

# CENTURION FINANCIAL TRUST

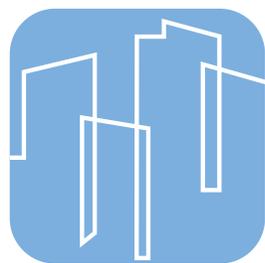
---

**2018 Annual Report | Management's Discussion and Analysis**

---

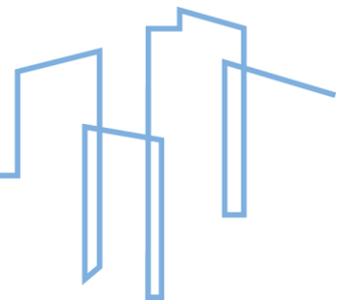
---

For the twelve months ended December 31, 2018



**CENTURION**  
FINANCIAL TRUST

# PROFILE



Centurion Financial Trust (“CFIT” or the “Trust”) is an income and capital growth-orientated investment trust that allows qualified investors to invest in a portfolio of private debt investments, including but not limited to mortgages, opportunistic real estate developments, and corporate debt.



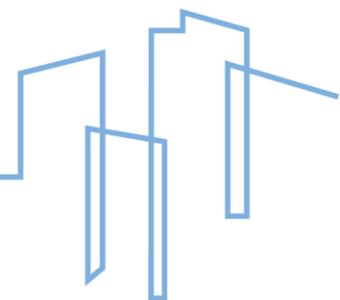
## 2018 HIGHLIGHTS

- 2018 was an active growth year for CFIT
- Diversified portfolio
  - Corporate debt
  - Real estate
- Total assets \$48,231,627
- Net Investment Income was \$5,224,993 up from \$1,465,227, a growth of 257%
- Class A Return of 9.81%
- Class F Return of 10.88%
- A bonus distribution of \$0.1943/unit was paid to unitholders of record as at December 31, 2018 in units

## OBJECTIVES

- To provide investors with stable cash distributions, payable monthly, with the opportunity for long-term growth and a focus on the preservation of capital
- To offer a diversified portfolio of income-producing and growth-orientated alternative credit investments
- To maximize unit value through the active management of the portfolio

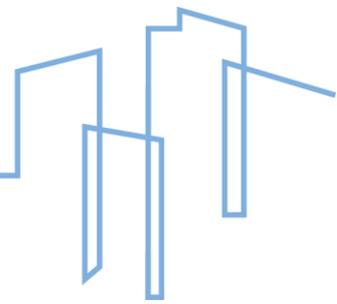
# FINANCIAL HIGHLIGHTS



<b>PORTFOLIO PERFORMANCE</b>	<b>2018</b>	<b>2017*</b>
Total Assets	\$48,231,627	\$30,412,532
Corporate Debt Investments	\$11,205,408	\$11,652,113
Real Estate Investments	\$32,017,472	\$16,458,395
Convertible Debentures and Warrants	\$2,789,325	\$1,187,116
Net Investment Income	\$5,224,993	\$1,465,227
Net Income and Comprehensive Income per Unit	\$1.12	\$0.82
FFO per Unit	\$1.14	\$1.00
NFFO per Unit	\$1.14	\$1.00
PFFO per Unit	\$1.14	\$1.00
Weighted Average Number of Units	4,062,554	1,211,208
<b>Total Annual Return</b>		
Class A	9.81%	10.89%
Class F	10.88%	11.91%
Closing Price of Units	\$10.357	\$10.283

\*For the period January 27, 2017 - December 31, 2017

# EXECUTIVE MANAGEMENT AND BOARD OF TRUSTEES



**GREGORY ROMUNDT**  
President and CEO  
Trustee



**MICHAEL LECLAIR**  
Chairman  
Independent Trustee



**STEPHEN STEWART**  
Executive Vice President,  
Mortgage Investments and  
Joint Ventures  
Trustee



**DONNA PAR**  
Independent Trustee



**DARYL BOYCE**  
Executive Vice President,  
Corporate Finance  
Trustee



**GRAHAM MCBRIDE**  
Independent Trustee

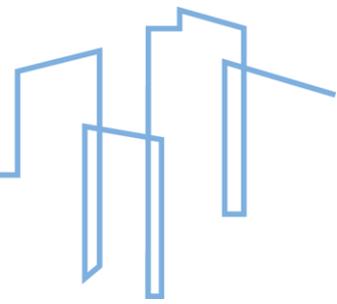


**ROBERT ORR**  
Chief Financial Officer and  
Chief Compliance Officer



**KEN MILLER**  
Independent Trustee

# LETTER FROM THE PRESIDENT



Centurion Financial Trust (the “Trust”) is the third mutual fund trust in the Centurion family. The investment objectives of Centurion Financial Trust are to provide investors with income and capital growth from a diversified portfolio of private debt investments, made to companies and individuals based in Canada and the United States that need flexible financing solutions and are underserved by traditional financial institutions. The investment guidelines include private debt investments including but not limited to mortgages, opportunistic real estate developments and corporate debt. The Trust is targeting a 9% - 12% annual return.

We see a significant opportunity in the private debt market whereby companies need financing solutions. The typical profile includes established businesses with strong management teams, stable or growing markets/industries, demonstrate good profitability/cash flows, and/or exhibit visible near-term catalysts for good profitability and cash flow.

Our second year of operations was very successful. We managed a return of 9.81% on the Class A units and 10.88% on the Class F units. In addition, we paid a Bonus Distribution of \$0.1943/unit to all unitholders of record as at December 31, 2018.

Assets increased 58.59% to \$48.2 million and Net Investment Income increased 257% from \$1.5 million to \$5.2 million.

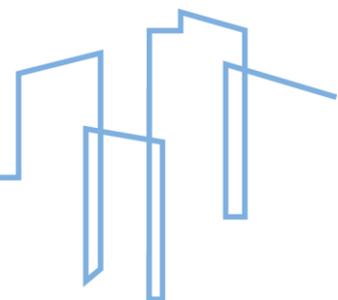
Leveraging off our existing network, we were able to raise \$17.5 million and were approved on 21 platforms. We saw significant interest in Centurion Financial Trust from investors and advisors which we consider to be very positive and will enable the Trust to grow over the next few years.

Daryl Boyce, Head of Corporate Finance, and his team of underwriters and analysts looked at almost 70 potential financing opportunities during the period, proving that there is a large underserved market. From a portfolio perspective, we have invested in real estate, U.S. healthcare, a consumer loan portfolio, energy-related companies, and life sciences at rates ranging from 10% to 15%. We have also been successful in syndicating a portion of each of these investments. In building our relationships, we also see the ability to syndicate larger transactions going forward and feel this will enable the Trust to grow at an accelerated rate while also providing incremental syndication fee revenue for the Trust.

We look forward to continuing expanding our team and market reach in 2019.

**GREG ROMUNDT**  
President, CEO, and Trustee

# 2018: MANAGEMENT'S DISCUSSION AND ANALYSIS

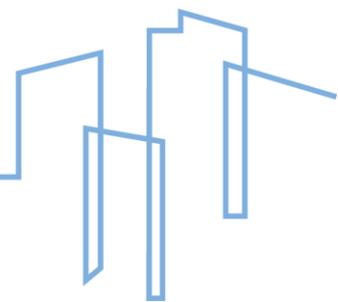


## TABLE OF CONTENTS

Forward-Looking Statements .....	8
Declaration of Trust .....	9
Investment Guidelines .....	10
Operating Policies .....	13
Investment Committee .....	15
Accounting Policies .....	17
Non-IFRS Measures .....	18
History of Centurion Financial Trust .....	19
Targeted Investments .....	20
Warehouse Agreements .....	22
Outlook and Business Strategy .....	23
Centurion Financial Trust Organizational Structure .....	24
2018 Operating Results .....	25
“FFO”, “NFFO”, and “PFFO” .....	30
Issued and Outstanding Number of Units .....	31
Distributions .....	31
Tax Treatment of Distributions .....	31
Capital Raising Activity .....	32
Total Returns .....	32
Use of Proceeds .....	33
APPENDIX A - Risks and Uncertainties .....	34
APPENDIX B - Audited Consolidated Financial Statements .....	45

# Forward-Looking Statements

## CAUTION REGARDING FORWARD-LOOKING STATEMENTS



The Management’s Discussion and Analysis (“MD&A”) of Centurion Financial Trust (“Centurion” or “CFIT” 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 year-ended December 31, 2018 along with CFIT 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”, “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 CFIT 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 CFIT trust Units, the general risks associated with real property ownership and acquisition, that future accretive acquisition opportunities will be identified and/or completed by CFIT, risk management, liquidity, debt financing, credit risk, competition, general uninsured losses, interest rate fluctuations, environmental matters, restrictions on redemptions of outstanding CFIT’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 unit price of CFIT’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 B “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

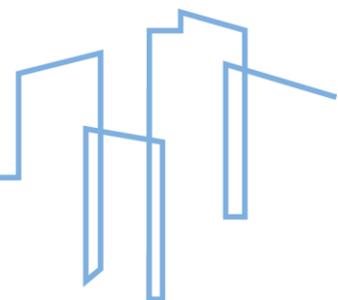
Although the forward-looking information contained herein is based upon what Management believes are reasonable assumptions, there can be no assurance that actual results will be consistent with these forward-looking statements. CFIT has attempted to identify important factors that could cause actual 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. CFIT 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.

# DECLARATION OF TRUST

---



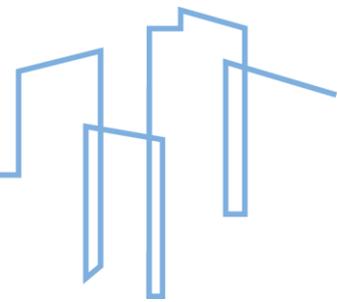
The policies of the Trust are outlined in the Declaration of Trust (the “DOT”) dated January 16, 2017 or as restated and amended from time to time. The DOT can be found at:

<https://www.centurion.ca/investment-solutions/centurion-financial-trust>

The Declaration of Trust contains investment guidelines and operating policies. The investment guidelines include, among other things, criteria with respect to the types of investments that the Trust can acquire and certain other parameters regarding the Trust’s investment activities. The operating policies address, among other things, the maximum level of the Trust’s debt and the requirements for investment analysis, security, appraisals, insurance coverage, environmental audits and due diligence. The investment guidelines and certain operating policies may only be changed upon the approval of a two-thirds majority of the votes cast by Unitholders at a meeting called for such purpose. The remaining operating policies may be changed upon the approval of a majority of the votes cast by Unitholders at a meeting called for such purpose.

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

# INVESTMENT GUIDELINES

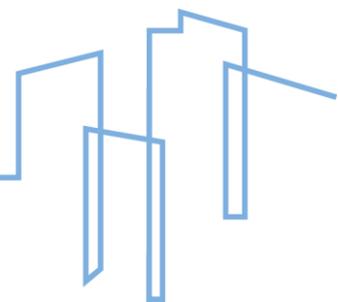


The assets of the Trust may be invested only, and the Trust shall not permit the assets of any subsidiary to be invested otherwise, then in accordance with the following investment guidelines (as more particularly set out in the Declaration of Trust):

- (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 may otherwise be 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, if applicable) 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 shall be acquired if the cost of such acquisition (net of the amount of debt secured by such asset and any transaction expenses, if applicable) will exceed \$15 million;
- (d) the Trust may provide financing solutions for individuals and small and medium-sized companies. Such financing solutions may include, but are not limited to the following:
  - i. Financing solutions for business growth, expansions and acquisitions; management and/or shareholder buyouts and refinancing;
  - ii. Bridge financing of visible credit raising activities and/or events;
  - iii. Project financing, real estate financing, real estate development financing, contract financing and equipment financing;
  - iv. Accounts receivable financing or factoring, inventory financing and trade financing; and
  - v. Leasing, intellectual property monetization, royalties and securitizations.
- (e) the Trust may provide financing solutions through any conventional or unconventional financing structures including, but not limited to, senior secured term loans, asset backed loans, bridge loans, subordinated loans, mezzanine loans, syndicated loans, preferred shares, royalties, equipment financing arrangements, inventory financing arrangements, factored accounts receivable, conventional and unconventional mortgages, convertible debentures, equity securities, securitizations, and other equity interests or participations;
- (f) Investments may only be made in a joint arrangement 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 not subject to any restriction on transfer other than a right of first refusal, right of first offer or similar events, if any, in favour 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;
- (g) conventional 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 that is the security thereof;

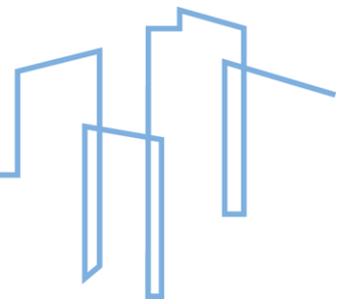
provided that nothing herein shall restrict the Trust from

# INVESTMENT GUIDELINES



- making a non-mortgage investment, directly or indirectly, where a portion of the collateral for such investment includes a security interest registered on title to real property;
- (h) 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) (“unconventional mortgages”);
- (i) the Trust may invest in conventional and unconventional 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 Independent 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;
- (j) 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/counterparty of its obligations in respect of a prior ranking security interest or satisfy the indebtedness secured by a prior ranking security interest 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;
- (k) notwithstanding any other provisions of Section 4.1 of the Declaration of Trust (Investment Guidelines), the Trust may participate in an investment on a syndication basis, subject to the approval by the Trustees of the investment amount and the proposed syndication partners;
- (l) notwithstanding any other provisions of Section 4.1 of the Declaration of Trust (Investment Guidelines), the Trust may acquire investments (or exposure to investments) through Approved Warehouse Transactions;
- (m) the Trust shall not 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;
- (n) the Trust shall not engage in securities lending that does not constitute a “securities lending arrangement” for purposes of the Tax Act;
- (o) the Trust shall not invest in any security that would be a “tax shelter investment” within the meaning of the Tax Act;
- (p) notwithstanding any other provisions of the Declaration of Trust, 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 registration requirements;
- (q) notwithstanding any other provisions of the Declaration of Trust, the Trust may hold units or other securities of (i) Centurion Apartment Real Estate Investment Trust (“Centurion Apartment REIT”), Centurion Real Estate Opportunities Trust (“Centurion REOT”) and any other pooled investment vehicle for which the Asset Manager (or an affiliate of the Asset Manager) acts as an adviser and (ii) any other mortgage investment corporation, mortgage investment trust, real estate investment trust, alternative credit investment entity or similar entity; and
- (r) notwithstanding any other provisions of the Declaration of Trust, the Trust may make 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

# INVESTMENT GUIDELINES



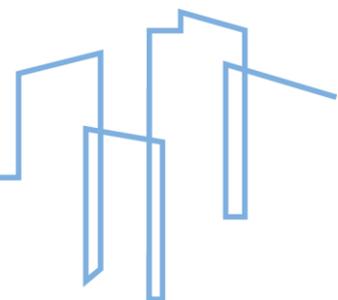
securities or in money market instruments of, or guaranteed by, a Canadian Schedule I bank maturing prior to one year from the date of issue.

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. 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 generally set out the parameters under which subsidiaries or affiliates 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 or affiliate where the actual activity that is the subject of the policy is carried on by such subsidiary or affiliate. The Trust will take all commercially reasonable actions required to ensure that all of its subsidiaries and affiliates operate in accordance with the above Investment Guidelines. 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 or an affiliate, will be made by the trustees or directors of the relevant subsidiary or affiliates. 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" under the Tax Act.



