

**OFFERING MEMORANDUM
DATED AUGUST 31, 2016 FOR
ALL ISLAND EQUITY MORTGAGE INVESTMENT CORP.**

The Issuer

Name: ALL ISLAND EQUITY MORTGAGE INVESTMENT CORP. (the "Company")
Head Office Address: 450A Wentworth Street
Nanaimo, BC V9R 3E1
Telephone Number: (250) 244-9700
Fax Number: (250) 754-7692
Email Address: maryanne@allislandequitymic.com
Currently Listed/Quoted: No. **These securities do not trade on any exchange or market.**
Reporting Issuer: No.
SEDAR Filer : No.

The Offering

Securities Offered: Up to 8,247,908 Class "B" redeemable, non-voting preferred shares without par value (the "Preferred Shares") in the capital of the Company (the "Preferred Share Offering").

Price Per Security: \$10.00 per Preferred Share (the "Subscription Price").

Minimum/Maximum Offering: \$0 (Nil Class "B" Preferred Shares) minimum/\$82,479,080.00 (8,247,908 Preferred Shares) maximum.
There is no aggregate minimum number of Preferred Shares to be issued by the Company under the Preferred Share Offering. There will be a maximum of 8,247,908 Preferred Shares issued under the Preferred Share Offering. You may be the only purchaser under the Preferred Share Offering. Funds available under the Preferred Share Offering may not be sufficient to accomplish the Company's proposed objectives.

Minimum Subscription Amount: There is no minimum subscription amount a purchaser must invest.

Payment Terms: The full Subscription Price, payable by certified cheque, bank draft or wire transfer, is due on closing.

Proposed Closing Date(s): Closing dates will be determined from time to time by the Company, as subscriptions for Preferred Shares are received by the Company.

Income Tax Consequences: There are important income tax consequences to these securities. See Item 6 - "*Income Tax Consequences and RRSP Eligibility*".

Selling Agent? Yes. Integral Wealth Securities Limited will be acting as selling agent for the Preferred Share Offering, and the Company reserves the right to retain one or more selling agents during the course of the Preferred Share Offering. See Item 7 - "*Compensation Paid to Sellers and Finders*".

Resale Restrictions

The Company is not a reporting issue or equivalent in any jurisdiction. You will be restricted from selling your securities for an indefinite period of time. See Item 10 - "*Resale Restrictions*".

Purchaser's Rights

You have 2 business days to cancel your agreement to purchase these securities. If there is a misrepresentation in this Offering Memorandum, you have the right to sue either for damages or to cancel the agreement. See Item 11 - "*Purchaser's Rights*".

No securities regulatory authority or regulator has assessed the merits of these securities or reviewed this Offering Memorandum. Any representation to the contrary is an offence. This is a risky investment. See Item 8 - "*Risk Factors*".

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Schedule "A" – Risk Acknowledgment

GLOSSARY

In this Offering Memorandum, unless the context otherwise requires, the following words and phrases shall have the meaning set forth below:

“affiliate” has the meaning ascribed thereto in NI 45-106, except as otherwise provided herein.

“Agency Agreement” means the agency agreement dated August 1, 2016, between the Company and Integral, as amended from time to time.

“Agent” or “Integral” means Integral Wealth Securities Limited.

“Business Day” means any day that is not a Saturday, Sunday or statutory holiday in Vancouver, British Columbia.

“Closing” means the day or days upon which the securities are issued to the Purchasers pursuant to the Preferred Share Offering.

“Common Share” or “Common Shares” means, respectively, one or more Class “A” common voting share(s) without par value in the capital of the Company.

“Company” means All Island Equity Mortgage Investment Corp., a company incorporated under the laws of the Province of British Columbia and governed by the *Business Corporations Act* (BC).

“Computershare” means Computershare Trust Company of Canada.

“Director” means a member of the Board of Directors of the Company.

“Initial Closing” means the first closing date of the Preferred Share Offering as may be determined by the Company.

“Issuer” has the meaning ascribed to it in section 6.4.

“Management” means all directors, officers and employees of the Company.

“Management Agreement” means the management agreement dated July 1, 2011, as amended July 1, 2015, among the Company and the Managers, as such may be further amended from time to time.

“Managers” means, collectively, Shack Island Holdings Inc., a company incorporated under the laws of the Province of British Columbia, and Coast Finance Corp., a company incorporated under the laws of the Province of British Columbia.

“Maximum Offering” means the maximum offering of 8,247,908 Preferred Shares being offered hereunder.

“MIC” means a mortgage investment corporation as defined in subsection 130.1(6) of the Tax Act.

“Minimum Offering” means the minimum of nil Preferred Shares being offered hereunder.

“NI 45-106” means the National Instrument 45-106 – “*Prospectus Exemptions*” of the Canadian Securities Administrators, as it may be amended from time to time.

“Offering Memorandum” means this offering memorandum, including any amendment hereto or thereto.

“Olympia Trust” means Olympia Trust Company.

“Preferred Dividends” has the meaning ascribed to it under section 5.1(a).

“Preferred Share” means one or more Class “B” redeemable, non-voting preferred shares without par value in the capital of the Company offered pursuant to this Offering Memorandum.

“Preferred Share Offering” means the offering by the Company of up to 8,247,908 Preferred Shares for aggregate gross proceeds of up to \$82,479,080.00 pursuant to this Offering Memorandum or in any amendment hereto.

“principal holder” has the meaning ascribed to it under section 3.1.

“Purchaser” means a purchaser of Preferred Shares pursuant to the Offering.

“Redemption Price” has the meaning ascribed to it under section 5.1(b).

“Shareholder” means any shareholder of record of the Company.

“Subscription Agreement” means the form of subscription agreement for the Preferred Shares accompanying this Offering Memorandum.

“Subscription Price” means the subscription price of \$10.00 per Preferred Share as determined by the Company.

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

“\$” means Canadian dollars.

NOTE REGARDING FORWARD LOOKING STATEMENTS

Certain information in this Offering Memorandum is “**forward looking information**” within the meaning of applicable securities laws. Forward looking information is frequently characterized by words such as “*plan*”, “*expect*”, “*project*”, “*intend*”, “*believe*”, “*anticipate*”, “*estimate*”, or other similar words, or statements that certain events or conditions “*may*” or “*will*” occur. Forward looking information involves significant known and unknown risks and uncertainties. A number of factors, many of which are beyond the control of the Company, could cause actual results to differ materially from the results discussed in the forward looking information. Although the forward looking information contained in this Offering Memorandum is based upon assumptions which management of the Company believes to be reasonable, the Company cannot assure Purchasers that actual results will be consistent with this forward looking information. **Because of the risks, uncertainties and assumptions inherent in forward looking information, prospective Purchasers of Preferred Shares should not place undue reliance on this forward looking information.**

In particular, this Offering Memorandum contains forward looking information pertaining to the following:

- business development plans and estimated timing;
- business strategy and plans;
- other expectations, beliefs, plans, goals, objectives, assumptions, information; and
- statements about possible future events, conditions, results of operations or performance.

Often, but not always, forward-looking information uses words or phrases such as: “*expects*”, “*does not expect*”, or “*is expected*”, “*anticipates*”, or “*does not anticipate*”, “*plans*” or “*planned*”, “*estimates*” or “*estimated*”, “*projects*” or “*projected*”, “*forecasts*” or “*forecasted*”, “*believes*”, “*intends*”, “*likely*”, “*possible*”, “*probable*”, “*scheduled*”, “*positioned*”, “*goal*”, “*objective*” or states that certain actions, events or results “*may*”, “*could*”, “*would*”, “*might*”, or “*will*” be taken, occur or be achieved.

By their nature, forward-looking statements involve numerous assumptions, inherent risks and uncertainties, both general and specific, that contribute to the possibility that the predictions, forecasts, projections and various future events will not occur. Although the Company believes that the expectations reflected in the forward-looking statements are reasonable, there can be no assurance that future results, levels of activity, performance or achievements will occur as anticipated. Information regarding sales revenues, plans for ongoing development, and potential acquisitions assumes that the prevalent economic conditions will not materially affect the business in a manner greater than anticipated.

Undue reliance should not be placed on forward-looking information. Forward-looking information is based on current expectations, estimates and projections that involve a number of risks which could cause actual results to vary and, in some instances, to differ materially from those anticipated by the Company and described in the forward-looking information contained in this Offering Memorandum. The material risk factors include, but are not limited to:

- the risks of the competition within the Company’s business;
- the uncertainty of estimates and projections relating to the real estate industry;
- changes in general economic and business conditions;
- the possibility that government legislation or regulation may change;
- the Company’s ability to implement its business strategy.

The foregoing list of risk factors is not exhaustive. Additional information on these and other factors that could affect the Company’s operations or financial results are included under the heading “*Risk Factors*” in this Offering Memorandum. Forward-looking information is based on the estimates and opinions of the Company at the time the information is presented. The Company assumes no obligation to update forward looking information should circumstances or the Company’s estimates or opinions change, except as required by law.

PROSPECTIVE PURCHASERS SHOULD THOROUGHLY REVIEW THIS OFFERING MEMORANDUM AND ARE ADVISED TO CONSULT WITH THEIR OWN LEGAL AND TAX ADVISORS CONCERNING THIS INVESTMENT.

ITEM 1 - USE OF AVAILABLE FUNDS

1.1 Funds

The net proceeds of the Preferred Share Offering and the funds which will be available to the Company after the Preferred Share Offering, are as follows:

		Assuming Minimum Offering	Assuming Maximum Offering
A	Amount to be raised by the Preferred Share Offering	\$0	\$82,479,080.00
B	Selling commissions and fees	N/A	\$826,790.80 ⁽¹⁾
C	Estimated offering costs (e.g. legal, accounting, audit etc.)	\$15,000.00	\$15,000.00
D	Available funds: $D = A - (B+C)$	(\$15,000.00)	\$81,637,289.20
E	Additional sources of funding required	N/A	\$0
F	Working capital deficiency	N/A	\$0
G	Total: $G = (D + E) - F$	(\$15,000.00)	\$81,637,289.20

Notes:

- (1) This amount is subject to change. Pursuant to the terms of the Agency Agreement, the Agent is entitled to (i) \$500.00 per closing; and (ii) an annual trailer fee of 1% of the value of Preferred Shares held by clients of the Agent, calculated and paid on a quarterly basis (at the end of each financial quarter of the Company). \$826,790.80 assumes 4 closings (one closing per quarter) and the subscription for the Maximum Offering by clients of the Agent, but does not take into account 1% of the value of Preferred Shares currently held by clients of the Agent, or the value of Preferred Shares which may be acquired by clients of the Agent through dividend reinvestment.

1.2 Use of Available Funds

The Company will use the available funds (see Item D in the table above) as follows:

Description of intended use of available funds listed in order of priority	Assuming Minimum Offering	Assuming Maximum Offering
Investment in mortgages, other permitted investments and related administrative expenses, as described under Item 2 – <i>"The Company's Business"</i>	\$0	\$81,637,289.20
Any other use	\$0	\$0
Total:	\$0	\$81,637,289.20

1.3 Reallocation

The Company intends to spend the available funds as stated, however, there may be circumstances where a reallocation of funds may be necessary. The Company will reallocate funds only for sound business reasons.

ITEM 2 - BUSINESS OF THE COMPANY

2.1 Structure

All Island Equity Mortgage Investment Corp. was incorporated under the *Company Act* (British Columbia) on February 27, 1997, and transitioned under the *Business Corporations Act* (British Columbia) on January 23rd, 2006.

The head and principal office of the Company is located at 450A Wentworth Street, Nanaimo, British Columbia, Canada V9R 3E1. The registered and records office of the Company is located at 450A Wentworth Street, Nanaimo, British Columbia, Canada V9R 3E1.

The Company does not have any subsidiaries or proposed subsidiaries.

The Company is registered to carry on business as a mortgage investment corporation in the province of British Columbia under the *Mortgage Brokers Act* (BC). The Company's Articles and investment policies require it to conduct its operations so as to qualify as a "*mortgage investment corporation*" as this term is defined under section 130.1 of the Tax Act. The Directors of the Company intend to refuse the registration of an allotment or transfer of the Company's shares which may result in the Company ceasing to meet such qualification.

2.2 The Company's Business

General

The Company is a MIC. It is the intention of the Company to invest in residential, commercial, construction and raw land mortgage loans secured by first or second mortgages, and in exceptional cases, by third mortgages. Mortgages invested in by the Company will generally not exceed 75% of the appraised value.

The Company conducts business in the Province of British Columbia and is registered under the *Mortgage Brokers Act* (BC) to carry on business as a mortgage investment corporation in British Columbia. As at the date of this Offering Memorandum, the Company is only registered in British Columbia. However, the Company may expand its business into other provinces, and if so, the Company will apply, if necessary, to become registered under corporate and applicable mortgage brokering legislation to carry on business as a MIC in such provinces.

The Company does not actively employ resources to actively seek or originate mortgages for investment, and relies exclusively on the expertise of the Manager for a regular flow of investment opportunities. To the extent that the Company's funds are not invested in mortgages from time to time, they will be held in cash deposited with a Canadian chartered bank or will be invested by the Manager on the Company's behalf in short term deposits, savings accounts or government guaranteed income certificates so that the Company maintains a level of working capital for its ongoing operations considered acceptable by the Directors of the Company.

The Managers will be responsible for managing the Company's mortgage investment portfolio. The Management Agreement sets out this relationship and requires the Managers to comply with and observe all laws and Company policies that apply to the Company, its investments and its securities (see Item 2.2 - "*The Company's Business – Financial Services*" below).

