. In the event that such mortgage investments are not accepted under the Warehouse Agreement, repayments of principal or payments of interest are not made, or where credit facilities aren't available, the Trust may be unable to advance some or all of the funds required to be advanced pursuant to the terms of its commitments and may be required to obtain interim financing and to fund such commitments or face liability in connection with its failure to make such advances.

### ***Lack of Operating History***

Although persons involved in the management and advising of the Trust and the service providers to the Trust, including the Asset Manager, have had long experience in their respective fields of specialization, the Trust has little operating or no performing history upon which prospective investors can evaluate its performance. Investors should be aware that the past performance by those involved in the investment management of the Trust, including the past performance of Centurion Apartment REIT, should not be considered as an indication of future results.

### ***Liquidity of Units and Redemption Risk***

The Units are not listed on an exchange. There is currently no secondary market through which the Units may be sold, there can be no assurance that any such market will develop and the Trust has no current plans to develop such a market or to list the Units on an exchange. Accordingly, it is expected that the sole method of liquidation of an investment in Units will be by way of redemption of the Units. Aggregate cash redemptions are limited to \$50,000 per month unless approved by the Board of Trustees or in respect of Class R Units held by Centurion Apartment REIT. Accordingly, in the event that the Trust experiences a large number of redemptions, the Trust may not be able to satisfy all of the redemption requests in cash or *in specie*. Depending upon the Purchase Option selected and the amount of time the Units have been held, there may be a Deferred Sales Charge or Short Term Trading Fee associated with an early redemption (see "Item 5: Securities Offered – 5.3 Terms of Securities – Description of Securities").

### ***Nature of Units***

The Units are not traditional equity investments and are not the same as shares of a corporation. As a result, Unitholders will not have the statutory rights and remedies normally associated with share ownership, including, for example, the right to bring "oppression" or "derivative" actions. The Units are not "deposits" within the meaning of the *Canada Deposit Insurance Corporation Act* and are not insured under the provisions of that act or any other legislation. Each Unit represents an equal, undivided beneficial interest in the Trust.

### ***Lack of Independent Experts Representing Unitholders***

Each of the Trust and the Asset Manager has consulted with a single legal counsel regarding the formation and terms of the Trust and the offering of Units. Unitholders have not, however, been independently represented. Therefore, to the extent that the Trust, Unitholders or this offering could benefit by further independent review, such benefit will not be available. Each prospective investor should consult his or her own legal, tax and financial advisors regarding the desirability of purchasing Units and the suitability of investing in the Trust. No outside selling agent unaffiliated with the Asset Manager or its affiliates has made any review or investigation of the terms of the offering of Units, the structure of the Trust or the background of the Asset Manager or its affiliates.

### ***Real Estate Securities***

The Trust may gain exposure to the real estate sector by investing in real estate-linked derivatives, REIT securities that trade on an exchange, and common, preferred, convertible, and debt securities of issuers in real estate-related industries. Each of these types of investments are subject to risks similar to those associated with direct ownership of real estate discussed in this Offering Memorandum, including loss to casualty or condemnation, increases in property taxes and operating expenses, zoning law amendments, changes in interest rates, overbuilding and increased competition, variations in market value, and possible environmental liabilities.

### ***Changes in Real Property Values***

The Trust's investments in Mortgage Assets will be secured by real property, the value of which may fluctuate. The value of single family residential properties is affected by, among other factors, general economic conditions, local real estate markets, the attractiveness of the property and the level of supply and demand in the market for comparable properties.

A substantial decline in value of real property provided as security for a mortgage may cause the value of such Real Property to be less than the outstanding principal amount of the mortgage. In that case, and in the event the mortgage loan is uninsured, the Trust's realization on its security and its exercise of foreclosure or power of sale rights in respect of the relevant property might not provide the Trust with proceeds sufficient to satisfy the outstanding principal amount of, and interest owing, under the mortgage loan.

While independent appraisals may be obtained, from time to time, before the Trust makes any mortgage investments, the appraised values provided, even where reported on an "as is" basis, are not necessarily reflective of the market value of the underlying real property, which may fluctuate. In addition, the appraised values reported in independent appraisals may be subject to certain assumptions and conditions, including the completion of construction, rehabilitation, remediation or leasehold improvements on the real property providing security for the mortgage loan. There can be no assurance that these assumptions and conditions will be satisfied and if, and to the extent they are not satisfied, the appraised value may not be achieved. Even if such assumptions and conditions are satisfied, the appraised value may not necessarily reflect the market value of the real property at the time the conditions are satisfied.