# 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 or affiliate to conduct its operations and affairs other than in accordance with the following policies:

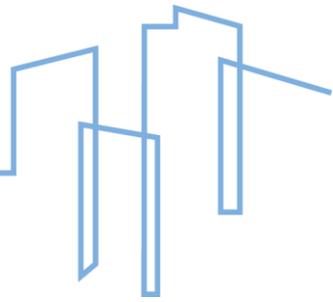
- (a) each Investment shall be held by and registered in the name of a corporation or other entity wholly-owned directly or indirectly by the Trust or, where applicable, jointly owned directly or indirectly by the Trust with joint arrangement partners (if any), provided that Investments may also be registered in the name of a service provider to the Trust as a nominee of the Trust;
- (b) title to each real property for a mortgage investment 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 partner; provided, that where land tenure will not provide fee simple title, (i) 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, or (ii) by a service provider to the Trust as a nominee of the Trust, shall hold a land lease as appropriate under the land tenure system in the relevant jurisdiction;
- (c) 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 any warehoused investments on demand);
- (d) 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 the Investment Guidelines described above.
- (e) the Trust may engage service providers, including asset managers, investment advisors, investment dealers and mortgage managers under terms and conditions acceptable to the Trustees. As at the date hereof, the Trust has engaged Centurion Asset Management Inc. (“CAMI”) by the terms of the Trust Asset Management Agreement, which agreement shall remain in full force and effect until terminated by a party thereto in accordance with its terms.

For greater certainty, the operating policies above are intended to set out generally the parameters under which the Trust (and subsidiaries and affiliates in which the Trust is permitted to invest) will operate. References to the Trust in those paragraphs shall be read as applying to the subsidiary or affiliate that actually carries on the activity that is the subject of the policy on behalf of the Trust (with the exception of (c) 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 the above operating policies 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” under the Tax Act.

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.

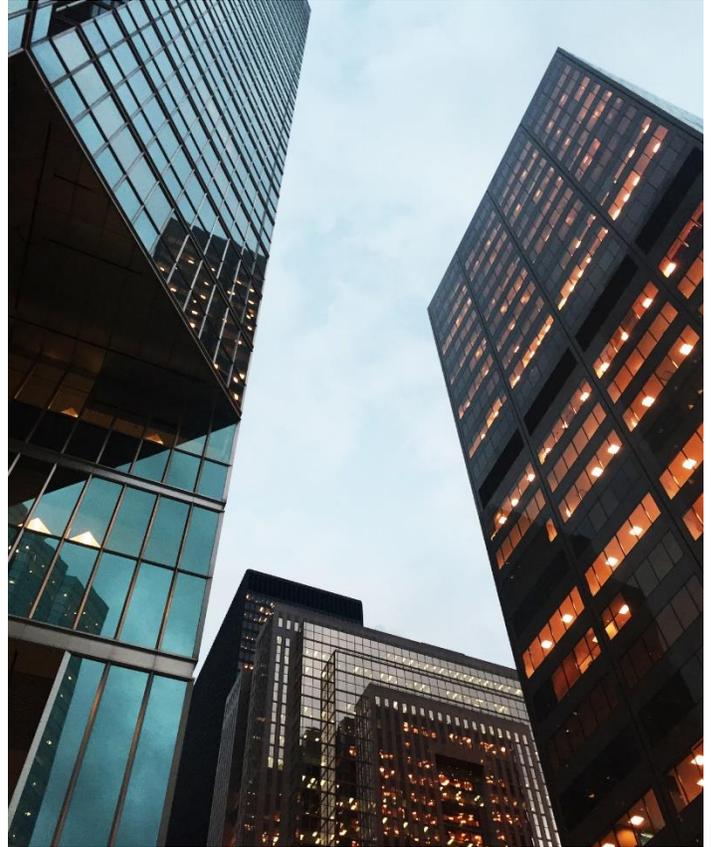
In addition, the term “indebtedness” means (without duplication):

# OPERATING POLICIES

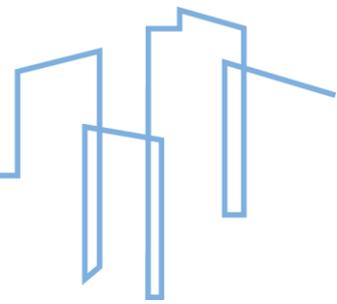


- i. any obligation of the Trust for borrowed money;
- ii. any obligation of the Trust incurred in connection with the acquisition of property, assets or business other than the amount of future income tax liability arising out of indirect acquisitions;
- iii. any obligation of the Trust issued or assumed 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 will establish an Investment Committee to review, approve and make investments that are in accordance with the Trust's investment guidelines. 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 investment decisions 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;
- Amendments to security considered minor, substituting collateral in a non-material way; changing guarantees in a non-material way,
- Amending conditions, including reporting conditions, and/or conditions precedent to funding in a non-material way; and
- Amending the capital stock provided the Trust's exposure remains substantially the same.

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

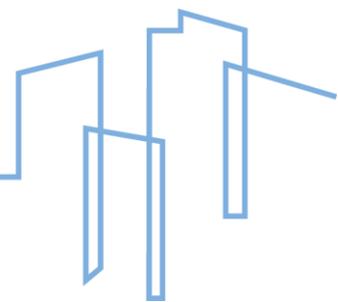
The Asset Manager shall be authorized to approve any individual investment with a purchase price of \$1 million or less that fits within the investment guidelines of the Trust, subject to ratification by the Investment Committee at the next following meeting of the Investment Committee.

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

- Amendments to the investment size of up to \$250,000, 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.

# INVESTMENT COMMITTEE



## **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**

- (a) The Chairperson has the discretion to:
- i. approve an investment within the sub limits of the Investment Committee;
  - ii. recommend or refer an investment that is above the

sub limits to the Board of Trustees;

- iii. refer an investment that is within the sub limits of the Investment Committee to the Trustees for their approval.
- (b) An investment that does not have the approval of the Chairperson must have the approval of the Trustees to proceed.

## **SECTION 5 GENERAL ROLE**

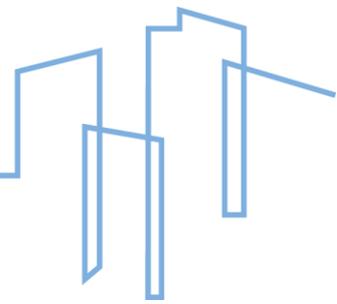
The Committee should:

- 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**

- (a) 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.
- (b) 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.
- (c) 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

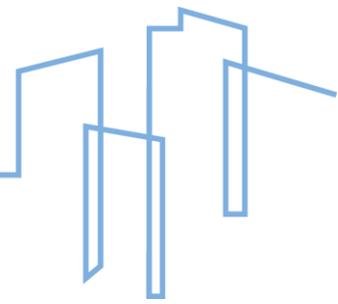


The Trust's significant accounting policies are described in Note 2 of the consolidated financial statements (See Appendix B) for the period ended December 31, 2018. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") applicable to the preparation of consolidated 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 value of financial instruments.

# NON-IFRS MEASURES



The Trust prepares unaudited consolidated interim financial statements and audited consolidated financial statements in accordance with IFRS. In this MD&A, as a complement to the financial results provided in accordance with IFRS, the Trust also discloses and discusses certain financial measures not recognized by IFRS including Normalized Net Operating Income (“NNOI”), Funds from Operations (“FFO”), Normalized Funds from Operations (“NFFO”) and Potential Funds from Operations (“PFFO”).

These metrics (or, in each case, substantially similar terms) are measures used by Canadian real estate investment trusts as indicators of financial performance; however, they do not have standardized meanings prescribed by and these measures may differ from similar computations as reported by other trusts and, accordingly, may not be comparable to similarly termed measures reported by other such issuers.

Normalized Net Operating Income (“NNOI”) is a key measure of potential operating performance used in the real estate industry and long-term stabilizing assumptions are made in the calculation of NNOI. Such assumptions may reflect a stabilized (normalized) view of key inputs in the calculation of NNOI. NNOI is often used by property appraisers in valuing a property. NNOI’s have been used, among other things for evaluating potential property acquisitions, to determine fair values of the investment properties, and to estimate the capacity to make and the level of distributions. Management believes that given the rapid rate of growth of the portfolio and that new acquisitions often require stabilization and repositioning periods and that many in the real estate industry use NNOI when purchasing or selling a property, that NNOI is a useful tool in evaluating the portfolio.

Funds from Operations (“FFO”) is a financial measure used to define their operating performance to provide an idea of the Trust’s cash performance, which is a better indicator of a Trust’s performance than earnings which includes large non-cash items. Management does not look at FFO to be a very useful indicator of stabilized cash flow or earnings but calculates and presents FFO as an input into the calculation of the measures such as NFFO and PFFO which it believes are more useful.

Normalized Funds from Operations (“NFFO”) is a financial measure that adjusts Funds from Operations for non-recurring items. Some of these items Management considers to be capital in nature but for accounting purposes are written off portfolio stabilization costs that are not expected to be ongoing adjustments

for the difference between underwritten Internal Rates of Return on participating mortgage type investments and minimum coupon rates on those investments to show the impact of timing differences on earnings related to these investments, leakage costs on excess capital (for undeployed capital) that has dragged on current period earning but that is non-recurring and new recurring measures such as internalization of the asset and property management teams and their influence on earnings capacity. Management looks at NFFO as a better measure of the Trust’s current cash generating capacity than FFO as it takes a stabilized view of the portfolio and adjusts for items that are not expected to influence earnings capacity over the medium to long term. It excludes identified opportunities and costs that Management has identified and believes may be realized over time.

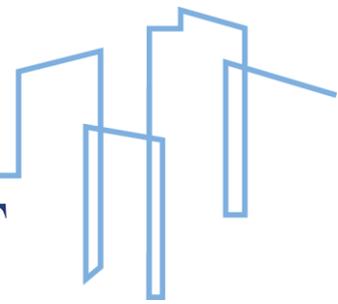
Potential Funds from Operations (“PFFO”) is a financial measure that adjusts the Normalized Funds from Operations to include items that are reasonably anticipated to impact cash flows in future periods assuming the full implementation of Management identified revenue and expense opportunities.

PFFO is Management’s preferred indicator of the Trust’s long-term cash flow generating capacity because it incorporates much more of the up to date information available to Management and is forward looking rather than rearward looking like FFO and NFFO.

Readers are cautioned that these metrics and calculations are not alternatives to measures under IFRS and should not, on their own, be construed as indicators of the Trust’s performance or cash flows, measures of liquidity or as measures of actual return on Units of the Trust. These non IFRS measures, as presented, should only be used in conjunction with the consolidated financial statements of the Trust. In addition, these measures may be calculated differently by other similar organizations and may not be comparable.

The Trust has five classes of units, The Class “A” Units, the Class “F” Units, the Class “I” Units, the Class “M” Units and the Class “R” Units. Under IFRS, the Trust has no instrument qualifying for equity classification on its Consolidated Statement of Financial Position and as such, all units are classified as financial liabilities. 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.

# HISTORY OF CENTURION FINANCIAL TRUST



Centurion Asset Management Inc. (“CAMI”), the Asset Manager, also manages Centurion Apartment Real Estate Investment Trust (“Centurion Apartment REIT”) and Centurion Real Estate Opportunities Trust (“Centurion REOT”). CAMI identified a new asset class emerging as bank lending has been shrinking since 2008. There is a market need for companies needing capital to fund their business growth. The private debt industry has grown significantly as conventional banks scale back their lending. With its lending experience and success of Centurion REOT, CAMI believed there was sufficient scope to create a fund to focus on private debt opportunities and compete successfully in this market.

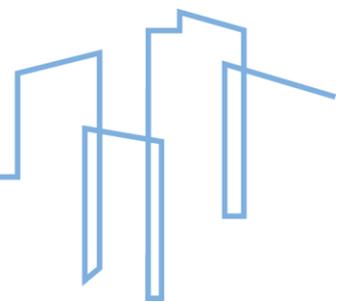
Centurion Financial Trust (“CFIT”) was launched in January 2017 and is a North American broad-based Private Debt trust.

Through the investment in Centurion REOT units, CFIT is able to invest in mortgage/real estate opportunities and diversify its portfolio. For Centurion this enables CFIT to invest in real estate deals which reduces conflicts of interest and saves costs as the infrastructure already exists. It is the goal of the Trust to split its investments between corporate debt and real estate. The annual return target is between 9% and 12%.

The target profile of Corporate Investments has the following characteristics:

- Established businesses
- Strong management team committed and invested in their businesses
- Operating in stable and /or growth markets or industries
- Demonstrating good profitability and cashflow and/or strong near-term catalysts
- Assets (property, equipment, inventory receivables, etc.) which can serve as collateral against loans
- Meet Centurion’s high quality, capital safety risk mitigated standards

# TARGETED INVESTMENTS



The Trust currently intends to provide a diversified portfolio of a broad mix of Investments made to companies and individuals based primarily in Canada and the United States that need flexible financing solutions. The Trust is not restricted in the types of Investments that it may hold and intends to be opportunistic when selecting Investments, however, the Trust currently expects to target the following type of Investments for inclusion in its investment portfolio:

- Senior secured credit facilities
- Subordinated or mezzanine credit facilities
- Mortgage investments
- Multi-residential apartment and student housing developments
- Developer and builder pre-construction loans
- Other growth-oriented real estate opportunities

Description of each of the current investment targets follows.

## Senior Secured Credit Facilities

The conventional sources for senior secured credit facilities for small and medium-sized companies include Commercial Banks, Commercial Finance Companies (“CFC”) and Asset Based Lenders (“ABL’s”). As a result of increased regulatory constraints (e.g., Basel III), the Asset Manager believes credit appetites have restricted the availability of financing from Commercial Banks. The Asset Manager further believes that a large number of small and medium-sized corporations are seeking an alternative financing provider that goes beyond the structured lending approach often employed by CFC’s and ABL’s.

The Asset Manager believes there is a market need for an alternative financing service that offers financing solutions based on borrower’s needs rather than fitting borrowers into pre-set lending structures, with many of the CFC or ABL structures based solely on the value of a particular asset rather than an understanding of the business and its prospects. In addressing the market need within the Trust, the Asset Manager recruited an experienced team of senior commercial lenders that have a track record of developing a deep level of understanding of companies and their management and designing financing solutions that are appropriately structured, secured and risk mitigated.

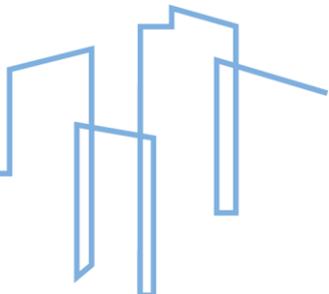
## Subordinated or Mezzanine Credit Facilities

The Asset Manager believes there is a funding gap for successful small and medium-sized companies, with the funding gap existing between commercial bank debt and equity capital, with a natural hesitancy amongst the owners and/or founders to pursue highly dilutive and interventionist private equity sponsor capital. While private equity sponsors have been successful in acquiring larger companies and orchestrating such value enhancing strategies such as industry roll-ups, the Asset Manager believes a market need exists for non-dilutive financing solutions that may involve flexible structures such as economic participations by way of preferred shares and/or royalty interests, subordinated loans or debentures, or mezzanine loans for small and medium sized companies. As with the alternative financing service and approach and development of collaborative business relationships based on developing a deep level of understanding of management and their business, the Trust will design subordinated or mezzanine credit facilities that reflect the application of strong credit acumen and diligence, while aligning the Trust’s interests with management with minimal and/or no equity dilution.

## Mortgage Investments

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-serviced segments of the mortgage market at premium interest rates secured by high quality mortgage loans. The Trust may make such investments either directly or indirectly by holding interest in the units of Centurion Real Estate Opportunities Trust.

# TARGETED INVESTMENTS



## **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 Asset Manager 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. The Trust may make such investments either directly or indirectly by holding interest in the units of Centurion Real Estate Opportunities Trust.