As a MIC, the Company is allowed to deduct dividends that it pays from its income. The Company intends to pay out all of its net income and net realized capital gains as dividends within the time period specified in the Tax Act and as a result does not anticipate paying any income tax (see Item 6 - "*Income Tax Consequences and RRSP Eligibility*" below).

The Company may fund its investments through equity financings or, by law, the Company may employ leverage, as permitted by applicable legislation, by issuing debt obligations up to a maximum of five times the net book value of its assets. The Company currently has an operating line of credit of \$2,000,000 with the Royal Bank of Canada (see Item 2.7(3) - "*Material Agreements*" below). The Company intends to borrow to the extent that the Directors are satisfied that such borrowing and additional investments will increase the overall profitability of the Company.

Nature of Projects to be Financed

The Company will invest in mortgages on residential properties such as single-family dwellings, duplexes, townhouses, condominium units or multiple family dwellings such as apartment buildings located in British Columbia. Additionally the Company will invest in commercial and industrial property, including properties under construction, and raw land located in British Columbia.

Investment Policies

The Company's investment policies are consistent with the Company's Articles and all relevant legislation governing the Company. The Board of Directors has approved the following policies:

- (i) The Company will invest in mortgages on residential properties such as single-family dwellings, duplexes, townhouses, condominium units or multiple family dwellings such as apartment buildings. Additionally the Company will invest in commercial and industrial property, including properties under construction, and raw land.
- (ii) All mortgages will, following funding, be registered on title to the subject property in the name of the Company.
- (iii) No single investment or related group of investments involving one property or development, or involving several properties or developments owned by one borrower and its affiliates, will exceed 25% of the book value of the assets of the Company, unless firm takeout commitments are in place. This restriction will not apply to obligations of Canadian municipal, provincial and federal governments and government agencies.
- (iv) Mortgage investments will be made as either term mortgages or interim construction mortgages and will generally not exceed 75% of the appraised value at the date of advance.
- (v) Every mortgage application must be approved unanimously by the Company's loan committee.
- (vi) The Company requires a current appraisal with every mortgage application unless otherwise directed by the Directors of the Company. Each appraisal is required to be prepared by a member of the Accredited Appraisal Canadian Institute.
- (vii) The Company does not hold, as part of its property, any indebtedness, whether by way of mortgage or otherwise, of a person who is an annuitant, a beneficiary or an employer, as the case may be, under the governing plan of trust or of any other person who does not deal at arm's length with that person.

Operating Policies

The Tax Act imposes certain restrictions on MICs and on investments made by MICs, which restrictions can be summarized as follows:

- (i) Canadian Corporation - the corporation must have been a Canadian corporation, which generally means a corporation incorporated and resident in Canada.
- (ii) Undertaking - the corporation's only undertaking was the "*investing of funds of the corporation*". The corporation cannot have managed or developed any real or immovable property, at any time throughout a taxation year.
- (iii) 50% Asset Test - at least 50% of the "*cost amount*", as defined in the Tax Act, to the corporation of all of its property must have consisted of the corporation's money, debts owing to the corporation that were secured on certain specified residential properties, and any deposit standing to the corporation's credit in the records of a bank or other certain specified financial institutions.
- (iv) 25% Asset Test - the "*cost amount*" to the corporation of all of its real property including leasehold interest in such property, other than real property acquired by foreclosure or otherwise after default made on a mortgage, hypothecation or agreement for sale of real property, must not have exceeded 25% of the "*cost amount*" to the corporation of all of its property. The limit is designed to ensure that the primary intention of the corporation's investment was directed towards residential mortgages.

- (v) Prohibited Foreign Investment - none of the property of the corporation consists of debts owing to the corporation that were secured on real or immovable property situated outside Canada, debts owing to the corporation by non resident persons unless secured on real or immovable property situated in Canada, shares of the capital stock of Issuers not resident in Canada, real or immovable property situated outside Canada, or any leasehold interest in real or immovable property situated outside Canada.
- (vi) Shareholder Requirements - the corporation must have at least 20 shareholders, and no shareholder (together with related persons, as defined below) of the corporation at any time during the year owned, directly or indirectly, more than 25% of the issued shares of any class of the capital stock of the corporation. Special rules apply for the purposes of counting shareholders that are registered pension plans or deferred profit sharing plans.
- (vii) Classes of Shareholders - any holders of preferred shares (as defined in the Tax Act) of the corporation must have the right after payment to them of their dividends, and payment of dividends in a like amount per share to the holders of common shares of the corporation, to participate *pari passu* with the holders of the common shares in any further payment of dividends.
- (viii) Debt to Equity Ratio - the corporation is restricted to borrowing a maximum of three times its equity capital unless at least two-thirds of the book value of its investments are mortgages secured on Canadian residential property, the corporation's money, and specified deposits, in which case the maximum borrowing is five times its equity capital.

With respect to the requirement noted above that no shareholder (together with related persons) may own more than 25% of the shares of any class of the corporation, for these purposes "*related persons*" include a corporation and the person or persons that control the corporation, a parent corporation and its subsidiary corporation(s) and corporations that are part of the same corporate group, and an individual and that individual's spouse, common-law partner or child under 18 years of age. The rules in the Tax Act defining "*related persons*" are complex and shareholders should consult their own tax advisors in this regard.

Financial Services

Pursuant to the Management Agreement, the Managers are responsible for providing mortgage investment and management services to the Company. The Managers are related parties to the Company in that (i) Shack Island Holdings Inc. is a private company wholly-owned by Mr. Patrick Sullivan (the President, a Director and shareholder of the Company) and Mrs. Helene Sullivan (a shareholder and former Director of the Company, and wife of Patrick Sullivan); and (ii) Coast Finance Corp. is a private company wholly-owned by Mr. William Walker (the Secretary, a Director, and shareholder of the Company).

Pursuant to the terms of the Management Agreement, the Managers are required to:

- (i) make or purchase, process and administer mortgage loans on behalf of the Company within investment parameters from time to time approved by the credit committee;
- (ii) undertake and be responsible for the day to day administration of the Company;
- (iii) provide monthly reports on the operation of the Company to the President of the Company;
- (iii) communicate regularly with shareholders and answer shareholder inquiries; and
- (iv) perform other assignments related to the business of the Company as directed by the Directors.

The Managers will furnish the Company with all necessary administrative services including provision of office space, clerical staff and maintenance of books and records to the extent required for the proper management of the Company.

Utilizing the services of the Managers, the Company intends to develop its mortgage portfolio through the following activities:

Agency Origination - The Managers may utilize qualified market intermediaries to assist in identifying mortgage investment opportunities consistent with the Company's investment policies. These intermediaries will be experienced mortgage lenders who have demonstrated their ability to supply mortgage loans within the parameters of the Company's lending criteria; and

Direct Origination - The Managers may provide direct origination facilities in Nanaimo, BC in order to supply the Company with mortgage investment opportunities. Using these facilities, the Managers originate mortgages through direct negotiations with mortgage borrowers such as home purchasers, homeowners, homebuilders, and industrial and commercial owners and developers.

During the fiscal year ended June 30, 2016, the terms of the Management Agreement provided that in consideration for their services, the Company would pay the Managers an annual fee of 2.0% of the mortgage portfolio of the Company, calculated and payable on a quarterly basis. The Company was also responsible for reimbursing the Managers for all reasonable and necessary out-of-pocket disbursements incurred by the Managers in connection with administration of the business of the Company.

Management services provided to the Company and expenses incurred by or on behalf of the Company in connection with all matters, other than management services in connection with the Company's daily operations, will be charged to the account of the Company. The expenses to be paid directly by the Company include fees and expenses of its Directors and officers, the cost of acquisition of mortgages, appraisal fees, foreclosure costs, any commission or brokerage fees on the purchase sale of the portfolio securities, taxes of all kinds to which the Company is subject, the interest expenses, legal fees, fees payable in respect of the issuance and administration of the Company's debentures, transfer agent fees, the cost of submitting financial reports and providing other information to shareholders and regulators, messenger service, photocopying, land title search, credit bureau reports, printing costs, survey certificates, postage, long distance telephone charges, accounting fees, real estate commissions, advertisements, promotions and insurance premiums. All expenses to be paid by the Company will be approved by the Directors of the Company.

The current term of the Management Agreement expires on June 30, 2018, but thereafter may be renewed for an additional three year period by mutual agreement of the parties.

2.3 Development of Business

The Company has increased its loan portfolio, since its inception, by securing additional capital from previous offerings of Preferred Shares and shareholders' reinvestment of dividends and from its line of credit. It has invested solely in mortgages in British Columbia, however, it will consider mortgage investments elsewhere in Canada, as its capital permits. Emphasis will continue to be on urban centres and growth areas.

Size and Composition of Portfolio

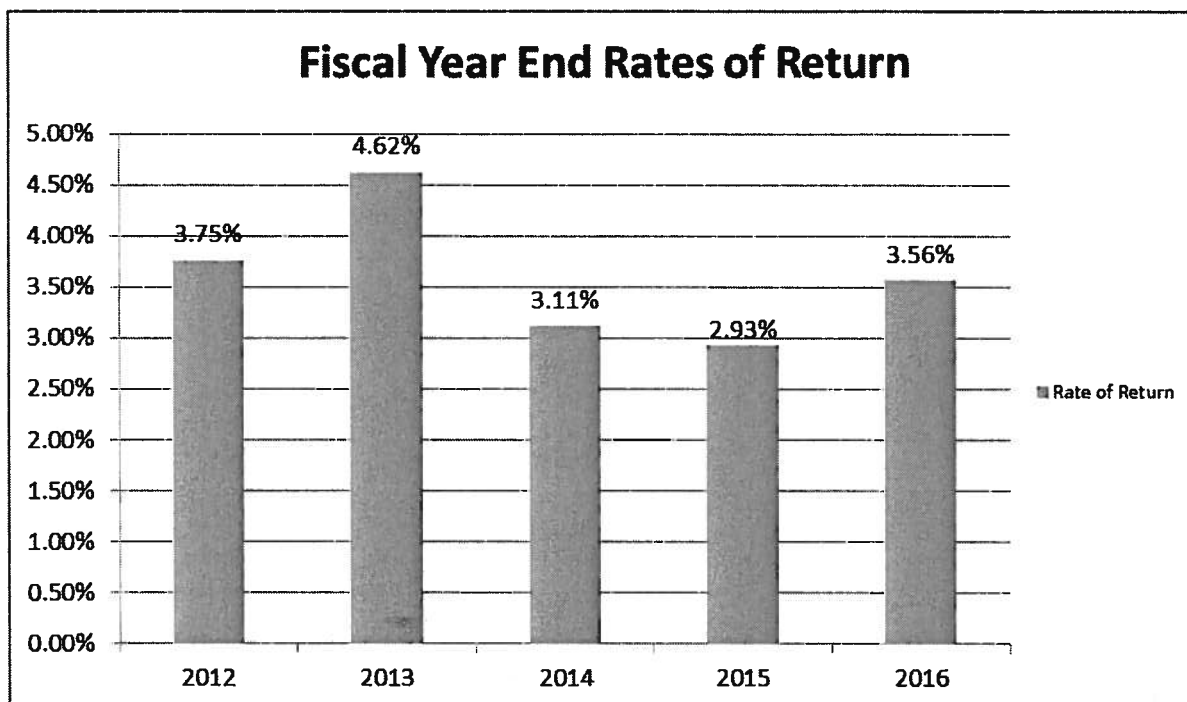
As at June 30, 2016, the Company's funds are invested in 48 mortgages ranging in amounts from \$52,000 to \$1,562,000 with interest rates on these mortgages ranging from 6% to 12%. The total value of the Company's mortgage portfolio, before fair value adjustments, is \$16,439,789. All of the Company's 48 mortgages are located on Vancouver Island, and 43 are ranked as first mortgages while 5 are ranked as second mortgages; 18 are residential properties, 15 are residential construction properties, 10 are commercial properties and 5 are raw land.

The loan to value ratios and appraised values of the Company's mortgages at the time the mortgages are granted are a weighted average of 55.63%.

The Company has allocated a total of \$1,213,470 for loss provisions with respect to potential defaults and foreclosures in progress with respect to its current mortgage portfolio.

Yearly Rate of Return to Investors

The following table sets out the average rate of returns to the Company's investors on a yearly basis for the past five years.



Notes:

*The increase in the average annual rate of return is a result of overall improvement in market conditions, a general increase in the real estate industry and the selling of non-performing loans. These calendar year returns include the reinvestment of quarterly distributions.

New Investments, Change in Shareholders & Redemptions

During the last 12 months, the Company has issued an aggregate of 248,755.035 Preferred Shares, of which: (i) 215,970.926 were issued pursuant to new investment for an aggregate of \$2,159,709.26 cash; and (ii) 32,784.109 were issued pursuant to the reinvestment of an aggregate of \$327,841.09 in dividends by certain shareholders of the Company.

During the last 12 months, the Company has redeemed an aggregate of 119,913.85 Preferred Shares on payment of an aggregate of \$1,199,138.50. There are currently 1,752,092 Preferred Shares issued and outstanding. The total number of Preferred Share holders in the past 12 months has increased from 299 to 339.

2.4 Long Term Objectives

The Company's long term objective is to provide holders of Preferred Shares with sustainable income while preserving capital for distribution or re-investment. The Company will seek to achieve this principal investment objective by investing in mortgages granted to the Managers or their affiliates. The Company's income will primarily consist of interest received on the loans secured by the mortgages, less the financial services fee paid to the Managers.