### ***Foreign Investment and Currency Exposure***

As the Trust may hold assets denominated in U.S. dollars, the FMV of the Trust, when measured in Canadian dollars, will, to the extent this has not been hedged against, be affected by changes in the value of the U.S. dollar relative to the Canadian dollar. The Trust may not be fully hedged or hedged at all and it is not intended that the distributions and income statements on the assets of the Trust will be hedged and accordingly no assurance can be given that the Trust will not be adversely impacted by changes in foreign exchange rates or other factors. The use of hedges, if used, involves special risks, including the possible default by the other party to the transaction, illiquidity and, to the extent the Asset Manager's assessment of certain market movements is incorrect, the risk that the use of hedges could result in losses greater than if the hedging had not been used. Hedging arrangements may have the effect of limiting or reducing the total returns to the Trust if the Asset Manager's expectations concerning future events or market conditions prove to be incorrect. In addition, the costs associated with a hedging program may outweigh the benefits of the arrangements in such circumstances.

### ***Asset Allocation Risk***

The Trust's investment performance depends upon how its assets are allocated and reallocated. There is a risk that the Asset Manager may make less than optimal or poor asset allocation decisions. The Asset Manager employs an active approach to make opportunistic investments, but there is no guarantee that such investment techniques will produce the desired results. It is possible that the Asset Manager will focus on an investment that performs poorly or underperforms other investments under various market conditions.

### ***Joint Arrangements***

The Trust may invest in, or be a participant in, joint arrangements and partnerships with third parties in respect of the mortgage investments and/or other real estate investments. A joint arrangement or partnership involves certain additional risks which could result in additional financial demands, increased liability and a reduction in the Asset Manager's control over the mortgage investments and/or the other real estate investments and its ability to sell the Trust's interests in a mortgage investment and/or other real estate investments within a reasonable time frame.

### ***Unitholder Liability***

Because of uncertainties in the law relating to investment trusts, there is a risk, which is considered by counsel to be remote in the circumstance, that a Unitholder could be held personally liable for obligations of the Trust (to the extent that claims are not satisfied by the Trust) in respect of contracts which the Trust enters into and for certain liabilities arising other than out of contracts including claims in tort, claims for taxes and possibly certain other statutory liabilities. The Trustees intend to cause the Trust's operations to be conducted in such a way as to minimize any such risk including by obtaining appropriate insurance and, where feasible, attempting to have every material written contract or commitment of the Trust contain an express disavowal of liability against Unitholders.

In December 2004, the *Trust Beneficiaries' Liability Act* (Ontario), was enacted to create a statutory limitation on the liability of Unitholders of trusts such as the Trust. The legislation provides that a unitholder of a trust, such as a Unitholder, will not, as a beneficiary, be liable for any act, default, obligation or liability of the trust or any of its trustees. This legislation has not been judicially considered and it is possible that reliance on the legislation by a Unitholder could be successfully challenged on jurisdictional or other grounds.

### ***Failure or Unavailability of Computer and Data Processing Systems and Software***

The Asset Manager 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 the Asset Manager's ability to collect revenues and make payments on behalf of the Trust and to manage risks. If sustained or repeated, a system failure or loss of data could negatively and materially adversely affect the ability of the Asset Manager to discharge its duties to the Trust and the impact on the Trust may be material.

*APPENDIX C - Audited Consolidated Financial Statements*



# CENTURION

REAL ESTATE OPPORTUNITIES TRUST

**CENTURION REAL ESTATE OPPORTUNITIES TRUST**  
**Consolidated Financial Statements**  
**For the period from August 13, 2014 (date of formation) to**  
**December 31, 2014**

**TABLE OF CONTENTS**

<b>Independent Auditors' Report.....</b>	<b>2</b>
<b>Consolidated Statement of Financial Position.....</b>	<b>3</b>
<b>Consolidated Statement of Net Income and Comprehensive Income.....</b>	<b>4</b>
<b>Consolidated Statement of Changes in Net Assets Attributable to Unitholders.....</b>	<b>5</b>
<b>Consolidated Statement of Cash Flows.....</b>	<b>6</b>
<b>Notes to the Consolidated Financial Statements.....</b>	<b>7-21</b>





**KPMG LLP**  
Bay Adelaide Centre  
333 Bay Street Suite 4600  
Toronto ON M5H 2S5  
Canada

Telephone (416) 777-8500  
Fax (416) 777-8818  
Internet [www.kpmg.ca](http://www.kpmg.ca)

## INDEPENDENT AUDITORS' REPORT

To the Unitholders of Centurion Real Estate Opportunities Trust

We have audited the accompanying consolidated financial statements of Centurion Real Estate Opportunities Trust, which comprise the consolidated statement of financial position as at December 31, 2014, the consolidated statements of net income and comprehensive income, changes in net assets attributable to unitholders and cash flows for the period from August 13, 2014 (date of formation) to December 31, 2014, and notes, comprising a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Consolidated Financial Statements*

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

### *Auditors' Responsibility*

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

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

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

### *Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Centurion Real Estate Opportunities Trust as at December 31, 2014, and its consolidated financial performance and its consolidated cash flows for the period from August 13, 2014 (date of formation) to December 31, 2014 in accordance with International Financial Reporting Standards.