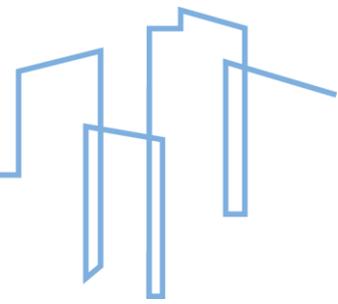
## **Developer and Builder Pre-Construction Loans**

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.

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

The Asset Manager believes that in the course of pursuing its core targeted Investments that it will be presented with other attractive growth-oriented real estate investment opportunities (including real estate development opportunities). The Asset Manager is regularly being presented with attractive opportunities outside of the multi-residential apartments and student housing areas. The Asset Manager intends to be opportunistic in considering other growth-oriented such real estate investment opportunities as they present themselves. The Trust may make such investments either directly or indirectly by holding interest in the units of Centurion Real Estate Opportunities Trust.

# WAREHOUSE AGREEMENTS



The Trust has entered into three Warehouse Agreements, one with Centurion Apartment Real Estate Investment Trust, one with Centurion Real Estate Opportunities Trust and one with Centurion Asset Management Inc. (the “Warehousers”)

In each agreement the Warehousers have agreed to fund (purchase) and warehouse certain investments originated by or on behalf of the Trust (the “Warehoused Investments”). The Warehouse Agreements provide the Trust with a non-committed funding facility to fund investments identified by the Asset Manager, or another related party, on behalf of the Trust and grants the Trust an option to repurchase Warehoused Investments funded (purchased) under the Warehouse Agreements at any time. The Warehouse Agreements also provide the Warehousers with an option to sell any Warehoused Investments to the Trust (i) on 180 days prior notice for any Investments that remain in good standing, (ii) immediately within three (3) business days for any Warehoused Investments that have been noted in default or that have otherwise experienced a negative credit or other event, as set out in the Warehouse Agreements, or (iii) on thirty (30) days prior notice where the Trust has provided a notice to terminate the Warehouse Agreements.

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

In the event that the Trust purchases a Warehoused Investment from the Warehousers, the purchase price for such Warehoused Investment will be: a) the outstanding principal balance owing to the Warehouser in respect of each Warehoused Investment plus all interest attributable to such

interest accrued and unpaid on such Warehoused Investment less (b) the Trust’s pro-rata share of the upfront, ongoing and deferred lender fees payable in respect of such Warehoused Investment, if any, to the Warehouser as the beneficial owner of the Warehoused Investment. Where the purchased Warehoused 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.

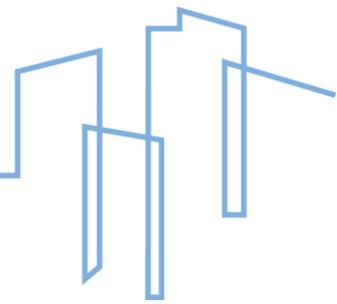
The Warehouse Agreement require that, unless otherwise agreed by the Trust and the Warehouser, the Warehoused Investments funded or purchased by the Warehousers be purchased by the Trust on a “first in, first out” basis. The “first in, first out” requirement applies collectively to Warehoused Investments.

The Trust expects to make use of the facility under the Warehouse Agreements to fund 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. The Warehousers are not required to fund (purchase) any mortgage investments pursuant to the Warehouse Agreements and have made no commitments to do so.

Any funding decision of the Warehousers is made independent of the Trust by the independent trustees and directors of the Warehousers, provided that the independent trustees and directors of the Warehousers may set parameters pursuant to which such funding decisions are delegated to the Asset Manager (or any successor asset manager of the Warehousers).

Centurion Apartment Real Estate Investment Trust and Centurion Real Estate Opportunities Trust has the option to require that the Trust pay the purchase price of any Warehoused Investments in additional Class R Units rather than in cash.

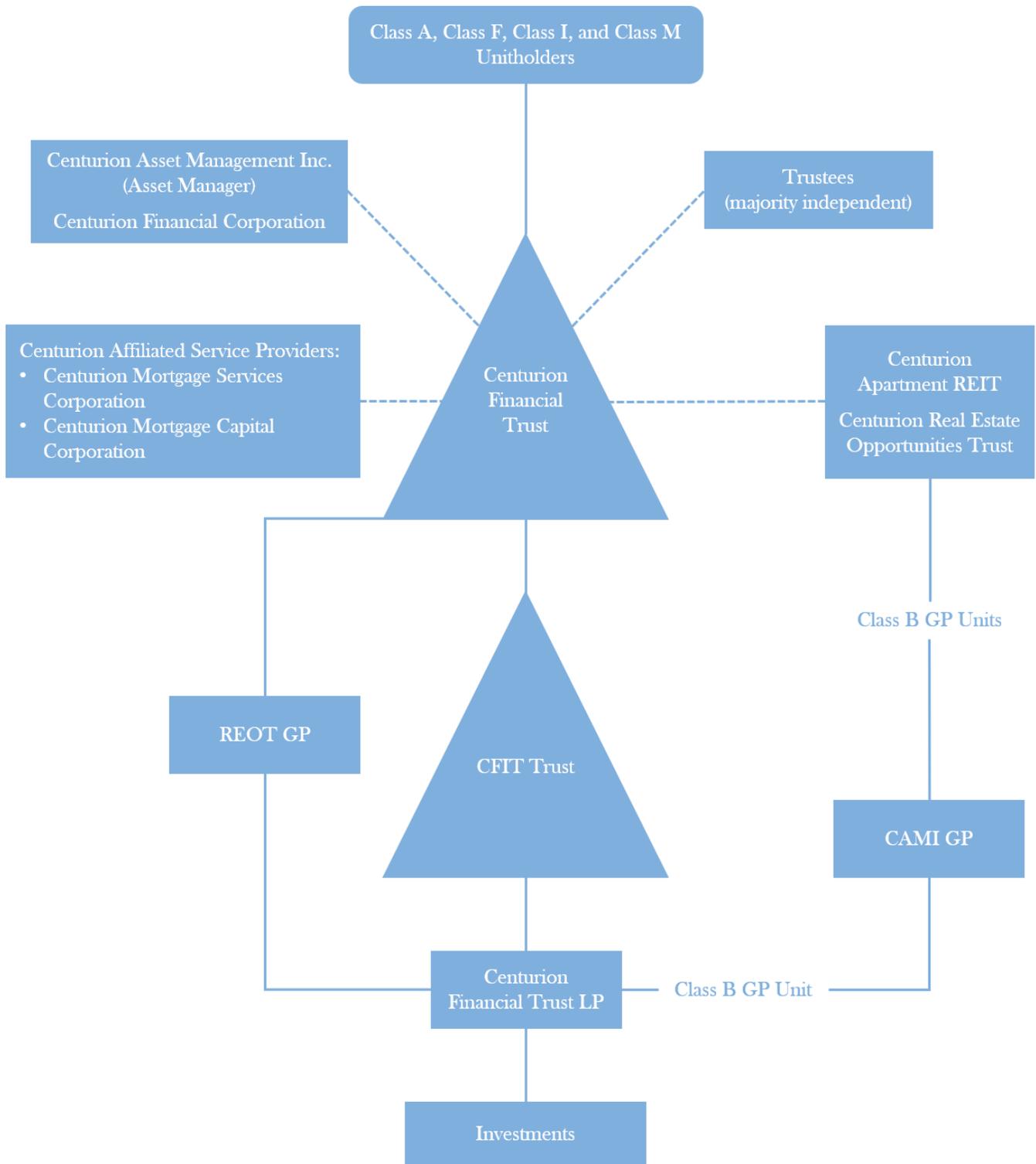
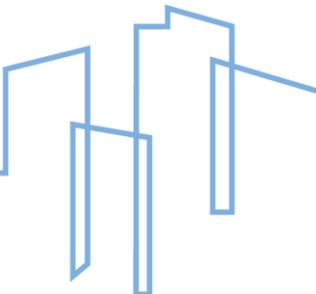
# OUTLOOK AND BUSINESS STRATEGY



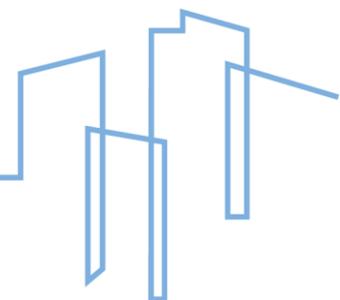
The long-term (ongoing) objectives of the Trust are to provide Unitholders with income (payable monthly) and capital growth from a diversified portfolio of a broad mix of Investments made to companies and individuals based primarily in Canada and the U.S. that need flexible solutions and are underserved by traditional financial institutions.

The Trust's objectives over the next twelve months are to raise sufficient funds to continue to create a diversified portfolio of investments and continue to build a Unitholder base.

# CENTURION FINANCIAL TRUST ORGANIZATIONAL STRUCTURE



# 2018 OPERATING RESULTS



2018 was a successful second year for the Trust. The Trust has established a reputation for providing financial solutions while deriving returns for its investors.

A primary focus of the Trust in 2018 was increasing the quantity of Corporate Finance opportunities. To this end, the Trust successfully increased the number of Qualified Prospects from 17 in 2017 to 31 in 2018. Corporate Finance advisors and other sources of deal flow regard the Trust as having an experienced and skilled investment team. As a result of successfully meeting with a large number of corporate finance advisors, other lenders, and intermediaries, the Trust was exposed to significant deal flow in 2018 as detailed in the chart below.

## CORPORATE DEBT PROSPECTS REVIEWED

Total Prospects Reviewed	68
Declined - Non-Qualified Prospects	<u>(37)</u>
Subtotal - All Qualified Prospects	31
Declined/Lost Qualified Prospects	<u>(19)</u>
Completed and Pending Investments	12

Of the 19 Declined/Lost Qualified Prospects, we discontinued our interest, in a majority of these situations, either due to significant price competition and/or our rigorous due diligence requirements were not being completely satisfied. We saw a number of proprietary referrals as a source of deals and we will continue to develop these relationships in 2019.

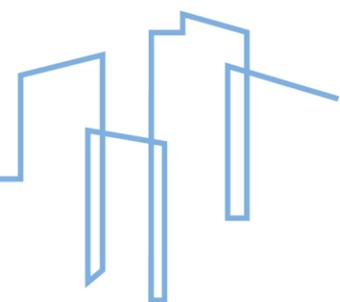
During the year, we looked at opportunities in a number of industries and sectors including;

- Roll-up/Consolidation of Dental Practices
- Fintech - Consumer Loans
- Energy - Renewable Materials
- Food Manufacturers
- Life Sciences
- Auto Parts Manufacturers
- Electronic Panel Manufacturers
- Litigation Finance
- HVAC/Rental of Water Heaters
- Transportation/Logistics

In relation to Real Estate Investments, throughout 2018, the Trust, through its holdings in REOT, invested in a range of mortgage investments including, but not limited to, Construction Loans for Purpose-Built Rental Apartments and Student Housing Buildings, Development and Pre-Construction Loans, and other growth-oriented real estate investment opportunities. These investments are considered well-secured and offer a return consistent with the Trust's targeted return for investors.

In 2018, the Trust further expanded upon the successful syndication of a number of investments. Having co-investors enables the Trust to attract larger investment opportunities and at the same time, derive agency fee income as a means of further enhancing the Trust's returns provided to investors. To further our success in this area, the Trust routinely interacts with family offices, high net worth investors, life insurance companies, and large pension plans regarding their areas of interest in private debt investments. The Trust is diversified with \$14.2 million (four investments) of corporate debt investments and \$32 million (ninety-five investments) of real estate investments through the Trust's holdings in REOT.

# 2018 OPERATING RESULTS



Of the four Corporate Debt investments that closed in 2018, two have already been repaid and delivered superior internal rates of returns of 15.19% and 26.72% respectively, as computed over the investment periods. The two other investments were structured with interest rates ranging from 11% to 15%.

In looking forward to 2019, the investment team has been further enhanced with the addition of a Senior Director. Overall, the Trust looks to continue to differentiate itself amongst alternative debt providers by having a team of highly experienced lending professionals originating, structuring, and underwriting a sustainable pipeline of corporate debt and real estate investments.

In addition to Corporate Debt investments, one of the strategic directions of the Trust is to provide a proprietary real estate related element of diversification to the overall range and composition of investments.

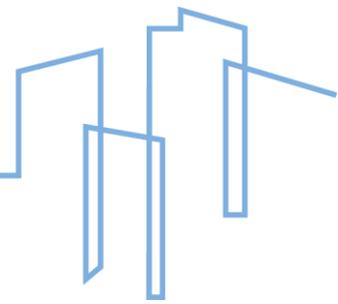
## NET INCOME AND COMPREHENSIVE INCOME

	2018	2017
Interest income on corporate debt investments	\$2,247,684	\$705,442
Income from real estate investments	\$2,316,344	\$188,624
Fair value gains	\$660,964	\$571,161
General and administrative expenses	(\$853,291)	(\$365,748)
Provision for mortgage investments loss	(\$59,292)	(\$55,279)
Currency translation gains (losses)	\$113,950	(\$46,725)
Other Income	\$138,130	-
<b>Net Income and Comprehensive Income</b>	<b>\$4,564,490</b>	<b>\$997,475</b>

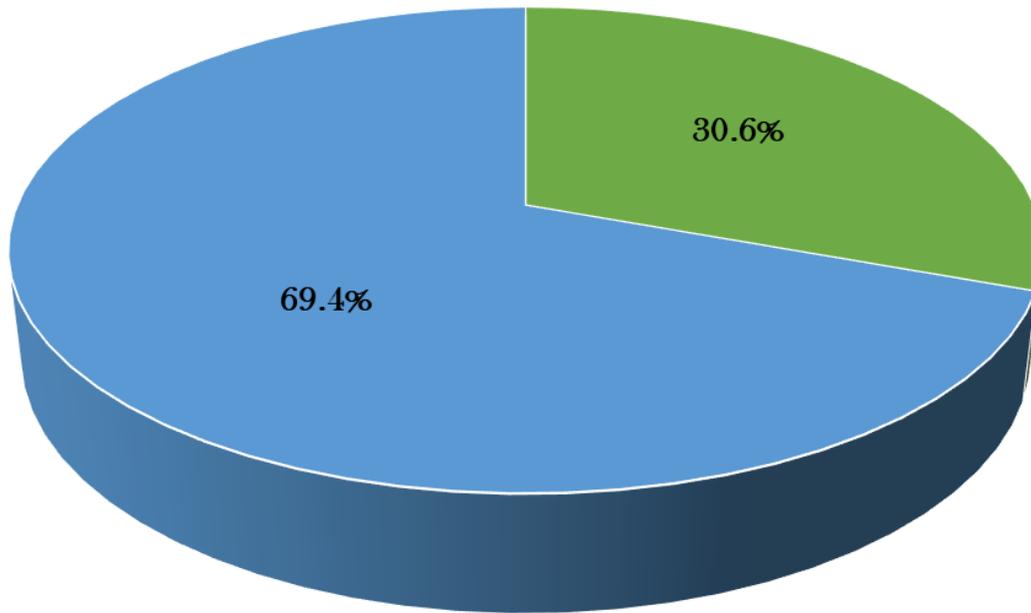
From an earnings perspective, the Trust earned revenues of \$4.56 million made up of interest income and income from real estate. Fair value gains amounted to \$660,964.

As the Asset Manager had covered the majority of salary and corporate expenses in 2017, expenses increased from \$365,748 in 2017 to \$853,291 in 2018. These expenses included salaries and wages, professional fees, fund administration costs, and other general operating expenses.