2.5 Short Term Objectives and How the Company Intends to Achieve Them

The Company's business objectives for the next 12 months are:

- (i) to raise additional capital to enhance the operating efficiency of the Company in conjunction with its long term objectives; and
- (ii) to source appropriate lending opportunities to meet the challenge of providing superior returns in the current interest rate environment.

What we must do and how we will do it	Target completion date or, if not known, number of months to complete	Our cost to complete
The Company intends to raise capital pursuant to the Preferred Share Offering, to use the raised capital to fulfil its investment program as described in Items 2.2, 2.3 and 2.4 above, to expand its loan portfolio subject to market conditions, to maintain lending practices and to match up investor funds with suitable mortgages.	Since the Company has an ongoing investment program, there is no target completion date for its business plan. Investments will be made as the Company's available funds permit.	N/A

2.6 Insufficient Funds

The funds available as a result of the Preferred Share Offering may or may not be sufficient to accomplish all of the Company's proposed objectives and there is no assurance that alternative financing will be available.

2.7 Material Agreements

The Company has the following material agreements:

1. Agency Agreement dated August 1, 2016, between the Company and Integral (see Item 7 – "*Compensation Paid to Sellers and Finders*").
2. Management Agreement between the Company and the Managers (see Item 2.2 – "*The Company's Business – Financial Services*" above).
3. Registrar and Transfer Agent Agreement between the Company and Olympia Trust Company executed on December 31, 2006, as amended August 1, 2010, assigned to Computershare effective November 30, 2014.

This agreement originally appointed Olympia Trust as the Company's registrar and transfer agent to keep the register(s) of holders and the register(s) of transfers of the Company's Preferred Shares. The agreement also appointed Olympia Trust as the dividend disbursing and dividend reinvestment agent to disburse dividends and/or shares to shareholders of the Company, which may be declared from time to time on the Preferred Shares of the Company. This Agreement was subsequently assigned to Computershare and effective November 30, 2014, Computershare is the Company's registrar and transfer agent to keep the register(s) of holders and the register(s) of transfers of the Company's Preferred Shares and to act as the dividend disbursing and dividend reinvestment agent to disburse dividends and/or shares to shareholders of the Company, which may be declared from time to time on the Preferred Shares of the Company.

4. Credit Agreement dated May 31, 2004, as amended November 23, 2006, May 1, 2008, February 28, 2011 and February 7, 2012 between the Company and Royal Bank of Canada, pursuant to which the Company arranged a \$2,000,000 line of credit facility secured by a general security agreement with Royal Bank of Canada. The line of credit facility augments the Company's activities and allows it to borrow at interest

rates less than it receives from its mortgage investments. Any borrowings by the Company will be payable on demand and bear interest at a variable rate of 1.25% per annum in excess of the Royal Bank's prime interest rate, which interest is payable monthly. The line of credit requires the Company to maintain certain minimum equity requirements. The Company must also report and provide financial statements to the bank on a regular basis. The objective is to realize profit from such interest rate spread, and to use the leverage to increase returns to the Company's shareholders. However, the Company's operations will not normally rely upon the use of the line of credit or debt financing from a bank or any other source. The line of credit facility can be increased at any time by the Managers on instructions from the Company's Directors.

5. Real Estate Right to Purchase Agreement between the Company and 1048377 B.C. Ltd., a company owned by Bill Walker, a director of the Company, dated September 21, 2015, pursuant to which the Company sold a property located at 201 Main Street, Tofino, BC to 1048377 B.C. Ltd. for \$1,215,000. Pursuant to the terms of this agreement, the purchaser will pay the purchase price to the Company as follows:

- (i) no interest accrues or is payable between September 15, 2015 to March 15, 2016;
- (ii) interest on the unpaid purchase price accrues at 6% per annum calculated semi-annually not in advance and is payable from April 15, 2016 to March 15, 2017 – interest only payments are payable monthly during this period;
- (iii) interest on the unpaid purchase price accrues at 7% per annum calculated semi-annually not in advance and is payable monthly from April 15, 2017 to March 15, 2018 - interest only payments are payable monthly during this period;
- (iv) interest on the unpaid purchase price accrues at 8% per annum calculated semi-annually not in advance and is payable monthly from April 15, 2018 to March 15, 2019 - interest only payments are payable monthly during this period;
- (v) \$25,000 is due on March 15, 2018; and
- (vi) the remaining balance will be due and payable March 15, 2019.

The Company will retain title to the property until the purchase price has been paid in full. As long as the agreement is in good standing, the purchaser will be permitted to occupy and enjoy the property and the purchaser has the right to register its right to purchase against the title of the property. Between September 15, 2015 and March 14, 2018, the purchaser will have the right to pay the outstanding balance of the purchase price, together with any accrued interest, without notice, bonus or penalty.

ITEM 3 - DIRECTORS, MANAGEMENT, PROMOTERS AND PRINCIPAL HOLDERS

3.1 Compensation and Securities Held

The following table sets out information about each Director, officer and promoter of the Company and each person who, directly or indirectly, beneficially owns or controls 10% or more of any class of voting securities of the Company (a "principal holder"):

Name and municipality of principal residence	Positions held and the date of obtaining that position	Compensation paid by Company (i) in the most recent financial year & (ii) anticipated to be paid in the current financial year	Number, type & percentage of securities of the Company held after completion of Minimum Offering ⁽¹⁾	Number, type & percentage of securities of the Company held after completion of Maximum Offering
Patrick Sullivan Nanaimo, BC	President & Director (as of April 1, 2011)	(i) \$15,000 ⁽²⁾ (ii) Unknown ⁽³⁾	0.95 Common Shares (9.5%) 25,478 Preferred Shares ⁽⁴⁾ (1.45%)	0.95 Common Shares (9.5%) 28,978 Preferred Shares ⁽⁴⁾⁽⁵⁾ (0.29%)
Mary-Anne Armstrong Nanaimo, BC	Director (as of February 27, 1997)	(i) Nil (ii) Nil	2.4 Common Shares (24%) Nil Preferred Shares (0%)	2.4 Common Shares (24%) Nil Preferred Shares (0%)
Suzanne Fleury Nanaimo, BC	Director (as of April 1, 2012)	(i) Nil (ii) Nil	0.9 Common Shares (9%) 11,267.388 Preferred Shares (0.64%)	0.9 Common Shares (9%) 11,267.388 Preferred Shares (0.11%)
Alexander (Sandy) Harper Nanaimo, BC	Director (as of December 1, 2010)	(i) Nil (ii) Nil	2.4 Common Shares (24%) Nil Preferred Shares (0%)	2.4 Common Shares (24%) Nil Preferred Shares (0%)
Adam Hawryluk Nanaimo, BC	Director (as of June 30, 2015)	(i) Nil (ii) Nil	2.4 Common Shares (24%) Nil Preferred Shares (0%)	2.4 Common Shares (24%) Nil Preferred Shares (0%)
William Walker Nanaimo, BC	Director & Secretary (as of February 27, 1997)	(i) \$10,000 ⁽⁶⁾ (ii) Unknown ⁽⁷⁾	0.95 Common Shares (9.5%) Nil Preferred Shares (0%)	0.95 Common Shares (9.5%) Nil Preferred Shares (0%)

Notes:

- (1) Assumes no Preferred Shares are issued under the Minimum Offering.
- (2) Paid to Shack Island Holdings Inc., a private company wholly-owned by Patrick Sullivan and Helene Sullivan, for services performed by Shack Island Holdings Inc. as Manager under the Management Agreement (see Item 2.2 – “The Company’s Business – Financial Services”).
- (3) During the current financial year the Company expects to pay Shack Island Holdings Inc. for services to be performed by Shack Island Holdings Inc. as Manager under the Management Agreement. The amount payable is unknown at this time (see Item 2.2 – “The Company’s Business – Financial Services”).
- (4) 25,478 Preferred Shares are held jointly by Mr. Sullivan and his spouse.
- (5) Mr. Sullivan expects to purchase 3,500 Preferred Shares during the current financial year.
- (6) Paid to Coast Finance Corp., a private company wholly owned by Mr. Walker, for services performed by Coast Finance Corp. as Manager under the Management Agreement (see Item 2.2 – “The Company’s Business – Financial Services”).
- (7) During the current financial year the Company expects to pay Coast Finance Corp. for services to be performed by Coast Finance Corp. as Manager under the Management Agreement. The amount payable is unknown at this time (see Item 2.2 – “The Company’s Business – Financial Services”).

As at the date of this Offering Memorandum, the Directors and officers of the Company, as a group, own (i) 10 Common Shares representing 100% of the issued and outstanding Common Shares of the Company; and (ii) 36,745.388 Preferred Shares representing 2.1% of the issued and outstanding Preferred Shares of the Company.

3.2 Management Experience

The following table sets out the principal occupations of the Directors and executive officers of the Company over the past five years and any relevant experience in a business similar to the Company's:

<u>Name</u>	<u>Principal occupation and related experience</u>
Patrick Sullivan	<p>In 1997, Mr. Sullivan and William Walker founded the Company. Mr. Sullivan was also the founder of Sullivan Wealth Management Group Ltd. (formerly Patrick Sullivan & Associates Insurance and Investment Services Ltd.), of which he was the President from its incorporation in 1978 until he retired from that company in 2014. Mr. Sullivan holds a Certified Financial Planner (CFP) designation, as well as Certified Life Underwriter (CLU) and Chartered Financial Consultant (CHFC) designations. Mr. Sullivan is semi-retired, giving the majority of his focus and attention to the Company.</p> <p>Mr. Sullivan is also a director and the co-owner of Shack Island Holdings, which company is acting as a Manager for the Company pursuant to the Management Agreement. See item 2.2 – <i>The Company's Business – Financial Services</i> above.</p>
Mary-Anne Armstrong	<p>Senior Administrator for Sullivan Wealth Management Group Ltd. (formerly Patrick Sullivan & Associates Insurance and Investment Services Ltd.), with a background in pension plan administration (Turnbull & Turnbull Actuaries of Winnipeg, MB). Ms. Armstrong has been employed by Sullivan Wealth Management Group Ltd. since December 1989, overseeing all aspects of administering the office. Since the Company's incorporation in 1997, in which Ms. Armstrong was instrumental in helping organize and develop, her responsibilities have expanded to include among other things, the Company's quarterly and monthly accounting obligations.</p>
Suzanne Fleury	<p>Administrative Assistant with Sullivan Wealth Management Group Ltd. (formerly Patrick Sullivan & Associates Insurance & Investment Services Ltd.). Ms. Fleury has been with Sullivan Wealth Management Group Ltd. since March 2009, prior to which Ms. Fleury worked for Telus from 1979 to 2002 in Vancouver and in Nanaimo in various areas of administration and sales. She returned to school in 2004 and worked a variety of jobs including managing her own small painting company, immediately prior to joining Sullivan Wealth Management in 2009.</p>
Alexander (Sandy) Harper	<p>Mr. Harper has been a Realtor in Nanaimo since the early 1990's and has been with Remax of Nanaimo since 1997. His main focus is on residential properties, including single family dwelling, strata properties and bare lots/acreages. Prior to his involvement in real estate, Mr. Harper was a member of the Copytron sales team (from January 1990 to October 1993) and was a touring golf professional. Mr. Harper is currently serving his second term as a director of the Nanaimo Golf Club.</p>

Adam Hawryluk

Mr. Hawryluk is a Licensed Mortgage Broker (since 2009). He graduated from Vancouver Island University in 2008 with a Bachelor of Business Administration. Mr. Hawryluk is the past President of the Young Professionals of Nanaimo (from 2012 to 2014), and is a member of the Board of Directors of Community Futures Central Island (since 2011), a non-profit organization which provides entrepreneurs and small businesses with loans and financing. Mr. Hawryluk is a director of the Greater Nanaimo Chamber of Commerce, and has been nominated for the Nanaimo Business News' "Top 20 under 40" award every year since 2012. He was also honoured as one of Canadian Mortgage Professional Magazine's "Young Guns" in 2015.

William Walker

Mr. Walker is a licensed Mortgage Broker (since 2000) with Mortgage Centre of Essex & Kent. He graduated from McGill University in 1980 with a Bachelor of Arts (Urban Geography). Mr. Walker obtained his Diploma in Urban Land Economics from the University of British Columbia in 1987. From 1980 – 1993, Mr. Walker acted as a mortgage officer to numerous trust companies. Mr. Walker is a member of the Real Estate Institute of British Columbia (since 1988). He founded Central Mortgage Corporation in 1993. Currently Mr. Walker is a director of Colbri Resource Corporation (since 2006) and the Chair of Community Futures of Central Vancouver Island (since 2002).

Mr. Walker is also the owner of Coast Finance Corp., which company is acting as a Manager for the Company pursuant to the Management Agreement. See *Item 2.2 – The Company's Business – Financial Services* above.

3.3 Penalties, Sanctions and Bankruptcy

- (a) There has been no penalty or sanction that has been in effect during the last 10 years, or any cease trade order that has been in effect for a period of more than 30 consecutive days during the past 10 years, against:

- (i) a Director, executive officer or control person of the Company; or
- (ii) an issuer of which a person referred to in 3.3(a)(i) above was a Director, executive officer or control person at that time;

except that in August 2008, Patrick Sullivan entered into a settlement agreement with the Mutual Fund Dealers Association of Canada ("MFDA") pursuant to which he was required to pay costs of \$5,000 and a penalty of \$30,000 (which sums were paid) with respect to the fact that Mr. Sullivan recommended or facilitated the sale of shares of the Company to clients of IQON Financial Inc. between May 29, 1998 and Spring 2006 in breach of an undertaking he signed on May 29, 1998 not to do so, and engaged in securities related business between May 10, 2002 and Spring 2006 that was not properly conducted through the facilities of IQON Financial Inc., contrary to MFDA rules.