Chartered Professional Accountants, Licensed Public Accountants

April 14, 2015  
Toronto, Canada

**CENTURION REAL ESTATE OPPORTUNITIES TRUST**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**(EXPRESSED IN CANADIAN DOLLARS)**  
**AS AT**

	Note	December 31, 2014
<b>Assets</b>		
<b>Non-current assets</b>		
Mortgage investments	4	\$ 59,946,472
Equity accounted investments	5	3,443,112
		<b>63,389,584</b>
<b>Current assets</b>		
Current portion of mortgage investments	4	14,000,854
Accounts receivable	6	239,840
Other assets	7	1,997,222
Cash		2,011,542
		<b>18,249,458</b>
<b>Total Assets</b>		<b>\$ 81,639,042</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	8	3,363,611
<b>Total Liabilities excluding net assets attributable to Unitholders</b>		<b>3,363,611</b>
<b>Net assets attributable to Unitholders</b>		<b>\$ 78,275,431</b>

The accompanying notes are an integral part of these Consolidated Financial Statements.

**CENTURION REAL ESTATE OPPORTUNITIES TRUST**  
**CONSOLIDATED STATEMENT OF NET INCOME AND COMPREHENSIVE INCOME**  
**(EXPRESSED IN CANADIAN DOLLARS)**

**For the period from August 13, 2014 (date of formation) to  
December 31, 2014**

	Note		
<b>Interest income</b>	4	\$	2,130,411
<b>Expenses</b>			
General and administrative expenses	13		(366,879)
<b>Net Income and Comprehensive Income</b>		<b>\$</b>	<b>1,763,532</b>

The accompanying notes are an integral part of these Consolidated Financial Statements.

**CENTURION REAL ESTATE OPPORTUNITIES TRUST**  
**CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS**  
**(EXPRESSED IN CANADIAN DOLLARS)**

**For the period from August 13, 2014 (date of formation) to December 31, 2014**

	Note	
<b>Net assets attributable to Unitholders at the beginning of the period</b>		<b>\$ -</b>
<b>Net Income and Comprehensive Income</b>		<b>1,763,532</b>
Proceeds from units issued (net of issuance costs)	9	76,546,875
Reinvestment of distributions by Unitholders	9	1,985,782
Distributions to Unitholders	9	(2,020,758)
<b>Net increase from unit transactions</b>		<b>76,511,899</b>
<b>Net assets attributable to Unitholders at end of the period</b>		<b>\$ 78,275,431</b>

The accompanying notes are an integral part of these Consolidated Financial Statements.

**CENTURION REAL ESTATE OPPORTUNITIES TRUST**  
**STATEMENT OF CASH FLOWS**  
**(EXPRESSED IN CANADIAN DOLLARS)**

**For the period from August 13, 2014 (date of formation) to December 31, 2014**

**Cash used in operating activities**

**Operating activities**

Net income \$ 1,763,532

Non-cash items:

Accrued interest on mortgage investments (1,169,700)

Changes in non-cash operating account balances 7,372

**Net cash from operating activities 601,204**

**Cash Flow from Financing activities**

Proceeds from units issued 6,308,552

Unit issuance costs (124,137)

Cash distributions to Unitholders (13,139)

**Net cash from financing activities 6,171,276**

**Cash Flow from Investing activities**

Mortgage investments - repaid 7,121,677

Mortgage investments - issued (8,439,503)

Equity accounted investments (3,443,112)

**Net cash from investing activities (4,760,938)**

Net increase in cash \$ 2,011,542

Cash, beginning of the year -

**Cash, end of year \$ 2,011,542**

The accompanying notes are an integral part of these Consolidated Financial Statements.

## **1. Purpose and basis of preparation**

Centurion Real Estate Opportunities Trust (the “REOT” or “Trust”) is an unincorporated, open-ended private investment trust which was created pursuant to a Declaration of Trust dated August 13, 2014 (“Declaration of Trust”), and is governed by the laws of the Province of Ontario. The registered office of REOT is located at 25 Sheppard Avenue West, Suite 710, Toronto, Ontario, M2N 6S6.

REOT invests in a diversified portfolio of mortgages and opportunistic real estate developments and investments.

## **2. Significant Accounting Policies**

### **a) Statement of Compliance**

The consolidated financial statements for the period from August 13, 2014 to December 31, 2014 have been prepared by management in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

These consolidated financial statements have been approved for issue by the Board of Trustees on April 14, 2015.

### **b) Basis of Presentation**

The consolidated financial statements have been prepared on a historical cost basis.

The consolidated financial statements are presented in Canadian dollars, which is the functional currency of REOT.

The consolidated financial statements are presented in accordance with International Accounting Standards (“IAS”) 1 – Presentation of Financial Statements. REOT has elected to present the Consolidated Statements of Net Income and Comprehensive Income in one statement.