# 2018 OPERATING RESULTS

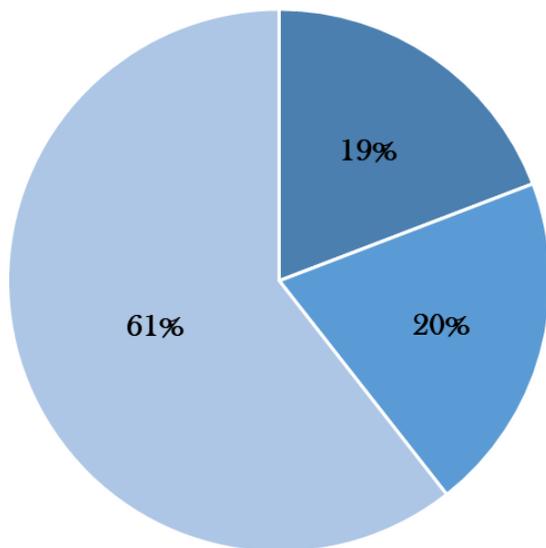


### CFIT Investments



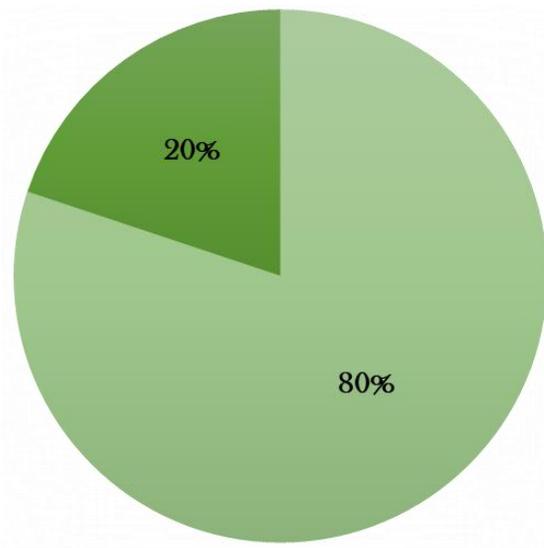
■ Corporate    ■ Real Estate

### Real Estate Investments by Type



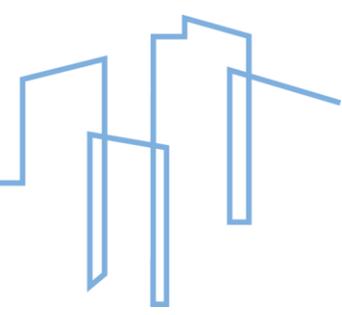
■ Real Estate Equity    ■ Participating    ■ Mortgages

### Corporate Debt Investments by Industry

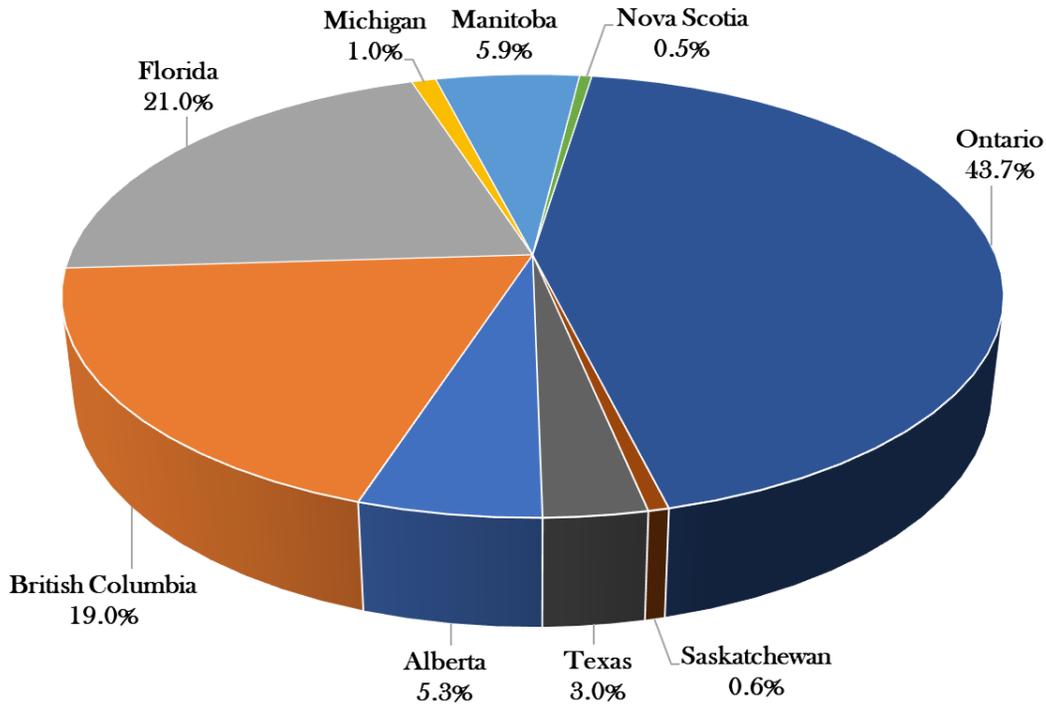


■ Corporate Debt    ■ Convertible Debt & Warrants

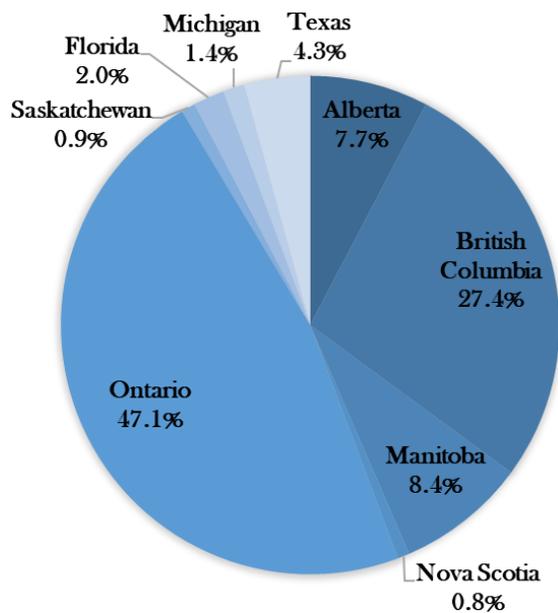
# 2018 OPERATING RESULTS



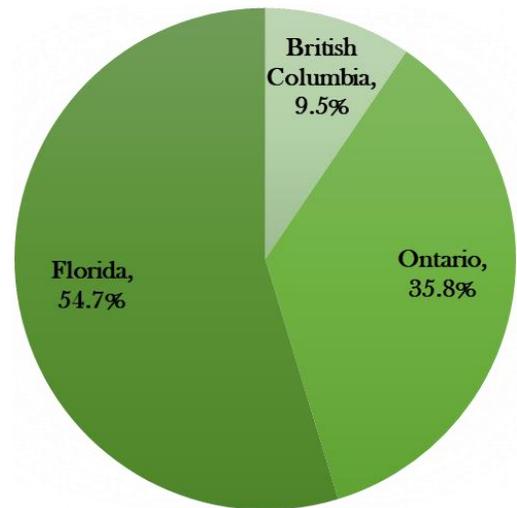
### CFIT Investments by Geography



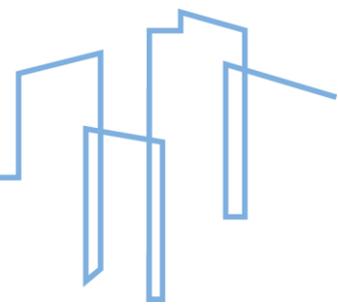
### Real Estate Investments by Geography



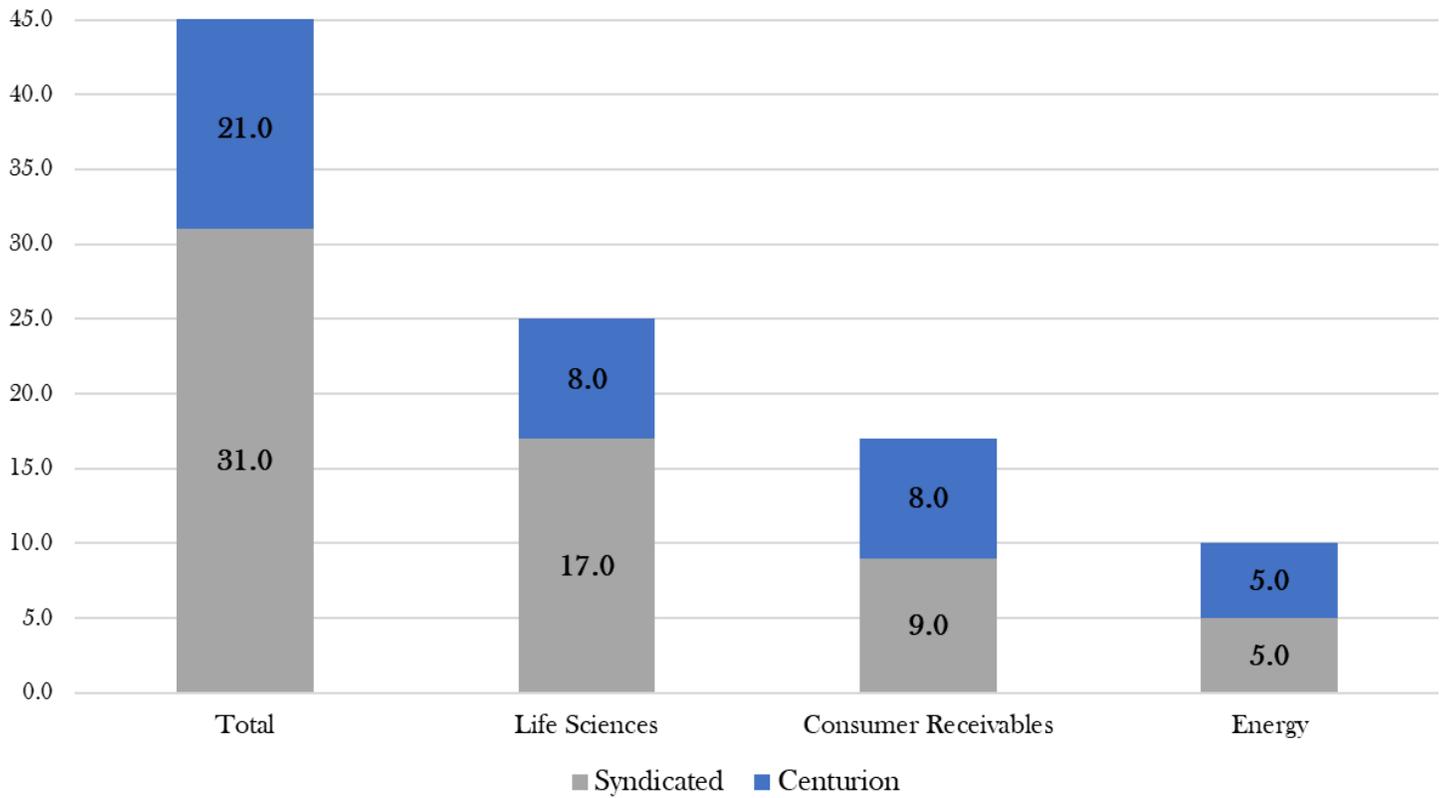
### Corporate Debt Investments by Geography



# 2018 OPERATING RESULTS

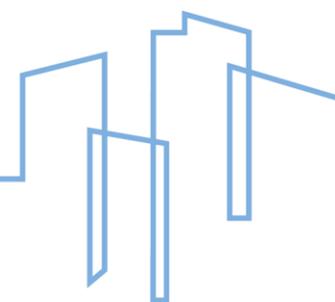


2018 Syndications (\$ millions)



# “FFO”, “NFFO”, AND “PFFO”

## Funds From Operations, Normalized Funds From Operations, and Potential Funds From Operations



	2018	2017
<b>FFO (Funds From Operations)</b>		
Net Income and Comprehensive Income	\$4,564,490	\$997,475
Plus: One-time costs <sup>1</sup>	-	\$161,289
Plus: Allowance for expected credit losses	\$59,292	\$55,279
<b>FFO</b>	<b>\$4,623,782</b>	<b>\$1,214,043</b>
<b>NFFO (Normalized Funds From Operations)</b>		
FFO	\$4,623,782	\$1,214,043
<b>NFFO</b>	<b>\$4,623,782</b>	<b>\$1,214,043</b>
<b>PFFO (Potential Funds From Operations)</b>		
NFFO	\$4,623,782	\$1,214,043
<b>PFFO</b>	<b>\$4,623,782</b>	<b>\$1,214,043</b>
Adjusted Number of Outstanding Units	4,062,554	1,211,208
<b>Per Unit Statistics (Per Adjusted Number of Outstanding Units)</b>		
Net Income and Comprehensive Income	\$1.12	\$0.82
FFO	\$1.14	\$1.00
NFFO	\$1.14	\$1.00
PFFO	\$1.14	\$1.00

**Notes:**

<sup>1</sup> One-time costs related to setup of Trust.

# ISSUED AND OUTSTANDING NUMBER OF UNITS

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

SUMMARY OF UNIT HOLDINGS AS AT DECEMBER 31		
	2018	2017
Class A	2,664,415	1,570,648
Class F	1,891,496	1,334,180
Class I	-	-
Class R	50,000	50,000
Class M	9,381	8,403
Total	4,615,292	2,963,231

## DISTRIBUTIONS

Distributions per unit were set at \$0.70 Unit/Annum for Class A Units and \$0.80/Unit/Annum for Class F units in 2018. In addition, a Bonus Distribution was paid to all unitholders of record as at December 31, 2018 in the amount of \$0.1943/unit. This bonus was paid in units on December 31, 2018. This is the second time a bonus distribution has been paid by the Trust. These Bonus Distributions were paid as the Trust had very successful years.

The unit price as at December 31, 2018 was \$10.357 representing an increase of \$0.357 since inception. Approximately 81% of the Trust's investors have selected the distribution reinvestment plan.

## TAX TREATMENT OF DISTRIBUTIONS

The following chart discloses the tax treatment of the Trust's distributions for 2018:

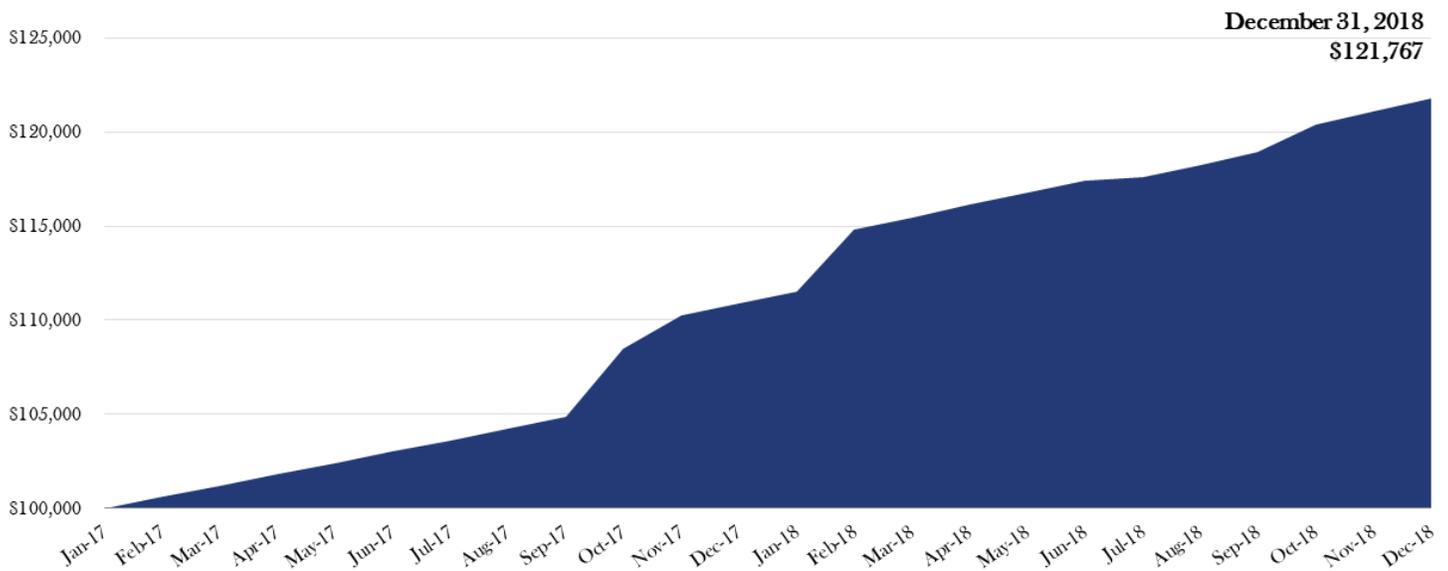
BOX ON T3	DESCRIPTION	2018	2017
26	Other Income	92.56%	91.20%
25	Foreign non-business income	1.27%	-
42	Return of Capital	6.17%	8.80%
		100.00%	100.00%

# CAPITAL RAISING ACTIVITY

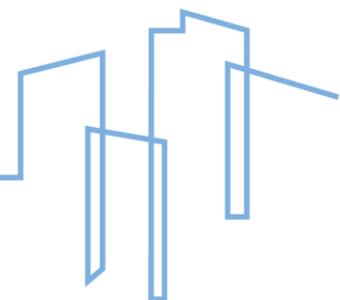
The total capital raised during the period ended December 31, 2018 was \$17.5 million net of issue costs. The Trust leveraged off its relationships with Centurion Apartment Real Estate Investment Trust and Centurion Real Estate Opportunities Trust and was approved on 21 platforms made up of 10 IIROC Dealers, 8 Exempt Market Dealers, and 3 MFDA Dealers. The Trust will continue to penetrate the marketplace and raise capital in 2019.