- (b) There has been no declaration of bankruptcy, voluntary assignment in bankruptcy, proposal under any bankruptcy or insolvency legislation, proceedings, arrangement or compromise with creditors or appointment of a receiver, receiver manager or trustee to hold assets, that has been in effect during the last 10 years with regard to any:

- (i) Director, executive officer or control person of the Company; or
- (ii) issuer of which a person referred to in 3.3(b)(i) above was a Director, executive officer or control person at that time.

ITEM 4 – CAPITAL STRUCTURE

4.1 Share Capital

The authorized capital of the Company consists of 1,000 Class “A” voting common shares without par value, and 10,000,000 Class “B” redeemable, non-voting preferred shares without par value.

Description of Security	Number authorized to be issued	Price per Security	Number outstanding as at June 30, 2016	Number outstanding after Minimum Offering ⁽¹⁾	Number outstanding after Maximum Offering
Common Shares	1,000	\$1.00	10	10	10
Preferred Shares	10,000,000	\$10.00	1,752,092	1,752,092	10,000,000

Notes:

(1) Assumes no Preferred Shares are issued under the Minimum Offering.

4.2 Long Term Debt

The Company has no long term debt.

4.3 Prior Sales & Redemptions

Prior Sales

During the last 12 months, the Company has issued the following Preferred Shares:

Date of Issuance	Type of Security Issued	Number of Securities Issued	Price Per Security	Total Funds Received
April 2016	Preferred Shares	12,400	\$10.00	\$124,000.00 ⁽¹⁾
March 2016	Preferred Shares	33,350.089	\$10.00	\$333,500.89 ⁽²⁾
January 2016	Preferred Shares	22,500	\$10.00	\$225,000.00 ⁽¹⁾
December 2015	Preferred Shares	9,687.333	\$10.00	\$96,873.33 ⁽³⁾
November 2015	Preferred Shares	21,160	\$10.00	\$211,600.00 ⁽¹⁾
October 2015	Preferred Shares	20,620.846	\$10.00	\$206,208.46 ⁽⁴⁾
September 2015	Preferred Shares	21,110	\$10.00	\$211,100.00 ⁽¹⁾
August 2015	Preferred Shares	43,265	\$10.00	\$432,650.00 ⁽¹⁾
July 2015	Preferred Shares	64,661.767	\$10.00	\$646,617.67 ⁽⁵⁾
Total		248,755.035		\$2,487,550.35

Notes:

- (1) New subscriptions – Preferred Shares issued for cash.
- (2) 24,737.126 Preferred Shares were new subscriptions and 8,612.963 Preferred Shares were issued pursuant to the reinvestment of dividends.
- (3) Preferred Shares issued pursuant to the reinvestment of dividends.
- (4) 12,248.800 Preferred Shares were new subscriptions and 8,372.046 Preferred Shares were issued pursuant to the reinvestment of dividends.
- (5) 58,550 Preferred Shares were new subscriptions and 6,111.767 Preferred Shares were issued pursuant to the reinvestment of dividends.

Redemptions

During the last 12 months, the Company has redeemed the following Preferred Shares:

Date of Redemption	Type of Security	Number of Securities Redeemed	Price Per Security	Total Funds Paid
September 1, 2015	Preferred Shares	25,038.456	\$10.00	\$(250,384.56)
December 1, 2015	Preferred Shares	18,816.170	\$10.00	\$(188,161.70)
March 1, 2016	Preferred Shares	14,842.275	\$10.00	\$(148,422.75)
June 1, 2016	Preferred Shares	61,216.949	\$10.00	\$(612,169.49)
Total		119,913.85		\$(1,199,138.50)

ITEM 5 – SECURITIES OFFERED

5.1 Terms of Securities

The Company is offering up to 8,247,908 Preferred Shares at \$10.00 per Preferred Share, which Preferred Shares are without par value and have the following material terms:

(a) Dividend Entitlement

For income tax purposes, the Company intends to distribute as dividends, substantially all of its net earnings. The Company intends that declarations of dividends in each fiscal year shall be made to the holders of the Preferred Shares, who shall be entitled to receive dividends when declared by the Company's Directors, and the Company shall pay out of monies of the Company properly applicable to the payment of dividends, preferential dividends (the "**Preferred Dividends**") in such amounts per share as the Directors of the Company shall in their absolute discretion deem appropriate.

The Company intends to declare and distribute dividends on a quarterly basis as circumstances permit.

(b) Redemption Rights

The Company may, pursuant to its Articles, redeem at any time or from time to time in whole or in part any class of shares, in such proportions as the Directors may specify, on payment of a redemption price to be determined by the Directors (the "**Redemption Price**"). The Company cannot offer to redeem or purchase its shares if the Company is insolvent at the time of redemption or if the redemption would render it insolvent.

Unless the shares which are to be purchased by the Company are being purchased through the facilities of a stock exchange or the Company is purchasing the shares from a dissenting shareholder, then the Company is required to make the offer to purchase its shares on a *pro rata* basis to all shareholders of that class of shares.

If the Company decides to redeem some but not all of the shares of any class, then subject to the special rights and restrictions of that class of shares, the Directors will determine the manner in which the shares to be redeemed will be selected. Subject to the *Business Corporations Act* (BC), the Company can sell or otherwise issue the shares redeemed by it, but the Company cannot exercise any voting rights or be entitled to dividends, in respect of those shares while they are being held by it.

(c) Priority on Liquidation, Dissolution or Winding Up

In the event of the liquidation, dissolution or winding up of the Company or other distribution of its property or assets among shareholders, distributions of the property or assets will be made:

- (i) first, to the holders of the Preferred Shares *pro rata* in accordance with the number of Preferred Shares held, the lesser of: (A) \$10.00 per Preferred Share plus dividends declared but not yet paid, and (B) the book value of the Preferred Shares as determined in the upcoming audited financial statements; and
- (ii) the balance to the registered holders of the Common Shares, *pro rata* in accordance with the number of Common Shares held.

(d) Retraction by a Preferred Shareholder

Part 26 of the Company's Articles provides the holders of Preferred Shares with the right to require the Company to redeem all or any portion of their fully paid Preferred Shares upon providing the Company with written notice prior to the close of business on December 31, in any year. Subject to availability of funds from the repayment of mortgages, the Company will redeem the shares on April 1 of the year following the year in which the notice was given. The obligation of the Company to redeem Preferred Shares is subject to the qualification that the Company is not permitted to redeem Preferred Shares if such redemption would cause the Company to cease being qualified as a MIC pursuant to the provisions of the Tax Act.

(e) Constraints on Transferability

Part 25 of the Company's Articles provides that the Directors of the Company shall not consent to or approve a transfer of shares or cause the Company to allot, issue, sell, purchase or redeem shares unless immediately following the said transaction, no one shareholder would hold more than 25% of the issued shares of the Company and the number of shareholders of the Company would not be reduced to less than 20 shareholders. For the purposes of computing the number of shareholders of the Company only, each deferred profit share plan or registered pension plan trust which is a shareholder of the Company shall be counted as four (4) shareholders. PROVIDED ALWAYS that the Directors are not prevented from giving their consent or approval to any transfer, allotment, issuance, sale, purchase or redemption of shares so long as such transaction would not have the effect, in the opinion of the Directors, of disqualifying the Company as a MIC.

Paragraph 130.1(6)(d) of the Tax Act stipulates that a mortgage investment corporation may not have fewer than 20 shareholders and no one shareholder may hold more than 25% of its issued shares.

The Tax Act also states that a trust governed by a registered pension plan or a deferred profit sharing plan is counted as four shareholders for purposes of determining the number of shareholders and one shareholder for purposes of determining if a shareholder holds more than 25% of the issued shares. A trust governed by a registered retirement savings plan ("RRSP") is counted as one shareholder for determining the number of shareholders and for determining if a shareholder holds more than 25% of the issued shares. A trust governed by an RRSP is counted as one shareholder.

Accordingly, the Directors of the Company intend to refuse registration of an allotment or any transfer of shares, which would result in the Company ceasing to meet the qualifications of a MIC. See also Item 10 – "Resale Restrictions" for further restrictions on the transferability of the Company's Preferred Shares.

(f) Voting Rights

The Preferred Shares of the Company are non-voting, and the holders of the Preferred Shares are not entitled to receive notice of or vote at meetings of the shareholders of the Company, unless otherwise permitted under the *Business Corporations Act* (BC).

5.2 Subscription Procedure

The Company may terminate the Preferred Share Offering at any time without notice and in such case, the Company will not be required to accept later subscriptions. Closings may occur from time to time as determined by the Company.

There is no minimum subscription amount a Purchaser must invest.

Purchasers wishing to purchase Preferred Shares must submit to the Company at its head office address shown at the beginning of page one:

1. A completed Subscription Agreement in the form provided by the Company, with respect to the Preferred Shares being purchased;
2. Two originally executed Risk Acknowledgements in the form attached to this Offering Memorandum as Schedule "A"; and
3. A certified cheque, bank draft, wire transfer or other payment acceptable to the Company in the amount of the purchaser's total investment payable to the Company or to its designated agents.

The Company will hold each Purchaser's subscription funds in trust until midnight on the second business day after the day on which such Purchaser's signed Subscription Agreement is received. The Company will return all consideration to an investor if such investor exercises the right to cancel the Subscription Agreement within the prescribed time.

Upon acceptance, the Subscription Price for the Preferred Shares will be deposited in a designated bank account. Upon the Preferred Shares having been issued, the Subscription Price will be made available to the Company for use in its business, as set out in this Offering Memorandum.

The Company reserves the right to accept or reject subscriptions in whole or in part at its discretion and to close the subscription books at any time without notice. Any subscription funds for subscriptions that the Company does not accept will be returned promptly, without interest or deduction, after it has determined not to accept the funds.

Notwithstanding the above, subscription agreements from Trustees for RRSPs, RRIFs or Deferred Profit Savings Plans under the Tax Act will be accepted by the Company without the accompanying payment, to accommodate their administrative procedures. In such case, the share certificates for the Preferred Shares will be delivered by the Company in exchange for payment of the Subscription Price.

ITEM 6 - INCOME TAX CONSEQUENCES AND RRSP ELIGIBILITY

6.1 Purchasers' Independent Tax Advice

YOU SHOULD CONSULT YOUR OWN PROFESSIONAL ADVISERS TO OBTAIN ADVICE ON THE INCOME TAX CONSEQUENCES THAT APPLY TO YOU.

6.2 Tax Consequences

The following is a summary, reviewed and updated by MNP LLP, Chartered Accountants, of the income tax consequences under the laws of Canada of acquiring, holding and disposing of the shares of a MIC. The income tax consequences may not be the same for all Purchasers but may vary depending on a number of factors, including whether the Purchaser is an individual, a trust or a corporation, the province of residence of the Purchaser, and whether the Purchaser's shares are characterized as capital property. The following discussion of the income tax consequences is therefore of a general nature only, is not intended to constitute a complete analysis of all the income tax consequences and should not be interpreted as legal or tax advice to any particular Purchaser(s).

The comments in this summary are restricted to the case of a Purchaser who acquires shares as capital property and who is resident in Canada for the purposes of the Tax Act. The summary does not take into account tax laws of a province or territory of Canada or of any jurisdiction outside Canada.

This summary is based upon the current provisions of the Tax Act.

6.3 Scheme of Provisions

The Tax Act contains a number of provisions that enable investors to “pool” their funds through investing in special corporations that are treated in a manner that avoids the two-tiered taxation normally applicable to shareholders of an Issuer (defined below) in respect of distributions of that company’s profits. This result is achieved by effectively treating these special corporations as a conduit so that an investor is put in the same position from an income tax perspective as if the corporation’s investment had been made directly by the investor.

A MIC is one of these special types of corporations.

6.4 Definition of a MIC

A number of requirements must have been met throughout the year in order for a corporation (herein referred to as the “Issuer”) to qualify as a MIC under the Tax Act for that year. If the following requirements are met throughout a particular year, a corporation will qualify for MIC status that year:

- (i) Canadian Corporation - the Issuer must have been a Canadian corporation, which generally means a corporation incorporated and resident in Canada.
- (ii) Undertaking - the Issuer’s only undertaking was the “*investing of funds of the Issuer*”. The Issuer cannot have managed or developed any real or immovable property.
- (iii) 50% Asset Test - at least 50% of the “*cost amount*”, as defined in the Tax Act, to the Issuer of all of its property must have consisted of the Issuer’s money, debts owing to the Issuer that were secured on certain specified residential properties, and any deposit standing to the Issuer’s credit in the records of a bank or other certain specified financial institutions.
- (iv) 25% Asset Test - the “*cost amount*” to the Issuer of all of its real property including leasehold interest in such property, other than real property acquired by foreclosure or otherwise after default made on a mortgage, hypothecation or agreement for sale of real property, must not have exceeded 25% of the “*cost amount*” to the Issuer of all of its property. The limit is designed to ensure that the primary intention of the Issuer’s investment was directed towards residential mortgages.
- (v) Prohibited Foreign Investment - none of the property of the Issuer consists of debts owing to the Issuer that were secured on real or immovable property situated outside Canada, debts owing to the Issuer by non resident persons unless secured on real or immovable property situated in Canada, shares of the capital stock of Issuers not resident in Canada, real or immovable property situated outside Canada, or any leasehold interest in real or immovable property situated outside Canada.
- (vi) Shareholder Requirements - the Issuer must have at least 20 shareholders, and no shareholder (together with Related Persons, see below) of the Issuer at any time during the year owned, directly or indirectly, more than 25% of the issued shares of any class of the capital stock of the Issuer. Special rules apply for the purposes of counting shareholders that are registered pension plans or deferred profit sharing plans.
- (vii) Classes of Shareholders - any holders of preferred shares (as defined in the Tax Act) of the Issuer must have the right after payment to them of their dividends, and payment of dividends in a like

amount per share to the holders of common shares of the Issuer, to participate *pari passu* with the holders of the common shares in any further payment of dividends.