### **c) Principles of Consolidation**

The consolidated financial statements reflect the operations of REOT and its wholly-owned subsidiaries.

Subsidiaries are consolidated from the date of acquisition, which is the date REOT obtains control of the subsidiary. Control exists when REOT has the existing rights that give it the current ability to direct the activities that significantly affect the entities’ returns, is exposed, or has rights to variable returns from its involvement with the investee, and has the ability to use its power to affect its returns.

## **2. Significant Accounting Policies (continued)**

### **c) Principles of Consolidation (continued)**

REOT reassesses whether or not it controls the investee if facts, circumstance and events indicate that there are changes to the elements listed above.

The accounting policies of the subsidiaries are consistent with the accounting policies of REOT and their financial statements have been prepared for the same reporting period as REOT.

All intercompany transactions and balances have been eliminated upon consolidation.

### **d) Future Changes in Accounting Policies**

Standards issued and amendments to existing standards but not yet effective up to the date of issuance of these consolidated financial statements are described below. This description is of standards and interpretations issued, which REOT reasonably expects to be applicable at a future date.

#### **Financial Instruments (“IFRS 9”)**

This standard will replace IAS 39 – Financial Instruments: Recognition and Measurement. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business mode and the contractual cash flow characteristics of the financial assets. The new IFRS is to be applied retrospectively without restatement of comparative information, is effective for annual periods beginning on or after January 1, 2018, with earlier application permitted. REOT has not yet determined the impact of the new standard on its consolidated financial statements.

#### **Revenue from Contracts with Customers (“IFRS 15”)**

In May 2014, the IASB issued IFRS 15 - Revenue from Contracts with Customers. The new standard provides a comprehensive framework for recognition, measurement and disclosure of revenue from contracts with customers, excluding contracts within the scope of the standards on leases, insurance contracts and financial instruments. IFRS 15 becomes effective for annual periods beginning on or after January 1, 2017, and is to be applied retrospectively. Early adoption is permitted. REOT has not yet determined the impact of the new standard on its consolidated financial statements.

## **2. Significant Accounting Policies (continued)**

### **f) Equity accounted investments**

The REOT enters into joint arrangements through joint operations and joint ventures. A joint arrangement is a contractual arrangement pursuant to which the REOT and other parties undertake an economic activity that is subject to joint control, whereby the strategic financial and operating policy decisions relating to the activities of the joint arrangement require the unanimous consent of the parties sharing control. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Joint arrangements that involve the establishment of a separate entity in which each party to the venture has rights to the net assets of the arrangement are referred to as joint ventures.

The REOT reports its interest in joint ventures using the equity method of accounting.

### **g) Distribution Reinvestment and Unit Purchase Plan (“DRIP”)**

REOT has instituted a Dividend Reinvestment Plan (“DRIP”) in accordance with Article 5.8 of the Declaration of Trust which provides that the Trustees may in their sole discretion establish a distribution reinvestment plan at any time providing for the voluntary reinvestment of distributions by some or all REOT Unit holders as the Trustees determine. Currently Unitholders receive a 2% discount on Units purchased via the DRIP. No commissions, service charges or brokerage fees are payable by participants in connection with the DRIP.

### **h) Revenue Recognition**

Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to REOT and the amount of income can be measured reliably. Interest income is accrued on a time proportion basis, by reference to the principal outstanding and applicable effective interest rates.

### **i) Provisions**

Provisions are recognized when REOT has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are not recognized for future operating losses.

The amount of a provision is based on management’s best estimate of the expenditure that is required to settle the obligation at the end of the reporting period.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.



## **2. Significant Accounting Policies (continued)**

### **j) Income Taxes**

REOT qualifies as a Mutual Fund Trust for Canadian income tax purposes. In accordance with the terms of the Declaration of Trust, REOT intends to allocate its income for income tax purposes each year to such an extent that it will not be liable for income taxes under Part I of the Income Tax Act (Canada). REOT is eligible to claim a tax deduction for distributions paid in future years and intends to continue to meet the requirements under the Income Tax Act (Canada). Accordingly, no provision for income taxes payable has been made. Income tax obligations relating to distributions of REOT are the obligations of the Unitholders.

### **k) Financial Instruments**

In accordance with IAS 39 Financial Instruments – Recognition and Measurement (“IAS 39”), financial assets and financial liabilities are initially recognized at fair value, and their subsequent measurement is dependent on their classification as described below.

#### Fair Value Through Profit or Loss (“FVTPL”)

Financial instruments in this category are recognized initially and subsequently at fair value. Gains and losses arising from changes in fair value are presented within operating income attributable to unitholders in the consolidated statement of comprehensive income in the period in which they arise. Financial assets and liabilities at FVTPL are classified as current, except for the portion expected to be realized or paid beyond 12 months of the consolidated statement of financial position date, which is classified as non-current. Derivatives are also categorized as FVTPL unless designated as hedges.