# TOTAL RETURNS

## Growth of \$100,000 Invested



# USE OF PROCEEDS



Form 45-106 is a required regulatory form which provides details of the use of proceeds as at December 31, 2018. The date of the report is March 7, 2019 which is the date of the auditor's report on the consolidated financial statements for the Trust for the most recently completely financial year December 31, 2018.

## NOTICE OF USE OF PROCEEDS CENTURION FINANCIAL TRUST (\$'000)

For the financial year ended December 31, 2018

Report date March 7, 2019 <sup>1</sup>

2018

### 1. OPENING PROCEEDS

(A)	Closing unused proceeds balance from the last Notice in Form 45-106F16 filed, if any	-
(B)	Proceeds raised in the most recently completed financial year	\$17,497
(C)	Total opening proceeds	\$17,497

### 2. PROCEEDS USED DURING THE MOST RECENT COMPLETED FINANCIAL YEAR

Proceeds used to pay the following: <sup>2</sup>

	Net investments issued	(\$14,917)
	Redemptions of units	(\$4,429)
	Change in working capital	\$1,849
(D)	Total used proceeds	(\$17,497)

### 3. CLOSING UNUSED PROCEEDS

(E)	Closing unused proceeds	-
-----	-------------------------	---

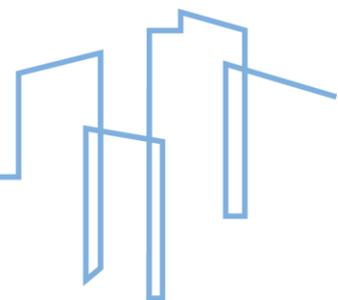
### NOTES

<sup>1</sup> The regulation states that the date must be no earlier than the date of the auditor's report.

<sup>2</sup> The Consolidated Statement of Cash Flows included in the audited consolidated financial statements provides more detailed information.

# APPENDIX A

## 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 and approved by the Investment Committee or the Trustees, there is no representation made by the Trustees or the Asset Manager that such investments will have a guaranteed return to Unitholders or 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.

### **SPECULATIVE INVESTMENT**

An investment in the Trust may be deemed speculative and is not intended as a complete investment program. There is no assurance that distributions will be paid. A subscription for units should be considered only by persons financially able to maintain their investment and who can bear the risk of loss associated with an investment in the Trust. Investors should review closely the investment objective, strategies and restrictions to be utilized by the Trust as outlined herein to familiarize themselves with the risks associated with an investment in the Trust.

### **CRITICAL ESTIMATES, ASSUMPTIONS, AND JUDGMENTS**

The preparation of financial statements as per IFRS requires the Trust 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 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 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 then 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.

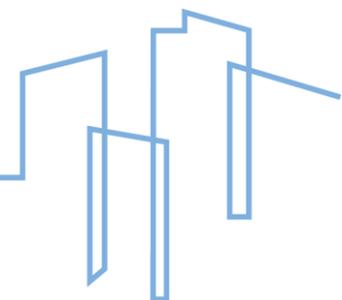
As set forth in the definitions of “Fair Market Value”, the value of the Units is determined by the Trustees, at their sole discretion, using reasonable methods of determining fair market value. Fair Market Value of the Units may or may not be equal to the net asset value of the Units. The description 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 values and Fair Market Value from time to time, such as obtaining independent 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.

### **RISKS RELATED TO DEFAULTS OF LOAN EXTENSIONS**

The Trust may invest in speculative loans that may default. The Asset Manager may from time to time deem it appropriate to extend or renew the term of an Investment loan past its maturity, or to accrue the interest on an Investment, 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 loan. In these circumstances, however, the Trust is subject to the risk that the principal and/or accrued interest of such loan

# APPENDIX A

## Risks and Uncertainties



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 loan.

When an Investment loan is extended past its maturity, the Investment 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 Investment Advisor has the ability to exercise its enforcement remedies in respect of the extended or renewed loan. Exercising 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 security values 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 loans by the Investment Advisor's exercise of 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 loans, the assets of the Trust would be reduced, and the returns, financial condition and results of operations of the Trust could be adversely impacted.

### 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 favourable 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 mortgage transactions (including any obligations to purchase mortgage or Investments on demand).

### RISKS RELATED TO PORTFOLIO COMPANIES

The Trust will be dependent on the operations, assets and financial health of its Portfolio of companies in which it has made Investments ("Portfolio Companies"). The Trust's ability to pay distributions, to satisfy its debt service obligations, if any, and to pay its operating expenses is dependent on the payments received from its Portfolio Companies. Accordingly, to the extent that the financial performance of a Portfolio Company declines, cash payments to the Trust may decline. The failure of any material Portfolio Company to fulfill its payment obligations to Trust could materially adversely affect the Trust's financial condition and cash flows. There is a risk that some liabilities or other matters that are not identified by the Trust could have a material adverse effect on a Portfolio Company and the Trust.

There is generally no publicly available information, including audited or other financial information about the Trust's Portfolio Companies and the boards of directors and management of these companies are not subject to the same governance and disclosure requirements applicable to Canadian public companies. Therefore, the Trust relies on its management, the Asset Manager and other third-party service providers to investigate Portfolio Companies. There can be no assurance that the Trust's due diligence efforts or ongoing monitoring procedures will uncover all material information about privately held Portfolio Companies necessary to make fully informed decisions. In addition, the Trust's due diligence and monitoring procedures will not necessarily result or ensure that an investment will be successful.

Numerous factors may affect the ability of a Portfolio Company to service its payment obligations to the Trust, including, without limitation: the failure to meet its business plan; regulatory or other changes affecting its industry; integration issues with respect to acquisitions or new business lines; a downturn in its industry; negative general economic conditions; supply chain disruptions; disputes, or changes in arrangements, with customers or suppliers; and working capital and/or cash flow management issues. Deterioration in

# APPENDIX A

## Risks and Uncertainties

a Portfolio Company's financial condition and prospects may be accompanied by a material reduction in the payments received by the Trust.

Certain of the Investments that may be included in the Portfolio from time to time may be unsecured, which will increase the risk of loss in case of default or insolvency of the applicable Portfolio Companies.

### **INVESTMENTS IN LESS ESTABLISHED COMPANIES**

The Trust may make Investments in less established Portfolio Companies. Investments in such companies may involve greater risks than are generally associated with investment in more established companies. The securities of such companies, if publicly listed, may be subject to more abrupt and erratic market price movements than larger, more established companies, since trading volumes for their securities are generally quite low. Less established companies tend to have smaller capitalizations and fewer resources and, therefore, are often more vulnerable to financial failure and have shorter operating histories on which to judge future performance.

### **AVAILABILITY OF INVESTMENTS AND COMPETITION**

The success of the Trust will depend on the availability of appropriate Investment opportunities and the ability of the Trust to identify, underwrite, close and realize repayment from those Investments. There can be no assurance that there will be a sufficient number of suitable Investment opportunities to enable the Trust to satisfy the Trust's investment short or long-term objectives. The identification of attractive Investment opportunities is difficult and involves a high degree of uncertainty. The Trust will compete with individuals, corporations, trusts and financial institutions (both Canadian and foreign) for Investments. 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 Investments may increase the competition for Investments, thereby decreasing the yields that are currently available and increasing the risk/reward ratio. Additionally, new competitors may enter the Canadian alternative financing

market or current market participants may significantly increase their activities in this area. There is no guarantee that the Trust will be able to compete effectively with such competitors in the origination of new Investments.

### **ILLIQUID AND LONG-TERM INVESTMENTS**

Investments made by the Fund may take several years from the date of the initial investment to reach a state of maturity and realization of value can be achieved. It is anticipated that there will generally not be a public market for all or a substantial portion of the Investments held by the Trust at the time of their acquisition.

### **MONITORING, ENFORCEMENT, AND LIQUIDATION PROCEDURES**

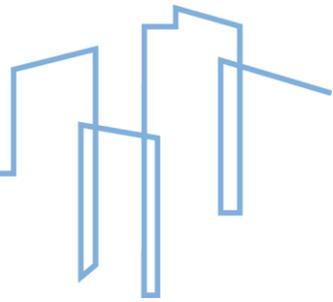
From time to time, the Trust will be required to take enforcement proceedings with respect to non-performing Investments and may be required to liquidate a Portfolio Company's assets where such Investment was secured. Enforcement and liquidation proceedings can be time consuming and, if a sufficient number of Investments require enforcement, management's attention may be diverted from the day-to-day operations or from pursuing its growth strategy and the Trust may incur significant expenses that cannot be recovered.

In connection with managing and monitoring the Portfolio, the Trust has a "watch list" system whereby a Portfolio Company with a deteriorating financial condition, or that otherwise meets certain criteria, is closely monitored by the Trust with a view to the Trust taking a proactive approach to ensuring the Portfolio Company's compliance with the terms and obligations of its Investment and managing the risk of default. There can be no assurance that the Trust's watch list procedures will successfully identify Portfolio Companies at risk of defaulting on, or failing to comply with, their obligations, or that enhanced scrutiny by the Trust of borrowers on the watch list will be sufficient to prevent a Portfolio Company's default on its obligations.

At any given time, Investments in Portfolio Companies, including but not necessarily limited to those placed on a watch list by management, may represent a risk of a loss to the Trust. Such situations could arise where the value of the collateral, if any, of a Portfolio Company falls below the outstanding Investment balance, or where a Portfolio

# APPENDIX A

## Risks and Uncertainties



Company has otherwise failed to comply with its obligations. In appropriate cases, management will take a specific loss provision to reflect the potential loss on the Investment that could be expected through a workout situation or a liquidation scenario. Portfolio Companies on the watch list or Investments subject to a loss provision may be, and often are, still performing for the Trust with respect to their contractual monthly interest payments.

Each Portfolio Company is expected to provide certain representations and warranties and covenants to the Trust regarding its business and certain other matters. Following a transaction with the Trust, the Portfolio Company may distribute all or a substantial portion of the proceeds that it receives from the Trust to its security holders or owners. In the event that the Trust suffers any loss as a result of a breach of the representations and warranties or non-compliance with any other term of an agreement with a Portfolio Company, the Trust may not be able to recover the amount of our entire loss from the Portfolio Company. The Portfolio Company may not have sufficient assets to satisfy the Trust's loss. In addition, the Trust's rights and remedies in the event of a default are generally subordinated to a Portfolio Company's senior lenders, if any, which can limit the Trust's ability to recover any losses from a Portfolio Company.

### INVESTMENT WAREHOUSE ARRANGEMENTS

The Trust may own certain rights to Warehoused Investments pursuant to the Warehouse Agreements. The Warehouse Agreements provide the Trust with a facility to fund the purchase of additional Investments. For such time as the applicable Warehouse Lender is the beneficial owner of the Warehoused Investments, the Trust has no rights to such Warehoused Investments, but is fully exposed to the related downside risks by virtue of the applicable Warehouse Lender's unrestricted option to immediately sell any Warehoused Investments that have been noted in default or that have otherwise experienced a negative credit or other event, as set out in their respective Warehouse Agreement. There is no guarantee that the applicable Warehouse Lender will accept the warehousing of any particular Investment and the applicable Warehouse Lender may terminate their respective Warehouse Agreement on six (6) months' prior written notice.

### 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, and the Investment Advisor are each engaged in a wide range of real estate, mortgage investments, lending 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 Investment Advisor 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, the Asset Manager also provides similar services to Centurion Apartment REIT and Centurion REOT. Centurion Apartment REIT, Centurion REOT and the Trust each operate independently from one another and have separate boards of trustees, with Mr. Gregory Romundt serving as a Trustee for Centurion Apartment REIT, Centurion REOT and the Trust and Mr. Stephen Stewart serving as Trustee for Centurion REOT and the Trust. Although Mr. Kenneth Miller serves as a trustee of both Centurion REOT and the Trust, he is otherwise independent of the Asset Manager and its affiliates.

Additionally, the Warehouse Agreements between the Trust and Warehouse Lenders 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 Investments between the Trust and the applicable Warehouse Lender, and (iii) the

# APPENDIX A

## Risks and Uncertainties

valuation and transfer of Warehoused Investments between the Trust and the applicable Warehouse Lender, and (iii) the allocation of risk as between the Trust and the applicable Warehouse Lender. 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 Agreements 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 and investment fund manager in certain jurisdictions, in connection with the distribution of the Units hereunder, which may result in potential conflicts of interest. The Trust is a connected issuer of the Asset Manager due to the factors described in the Offering Memorandum under “Item 2: Business of Centurion Financial Trust - 2.1 Structure - Relationship between the Trust, the Asset Manager and Affiliates of the Asset Manager”, and in particular, as a result of the fact that the President of each of the Trust and the Asset Manager, namely Mr. Gregory Romundt, are the same and Mr. Gregory Romundt and his family beneficially own all of the shares of the Asset Manager and its affiliates, including the Investment Advisor and the Loan Servicer. The Trust has retained the Asset Manager to provide asset management services to it pursuant to the Asset Management Agreement as described under “Item 2: Business of Centurion Financial Trust - 2.1 Structure - Asset Manager’s Duties” and the Trust has agreed to pay the Asset Manager the fees described herein. The Trust may be considered to be a related issuer of the Asset Manager by virtue of the Asset Manager’s right, during the term of the Asset Management Agreement, to appoint a prescribed number of nominees to the board of trustees of the Trust as more particularly described under “Item 2: Business of Centurion Financial Trust - 2.1 Structure - Trustees”. The prescribed number of nominees that the Asset Manager is entitled to appoint varies depending on the size of the board of trustees, but the prescribed number exceeds 20% of the number of trustees. In addition, the Asset Manager is the asset manager of, and adviser to, Centurion Apartment REIT, which owns Class R Units of the Trust as set out herein. See “Item 2: Business of Centurion Financial Trust - 2.1 Structure - Relationship between the Trust, the Asset Manager and Affiliates of the Asset Manager”.