- (viii) Debt to Equity Ratio - the Issuer is restricted to borrowing a maximum of three times its equity capital unless at least two-thirds of the book value of its investments are mortgages secured on Canadian residential property, the company's money, and specified deposits, in which case the maximum borrowing is five times its equity capital.

With respect to the requirement noted above that no shareholder (together with Related Persons) may own more than 25% of the shares of any class of the Issuer, for these purposes "*Related Persons*" include a corporation and the person or persons that control the corporation, a parent corporation and its subsidiary corporation(s) and corporations that are part of the same corporate group, and an individual and that individual's spouse, common-law partner or child under 18 years of age. The rules in the Tax Act defining "*related persons*" are complex and shareholders should consult their own tax advisors in this regard.

6.5 Taxation of the Company

This discussion, and the discussion that follows under subsequent headings, is based on the assumption that the Company qualifies as a MIC under the Tax Act at all relevant times.

A MIC, as a general rule, is subject to tax on the same basis as any Canadian public corporation. However, special rules relating to a MIC enable it to reduce its federal taxable income in the year if, during the year or within 90 days after the end of the year, it distributed all of its capital gains arising in the year by way of "*capital gains dividends*" and all of its other income by way of taxable dividends. More specifically, the Company is entitled to deduct from its federal taxable income the total of:

- (i) all taxable dividends, other than capital gains dividends, paid by the Company during the year (to the extent not deductible in computing income of the previous year) or within 90 days after the end of the year to the extent that those dividends will not be deductible for the Company in computing its income for the preceding year; and
- (ii) half of all capital gains dividends paid by the Company during the period commencing 91 days after the commencement of the year and ending 90 days after the end of the year.

If all of the Company's federal taxable income for the year is distributed in this manner, no federal tax is payable by the Company for that year. The elimination of provincial tax depends on relevant provincial legislation. For example, in British Columbia no corporate income tax would be payable if the Company's federal taxable income was zero because the Company's income taxes for British Columbia's income tax purposes is calculated by reference to its taxable income for federal tax purposes.

Because of the permitted deductions outlined above, the Company is not entitled to the deduction in respect of taxable dividends the Company receives from other taxable Canadian corporations.

The Company must elect in order to distribute its capital gains as capital gains dividends. The election must be made in a prescribed manner and by a prescribed time. The total capital gains dividends that may be paid by the Company for a year is limited to the extent of twice the Company's "*taxable capital gains*" for the year less its allowable capital losses for the year and any "*net allowable capital losses*" of prior years that are carried forward and deducted in the year. A special tax is imposed on the Company if the capital gains dividends exceed this limit. However, there is a special election procedure, whereby this tax can be avoided in certain circumstances if the excess of the dividend is elected to be treated as a separate taxable dividend.

6.6 Taxation of Shareholders

- (i) Capital Gains Dividends - a capital gains dividend received by a Canadian resident shareholder is not included as dividend income of the shareholder, but rather is deemed to be a capital gain of the shareholder for the year from “a disposition of capital property”.

Thus, with respect to capital gains realized by the Company, the Company serves effectively as a conduit only interposed between the investor and the underlying investment. The result is only achieved, however, if the capital gains dividends are paid by the Company within the required time, and the proper elections are made by the Company in prescribed form and by the proper time. If the capital gains dividends are not paid in this manner, the capital gains realized by the Company are taxable to the Company as they would be in the case of any public company. Because the Company will have no “*capital dividend account*”, the combined corporate and shareholder tax (when the amounts are paid out to the investor as taxable dividends) could be significantly greater than if the conduit mechanism was used.

- (ii) Taxable Dividends (Other than Capital Gains Dividends) - dividends other than capital gains dividends paid by the Company are not included in the income of a shareholder as taxable dividends, but rather are deemed to have been received by the shareholder as interest income payable on a bond issued by the Company after 1971. Accordingly, the “*gross-up/dividend tax credit*” mechanism provided in the Tax Act does not apply to taxable dividends paid by the Company to Canadian resident individual shareholders. Canadian resident corporate shareholders are not entitled to deduct the amount of a taxable dividend received from a MIC in computing taxable income.

If the Company distributes all of its income, it is again effectively treated as a conduit between the investor and the underlying investment, at least with respect to rental and interest income earned. As is the case with capital gains dividends, if the Company does not distribute all of its income within the required time by way of taxable dividends, the income remains taxable in the Company in the same manner as any other public corporation. When amounts are subsequently distributed to the shareholders through the payment of taxable dividends, the combined corporate and shareholder tax may be significantly higher than if the conduit mechanisms was used.

- (iii) Disposition of Shares - assuming the shares are capital property to the investor, the usual rules in determining capital gains and capital losses apply on the disposition of those shares as would apply on similar shares of any other public corporation. Certain taxpayers, such as securities dealers and those who have acquired the shares in the course of a business of buying and selling shares or in a transaction that is an “*adventure in the nature of trade*”, would not be considered to be holder of the shares as capital property.

One half of any capital gain that is realised on the disposition of the shares will be included in the shareholder’s income. Any amount that is deemed to be interest or a capital gains dividend on the redemption or other acquisition of the shares by the Company is not included in determining the proceeds of disposition of the shares for capital gains purposes.

- (iv) Deferred Income Plans - the shares are qualified investments for trusts governed by Registered Retirement Savings Plans, Deferred Profit Sharing Plans and Registered Retirement Income Funds at the particular time if the Company qualified as a MIC under the Tax Act, and if, throughout the calendar year in which the particular time occurs, the Company does not hold as part of its property any indebtedness, whether by way of mortgage or otherwise of a person who is an annuitant, a beneficiary or an employer, as the case may be, under the governing plan trust, or of any other person who does not deal at arm’s length with that person.
- (v) Non-Resident Shareholders - shareholders who are considered to be non-resident of Canada are subject to the following rule in the Tax Act: Any taxable dividends paid from the Company to a non-resident shareholder would be subject to a Canadian withholding tax at a maximum rate of

25% of the taxable dividend paid. This rate may be reduced if Canada has ratified a bilateral income tax treaty with the country in which the shareholder is resident.

6.7 RRSP, RRIF, RESP, TFSA Eligibility

If issued on the date hereof, the Preferred Shares would be qualified investments under the Tax Act for a trust governed by a RRSP, a RRIF, a DPSP, a RDSP, a TFSA and a RESP, provided that either: (i) the Company qualifies as a MIC throughout a taxation year and further provided that at any time in the relevant calendar year, the Company does not hold any indebtedness, whether by way of mortgage or otherwise, of a person who is an annuitant, a beneficiary, an employer, or a subscriber under the plan, or of any other person who does not deal at arm's length with that person; or (ii) the Preferred Shares are listed on a designated stock exchange for the purposes of the Tax Act.

Notwithstanding that the Common Shares and Preferred Shares may be qualified investments for a trust governed by a RRIF, RRSP and TFSA, the holder of a RRIF, RRSP and TFSA that holds Common Shares or Preferred Shares will be subject to a penalty tax on such shares if the shares are a "*prohibited investment*" for that RRIF, RRSP and TFSA. The Common Shares or Preferred Shares will generally be a "*prohibited investment*" if the holder of a RRIF, RRSP and TFSA does not deal at arm's length with the Company for purposes of the Tax Act or the holder of the RRIF, RRSP and TFSA has a "*significant interest*" (within the meaning of the Tax Act) in the Company or a corporation, partnership or trust with which the Company does not deal at arm's length for the purposes of the Tax Act.

The income and other tax consequences of acquiring, holding or disposing of the Preferred Shares will vary depending on the particular circumstances of the holder thereof, including any province or territory in which the holder resides or carries on business. Accordingly, this summary is of a general nature only and is not intended to be legal or tax advice to any prospective purchaser. Consequently, prospective purchasers should consult their own tax advisors for advice with respect to the tax consequences to them of an investment in the shares based on their particular circumstances.

The Company is making the income tax disclosure contained in this Item 6, but it makes no other warranties or representations, implied or otherwise, with respect to taxation issues. If the Company were not to qualify as a MIC, the income tax consequences would be materially different from those described in this Item 6.

Purchasers should consult with their own tax advisor regarding the income tax consequences of acquiring, holding and disposing of the Preferred Shares, including the application and effect of the income and other tax laws of any country, province, state or local tax authority.

ITEM 7 - COMPENSATION PAID TO SELLERS AND FINDERS

Managers: The Company pays the Manager fees relating to the administration of the business of the Company (see Item 2.2 – "*The Company's Business – Financial Services*").

Agent: Pursuant to the Agency Agreement, the Agent has agreed to act as agent for and on behalf of the Company, on a "*commercially reasonable efforts*" agency basis, in connection with the Offering. In consideration for the services to be provided by the Agent, the Agent will be paid a cash fee of (i) \$500 per closing; and (ii) an annual trailing fee of 1% of the value of Preferred Shares held by clients of the Agent, calculated and paid on a quarterly basis (at the end of each financial quarter of the Company). The Company estimates that it will pay the Agent an aggregate of \$826,790.80 (assuming the Offering is completed in 4 tranches (one closing per quarter) and the subscription for the Maximum Offering by clients of the Agent, but does not take into account 1% of the value of Preferred Shares currently held by clients of the Agent, or the value of Preferred Shares which may be acquired by clients of the Agent through dividend reinvestment).

ITEM 8 - RISK FACTORS

In addition to the factors set forth elsewhere in this Offering Memorandum, potential Purchasers should carefully consider the following factors, many of which are inherent to the ownership of the Preferred Shares. The following is a summary only of the risk factors involved in an investment of the Preferred Shares. Purchasers should consult with their own professional advisors to assess the income tax, legal and other aspects of an investment in the Preferred Shares.

Speculative Investment

An investment in the Preferred Shares is highly speculative. Investment in the Preferred Shares should be considered only by Purchasers who are able to make a long term investment and are aware of the risk factors involved in such an investment. You should only invest in the Preferred Shares if you are able to bear the risk of the entire loss of your investment and have no need for immediate liquidity in such investment.

Risks Associated With Mortgage Loans

Real estate investment contains elements of risk and is subject to uncertainties such as costs of operation and financing and fluctuating demand for developed real estate. In addition, prospective Purchasers should take note of the following:

- (i) Credit Risk: As with most mortgage investment corporations, the Company provides financings to borrowers who may not meet financing criteria for conventional mortgages from institutional sources and, as a result, these investments generally earn a higher rate of return than what institutional lenders may receive. Credit risk is the risk that the mortgagor will fail to discharge the obligation causing the Company to incur a financial loss. The Company minimizes its credit risk primarily by ensuring that the collateral value of the security fully protects both first and second mortgage advances, that there is a viable exit strategy for each loan, and that loans are made to experienced developers and owners. In addition, the Company limits concentration of risk by diversifying its mortgage portfolio by way of location, property type, and maximum loan amount on any one property and maximum loan amount to any one borrower or connection.
- (ii) Liquidity Risk: Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet commitments associated with financial instruments. The Company attempts to hedge this liquidity risk by maintaining a line of credit (refer to Item 2 above) and managing Preferred Shares (refer to Item 5 above). Successful utilization of leverage, as contemplated by any bank line of credit or other financing depends on the Company's ability to borrow funds from outside sources and to use those funds to make loans and other investments at rates of return in excess of the cost to the Company of the borrowed funds. Leverage increases exposure to loss. The Company controls liquidity risks through cash flow projections used to forecast funding requirements on mortgage proposals and includes anticipated redemption of Preferred Shares. The Company commits to mortgage investments only on an assured cash availability basis.
- (iii) Mortgage Insurance: The Company's mortgage loans will not usually be insured by CMHC or any other mortgage insurer in whole or in part.
- (iv) Decline in Property Value: The Company's mortgage loans will be secured by real estate. All real estate investments are subject to elements of risk. Real property value is affected by general economic conditions, local real estate markets, the attractiveness of the property to tenants, competition from other available properties and other factors. While independent appraisals are required before the Company may make any mortgage investments, the appraised values provided therein, even where reported on an "as is" basis, are not necessarily reflective of the market value of the underlying real property, which may fluctuate.

- (v) Default: In case of default on a mortgage, it may be necessary for the Company, in order to protect the investment, to engage in foreclosure or sale proceedings and to make further outlays to complete an unfinished project or to maintain prior encumbrances in good standing.
- (vi) Impaired Loans: The Company may from time to time have one or more impaired loans in its portfolio, particulars of which can be obtained by contacting the Company. The Company defines loans as being impaired where full recovery is considered in doubt based on a current evaluation of the security held and for which write-downs have been taken or specific loss provisions established. As at the date of this Offering Memorandum, there were 7 loans considered to be impaired, for an aggregate of \$2,278,493 representing 14.96% of the Company's loan portfolio.
- (vii) Priority: Financial charges funded by first mortgage lenders may in some cases rank in priority to the mortgages registered in favour of the Company. In the event of default by the mortgagor under any prior financial charge, the Company may be required to arrange a new first mortgage or pay out same, in order to avoid adverse financial implications.