#### Cash and cash equivalents and restricted cash

Cash and cash equivalents include cash and short-term investments with an original maturity of three months or less. Restricted cash does not meet the definition of cash and cash equivalents and is included in other assets in the consolidated statement of financial position. Interest earned or accrued on these financial assets is included in other income.

#### Loans and receivables

Other receivables are included in current assets, except for those with maturities more than 12 months after the consolidated statement of financial position date, which are classified as non-current assets. Loans and receivables are included in other assets in the consolidated statement of financial position and are accounted for at amortized cost.

#### Available-for-sale

Investments are measured at fair value at each consolidated statement of financial position date and the difference between the fair value of the asset and its cost basis is included in other comprehensive income (“OCI”). Differences included in accumulated other comprehensive loss (“AOCL”) are transferred to net income when the asset is removed from the consolidated statement of financial position or an impairment loss on the asset has to be recognized. Income on available-for-sale investments is recognized as earned and included in other income.

**2. Significant Accounting Policies (continued)**

**k) Financial Instruments (continued)**

Other financial liabilities

Such financial liabilities are recorded at amortized cost and include all liabilities other than derivatives or liabilities, which are designated to be accounted for at fair value.

Derivatives

Derivative financial instruments are initially recognized at fair value on the date a derivative contract is entered into and subsequently re-measured at fair value. Derivatives are measured at fair value with changes therein recognized directly through the consolidated statement of comprehensive income within operating income.

Embedded derivatives

Derivatives embedded in other financial instruments or contracts are separated from their host contracts and accounted for as derivatives when their economic characteristics and risks are not closely related to those of the host contract; the terms of the embedded derivative are the same as those of a free-standing derivative; and the combined instrument or contract is not measured at fair value. These embedded derivatives are measured at fair value with changes therein recognized within operating income in the consolidated statement of comprehensive income.

The classification of financial instruments depends on the purpose for which the financial instruments were acquired or issued, their characteristics and REOT's designation of such instruments. The summary of the classification and measurement adopted by REOT for each major class of financial instruments are as follows:

	<b>Classification</b>	<b>Measurement</b>
<b>Financial Assets:</b>		
Cash	Loans and receivables	Amortized cost
Unit subscriptions receivable	Loans and receivables	Amortized cost
Due to/from broker/administrator	Loans and receivables	Amortized cost
Mortgage investments	Loans and receivables	Amortized cost
Accounts receivable	Loans and receivables	Amortized cost
<b>Financial Liabilities:</b>		
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost

At each reporting period, REOT assesses impairment of all its financial assets, except those classified as held for trading. Management considers whether there has been a breach in contract, such as a default or delinquency in interest or principal payments in determining whether objective evidence of impairment exists.

Impairment is measured as the difference between the asset's carrying value and its fair value. Any impairment is included in the consolidated statement of comprehensive income.

## **2. Significant Accounting Policies (continued)**

### **l) Fair Value**

Fair value measurements recognized in the balance sheet accounts are categorized using a fair value hierarchy that reflects the significance of inputs used in determining the fair values:

- Level 1: Quoted prices in active markets for identical assets or liabilities.
- Level 2: Quoted prices in active markets for similar assets or liabilities or valuation techniques where significant inputs are based on observable market data.
- Level 3: Valuation techniques for which any significant input is not based on observable market data.

Each type of fair value is categorized based on the lowest level input that is significant to the fair value measurement in its entirety.

### **m) Net Assets Attributable to Unitholders**

#### **i. Balance Sheet Presentation**

In accordance with IAS 32 - Financial Instruments: Presentation, puttable instruments are generally classified as financial liabilities. REOT's units are puttable instruments, meeting the definition of financial liabilities in IAS 32. There are exception tests within IAS 32 which could result in classification as equity; however, REOT units do not meet the exception requirements. Therefore, REOT has no instrument qualifying for equity classification on its Statement of Financial Position pursuant to IFRS. The classification of all units as financial liabilities with presentation as net assets attributable to Unitholders does not alter the underlying economic interest of the Unitholders in the net assets and net operating results attributable to Unitholders.

#### **ii. Statement of Financial Position Measurement**

REOT units are carried on the Statement of Financial Position at net asset value. Although puttable instruments classified as financial liabilities are generally required to be remeasured to fair value at each reporting period, the alternative presentation as net assets attributable to Unitholders reflects that, in total, the interests of the Unitholders is limited to the net assets of REOT.

## **2. Significant Accounting Policies (continued)**

### **n) Mortgage Investments**

Mortgage investments are classified as loans and receivables. Such investments are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, the mortgage investments are measured at amortized cost using the effective interest method, less any impairment losses.