### ALLOCATION OF INVESTMENT OPPORTUNITIES

There may be instances in which the Trust, Centurion Apartment REIT and Centurion REOT all have an interest in the same investment opportunity. For example, Centurion Apartment REIT may invest in long-term real estate properties and the Trust and Centurion REOT may, from time to time, invest in Mortgage Assets. In the event that the Trust, Centurion Apartment REIT and Centurion REOT are all 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 among the Trust, Centurion Apartment REIT and Centurion REOT. Additionally, there may be situations where an investment opportunity is allocated to Centurion Apartment REIT or Centurion REOT despite the Trust having an interest in such an investment opportunity.

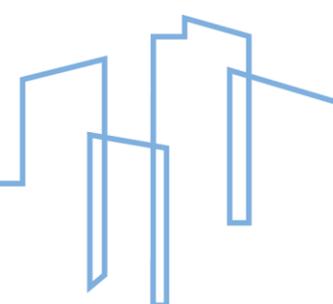
### AVAILABILITY OF CASH FOR DISTRIBUTIONS

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 favourable terms or at all. In such circumstances, distributions may be reduced or suspended. Accordingly, cash distributions are not guaranteed and cannot be assured. Further, Distributable Income can exceed net income and have the result of an erosion of Adjusted 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.

# APPENDIX A

## Risks and Uncertainties



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 INABILITY TO FUND INVESTMENTS

The Trust is dependent on its ability to secure funding for its Investments and to fund its commitments. The Trust may commit to making future Investments in anticipation of warehousing such Investments under the Warehouse Agreements, repayment of principal outstanding and/or the payment of interest under existing investments and/or in reliance on its credit facilities, if any. In the event that such 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.

### 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.

### 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 and/or Centurion REOT. 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.

### BROAD INVESTMENT MANDATE

The Trust does not have any specific limits on making investments in any one industry or geographical jurisdiction. The Management may alter the target Investments of the Trust from time to time without the prior approval by Unitholders if the Management determines it advantageous for the Trust, provided such actions are consistent with the Investment Guidelines.

### 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.

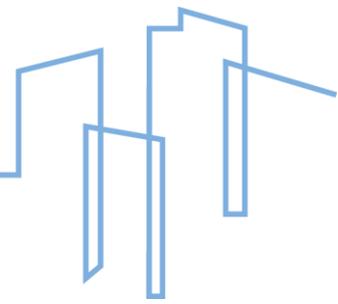
If the Trust fails or ceases to qualify as a mutual fund trust for the purposes of the Tax Act, the tax consequences described under "Item 6: Tax Consequences and RRSP Eligibility For Investment - Canadian Federal Income Tax Considerations" and "Item 6: Tax Consequences and RRSP Eligibility For Investment - 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 purpose 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 Tax Act contains loss restriction rules that could result in unintended tax consequences for unitholders, including an

# APPENDIX A

## Risks and Uncertainties



unscheduled allocation of income or capital gains that must be included in a unitholder's income for Canadian income tax purposes. If the Trust experiences a "loss restriction event", it will: (i) be deemed to have a year-end for Canadian tax purposes whether or not the Trust has losses (which would trigger an allocation of the Trust's net income and net realized capital gains to unitholders to ensure that the Trust itself is not subject to tax on such amounts); and (ii) the Trust will become subject to the Canadian loss restriction rules that generally apply to corporations, including a deemed realization of any unrealized capital losses and disallowance of its ability to carry forward capital losses. Generally, the Trust will be subject to a loss restriction event if a person becomes a "majority-interest beneficiary", or a group of persons becomes a "majority-interest group of beneficiaries", of the Trust, as those terms are defined in the affiliated persons rules contained in the Tax Act, with certain modifications. Generally, a majority-interest beneficiary of a Trust is a beneficiary in the income or capital, as the case may be, of the Trust who, together with the beneficial interests of persons and partnerships with whom the beneficiary is affiliated, has a fair market value that is greater than 50% of the fair market value of all the interests in the income or capital, as the case may be, of the Trust. A loss restriction event could occur because a particular unitholder or an affiliate acquires Units of the Trust or because another person redeems Units of the Trust.

Pursuant to paragraph 251.2(3)(f) of the Tax Act, the Trust will not be subject to the loss restriction event rules where a person becomes a "majority-interest beneficiary" or group of persons becomes a "majority-interest group of beneficiaries" from the acquisition or disposition of units of the Trust at any time if (i) the Trust is an "investment fund" immediately before that time, and (ii) the acquisition or disposition, as the case may be, is not part of a series of transactions or events that includes the Trust ceasing to be an "investment fund". An "investment fund" generally includes a trust that is (i) a "mutual fund trust" throughout the period that begins the later of March 21, 2013 and the end of the calendar in which the trust is created, and (ii) at all times throughout the period that begins at the later of March 21, 2013 and the time of its creation, the trust (A) is resident in Canada, (B), all the beneficiaries under the trust hold fixed interests described by reference to units of the trust, (C) follows a reasonable policy of investment diversification, (D) limits its undertaking to the

investing of its funds in property, (E) does not alone, or as a member of a group of persons, control a corporation, and (F) does not hold certain property (as detailed in the Tax Act).

Under U.S. withholding tax and reporting requirements, commonly referred to as the Foreign Account Tax Compliance Act ("FATCA"), the Trust is required to collect information from all of its Unitholders and directly or indirectly provide that information to the U.S. Internal Revenue Service (the "IRS") in order to avoid a 30% U.S. withholding tax on the receipt of certain payments of: (1) U.S. source income (such as interest, dividends and other passive income) and (2) gross proceeds from the sale or disposition of property that can produce U.S. source interest or dividends made to the Trust. To achieve the U.S. objectives of FATCA in a manner that is consistent with Canada's privacy and other laws, Canada enacted Part XVIII ("Part XVIII") of the Tax Act and signed an Intergovernmental Agreement with the

U.S. for the Enhanced Exchange of Tax Information under the Canada-U.S. Tax Convention (the "Canada-U.S. IGA") and accordingly, the Trust is generally required to conduct due diligence regarding its Unitholders and (where applicable) their beneficial owners, and to annually report to the CRA certain information regarding their U.S. Unitholders, including information regarding their name, address, and U.S. taxpayer Identification Number. The CRA has agreed to provide this information to the IRS.

In addition, Canada has signed the Organisation for Economic Co-operation and Development ("OECD") Multilateral Competent Authority Agreement and Common Reporting Standard ("CRS"). The CRS is a global model for the automatic exchange of information on certain financial accounts that is similar in many ways to FATCA. More than 95 countries, including Canada, have agreed to implement the CRS (referred to as "CRS participating countries"). Canada has enacted legislation under Part XIX ("Part XIX") of the Tax Act, which received royal assent on December 15, 2016, effective as of July 1, 2017, that will require the annual reporting of information to the CRA beginning in May 2018. In addition, the CRA will then proceed to exchange information with those CRS participating countries with which Canada has a tax exchange agreement. Generally, the CRS will require the Trust to identify the tax residency status of, and other information relating to, their Unitholders who

# APPENDIX A

## Risks and Uncertainties

are resident for tax purposes in any country other than Canada or the U.S.

If a Unitholder does not provide the information required to comply with these obligations under Part XVIII and/or Part XIX, as the case may be, the Unitholder's Units may be redeemed at the sole discretion of the Trust without prior notice to such Unitholder. Notwithstanding the foregoing, the Trust's due diligence and reporting obligations under FATCA and CRS will not apply with respect to the following type of accounts, namely: registered retirement savings plans, registered retirement income funds, pooled registered pension plans, registered pension plans, tax-free savings accounts, and deferred profit-sharing plans.

If the Trust fails to meet its obligations under Part XVIII and/or Part XIX, as the case may be, it may be subject to the offences and punishment of the Tax Act. The administrative costs arising from compliance with FATCA and CRS 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, Part XVIII, the Canada-U.S. IGA and CRS and Part XIX 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.

### **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**

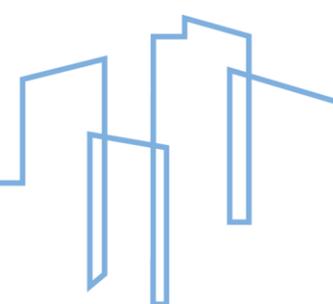
Each of the Trust and the Asset Manager has consulted with a single legal counsel regarding the formation and terms of the Trust and the offering of Units. Unitholders have not, however, been independently represented. Therefore, to the extent that the Trust, Unitholders or this offering could benefit 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, real estate investment trust securities, 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, including loss to casualty or condemnation, increases in property taxes and operating expenses, zoning law amendments, changes in interest rates, overbuilding and

# APPENDIX A

## Risks and Uncertainties



increased competition, variations in market value, and possible environmental liabilities.

### **CHANGES IN REAL PROPERTY VALUES**

Some of the Trust's Investments 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 are generally required 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.

### **GENERAL ECONOMIC AND POLITICAL CONDITIONS**

The success of the Trust's activities may be affected by general economic and market conditions, such as interest rates, availability of credit, inflation rates, economic uncertainty, changes in laws, and national and international political circumstances including wars, terrorist acts or security operations. These factors may affect the level and

volatility of securities prices and the liquidity of the Partnership's investments. Unexpected volatility or illiquidity could impair the Trust's profitability or result in losses.

### **FOREIGN INVESTMENT AND CURRENCY EXPOSURE**

As the Trust may hold assets not denominated in Canadian dollars, the fair market value 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.

### **EXCHANGE RATE FLUCTUATIONS**

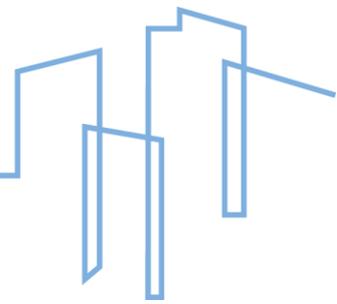
The functional currency of the Trust will be Canadian Dollars. The value of the investments made by the Trust may fluctuate as a result of the impact of economic and political changes on currency rates.

### **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.

# APPENDIX A

## Risks and Uncertainties



### JOINT ARRANGEMENTS

The Trust may invest in, or be a participant in, joint arrangements and partnerships with third parties in respect of the 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 Investments and its ability to sell the Trust's interests in an Investment within a reasonable time frame.

### INTEREST RATES

The Trust's income will consist primarily of interest and other payments on the Investments comprising the Portfolio. If there is a decline in interest rates, the Trust may find it difficult to fund Investments with yields sufficient to achieve the Trust's investment objectives. Additionally, an increase in interest rates increase may negatively affect the value of the Investments in the Portfolio.

### 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 counterparty in respect of an Investment, the Trust may not be receiving payments on the Investment that is the subject of litigation, thereby impacting the Trust's cash flows. The unfavourable resolution of any legal proceedings could have a material adverse effect on the Trust and its financial position and results of operations.

### IMPAIRED LOANS AND NO INSURANCE

The Trust may from time to time have one or more impaired loans in its Portfolio. Loans are impaired where full recovery is considered in doubt based on a current evaluation of the security held (if any) and for which specific loss provisions have been established. Any Investments that are secured by buildings and/or land will not generally be insured by a mortgage insurer in whole or in part.

### NO GUARANTEES OR INSURANCE ON INVESTMENTS

A 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. In the event that security is given by the borrower or a third party or that a private guarantor guarantees the 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.

### UNITHOLDER LIABILITY

The Declaration of Trust provides that no Unitholder will be subject to any liability whatsoever to any person in connection with the holding of a Unit. In addition, legislation has been enacted in the Province of Ontario and certain other provinces and territories that is intended to provide Unitholders in those provinces and territories with limited liability. However, 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.

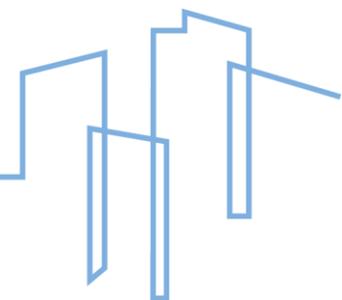
### DEPENDENCE ON KEY PERSONNEL

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, Management, as well as the Asset Manager (and its affiliates) to manage the business and affairs of the Trust. The management of the Trust depends on the services of certain key personnel. The termination of employment of these key personnel could have a materially adverse effect on the Trust.

There is no guarantee that Management, the directors and officers of the Asset Manager (and its affiliates) or the Board of Trustees will remain unchanged. It is contemplated that Management and the Asset Manager (and its affiliates) will

# APPENDIX A

## Risks and Uncertainties



devote to the Trust's affairs only such time as may be reasonably necessary to conduct its business.

### **CYBERSECURITY**

The Trust maintains confidential information regarding its borrowers, business plans, strategy and potential origination opportunities in its computer systems. The Trust also maintains an Internet website. Despite the implementation of network security measures, this infrastructure may be subject to physical break-ins, computer viruses, programming errors, attacks by third parties or similar disruptive problems. A security breach of computer systems could disrupt operations, damage reputation, result in legal or regulatory liability, and/or have a material adverse effect on the Trust.

### **LACK OF REGULATION**

Currently, there are no regulatory capital requirements on asset-based lenders that would impede their ability to extend credit, unlike the major commercial banks that are subject to the provisions of the Bank Act (Canada) and Basel III (the Third Basel Accord). Any changes to the regulation of the asset-based lending industry could have a material adverse effect on the Trust.

### **LIMITED NUMBER OF INVESTMENTS**

The Trust may participate in a limited number of Investments. As such, the aggregate return of the Trust may be substantially adversely affected by the unfavourable performance of any single Investment.

### **LACK OF OPERATING HISTORY**

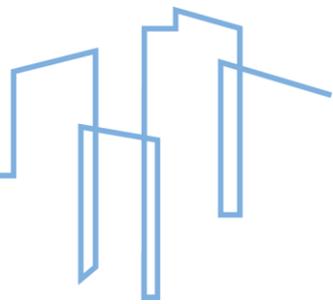
Although persons involved in the management and advising of the Trust and the service providers to the Trust, including Management and personnel of the Asset Manager (and its affiliates), have had long experience in their respective fields of specialization, the Trust has no performing history upon which 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 and Centurion REOT, should not be considered as an indication of future results.

### **FAILURE OR UNAVAILABILITY OF COMPUTER AND DATA PROCESSING SYSTEMS AND SOFTWARE**

The Asset Manager and its affiliates are 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 and its affiliates' 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 and its affiliates to discharge their duties to the Trust and the impact on the Trust may be material and adverse.

# APPENDIX B

## Audited Consolidated Financial Statements





# CENTURION FINANCIAL TRUST

**CENTURION FINANCIAL TRUST  
Consolidated Financial Statements  
For the year ended December 31, 2018**

**TABLE OF CONTENTS**

<b>Independent Auditors' Report.....</b>	<b>2</b>
<b>Consolidated Statement of Financial Position.....</b>	<b>6</b>
<b>Consolidated Statement of Net Income and Comprehensive Income.....</b>	<b>7</b>
<b>Consolidated Statement of Changes in Net Assets Attributable to Unitholders.....</b>	<b>8</b>
<b>Consolidated Statement of Cash Flows.....</b>	<b>9</b>
<b>Notes to the Consolidated Financial Statements.....</b>	<b>10-27</b>



KPMG LLP  
Bay Adelaide Centre  
333 Bay Street, Suite 4600  
Toronto ON M5H 2S5  
Canada  
Tel 416-777-8500  
Fax 416-777-8818

## INDEPENDENT AUDITORS' REPORT

To the Unitholders of Centurion Financial Trust

### ***Opinion***

We have audited the consolidated financial statements of Centurion Financial Trust (the Entity), which comprise:

- the consolidated statement of financial position as at December 31, 2018
- the consolidated statement of net income and comprehensive income for the year then ended
- the consolidated statement of changes in net assets attributable to unitholders for the year then ended
- the consolidated statement of cash flows for the year then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2018, and its consolidated financial performance, and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

### ***Basis for Opinion***

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "***Auditors' Responsibilities for the Audit of the Financial Statements***" section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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



### ***Other Information***

Management is responsible for the other information. Other information comprises:

- 2018 Annual Report/Management's Discussion and Analysis issued to Unitholders.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

The 2018 Annual Report/Management's Discussion and Analysis is expected to be made available to us after the date of this auditors' report. If, based on the work we will perform on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.