In recognition of the risks which may be involved in the Company's investments, the Company will establish reserves against potential losses in such amounts as are anticipated to be deductible for income tax purposes under the Tax Act as determined in consultation with the Company's auditors.

Competition

The earnings of the Company depend on the ability of the Manager to recommend suitable opportunities for the investment of the Company's funds and on the yields available from time to time on mortgages as well as the cost of borrowings. A variety of competing lenders and investors are active in the areas of investment in which the Company operates. The yields on real estate investments, including mortgages, depend on many factors including economic conditions, the level of risk assumed, conditions in the real estate industry, opportunities for other types of investments, and tax laws. The Company cannot predict the effect which such factors will have on its operations.

Prospectus Exemption

The Preferred Share Offerings are being made pursuant to exemptions from the prospectus requirements of applicable securities legislation (the "**Exemptions**"). As a consequence of acquiring the Preferred Shares offered hereby pursuant to such Exemptions and the fact that no prospectus has or is required to be filed with respect to any of the Preferred Shares offered hereby under applicable securities legislation in Canada: (i) you will be restricted from using certain of the civil remedies available under applicable securities legislation; (ii) certain protections, rights and remedies provided in such legislation will not be available to you; (iii) you may not receive information that might otherwise be required to be provided to you under such legislation; and (iv) the Company is relieved from certain obligations that would otherwise apply under such legislation.

Marketability

There is no market for resale of the Preferred Shares and consequently it may be difficult or even impossible for Purchasers to sell them. In addition, the Preferred Shares may not be readily acceptable as collateral for loans.

There are restrictions on resale of the Preferred Shares by Purchasers. Such restrictions on resale may never expire and Purchasers should consult with their professional advisors in respect of resale of the Preferred Shares. See Item 10 - "*Resale Restrictions*" in this regard.

The Company does not presently intend to qualify its securities for sale to the public by way of prospectus.

Income Tax Designation

Under the Management Agreement, the Managers are responsible for ensuring that the Company's operations are conducted in a manner that will not jeopardize its designation as a MIC under the Tax Act. If for any reason the Company fails to maintain its designation, the dividends paid by the Company on the Preferred Shares would cease to be deductible from the income of the Company. In addition, the Preferred Shares would cease to be qualified investments for trusts governed by a RRSP, a RRIF, a DPSP, a RDSP, a TFSA and a RESP with the effect that a penalty tax of 1 % per month of the value of the Preferred Shares would be payable.

Conflict of Interest

The Company and its shareholders are dependent in large part upon the experience and good faith of the Managers. The Managers are entitled to act, currently act and in the future may act in a similar capacity for other companies with investment criteria similar to those of the Company. Accordingly, there may be instances in which an investment opportunity may be suitable for the Company as well as other mortgage lenders or investors with whom the Managers have business relations. In such cases, the Managers have the right to take such action as they see fit. As such, there is a risk the Managers will not be able to originate sufficient suitable investment opportunities to keep the Company's funds fully invested.

The Directors of the Company and the Managers may be employed by or act in other capacities for other companies involved in mortgage and lending activities.

The Directors of the Company may by unanimous resolution vary the Company's investment criteria. The Directors are also entitled to terminate the Management Agreement.

Impact of Changes in Government Regulations

The Company may need to change the manner in which it conducts its business if government legislation or regulation increases or changes.

ITEM 9 - REPORTING OBLIGATIONS

9.1 Documents Provided to Shareholders Annually

The Company is not a "*reporting issuer*" as such term is defined in applicable securities legislation and accordingly is not subject to most of the continuous disclosure reporting obligations imposed on reporting issuers by securities legislation in British Columbia. In accordance with requirements of the *Business Corporations Act* (BC), the Company is required to place audited financial statements before its shareholders at each annual general meeting and to deposit copies for inspection in its corporate records maintained at its records office which are available for inspection by any shareholders during normal business hours.

9.2 Sources of Information About the Company

Information about the Company's incorporation, amendments to its constating documents, Directors, officers, annual corporate filings and other corporate information can be obtained from the British Columbia Registrar of Companies, 2nd Floor – 940 Blanshard Street, (PO Box 9431 Stn. Pvo. Govt.) Victoria, British Columbia V3W 9V3 (Telephone: 250.356.8658; Facsimile: 250.356.9422.)

ITEM 10 - RESALE RESTRICTIONS

10.1 General

These securities will be subject to a number of resale restrictions, including a restriction on trading. Until the restriction on trading expires, you will not be able to trade the securities unless you comply with an exemption from the prospectus and registration requirements under applicable securities legislation.

10.2 Restricted Period

For Purchasers in British Columbia and Alberta, unless permitted under securities legislation, you cannot trade the securities before the date that is four months and a day after the date the Company becomes a reporting issuer in any province or territory of Canada.

After such period, the Preferred Shares may be transferable, subject to restrictions on transfer required in order to comply with certain provisions of the Tax Act. Section 130.1(6)(d) of the Tax Act stipulates that a mortgage investment corporation may not have fewer than 20 shareholders and no one shareholder may hold more than 25% of the issued and outstanding shares of any class of the Company's capital. Accordingly, the Articles of the Company provide that the Directors of the Company may prohibit the transfer of shares in any case where as a result of the transfer the Company would no longer meet the requirements of a MIC. The Directors of the Company intend to refuse the registration of an allotment or transfer of the Company's shares which may result in the Company ceasing to meet such qualification.

ITEM 11 - PURCHASER'S RIGHTS

Securities legislation in British Columbia and Alberta requires you as a purchaser of securities to be provided with a remedy for rescission or damages, or both, in addition to any other right that a Purchaser may have at law, where this Offering Memorandum and any amendments to it contains a misrepresentation. These remedies must be exercised by a Purchaser within the time limits prescribed by the applicable securities legislation. Purchasers should refer to the applicable provisions of the securities legislation for the complete text of these rights.

If you purchase Preferred Shares pursuant to this Offering Memorandum you will have certain rights, some of which are described below. For information about your rights, you should consult a lawyer.

(a) Two-Day Cancellation Right

You can cancel your agreement to purchase Preferred Shares. To do so, you must send a notice to the Company by midnight on the second business day after you sign the subscription agreement to buy the Preferred Shares.

(b) Statutory Rights of Action in the Event of a Misrepresentation

Rights for Purchasers in British Columbia and Alberta

Securities legislation in British Columbia and Alberta provides that if you purchase Preferred Shares pursuant to this Offering Memorandum, you shall have, in addition to any other rights you may have at law, a right of action for damages or rescission against the Company, every Director of the Company and every person who signs the Offering Memorandum or any amendment thereto in the event that the Offering Memorandum or any amendment thereto contains a misrepresentation. However, such rights must be exercised within prescribed time limits. You should refer to the applicable provisions of the British Columbia or Alberta securities legislation for particulars of those rights or consult with a lawyer. For these purposes, a "*misrepresentation*" means an untrue statement of a material fact or an omission to state a material fact that is required to be stated, or necessary to prevent a statement that is made from being false or misleading in the circumstances in which it was made. A "*material fact*" means any fact that

significantly affects or could reasonably be expected to significantly affect the market price or the value of the Preferred Shares.

The Company will not be liable if it proves that you had knowledge of the misrepresentation. In the case of an action for damages, the Company will not be liable for all or any portion of such damages that it proves do not represent the depreciation in value of the securities as a result of the misrepresentation relied upon, and in no case will the amount recoverable in any action exceed the price at which the Preferred Shares were sold to you.

In British Columbia and Alberta, no action shall be commenced to enforce a statutory right of action unless the right is exercised:

- (a) in the case of rescission, on notice to the Company not later than 180 days from the day of the transaction that gave rise to the cause of action, or
- (b) in the case of damages, on notice given to the Company not later than:
 - (i) 180 days from the day you first had knowledge of the facts giving rise to the cause of action; or
 - (ii) three years from the day of the transaction that gave rise to the cause of action.

The rights of action for rescission or damages are in addition to and without derogation from any other right you may have at law.

Reference is made to the *Securities Act* (British Columbia) and the *Securities Act* (Alberta) for the complete text of the provisions under which these rights are conferred and this summary is subject to the express provisions of the *Securities Act* (British Columbia) or the *Securities Act* (Alberta), as applicable. You should refer to the applicable provisions of the British Columbia or Alberta securities legislation, as applicable, for particulars of your rights or consult with a lawyer.

ITEM 12 - FINANCIAL STATEMENTS

Audited annual financial statements as at June 30, 2016 are attached.

All Island Equity Mortgage Investment Corp.
Financial Statements
June 30, 2016

All Island Equity Mortgage Investment Corp.

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For the year ended June 30, 2016

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Management's Responsibility

To the Shareholders of All Island Equity Mortgage Investment Corp.:

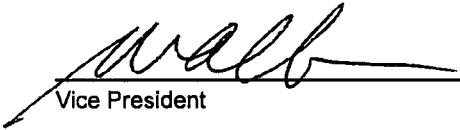
Management is responsible for the preparation and presentation of the accompanying financial statements, including responsibility for significant accounting judgments and estimates in accordance with International Financial Reporting Standards. This responsibility includes selecting appropriate accounting principles and methods, and making decisions affecting the measurement of transactions in which objective judgment is required.

In discharging its responsibilities for the integrity and fairness of the financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets are safeguarded and financial records are properly maintained to provide reliable information for the preparation of financial statements.

The Board of Directors is composed primarily of Directors who are neither management nor employees of the Company. The Board is responsible for overseeing management in the performance of its financial reporting responsibilities, and for approving the financial information included in the annual report. The Board fulfils these responsibilities by reviewing the financial information prepared by management and discussing relevant matters with management and external auditors. The Board is also responsible for recommending the appointment of the Company's external auditors.

MNP LLP is appointed by the shareholders to audit the financial statements and report directly to them; their report follows. The external auditors have full and free access to, and meet periodically with, both the Board and management to discuss their audit findings.

August 11, 2016



Vice President

Independent Auditors' Report

To the Shareholders of All Island Equity Mortgage Investment Corp.:

We have audited the accompanying financial statements of All Island Equity Mortgage Investment Corp., which comprise the statement of financial position as at June 30, 2016, and the statements of comprehensive income (loss), changes in shareholders' equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of All Island Equity Mortgage Investment Corp. as at June 30, 2016 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Nanaimo, British Columbia

August 11, 2016

MNP LLP

Chartered Professional Accountants

All Island Equity Mortgage Investment Corp.
Statement of Financial Position

As at June 30, 2016

	2016	2015
Assets		
Current		
Cash	35,394	-
Current portion of mortgages receivable (Note 5), (Note 6)	14,178,636	9,375,362
	14,214,030	9,375,362
Non-current		
Loan due from 1048377 B.C. Ltd. (Note 7)	1,210,000	-
Mortgages receivable (Note 5), (Note 6)	1,781,546	6,312,382
Foreclosed assets held for sale (Note 8)	392,038	920,445
	17,597,614	16,608,189
Liabilities		
Current		
Bank indebtedness (Note 9)	259,000	625,483
Accounts payable and accruals	121,233	79,518
Dividends payable	61,555	41,043
Prepaid mortgage interest	21,250	161,750
Unearned revenue	59,346	49,763
Redeemable/retractable preferred shares (Note 10)	17,489,627	16,142,607
	18,012,011	17,100,164
Commitments (Note 15)		
Shareholder's Equity		
Share capital (Note 11)	10	10
Deficit	(414,407)	(491,985)
	(414,397)	(491,975)
	17,597,614	16,608,189

Approved on behalf of the Board

Director

Director

All Island Equity Mortgage Investment Corp.
Statement of Comprehensive Income (Loss)

For the year ended June 30, 2016

	2016	2015
Revenue		
Lender fees	111,226	95,464
Interest - mortgage investments	1,232,344	1,058,963
Other income	5,080	6,000
	1,348,650	1,160,427
Expenses		
Bad debts	20,000	-
Bank charges	2,139	2,577
Interest	13,347	13,832
Management fees (Note 12)	196,732	204,987
Office	24,512	5,255
Professional fees	45,859	46,871
Computershare transfer agent fees	10,603	11,541
	313,192	285,063
Net earnings before other items	1,035,458	875,364
Other items		
Realized mortgage investment loss	71,798	101,586
Provision for mortgage investment loss (gain) (Note 5)	239,818	405,626
Provision for loss on foreclosed assets held for sale	42,204	33,988
Net earnings before dividend expense	681,638	334,164
Dividend expense	(604,060)	(479,160)
Net income (loss) and comprehensive income (loss)	77,578	(144,996)

The accompanying notes are an integral part of these financial statements

All Island Equity Mortgage Investment Corp.
Statement of Changes in Shareholders' Equity
For the year ended June 30, 2016

	Share capital	Deficit	2016	2015
<hr/>				
Shareholders' equity, beginning of year	10	(491,985)	(491,975)	(346,979)
Comprehensive income (loss)	-	77,578	77,578	(144,996)
<hr/>				
Shareholders' equity, end of year	10	(414,407)	(414,397)	(491,975)

The accompanying notes are an integral part of these financial statements

All Island Equity Mortgage Investment Corp.