### **o) Impairment**

Mortgage investments are assessed at each reporting date to determine whether there is objective evidence of impairment. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of an asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of mortgage investments measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in the statement of net income and comprehensive income and reflected in an allowance account against the investments. Interest on the impaired asset continues to be recognized through the unwinding of the discount if it is considered collectable. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through the consolidated statement of comprehensive income.

## **3. Critical Accounting Estimates, Assumptions and Judgments**

The preparation of financial statements as per IFRS requires management to make judgments, assumptions and estimates that affect the reported amounts in the consolidated financial statements. Actual results could differ from those estimates.

The following are the critical accounting estimates and assumptions that have been made in applying REOT's accounting policies:

### **Recoverability of mortgage investments:**

The fair value of the mortgage investments is reliant on the ability of the borrower to fully repay the loan and all accrued interest and fees, any defaults that occur may materially impact the fair value of these investments.

**Centurion Real Estate Opportunities Trust**  
**Notes to the Consolidated Financial Statement**  
**For the period from August 13, 2014 (date of formation) to December 31, 2014**

---

**4. Mortgage Investments**

Mortgages investments represent amounts under mezzanine loan arrangements. The weighted effective interest rate is 10.14% and the estimated weighted average contractual term of maturity is 2.19 years, interest income for the year was \$2,130,411. Future repayments are as follows:

<b>Period ended</b>	<b>December 31, 2014</b>	
December 31, 2015	\$	14,000,854
December 31, 2016		46,497,267
December 31, 2017		6,939,748
December 31, 2018		6,509,457
<b>Total repayments</b>	<b>\$</b>	<b>73,947,326</b>

As at December 31, 2014, the REOT has approved additional mortgage investment commitments of \$37.5 million.

As part of the assessment of indicators for fair value, management of the REOT routinely reviews each mortgage investment for changes in the credit quality of the mortgage and underlying real estate assets and determines whether such changes result in changes in the fair value of the mortgage investment.

As at December 31, 2014, management does not believe any collective or specific impairment provision is required for any mortgage investments on a cumulative basis. As at December 31, 2014 carrying value approximates fair value.

**5. Equity accounted investments**

REOT entered into a joint venture, which it has a 60% interest in the net assets, with a third party to commence a development project comprised of a 208 unit prefabricated four building multi-family development located in Regina, Saskatchewan. The carrying value of equity accounted investments consists of the following:

	<b>Ownership</b>	<b>December 31, 2014</b>	
Harbour View Estates LP	60%	\$	3,443,112

**Centurion Real Estate Opportunities Trust**  
**Notes to the Consolidated Financial Statement**  
**For the period from August 13, 2014 (date of formation) to December 31, 2014**

---

**6. Accounts Receivable**

	<b>December 31, 2014</b>	
Interest receivable	\$	239,840
	\$	239,840

---

The following is an aging analysis of the accounts receivable balance:

	<b>December 31, 2014</b>	
Current	\$	239,840
	\$	239,840

---

**7. Other assets**

Other assets consist of the following:

	<b>December 31, 2014</b>	
Receivable from related party broker/administrator	\$	1,202,671
Unit subscriptions receivable		783,170
Prepays		11,381
	\$	1,997,222

---

**8. Accounts Payable and accrued liabilities**

	<b>Note</b>	<b>December 31, 2014</b>	
Balance payable under warehouse agreement	10	\$	3,100,000
Accounts payable and accrued liabilities			236,756
Distributions payable			21,837
Accrued expenses			5,018
		\$	3,363,611

---

The balance payable under the warehouse agreement consists of mortgage investments that were funded by Centurion Apartment Real Estate Investment Trust under the terms of the warehouse agreement (note 10). At December 31, 2014, CREOT agreed to purchase \$3,100,000 of these mortgage investments.

## **9. Classification of Units**

In accordance with the Declaration of Trust (“DOT”), the Trust may issue an unlimited number of units of various classes. Each unit represents an equal undivided interest in and to the that portion of the Class A, F, M and R Percentage Interest as defined in the DOT of any distributions from the Trust, and in the net assets in the event of termination or wind up of the Trust.

### **Authorized**

- i. **Unlimited number of Class A Trust Units**
  - a. Class A Trust Units are participating, with one vote per unit, no par value.
- ii. **Unlimited number of Class F Trust Units**
  - a. Class F Trust Units are participating, with one vote per unit, no par value.
- iii. **Unlimited number of Class M Trust Units**
  - a. Class M Trust Units are participating, reserved for Centurion Asset Management Inc. and represent a beneficial interest based on a formula disclosed in the DOT. Apart from certain voting restrictions, Class M Unitholders are entitled to vote to that percentage of all Unitholder votes equal to the Class M Unit Percentage Interest as defined in the DOT. At any time, the holder of a Class M unit may convert into either Class A units or Class R units based on a specified ratio as disclosed in the DOT.
- iv. **Unlimited number of Class R Trust Units**
  - a. Class R Trust Units are participating with no par value and reserved for a Centurion Family Entity as defined in the DOT. Apart from certain voting restrictions, Class R units are entitled to vote to that percentage of all Unitholder votes equal to the Class R Percentage Interest as defined in the DOT.