### ***Responsibilities of Management and Those Charged with Governance for the Financial Statements***

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

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

### ***Auditors' Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.



Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

*KPMG LLP*

---

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Canada

March 7, 2019

**CENTURION FINANCIAL TRUST**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**(EXPRESSED IN CANADIAN DOLLARS)**

As at	Note	December 31, 2018	December 31, 2017
<b>Assets</b>			
Cash		\$ 618,941	\$ 789,908
Restricted cash	8	1,300,000	325,000
Receivable and other assets		300,481	-
Investment in mortgage trust	5	32,017,472	16,458,395
Debt investments	4	11,205,408	11,652,113
Convertible debentures and warrants	5	2,789,325	1,187,116
<b>Total Assets</b>		<b>\$ 48,231,627</b>	<b>\$ 30,412,532</b>
<b>Liabilities</b>			
Unit subscriptions in trust	8	\$ 1,300,000	\$ 325,000
Accounts payable and accrued liabilities	6	184,333	364,714
		<b>1,484,333</b>	<b>689,714</b>
<b>Total Liabilities excluding net assets attributable to Unitholders</b>		<b>\$ 1,484,333</b>	<b>\$ 689,714</b>
<b>Net assets attributable to Unitholders</b>		<b>\$ 46,747,294</b>	<b>\$ 29,722,818</b>

Commitments and contingencies (Notes 4, 10 and 11)

Subsequent events (Note 16)

See accompanying notes to the consolidated financial statements.

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

	Note	For the year ended December 31, 2018	For the period from January 3, 2017 to December 31, 2017
Interest income on debt investments	4	\$ 2,247,684	\$ 705,442
Distribution income on investment in mortgage trust	12	2,316,344	188,624
Fair value gains on investment in mortgage trust	5,12	500,706	324,920
Fair value gains on convertible debentures and warrants	5	160,259	246,241
<b>Net investment income</b>		<b>5,224,993</b>	<b>1,465,227</b>
General and administrative expenses	7	(853,291)	(365,748)
Allowance for expected credit losses	4	(59,292)	(55,279)
Other Income		138,130	-
<b>Income from operations</b>		<b>4,450,540</b>	<b>1,044,200</b>
Currency translation adjustment		113,950	(46,725)
<b>Net Income and Comprehensive Income</b>		<b>\$ 4,564,490</b>	<b>\$ 997,475</b>

See accompanying notes to the consolidated financial statements.

## CENTURION FINANCIAL TRUST

### CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS (EXPRESSED IN CANADIAN DOLLARS)

#### For the year ended December 31, 2018

<b>Net assets attributable to Unitholders at the beginning of the period</b>	<b>\$</b>	<b>29,722,818</b>
<b>Net Income and Comprehensive Income</b>		<b>4,564,490</b>
Proceeds from units issued (net of issuance costs)		17,497,466
Reinvestment of distributions by Unitholders		3,367,633
Redemptions of units		(4,429,314)
Distributions to Unitholders		(3,975,799)
<b>Net increase from unit transactions</b>		<b>12,459,986</b>
<b>Net assets attributable to Unitholders at end of the period</b>	<b>\$</b>	<b>46,747,294</b>

#### For the period from January 3, 2017 to December 31, 2017

<b>Net assets attributable to Unitholders at the beginning of the period</b>	<b>\$</b>	<b>-</b>
<b>Net Income and Comprehensive Income</b>		<b>997,475</b>
Proceeds from units issued (net of issuance costs)		29,265,358
Reinvestment of distributions by Unitholders		472,240
Redemptions of units		(76,547)
Distributions to Unitholders		(935,708)
<b>Net increase from unit transactions</b>		<b>28,725,343</b>
<b>Net assets attributable to Unitholders at end of the period</b>	<b>\$</b>	<b>29,722,818</b>

See accompanying notes to the consolidated financial statements.

**CENTURION FINANCIAL TRUST**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**(EXPRESSED IN CANADIAN DOLLARS)**

	For the year ended December 31, 2018	For the period from January 3, 2017 to December 31, 2017
<b>Operating activities</b>		
Net income	\$ 4,564,490	\$ 997,475
Interest income on investments	(2,247,684)	(705,442)
Interest received on investments	1,366,890	276,246
Distribution income on mortgage trust investments	(2,316,344)	(188,624)
Distribution income received as cash	1,821,628	156,588
Fair value gain on investment in mortgage trust	(500,706)	(324,920)
Fair value gains on convertible debentures and warrants	(160,259)	(246,241)
Allowance for expected credit losses	59,292	55,279
Currency translation adjustment	(113,950)	46,725
Non-cash general and administrative expenses	(187,476)	64,076
<b>Net cash from operating activities</b>	<b>2,285,881</b>	<b>131,162</b>
<b>Financing activities</b>		
Proceeds from units issued (net of issuance costs)	17,497,466	29,265,358
Cash distributions to Unitholders	(608,166)	(130,794)
Redemption of units	(4,429,314)	(76,547)
<b>Net cash from financing activities</b>	<b>12,459,986</b>	<b>29,058,017</b>
<b>Investing activities</b>		
Debt investments funded	(6,737,552)	(11,278,196)
Debt investments repaid	8,064,195	-
Investment in mortgage trust	(14,915,477)	(16,133,475)
Convertible debentures and warrants	(1,328,000)	(987,600)
<b>Net cash used in investing activities</b>	<b>(14,916,834)</b>	<b>(28,399,271)</b>
Net increase (decrease) in cash	(170,967)	789,908
Cash, beginning of the period	789,908	-
<b>Cash, as at December 31, 2018</b>	<b>\$ 618,941</b>	<b>\$ 789,908</b>

See accompanying notes to the consolidated financial statements.

## **1. Trust Information**

Centurion Financial Trust (“CFIT” or the “Trust”) is an unincorporated, open-ended private investment trust which was created pursuant to a Declaration of Trust dated January 3, 2017 (“Declaration of Trust”) and is governed by the laws of the Province of Ontario. The registered office of the Trust is located at 25 Sheppard Avenue West, Suite 710, Toronto, Ontario, M2N 6S6.

The Trust invests in a diversified portfolio of debt investments that include but are not limited to mortgages, opportunistic real estate developments, and corporate debt.

## **2. Basis of Presentation**

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

The consolidated financial statements for the period ended December 31, 2018, have been prepared by management in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

These are the first set of the Trust’s financial statements where changes to significant accounting policies as described in Note 3 for IFRS 9 – Financial Instruments (“IFRS 9”) have been applied.

The consolidated financial statements have been approved for issue by the Board of Trustees on March 7, 2019.

### **b) Basis of Measurement**

The consolidated financial statements have been prepared on a historical cost basis except for convertible debentures, warrants and investment in mortgage trust, which have been measured at fair value through profit and loss (“FVTPL”) as determined at each reporting date.

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

The consolidated financial statements reflect the operations of the Trust and its wholly-owned subsidiary Centurion Finance Trust LP. The financial statements of the subsidiaries included in these consolidated financial statements are from the date that control commences until the date that control ceases.

The accounting policies of the subsidiaries are consistent with the accounting policies of the Trust and their financial statements have been prepared for the same reporting period as the Trust. All intercompany transactions and balances have been eliminated upon consolidation.

### **d) Functional and Presentation Currency**

The consolidated financial statements are presented in Canadian dollars, which is the functional currency unless otherwise stated.

**e) Statement of Financial Position Classification Change**

The presentation of the consolidated statement of financial position has been changed from classified to non-classified for the year ended December 31, 2018, with comparative figures adjusted, as management believes providing this information is relevant due to the short-term nature of the investments.

**f) Critical Accounting Estimates, Assumptions and Judgments**

The preparation of these consolidated financial statements requires management to make estimates, assumptions, and judgments that affect accounting policies and the reported amounts of assets, liabilities at the date of the consolidated financial statements, and income and expenses during the reporting period. Management relies on external information and observable conditions where possible, supplemented by internal analysis. Revisions to accounting estimates are recognized in the year in which the estimate is revised and in any future years affected.

Estimates, assumptions, and judgments have been applied in a consistent manner and there are no known trends, commitments, events or uncertainties that management believes will materially affect the methodology or assumptions utilized in making those estimates and judgments. While management makes its best estimates and assumptions, actual results may vary from these and other estimates.

The significant estimates, assumptions, and judgments used in the preparation of these consolidated financial statements are as follows:

**Measurement of Expected Credit Loss (“ECL”)**

The ECL model requires evaluation and recognition of an allowance for expected credit losses over the next 12 months for investments without evidence of change to credit risk and an allowance of lifetime losses on investments that have experienced a significant increase in credit risk since origination.

Management assesses financial assets for objective evidence of significant changes in credit risk at each reporting period by specifically considering, but not limited to, the following:

- Payment default by a borrower which is not cured within a reasonable period
- Whether the security of the loan is significantly negatively impacted by recent events
- Financial difficulty experienced by a borrower
- Changes in assumptions about local economic and other market conditions in the geographic area in which a borrower’s project is located
- Management’s judgment as to whether current economic and credit conditions are such that potential losses at the reporting date are likely to be higher or lower than the amounts suggested by historic experience

**CENTURION FINANCIAL TRUST**  
**Notes to the Consolidated Financial Statements**  
**For the year ended December 31, 2018**

---

The calculation of expected credit losses requires significant judgment to determine the variables that are relevant for each debt investment and probability weights that should be applied. Management exercises expert credit judgment in determining the amount of ECLs at each reporting date by considering reasonable and supportable information that is not already incorporated in the quantitative modeling process. Changes in these inputs, assumptions, models and judgments directly impact the measurement of ECLs.

**Measurement of Fair Value**

Fair value measurements are recognized in financial and non-financial assets and liabilities categorized using a fair value hierarchy that reflects the significance of inputs used in determining their fair values:

- Level 1: Quoted prices (unadjusted) 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. The information about assumptions made in the fair value is included in the following notes:

- Note 5: Investment in Mortgage Trust, Convertible Debentures and Warrants
- Note 13: Fair Value Measurement

### **3. Significant Accounting Policies**

#### **a) Financial Instruments**

##### **Recognition and Measurement**

Financial instruments are classified as one of the following: (i) FVTPL, (ii) fair value through other comprehensive income (“FVOCI”) or (iii) amortized cost or (iv) other liabilities. The classification of financial instruments depends on the purpose for which the financial instruments were acquired or issued, their characteristics and the Trusts designation of such instruments. The Trust has no financial instruments classified as FVOCI.

Interest income from financial assets, not classified as FVTPL, is determined using the effective interest rate method.

##### **Derecognition of Financial Assets and Liabilities**

The Trust derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. On derecognition of a financial asset, the difference between the carrying amount of the asset and the sum of the consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognized in other comprehensive income is recognized in profit or loss. The Trust derecognizes a financial liability when the obligation under the liability is discharged, canceled or expires.

#### **b) Debt Investments**

Debt Investments are classified and measured at amortized cost using the effective interest method, less any impairment losses. Debt Investments are assessed at each reporting date to determine whether there is objective evidence of significant changes in credit risk. A debt investment’s credit risk increases when objective evidence indicates that factors have occurred after the initial recognition of an investment and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably. The Trust’s internal credit risk rating process involves judgment and combines multiple factors to arrive at a specific score to assess each debt investment the probability of default. These factors include the loan to value ratio, borrower’s net worth and ability to service debt, project location, experience with the borrower and credit score. Significant changes in the internal credit risk rating would result in reclassifications of debt investments into Stage 2 and Stage 3.

### **Allowance for ECL on Investments**

The Trust maintains an allowance in order to cover impairment in the existing portfolio for loans that have not yet been individually identified as impaired. Under the IFRS 9, the ECL methodology, an allowance is recorded for ECLs on financial assets according to the following stages:

Stage 1	When debt investments are recognized they are classified into Stage 1. The Trust recognizes an allowance based on 12 months ECLs, which represent lifetime ECLs related to default events that are expected to occur within 12 months after the reporting date. Stage 1 debt investments also include investments where the credit risk has subsequently improved such that the increase in credit risk since initial recognition is no longer significant and the debt investments have been reclassified from Stage 2.
Stage 2	When a debt investment has shown a significant increase in credit risk since origination, the Trust reclassifies the debt investment to Stage 2 and an allowance is recognized at an amount equal to ECL over the remaining life. Stage 2 debt investments also include investments where the credit risk has improved and the debt has been reclassified from Stage 3.
Stage 3	The Trust classifies debt investments to Stage 3 when payment defaults by the borrower are not cured within a reasonable period. In certain other cases, where qualitative thresholds indicate unlikelihood to pay as a result of a credit event, the Trust carefully considers whether the event should result in an assessment at Stage 2 or Stage 3 for ECL calculations. Allowances required for impaired loans are recorded for individually identified impaired investments to reduce their carrying value to the expected recoverable amount. The Trust reviews investments on an ongoing basis to assess whether any loans should be classified as impaired and whether an allowance or write-off should be recorded.

An impairment loss is calculated as the difference between the carrying amount of the debt investment and the present value of the estimated future cash flows discounted at the original effective interest rate. Losses are charged to the consolidated statement of net income and comprehensive income and are reflected in the provision for debt investment losses. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through the consolidated statement of net income and comprehensive income.

If there is no objective evidence of impairment for a specific debt investment, the Allowance for ECL for a particular debt investment is calculated based on management's estimated deterioration in the value of the underlying asset(s).

**c) Provisions**

Provisions are recognized when the Trust 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 year.

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 financing expense.

**d) Distribution Reinvestment and Unit Purchase Plan ("DRIP")**

The Trust 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 the Trust Unitholders as the Trustees determine. Currently, Unitholders receive a 2% discount on Units purchased through the DRIP. No commissions, service charges or brokerage fees are payable by participants in connection with the DRIP.

**e) Net Assets Attributable to Unitholders**

In accordance with *IAS 32 - Financial Instruments: Presentation*, puttable instruments are generally classified as financial liabilities. The Trust's units are puttable instruments, meeting the definition of financial liabilities in IAS 32. There are exception tests within IAS 32 that could result in a classification of equity; however, the Trust's units do not meet exception requirements. Therefore, the Trust has no instrument qualifying for an equity classification on its Statement of Financial Position pursuant to IFRS. The classification of all units as financial liabilities with the 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.

The Trust's 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 the end of each reporting year, the alternative presentation as net assets attributable to Unitholders reflects that, in total, the interests of the Unitholders are limited to the net assets of the Trust.

**f) Income Taxes**

The Trust qualifies as a Mutual Fund Trust for Canadian income tax purposes. In accordance with the terms of the Declaration of Trust, the Trust intends to distribute 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). The Trust is eligible to claim a tax deduction for distributions paid 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 the Trust are the obligations of the Unitholders.

**g) Changes in Accounting Policies**

The Trust has adopted IFRS 9 – Financial Instruments and IFRS 15 – Revenue from Contracts with Customers effective January 1, 2018, without restatement of comparative periods.

**Financial Instruments (“IFRS 9”)**

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities. However, it eliminates the previous IAS 39 categories for financial assets of held to maturity, loans and receivables and available for sale. The adoption of IFRS 9 has not had a significant effect on the Trust’s accounting policies related to financial liabilities and financial instruments. The impact of IFRS 9 on the classification and measurement of financial assets is set out below.

The implementation of IFRS 9 has been reflected in the classification and measurement of financial assets and financial liabilities. The Trust adopted IFRS 9 beginning January 1, 2018, using transitional provisions allowing the Trust to not restate comparative periods, which reflect IAS 39.