Statement of Cash Flows

For the year ended June 30, 2016

	2016	2015
Cash provided by (used for) the following activities		
Operating activities		
Fees and other receipts	105,888	121,690
Cash paid to suppliers	(198,379)	(259,250)
Interest received	1,436,078	1,577,233
Interest paid	(15,486)	(16,409)
Dividends paid	(204,291)	(147,195)
	1,123,810	1,276,069
Financing activities		
Advances on bank indebtedness	-	390,000
Repayment of bank indebtedness	(366,483)	-
Proceeds from issuance of preferred shares	2,159,710	1,478,500
Redemption of preferred shares	(1,199,139)	(2,373,930)
Payment of share issue costs	(6,423)	(3,638)
	587,665	(509,068)
Investing activities		
Funding of mortgage investments	(9,868,747)	(8,114,868)
Discharge of mortgage investments	7,701,463	7,362,006
Costs incurred for foreclosed assets held for sale	(3,914)	(16,769)
Proceeds from disposal of foreclosed assets held for sale	490,117	-
Proceeds from right to purchase agreement	5,000	-
	(1,676,081)	(769,631)
Increase (decrease) in cash resources	35,394	(2,630)
Cash resources, beginning of year	-	2,630
Cash resources, end of year	35,394	-
Supplementary cash flow information		
Class B Shares issued under dividend reinvestment plan	379,257	290,921

The accompanying notes are an integral part of these financial statements

All Island Equity Mortgage Investment Corp.
Notes to the Financial Statements
For the year ended June 30, 2016

1. Reporting entity

All Island Equity Mortgage Investment Corp. (the "Company") was incorporated under the laws of British Columbia on February 27, 1997. The Company is domiciled in Canada. The company's principal business activity is mortgage lending for residential and commercial properties. The Company is a mortgage investment corporation ("MIC") and is deemed to be a public corporation under the Income Tax Act.

The investment objective of the company is, with a primary focus on capital preservation, to acquire and maintain a diversified portfolio of mortgage loan investments, which generates income allowing the Company to pay annual dividends to shareholders at the highest possible return.

The address of the Company's registered office is 450 Wentworth Street, Nanaimo, British Columbia.

The financial statements were approved by the board of directors and authorized for issue on July 29, 2016.

2. Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") and interpretations adopted by the International Accounting Standards Board ("IASB").

3. Basis of preparation

Basis of measurement

The financial statements have been prepared in the historical basis except for the revaluation of certain non-current assets and financial instruments. The principal accounting policies are set out in Note 4.

Functional and presentation currency

These financial statements are presented in Canadian dollars, which is the Company's functional currency.

Significant accounting judgments, estimates and assumptions

The preparation of the Company's financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainties about these assumptions and estimates could result in outcomes that would require a material adjustment to the carrying amount of the asset or liability affected in the future.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date are discussed below.

Mortgages receivable and foreclosed assets held for sale

The most significant estimates that management is required to make relate to the fair value of the mortgages receivable and foreclosed assets held for sale. These estimates may include assumptions regarding local real estate market condition, interest rates on the availability of credit, cost and terms of financing and other factors affecting the investments in mortgages and underlying security of the mortgages. These key management estimates are subjective and involve inherent uncertainties and judgments.

These estimates and assumptions are reviewed periodically and, as adjustments become necessary, they are reported in net earnings in the periods in which they become known. Changes to the underlying assumptions and estimates or legislative changes in the near term could have a material impact on the provision recognized.

All Island Equity Mortgage Investment Corp.
Notes to the Financial Statements
For the year ended June 30, 2016

4. Summary of significant accounting policies

Except as noted above, the following principle accounting policies have been adopted in the preparation of these financial statements.

Revenue recognition

Interest income is recognized on an accrual basis by the effective interest method, using an effective interest rate which exactly discounts estimated future cash receipts to the net carrying amount of the financial asset over the asset's expected life.

Appraisal, discharge, inspection and NSF fees are recognized when all contractual obligations have been satisfied and collectability is reasonably assured.

Application and renewal fees are amortized to income over the contractual terms of the mortgages. Forfeited lender fees are recognized at the time a borrower is determined not to have fulfilled the terms and conditions of a mortgage commitment and payment has been received.

Financial Instruments

Financial assets at fair value through profit or loss:

The Company has classified cash and cash equivalents at fair value through profit (loss).

The Company's financial assets at fair value through profit (loss) are initially recognized at their fair value. Fair value is approximated by the instrument's initial cost in a transaction between unrelated parties. Transactions to purchase or sell these items are recorded on the trade date.

Financial assets at fair value through profit (loss) are subsequently measured at their fair value.

Loans and receivables:

The Company has classified the following financial assets as loans and receivables: mortgages receivable, and loan due from 1048377 BC Ltd. These assets are initially recognized at their fair value. Total interest income, calculated using the effective interest rate method, is recognized in comprehensive income (loss).

Loans and receivables are subsequently measured at their amortized cost, using the effective interest method. Under this method, estimated future cash receipts are exactly discounted over the asset's expected life, or other appropriate period, to its net carrying value. Amortized cost is the amount at which the financial asset is measured at initial recognition less principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount, and less any reduction for impairment or uncollectability. Net gains and losses arising from changes in fair value are recognized in comprehensive income (loss) upon derecognition or impairment.

When a mortgage is identified as impaired, the carrying amount becomes the lower of the recorded investment and the estimated realizable amount. Estimated realizable amounts are measured by discounting the expected future cash flows at the effective interest rate inherent in the mortgage. When the amount and timing of such cash flows cannot be estimated with reasonable reliability, estimated realizable amounts are based on the fair value of the security underlying the mortgages, net of expected costs of realization.

Mortgage credit quality is assessed at a specific and collective level for reasonable assurance of timely collection of the full amount of principal and interest. Impairment is assessed on a specific mortgage basis taking into account past experience, credit quality, payments in arrears, general economic conditions and real estate market conditions. When a mortgage is identified as impaired, the carrying amount becomes the lower of the recorded investment and the estimated realizable amount. Estimated realizable amounts are measured by discounting the expected future cash flows at the effective interest rate inherent in the mortgage. When the amount and timing of such cash flows cannot be estimated with reasonable reliability, estimated realizable amounts are based on the fair value of the security underlying the mortgages, net of expected costs of realization.

All Island Equity Mortgage Investment Corp.
Notes to the Financial Statements
For the year ended June 30, 2016

4. Summary of significant accounting policies *(Continued from previous page)*

Financial liabilities measured at amortized cost:

The Company has classified the following financial liabilities as financial liabilities measured at amortized cost: bank indebtedness, accounts payable and accruals, dividends payable, and liability component of redeemable/retractable preferred shares. These liabilities are initially recognized at their fair value. Fair value is approximated by the instrument's initial cost in a transaction between unrelated parties. Transactions to purchase or sell these items are recorded on the trade date.

Financial liabilities measured at amortized cost are subsequently measured at amortized cost using the effective interest method. Under this method, estimated future cash payments are exactly discounted over the liability's expected life, or other appropriate period, to its net carrying value. Amortized cost is the amount at which the financial liability is measured at initial recognition less principal repayments, and plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount. Net gains and losses arising from changes in fair value are recognized in comprehensive income (loss) upon derecognition.

Financial asset impairment

The Company assesses impairment of all its financial assets, except those classified at fair value through profit (loss). Management considers whether there has been a breach in contract, such as a default or delinquency in interest or principal payment in determining whether objective evidence of impairment exists. Impairment is measured as the difference between the asset's carrying value and its fair value. Any impairment, which is not considered temporary, is included in current year comprehensive income (loss).

The Company reverses impairment losses on financial assets carried at amortized cost when the decrease in impairment can be objectively related to an event occurring after the impairment loss was recognized.

Foreclosed assets held for sale

When the company obtains legal title of the underlying security of an impaired mortgage receivable, the carrying value of the mortgage receivable, which comprises of principal, costs incurred, accrued interest receivable and a provision for mortgage investment loss, if any, is reclassified from mortgage and loan investments to foreclosed assets held for sale. Foreclosed assets held for sale are recognized at the lower of its carrying amount and fair value less costs to sell. The company uses management's best estimate to determine fair value of these properties, which may involve frequent inspections, engaging realtors to assess market conditions based on previous property transactions or, retaining professional appraisers to provide independent valuations.

Contractual interest on the mortgage investment is discontinued from the date of transfer from mortgage receivable to foreclosed assets held for sale. Net income or loss generated from foreclosed assets held for sale (including fair value adjustments), if any, is recorded as provision for loss (recovery) on foreclosed assets held for sale.

Preferred shares

The Company classifies financial instruments issued as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments. As such, redeemable shares are presented as a liability to the Company. The class B shares are redeemable at a price equal to their original issue amounts plus the amount of dividends declared and unpaid and a pro-rata share of retained earnings (deficit) at the time notice of redemption is received. Dividends are recognized as dividend expense in comprehensive income (loss) as accrued.

Mortgage Investment Corporation ("MIC") eligibility criteria

To qualify as a MIC for Canadian income tax purposes, the Company must comply with the following:

- i) At least 50% of the Company's assets must consist of residentially orientated mortgages and/or cash;
- ii) The Company's only business activity is the investing funds of the corporation and not managing or developing any real property;
- iii) The Company must not hold any investments secured by real property situated outside Canada; and
- iv) No shareholder, along with connected individuals, directly or indirectly may own more than 25% of the issued shares of any class and the Company must have at least 20 shareholders.

In the opinion of management, these requirements have been met.

All Island Equity Mortgage Investment Corp.

Notes to the Financial Statements

For the year ended June 30, 2016

4. Summary of significant accounting policies (Continued from previous page)

Income taxes

The Company is a mortgage investment corporation ("MIC") for income tax purposes. As such, the Company is able to deduct, in computing its income for a taxation year, dividends paid to its shareholders during the year or within 90 days of the end of the year. The Company intends to maintain its status as a MIC and pay dividends to its shareholders in the current year and in future years to ensure that it will not be subject to income taxes. Accordingly, for financial statement reporting purposes, the tax deductibility of the Company's distribution results in the Company being effectively exempt from taxation and no provision for current or future income taxes is required for the Company.

Shareholders who received dividends from the Company, other than capital gains dividends, will be deemed, for income tax purposes, to have received interest payable on a bond issued by the Company and will be subject to Canadian income or withholding taxes accordingly.

As at June 30, 2016, the company has non-capital losses carried forward for income tax purposes of \$304,322 (2015 - \$354,003) which will expire between 2034 and 2035 if not used.

Comprehensive Income (loss)

Comprehensive income (loss) includes all changes in equity of the Company, except those resulting from investments by owners and distributions to owners. Comprehensive income (loss) is the total of net earnings (loss) and other comprehensive income (loss). Other comprehensive income (loss) comprises revenues, expenses, gains and losses that, in accordance with International Financial Reporting Standards, require recognition, but are excluded from net earnings (loss). The Company does not have any items giving rise to other comprehensive income (loss). All gains/losses, including those arising from measurement of all financial instruments have been recognized in net earnings (loss) for the year.

Fair value measurements

The Company classifies fair value measurements recognized in the statement of financial position using a three-tier fair value hierarchy, which prioritises the inputs used in measuring fair value as follows:

- Level 1: Quoted prices (unadjusted) are available in active markets for identical assets or liabilities;
- Level 2: Inputs other than quoted prices in active markets that are observable for the asset or liability, either directly or indirectly; and
- Level 3: Unobservable inputs in which there is little or no market data, which require the Company to develop its own assumptions.

Fair value measurements are classified in the fair value hierarchy based on the lowest level input that is significant to that fair value measurement. This assessment requires judgment, considering factors specific to an asset or a liability and may affect placement within the fair value hierarchy. Cash and cash equivalents are recorded as level one.

Standards Issued but not yet effective

The Company has not yet applied the following new standards, interpretations and amendments to standards that have been issued as at June 30, 2016 but are not yet effective. Unless otherwise stated, the Company does not plan to early adopt any of these new or amended standards and interpretations.

IFRS 9 Financial Instruments

The final version of IFRS 9 (2014) was issued in July 2014 as a complete standard including the requirements for classification and measurement of financial instruments, the new expected loss impairment model and the new hedge accounting model. IFRS 9 (2014) will replace IAS 39 *Financial instruments: recognition and measurement*. IFRS 9 (2014) is effective for reporting periods beginning on or after January 1, 2018. The Company is currently assessing the impact of the standard on its financial statements.

IFRS 15 Revenue from contracts with customers

IFRS 15, issued in May 2014, will specify how and when entities recognize, measure, and disclose revenue. The standard will supersede all current standards dealing with revenue recognition, including IAS 11 *Construction contracts*, IAS 18 *Revenue*, IFRIC 13 *Customer loyalty programmes*, IFRIC 15 *Agreements for the construction of real estate*, IFRIC 18 *Transfers of assets from customers*, and SIC 31 *Revenue – barter transactions involving advertising services*.

All Island Equity Mortgage Investment Corp.
Notes to the Financial Statements
For the year ended June 30, 2016

4. Summary of significant accounting policies *(Continued from previous page)*

IFRS 15 is effective for annual periods beginning on or after January 1, 2018. The Company is currently assessing the impact of this standard on its financial statements.