Each Unitholder shall be entitled to require the Trust to redeem Class A, F, M or Class R Trust units on the “Redemption Date” of any month on demand. Unitholders whose units are redeemed will be entitled to receive a redemption price per unit (“Redemption Price”) determined by a market formula at fair value less any applicable early redemption fees as outlined in the DOT. The redemption price will be satisfied by way of cash payment. The Trust units tendered for redemption in any calendar month in which the total amount payable by the Trust exceeds \$50,000 (the “Monthly Limit”), will be redeemed for cash by a distribution in specie of debt securities on a pro rata basis.

**Centurion Real Estate Opportunities Trust**  
**Notes to the Consolidated Financial Statement**  
**For the period from August 13, 2014 (date of formation) to December 31, 2014**

---

**9. Classification of Units (continued)**

**Issued**

	<u>December 31, 2014</u>
<b>Class A Trust Units</b>	
Units as at August 13,	-
New units issued	656,736
Distribution reinvestment plan	4,958
	<u>661,694</u>
<b>Class F Trust Units</b>	
Units as at August 13,	-
New units issued	4,620
Distribution reinvestment plan	127
	<u>4,747</u>
<b>Class M Trust Units</b>	
	<u>50,000</u>
<b>Class R Trust Units</b>	
Units as at August 13,	-
New units issued	6,956,247
Distribution reinvestment plan	197,546
	<u>7,153,793</u>

**10. Commitments**

- a) REOT is committed to asset management services under an asset management agreement with Centurion Asset Management Inc., a company controlled by the President and Trustee, for a five year term ending December 31, 2019 with a renewal term for an additional five years unless terminated by either of the parties. Under the agreement, REOT is required to:
- I. Pay an acquisition fee equal to 1.0% of the purchase price, or principal amount, as applicable, of any mortgage investments or other investments, including any properties acquired by REOT provided if this fee is not paid by any another party.
  - II. Pay an asset management fee per annum of 1% of the fair market value of REOT less the Class R units.
- b) REOT is committed to property management services under a property management agreement with Centurion Property Associates Inc. ("Property Manager"), a company controlled by the President and Trustee, for a five year term ending December 31, 2019 with a renewal term for an additional five years unless terminated by either of the parties. Under the agreement, REOT is required to:



**Centurion Real Estate Opportunities Trust**  
**Notes to the Consolidated Financial Statement**  
**For the period from August 13, 2014 (date of formation) to December 31, 2014**

---

**10. Commitments (continued)**

- I. Pay a management fee of 3.5% of the gross income from its investment properties.
- II. Pay a project management fee equal to 5% of total capital expenditures in the year.
- III. Reimburse all expenses that were incurred in respect of the management of the investment properties.

At December 31, 2014, REOT does not own any investment properties.

- c) REOT has entered into an agreement with a related party, Centurion Apartment REIT, the warehouse lender, whereby the warehouse lender is given the opportunity to fund mortgage investments originated by REOT. REOT has the right during the term of the agreement to purchase the mortgage investments previously funded by the warehouse lender, subject to the provisions of the agreement.

The asset management agreement was amended on January 1, 2015, see Note 17.

**11. Contingencies**

REOT may become contingently liable for litigation and claims that arise from time to time in the ordinary course of business. Management is of the opinion that based on information presently available, it is not probable that any liability, to the extent not provided for through insurance or otherwise, would have a significant effect on REOT's consolidated financial statements.

**12. Related Party Transactions**

Except as disclosed elsewhere in the consolidated financial statements, related party transactions include the following:

Centurion Asset Management Inc. ("CAMI") holds the 50,000 Class M Trust units of REOT. The distributions for the year ended December 31, 2014 for the Class M Trust units were \$4,241. CAMI also charged an asset management fee of \$30,628.

Centurion Apartment REIT owns all of the Class R units of REOT and received distributions in the amount of \$1,935,947, settled with 197,536 Class R units. Centurion Apartment REIT also transferred \$80,960,017 of loans to CREOT under the terms of the warehouse facility.

Key management consists of the Board of Trustees and the executive management team of REOT. Compensation paid to non-executive trustees during the year was \$24,000.

**13. General and administration**

	<b>December 31, 2014</b>	
Legal and accounting	\$	<b>263,910</b>
Asset management fee		<b>30,628</b>
Trustee fees		<b>24,000</b>
Other general expenses		<b>48,341</b>
	\$	<b>366,879</b>

\$255,576 of the above legal and accounting expense was incurred for services provided in the formation of the Trust.