The modification in classifications have been outlined below:

Financial Instrument	Classification under IAS 39	Classification under IFRS 9
Cash & restricted cash Receivables and other assets Debt investments	Loans and Receivables	Amortized Cost
Derivative assets and liabilities	FVTPL	FVTPL
Credit facility Accounts payable and accrued liabilities Unit subscriptions in trust	Other Liabilities	Amortized Cost

Each financial asset measured at amortized cost is evaluated for expected credit losses at each reporting period, or more frequently if circumstances indicate the existence of objective evidence of significant changes in credit risk. Significant credit risk is assessed based on the criteria described in “Measurement of Expected Credit Losses” (Note 2).

#### **Revenue from Contracts with Customers ("IFRS 15")**

Effective January 1, 2018, the Trust has applied IFRS 15. IFRS 15 establishes a comprehensive framework for determining whether, how much, and when revenue is recognized, replacing IAS 18 – Revenue.

In adopting IFRS 15, each revenue stream was assessed, and both the recognition of revenue and the measurement of revenue remained the same under IFRS 15, resulting in no impact to the consolidated statements of financial position and the consolidated statements of comprehensive income.

#### **h) Future Accounting Policy Changes**

##### **Leases (“IFRS 16”)**

IFRS 16 Leases is effective for reporting periods beginning on or after January 1, 2019. IFRS 16 specifies how to recognize, measure, present and disclose leases. From a lessee perspective, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as required by IAS 17 and, instead, introduces a single lessee accounting model. The single lessee accounting model requires lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value and to disclose the depreciation of lease assets separately from interest on lease liabilities in the income statement. A lessee shall either apply IFRS 16 with full retrospective effect or alternatively not restate comparative information but recognize the cumulative effect of initially applying IFRS 16 as an adjustment to opening equity at the date of initial application. The Trust does not expect the adoption of IFRS 16 to have a material impact on net income or on the net assets attributable to Unitholders of the Trust.

**CENTURION FINANCIAL TRUST**  
**Notes to the Consolidated Financial Statements**  
**For the year ended December 31, 2018**

---

**4. Debt Investments**

Debt investments represent amounts under senior debt loan arrangements. As of December 31, 2018, the weighted average effective interest rate is 13.39% (December 31, 2017: 12.57%) and the estimated weighted average contractual term to maturity is 1.05 years (December 31, 2017: 1.34 years). Interest income for the year ended December 31, 2018, was \$2,247,684 (period ended December 31, 2017: \$705,442).

Debt investments are as follows:

<b>Period ended</b>	<b>December 31, 2018</b>	<b>December 30, 2017</b> <sup>1</sup>
Non-current debt investments	\$ 11,256,690	\$ 11,652,771
Allowance for ECL	(114,571)	(55,279)
Total non-current debt investments	11,142,119	11,597,492
Current debt investments	-	-
Debt interest receivable	63,289	54,621
Total current debt investments	63,289	54,621
<b>Total debt investments</b>	<b>\$ 11,205,408</b>	<b>\$ 11,652,113</b>

1) Presented under IAS 39

As at December 31, 2018, the Trust has additional loan commitments of \$6,672,000 (December 31, 2017: \$nil). Future repayments excluding allowance for debt investments loss are as follows:

<b>Period ended</b>	<b>December 31, 2018</b>
December 31, 2019	\$ -
December 31, 2020	11,256,690
<b>Total repayments</b>	<b>\$ 11,256,690</b>

The fair value of debt investment portfolio approximates its carrying value as the majority of the loans are repayable in full at any time without significant penalty. There is no quoted price in an active market for the debt investments. The Trust makes its determinations of fair value based on its assessment of the current lending market for debt investments of same or similar terms. As a result, the fair value of debt investments is based on Level 3 of the fair value hierarchy.

**CENTURION FINANCIAL TRUST**  
**Notes to the Consolidated Financial Statements**  
**For the year ended December 31, 2018**

---

As at December 31, 2018, debt investments including the allowance for ECL is allocated between the ECL stages as follows:

<b>As at December 31, 2018</b>	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
Gross debt investments	\$11,256,690	\$ -	\$ -	\$11,256,690
Allowance for ECL	(114,571)	-	-	(114,571)
<b>Net debt investments</b>	<b>\$11,142,119</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$11,142,119</b>

The changes in the allowance for ECL during the year ended December 31, 2018 are as follows:

<b>For the year ended December 31, 2018</b>	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
Allowance for ECL, beginning of the period	\$ 55,279	\$ -	\$ -	\$ 55,279
Provision for ECL related to:				
Funding	73,033	-	-	73,033
Repayment	(13,741)	-	-	(13,741)
Remeasurement	-	-	-	-
Transfers to (from)	-	-	-	-
<b>Allowance for ECL, end of the period</b>	<b>\$ 114,571</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 114,571</b>

The portion of the total allowance for ECL for all stages expensed in the year ended December 31, 2018 was \$59,292 (December 31, 2017: \$55,279).

**CENTURION FINANCIAL TRUST**  
**Notes to the Consolidated Financial Statements**  
**For the year ended December 31, 2018**

---

**5. Investment in Mortgage Trust, Convertible Debentures and Warrants**

The Trust has financial assets consisting of an investment in a mortgage trust, convertible debentures and warrants. The investment in mortgage trust is trust units of a commonly managed trust with a focus on real estate mortgage investments and is based on recent trading prices. The convertible debentures represent the right of the Trust to convert the outstanding loan of a borrower into common stock at any time and specifically at the time of any request to repay the loan. The warrants represent purchase options of shares of common stock in an entity which the Trust also has a debt investment, with a cash put option in USD that is exercisable.

<b>Period ended</b>	<b>December 31, 2018</b>	<b>December 31, 2017</b>
Investment in mortgage trust	\$ 32,017,472	\$ 16,458,395
Convertible debentures	1,328,000	-
Warrants	1,461,325	1,187,116
	<b>\$ 34,806,797</b>	<b>\$ 17,645,511</b>

These financial assets are re-measured at FVTPL at each reporting date as outlined in the fair value measurement (Note 13). For the year ended December 31, 2018, the investment in mortgage trust had fair value gains of \$500,706 (period ended December 31, 2017: \$324,920) and the warrants had fair value gains of \$160,259 (period ended December 31, 2017: \$246,241).

**6. Accounts Payable and Accrued Liabilities**

<b>Period ended</b>	<b>December 31, 2018</b>	<b>December 31, 2017</b>
Distributions payable	\$ -	\$ 332,674
Accrued expenses	173,554	24,872
Accounts payable	10,779	7,168
	<b>\$ 184,333</b>	<b>\$ 364,714</b>

**7. General and Administration**

<b>Period ended</b>	<b>December 31, 2018</b>	<b>December 31, 2017</b>
Salaries and wages	\$ 384,624	\$ -
Professional fees	167,504	161,289
Fund administration costs	132,216	101,289
Advertising	103,746	86,861
Office expenses	65,201	16,309
	<b>\$ 853,291</b>	<b>\$ 365,748</b>

## **8. Restricted cash/Unit subscriptions in trust**

At December 31, 2018 the restricted cash is \$1,300,000 (December 31, 2017: \$325,000). Restricted cash represents Unitholder subscriptions held in trust until the trade settlement date, and these amounts will be returned to investors if the proposed Unitholder subscriptions do not successfully proceed.

## **9. Classification of Units**

In accordance with the Declaration of Trust ("DOT"), the Trust may issue an unlimited number of units of various classes, with each unit representing an equal undivided interest in any distributions from the Trust, and in the net assets in the event of termination or wind-up of the Trust.

### **Authorized**

**a) Unlimited number of Class A Trust Units**

Class A Trust Units are participating, with one vote per unit, no par value.

**b) Unlimited number of Class F Trust Units**

Class F Trust Units are participating, with one vote per unit, no par value.

**c) Unlimited number of Class I Trust Units**

Class I Trust Units are participating, with one vote per unit, no par value.

**d) Unlimited number of Class M Trust Units**

Class M Trust Units are participating and represent a beneficial interest set as the ratio of the number of investor units, such that the amount of Class M Units will equal the number of investor units divided by 0.95 less the number of investor units. 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. At any time, the holder of a Class M unit may convert into either Class A and or Class R units.

**e) Unlimited number of Class R Trust Units**

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.

**CENTURION FINANCIAL TRUST**  
**Notes to the Consolidated Financial Statements**  
**For the year ended December 31, 2018**

---

Each Unitholder shall be entitled to require the Trust to redeem Class A, F, I, M, or 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.

**Issued**

	<b>December 31, 2018</b>	<b>December 31, 2017</b>
<b>Class A Trust Units</b>		
Units as at January 1,	1,570,648	-
New units issued	939,787	1,548,299
Distribution reinvestment plan	169,196	29,793
Redemption of units	(15,216)	(7,444)
	<b>2,664,415</b>	<b>1,570,648</b>
<b>Class F Trust Units</b>		
Units as at January 1,	1,334,180	-
New units issued	818,154	1,317,075
Distribution reinvestment plan	153,465	17,105
Redemption of units	(414,303)	-
	<b>1,891,496</b>	<b>1,334,180</b>
<b>Class I Trust Units</b>	-	-
<b>Class M Trust Units</b>	50,000	50,000
<b>Class R Trust Units</b>		
Units as at January 1,	8,403	-
New units issued	-	7,883
Distribution reinvestment plan	978	520
Redemption of units	-	-
	<b>9,381</b>	<b>8,403</b>

## **10. Commitments**

The Trust has entered into an agreement with a related party, Centurion Apartment Real Estate Investment Trust ("REIT"), the warehouse lender, whereby the REIT is given the opportunity to fund investments originated by the Trust. The Trust has the right during the term of the agreement to purchase the investments previously funded by the warehouse lender, subject to the provisions of the agreement. Subject to the provisions of the agreement, the Trust may also be obligated to repurchase investments funded by REIT under the warehouse agreement. The Trust has guaranteed any losses on the investments funded by the REIT under the warehouse agreement. The total amount utilized in the warehouse facility as at December 31, 2018, is \$nil (December 31, 2017: \$4,563,926).

## **11. Contingencies**

The Trust is involved in certain litigation arising out of ordinary course of investing in loans. Although such matters cannot be predicted with certainty, management believes the claims are without merit and does not consider the Trust's exposure to such litigation to have a material impact on these consolidated financial statements.

## **12. Related Party Transactions**

As at December 31, 2018, CFIT holds 2,765,133 Class R Trust units of Centurion Real Estate Opportunities Trust ("REOT") (December 31, 2017: 1,459,078). The distributions for the Class R Trust units were \$2,316,344 for the year period ended December 31, 2018 with \$1,821,628 settled in cash and \$494,717 settled with 43,200 Class R Trust units (period ended December 31, 2017: \$188,624 with \$156,588 settled in cash and \$32,036 settled with 2,910 Class R Trust units. In addition, CFIT recognized a fair value gain of \$500,706 on this investment for the year ended December 31, 2018 (period ended December 31, 2017: \$324,920)

As at December 31, 2018 a related party of the Trust holds the 50,000 Class M Trust units of the Trust. The distributions for the year ended December 31, 2018 for the Class M Trust units were \$176,130 (period ended December 31, 2017: \$38,867).

During the year ended December 31, 2018, CFIT reimbursed Centurion Asset Management GP Inc. ("CAMGPI") \$320,769 of allocated payroll expenses (\$nil for the year ended December 31, 2017) and \$23,594 of administrative expenses (\$461 for the year ended December 31, 2017).

During the year ended December 31, 2018 the Trust repaid \$4,563,926 of the warehouse facility with REIT, disclosed in note 10.

Key management consists of the Board of Trustees and the executive management team of the Trust. Compensation paid to non-executive Trustees during the year was \$87,000 (December 31, 2017: \$79,750). Compensation paid to the executive management of the Trust during the year was \$242,000 (December 31, 2017: \$nil).

**CENTURION FINANCIAL TRUST**  
**Notes to the Consolidated Financial Statements**  
**For the year ended December 31, 2018**

---

**13. 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 values of the Trust's financial instruments were determined as follows:

- The carrying amounts of cash, restricted cash, receivables and other assets, unit subscriptions in trust, and accounts payable and accrued liabilities approximate their fair values based on the short-term maturities of these financial instruments.
- Management determines fair value based on its assessment of the current lending market for debt investments of same or similar terms since there are no quoted prices in an active market for debt investments.
- Management determines the fair value of warrants using the discounted cash flow approach.
- Management determines the fair value of investment in mortgage trust using quoted net asset valuation redemption prices available to all unit holders.

The table below analyzes assets and liabilities carried at fair value in the consolidated statement of financial position, by the levels in the fair value hierarchy, which are defined as follows:

<b>December 31, 2018</b>	<b>Note</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
<b>Assets</b>				
Investment in mortgage trust	5	\$ -	\$32,017,472	\$ -
Convertible debentures and warrants	5	-	-	2,789,325
<b>Measured at fair value through profit and loss</b>		<b>\$ -</b>	<b>\$32,017,472</b>	<b>\$ 2,789,325</b>
<b>December 31, 2017</b>				
<b>Assets</b>				
Investment in mortgage trust	5	\$ -	\$16,458,395	\$ -
Convertible debentures and warrants	5	-	-	1,187,116
<b>Measured at fair value through profit and loss</b>		<b>\$ -</b>	<b>\$16,458,395</b>	<b>\$ 1,187,116</b>

**14. Capital Management**

The Trust defines capital as net assets attributable to Unitholders. The Trust'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 investments.

The carrying value of the units is impacted by net income and Unitholder distributions. The Trust endeavors to make annual distributions. Amounts retained in excess of the distributions are used to fund new 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**

### **Risk management**

The main risks that arise from the Trust's financial instruments are liquidity, interest, currency and credit risk. The Trust'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 the Trust'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, the Trust is exposed to a number of risks that can affect its operating performance. Management's close involvement in operations helps to identify risks and variations from expectations. As a part of the overall operation of the Trust, management considers the avoidance of undue concentrations of risk.

These risks include, and the actions taken to manage them, are as follows:

#### **a) Liquidity risk**

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

The Trust's principal liquidity needs arise from working capital, repayment of obligations, planned funding of debt investments and distributions to Unitholders. The Trust manages its liquidity risk by ensuring its projected financial obligations can be met through its cash flow from operations, new capital issuances and projected repayments under the existing debt investment portfolio.

**b) Interest rate risk**

The Trust's objective of managing interest rate risk is to minimize the volatility of earnings. Management monitors the Trust's current lending rates on an ongoing basis and assesses the impact of any changes in these credit rates on earnings. As at December 31, 2018, the Trust had debt investments of \$6,328,000 that bore variable rates of interest (December 31, 2017: \$nil).

**c) Credit risk**

Credit risk is the possibility that a borrower under one of the debt investments, may be unable to honor their debt commitment as a result of a negative change in the borrower's financial condition or market conditions that could result in a loss to the Trust.

The Trust monitors its collection experience on a monthly basis ensuring any payment default is cured within a reasonable period and all past due amounts which are doubtful of being collected are provided for.

**d) Currency risk**

Currency risk is the risk that the fair value or future cash flows of a financial asset will fluctuate due to changes in foreign exchange rates. The Trust is exposed to currency risk from warrants that are denominated in US dollar ("USD"). As at December 31, 2018, the Trust has warrants which are denominated in USD of \$1,071,195 (December 31, 2017: \$946,286).

**16. Subsequent Events**

Subsequent to the reporting date the Trust completed the following transactions:

- a) The Trust made cash distributions of \$0.2 million to investors.
- b) The warehouse facility balance was increased by \$8.5 million.
- c) The Trust invested an additional \$5 million cash in REOT Class R Trust units.



**CENTURION**  
FINANCIAL TRUST

[WWW.CENTURION.CA](http://WWW.CENTURION.CA)

**2018 Annual Report | Management's Discussion and Analysis**

---

For the twelve months ended December 31, 2018