## **14. Capital Management**

The prime objective of REOT's capital management is to ensure that REOT maintains a strong credit rating.

REOT defines capital as REOT net assets attributable to Unitholders, debt and lines of credit. REOT's objectives in managing capital are to ensure adequate operating funds are available to maintain consistent and sustainable Unitholder distributions and to provide for resources needed to fund new mortgage investments.

Various debt and earnings distribution ratios are used to ensure capital adequacy and monitor capital requirements. The primary ratios used for assessing capital management are the interest coverage ratio and net debt-to-gross carrying value. Other indicators include weighted average interest rate, average term to maturity of debt, and variable debt as a portion to total debt. These indicators assist REOT in assessing that the debt level maintained is sufficient to provide adequate cash flows for Unitholder distributions and for evaluating the need to raise funds for further expansion.

The carrying value of the units is impacted by earnings and Unitholder distributions. REOT endeavors to make annual distributions. Amounts retained in excess of the distributions are used to fund new mortgage investments and working capital requirements.

Management monitors distributions through various ratios to ensure adequate resources are available. These include the proportion of distributions paid in cash, DRIP participation ratio, and total distributions as a percent of distributable income and distributable income per unit.

## **15. Financial Instruments**

### **a) Risk management**

The main risks that arise from REOT's financial instruments are liquidity, interest and credit risk. REOT's approach to managing these risks is summarized below:

Management's risk management policies are typically performed as a part of the overall management of REOT's operations. Management is aware of risks related to these objectives through direct personal involvement with employees and outside parties. In the normal course of its business, REOT is exposed to a number of risks that can affect its operating performance. Management's close involvement in operations helps identifying risks and variations from expectations. As a part of the overall operation of REOT, management considers the avoidance of undue concentrations of risk. These risks include, and the actions taken to manage them, are as follows:

**15. Financial Instruments (continued)**

**b) Liquidity risk**

Liquidity risk is the risk that REOT may not be able to meet its financial obligations as they fall due.

REOT's principal liquidity needs arise from working capital, debt servicing and repayment obligations, planned funding of mortgage investments and distributions to Unitholders.

The success of new capital issuances is subject to the capital markets being receptive to a unit issue with financial terms favorable to REOT. As at December 31, 2014, REOT has \$2,011,542 in cash.

**Interest Rate Risk**

REOT's objective of managing interest rate risk is to minimize the volatility of earnings. At December 31, 2014 REOT had no mortgages or other financial liabilities that bore interest at fixed rates.

**c) Credit risk**

Credit risk arises from the possibility mortgage borrowers may default on their mortgage obligations to REOT. The risk of credit loss is mitigated by credit policies.

REOT monitors its collection experience on a monthly basis and ensures that a stringent policy is adopted to provide for all past due amounts which are doubtful of being collected.

**16. Fair value measurement**

Fair value is the price that market participants would be willing to pay for an asset or liability in an orderly transaction under current market conditions at the measurement date.

The fair value of REOT's financial instruments were determined as follows:

- the carrying amounts of cash, accounts receivable, receivable from broker/administrator, unit subscription receivable, accounts payable and accrued liabilities approximate their fair values based on the short term maturities of these financial instruments.

The fair value hierarchy categorizes fair value measurement into three levels based upon the inputs to valuation technique, which are defined as follows:

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

**16. Fair value measurement (continued)**

Level 2: other techniques for which all inputs that have a significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3: techniques which use inputs that have significant effect on the recorded fair value that are not based on observable market data.

**Mortgage investments**

There are no quoted prices in an active market for the mortgage investments. Management determines fair value based on its assessment of the current lending market for mortgage investments of same or similar terms. Typically, the fair value of these mortgage investments approximate their carrying values given the amounts consist of short-term loans. As a result, the fair value of mortgage investments is based on Level 3 inputs.

**17. Subsequent Events**

Subsequent to the reporting date REOT completed the following transactions:

- a) On January 1, 2015, REOT reached an agreement with Centurion Asset Management Inc. ("CAMI") to internalize the asset management functions provided by CAMI to REOT. REOT did not pay any fee or premium on the transaction.
- b) REOT issued additional units for \$5,399,151 cash proceeds.
- c) Additional mortgage investment advances of approximately \$3,370,000 were completed and additional funding commitments of approximately \$19,380,000 have been approved.
- d) Distributions declared and paid after the year end totaled approximately \$1,100,000.
- e) Subsequent to year-end, a mortgage investment with a carrying value of \$700,000 at December 31, 2014 has gone into default. REOT has assessed the recoverability of the mortgage investment and assessed whether any impairment exists. REOT has determined that no impairment exists as the value of the underlying security will be equal to or higher than the carrying amount of the mortgage investment.

***THE PAGE BEEN INTENTIONALLY LEFT BLANK***



**CENTURION REAL ESTATE OPPORTUNITIES TRUST**