5. Mortgages receivable

Mortgages receivable consist of the following

	2016	2015
Mortgage principal receivable	16,439,789	16,003,659
Accrued interest receivable	733,863	1,078,097
Less: allowance for mortgage investment loss	(1,213,470)	(1,394,012)
Carrying value of mortgage receivable	15,960,182	15,687,744
Less: current portion	(14,178,636)	(9,375,362)
Long-term portion of mortgages receivable	1,781,546	6,312,382

Mortgages receivable bear interest between 0.0% and 12% (2015 - 0.0% and 12%) and are secured by charges against real property. Principal and/or interest only payments are due monthly and early payment of principal is permitted.

The allowance for mortgage investment loss in the amount of \$1,213,470 (2015 - \$1,394,012) represents the total amount of management's estimate of the shortfall between the mortgages receivable principal balances and the estimated net realizable recovery from collateral securing the mortgage receivable.

The current portion of mortgage investments that are in default is \$2,147,226 (2015 - 3,849,891) and the long-term portion is \$1,311,183 (2015 - \$3,231,234) for a total of \$3,458,409 (2015 - \$7,081,125).

The provision for mortgage investment loss includes \$71,798 (2015 - \$101,586) of realized losses.

6. Mortgages receivable - Portfolio Allocation

	Number of mortgages receivable	Amortized cost	Fair value	% of Portfolio
Mortgage rate %				
equal to 0%	7	2,888,965	2,120,405	13
0.1% to 8.99%	6	2,034,203	2,117,261	13
9% to 9.49%	11	2,560,890	2,610,442	16
9.50% to 9.74%	10	3,028,803	3,067,400	19
9.75% to 9.99%	2	1,865,188	1,881,651	12
10% to 10.25%	1	274,497	276,753	2
10.26% to 10.50%	7	2,690,179	2,770,180	18
over 10.50%	4	1,097,064	1,116,090	7
	48	16,439,789	15,960,182	100

All Island Equity Mortgage Investment Corp.
Notes to the Financial Statements
For the year ended June 30, 2016

7. Loan due from 1048377 B.C. Ltd.

During the year, the Company entered into a contract to sell real property for \$1,215,000 to 1048377 B.C. Ltd., a company owned by a director of the Company. Under the agreement, the Company retains title of the property until the purchase price has been paid in full. During this time the purchaser is permitted to occupy and enjoy the property, and a right to purchase has been registered against the property. 1048377 B.C. Ltd. may pay down the principal balance outstanding at any time during the life of the contract.

According to the agreement, 1048377 B.C. Ltd. is required to make the following monthly payments:

- 1) interest only at 6% from April 15, 2016 - March 15, 2017
- 2) interest only at 7% from March 16, 2017 - March 15, 2018
- 4) \$25,000 on March 15, 2018
- 3) interest only at 8% from March 14, 2018 - March 15, 2019
- 5) Remaining balance due Mar 15, 2019.

8. Foreclosed assets held for sale

Foreclosed assets held for sale consists of four (2015 - seven) foreclosed properties acquired through the foreclosure process, which includes residential properties and lots which are recorded at their fair value of \$392,038 (2014 - \$920,445). The changes in the foreclosed assets held for sale during the year were as follows:

	2016	2015
Balance, beginning of year	920,445	686,398
Foreclosed properties reclassified from mortgage investments	-	251,266
Capital improvements	3,914	16,769
Fair market value adjustment, net	(42,204)	(33,988)
Proceeds from sale of foreclosed properties	(490,117)	-
	392,038	920,445

During the year ended June 30, 2016, the Company closed on the sale of three (2015 - zero) properties for net proceeds of \$490,117. Consideration for one of the properties included a one year vendor take back mortgage of \$130,000 bearing interest of 6% per annum. During the year ended June 30, 2016 the Company recorded a net fair value adjustment of \$42,204 (2015 - \$33,988) on foreclosed properties.

9. Bank indebtedness

At June 30, 2016, the Company has an available operating loan with a credit limit of \$2,000,000, bearing interest at prime plus 1.25%, of which \$259,000 (2015 - \$625,000) was outstanding at year-end. A general security agreement covering all assets of the Company is pledged for the operating loan.

The operating loan requires that the Company maintain an equity balance of at least \$12,000,000 including preferred shares and maintain a ratio of total liabilities to tangible net worth of not greater than 0.25:1. In addition, the Company cannot provide mortgages to any person if the aggregate amount of the mortgage would exceed 15% of the mortgage portfolio without prior written consent of the Bank. As at June 30, 2016, the Company is in compliance with all such covenants. It is management's opinion that the Company is likely to remain in compliance with all credit facility covenants throughout the 12 months subsequent to June 30, 2016.

All Island Equity Mortgage Investment Corp.
Notes to the Financial Statements
For the year ended June 30, 2016

10. Redeemable/retractable preferred shares

The Company has issued preferred shares, redeemable at the option of the holder with 90 days notice and redeemable at the option of the Company with 30 days notice at a redemption price of \$10 per share. In accordance with International Financial Reporting Standards for accounting for financial instruments, share capital which has attributes of a financial liability is presented as such and, accordingly, all Class B preferred shares, redeemable at the option of the holder, have been classified as a current liability.

In the event there is insufficient funds from the repayment of mortgages held by the Company to all shares for which a notice has been given, then such shares shall be redeemed in the order and amount for which such funds are and become available. The Company shall not be obligated to redeem any shares if such a redemption would result in the loss of the Company's status as a mortgage investment corporation within the meaning of the Income Tax Act.

	Number	2016 Amount	Number	2015 Amount
Balance, beginning of year	1,618,109	16,142,607	1,678,560	16,738,424
Redeemed	(119,914)	(1,199,139)	(237,393)	(2,373,930)
Issued for cash	215,971	2,159,710	147,850	1,478,500
Issued as dividend reinvested	37,926	379,257	29,092	290,921
Offering memorandum cost	-	(6,423)	-	(3,638)
Offering memorandum amortization	-	13,615	-	12,330
	1,752,092	17,489,627	1,618,109	16,142,607

11. Share capital

	2016	2015
10 Common shares (Class A)	10	10

Authorized

Common Shares

1,000 Class A common shares, voting, no par value

Redeemable/retractable preferred shares

10,000,000 Class B redeemable preferred shares, non voting, no par value, retractable at the option of the shareholder with 90 days notice, redeemable at the option of the Company with 30 days notice at \$10 each.

All Island Equity Mortgage Investment Corp.

Notes to the Financial Statements

For the year ended June 30, 2016

12. Related party transactions

Under the terms of agreement between the Company and Shack Island Holdings Inc. and Coast Finance Corp., companies controlled by directors of the Company, the Company is to pay an annual fee of 2% (2015 - 2.5%) of the mortgage portfolio of the Company calculated and payable on a quarterly basis for mortgages receivable and management services to the Corporation. Integral Wealth Securities Limited directly receives 1% (2015 - 1.1%) of the 2% (2015 - 2.5%), or 50% (2015 - 44%) to act as an agent as described below. The management agreement expires on June 30, 2017. By mutual agreement of the parties, the term of the Management Agreement may be extended for an additional three year period.

Included in expenses for the current year are \$171,732 (2015 - \$188,760) of management expenses paid to Integral Wealth Securities Limited. The Company has an Agency Agreement with Integral Wealth Securities Limited to act as an agent on behalf of the Company and in consideration for the services to be provided by the Agent is paid a cash fee of \$500 per closing and an annual trailing fee of 1% of the value of preferred shares held by clients of the Agent calculated and paid on a quarterly basis. The agency agreement expires on August 1, 2016. Included in accounts payable is \$45,516 (2015 - \$45,516) payable to Integral Wealth.

Included in expenses for the current year are \$25,000 (2015 - \$16,227) of management fees paid to corporations controlled by directors of the Company for the provision of financial and administrative services. The expenses were conducted in the normal course of operations and measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. Included in accounts payable is \$34,000 (2015 - \$9,000) payable to corporations controlled by directors of the Company for management fees payable. Included in dividend expense is \$31,795 (2014 - 22,605) of dividends paid to shareholders of the Company who are related parties.

During the year, the Company and Shack Island Holdings Inc. and Coast Finance Corp. agreed to waive 100% (\$43,155) of the 1st quarter management fee, 100% (\$41,492) of the 2nd quarter management fee, 100% (\$41,569) of the 3rd quarter management fee and 43% (\$18,820) of the 4th quarter management fee excluding amounts owing to the Agent, for a total of \$145,036 (2015 - \$224,037).

13. Capital management

The Company's objectives when managing capital are to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders; to provide an adequate return to shareholders by pricing products and services commensurately with the level of risk.

The Company monitors capital on the basis of a return on investment calculation to provide shareholders with a consistent rate of return from year to year. During the year, the Company's strategy, which was unchanged from the prior year, was to advance an adequate amount of mortgages at an acceptable risk level to provide a consistent return to shareholders.

In order to maintain compliance with the rules under the Income Tax Act to qualify as a mortgage investment corporation, the Company is subject to capital requirements to maintain a minimum of 20 shareholders with no shareholder owning, directly or indirectly, more than 25% of the issued shares of any class of the share capital of the Company. During the year ended June 30, 2016, the Company was in compliance with these capital requirements.

The Company manages the following as capital:

	2016	2015
Share capital	10	10
Deficit	(414,407)	(491,985)
Liability component of redeemable/retractable preferred shares	17,489,627	16,142,607
	17,075,230	15,650,632

The Company is subject to a capital requirement imposed by the Royal Bank of Canada with regards to maintaining an equity balance of at least \$12,000,000. For purposes of this calculation the liability component of redeemable/retractable preferred shares are included in equity. In order to meet this requirement, the Company adjusts the amount of dividends paid to shareholders, issues new shares or adjusts the amount of mortgages receivable. During the year ended June 30, 2016, the Company complied with this capital requirement.

All Island Equity Mortgage Investment Corp.
Notes to the Financial Statements
For the year ended June 30, 2016

14. Financial Instruments

The Company as part of its operations carries a number of financial instruments. It is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments except as otherwise disclosed.

Risk management policy

The Company, as part of operations, has established avoidance of undue concentrations of risk, and requirements for collateral to mitigate credit risk as risk management objectives. In seeking to meet these objectives, the Company follows a risk management policy approved by its Board of Directors. Policies of the Company include:

- All mortgages will be registered on title to the subject property in the name of the Company;
- No single investment or related group of investments involving one property or development, or involving several properties or developments owned by one borrower and its affiliates, will exceed 25% of the book value of the assets of the Company, unless firm takeout commitments are in place;
- Mortgages receivable will generally not exceed 75% of the appraised value at the date of advance;
- Every mortgage application must be approved unanimously by the Company's loan committee;
- The Company requires an appraisal with every mortgage application unless otherwise directed by the Directors of the Company and each appraisal is required to be prepared by a member of the Accredited Appraisal Canadian Institute; and;
- The Company must not exceed certain debt-to-equity ratios, which vary depending on the percentage of the cost of the property invested in residential mortgages or on deposit with qualifying financial institutions. If less than two-thirds of the cost of the Company's property is invested in this manner, the debt-to-equity ratio may not exceed three to one. If more than two-thirds of the cost of the Company's property is invested in this manner, then the debt-to-equity ratio may not exceed five to one.

Credit risk

Credit risk is the risk of financial loss because a counter party to a financial instrument fails to discharge its contractual obligations.

The maximum exposure to credit risk as at June 30, 2016 is the fair value of its mortgages receivable, which total \$15,960,182 (2015 - \$15,687,744). The company has recourse under these mortgages in the event of default by the borrower, in which case the Company would have claim against the underlying property.

As at June 30, 2016, no borrower accounted for more than 10% of the mortgages receivable. As at June 30, 2015, no borrower accounted for more than 10% of the mortgages receivable. The Company believes that there is no unusual exposure associated with the collection of receivables, other than noted as in Note 5.

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument might be adversely affected by a change in the interest rates and that at the end of a mortgage's term, it will be re-priced to a prevailing interest rate lower than the original one. Changes in market interest rates may have an effect on the cash flows associated with some financial assets and liabilities, known as cash flow risk, and on the fair value of other financial assets or liabilities, known as price risk. The risk is mitigated by the fact that the Company is not exposed to market mortgage rates as there is no specific market for mortgages of a similar type, term or credit risk. This has allowed the Company to renew its mortgages at consistent rates.

All Island Equity Mortgage Investment Corp.
Notes to the Financial Statements
For the year ended June 30, 2016

14. Financial Instruments *(Continued from previous page)*

Other price risk 1

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or foreign currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. The Company enters into transactions to advance funds on mortgages where an interest rate based upon current mortgage interest rates is charged on the advance date. Other price risk is mitigated by the fact that the Company is not exposed to market mortgage rates as there is no specific market for mortgages of similar type, term or credit risk. Due to this fact, a 1% change in market mortgage interest rates would not change the fair value of mortgages receivable.

The Company manages its other price risk by investing in mortgages with short-term maturities to minimize fluctuations in fair value as a result of market mortgage interest rate changes.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities. The Company enters into transactions to purchase goods and services on credit and pay dividends within 90 days after the year-end, for which repayment is required at various dates and manages preferred share redemptions. Liquidity risk is measured by reviewing the Company's future net cash flows for the possibility of a negative net cash flow.

The Company manages the liquidity risk resulting from accounts payable and accruals, share redemptions and dividends payable by investing in mortgages with short-term maturities and maintains significant committed borrowing facilities from its bank for credit flexibility. The Company commits to mortgages receivable only on an assured cash availability basis.

Fair value of financial instruments

The carrying amount of cash, accounts payable and accruals and dividends payable are approximated by their fair value due to their short-term nature.

International Financial Reporting Standards require the disclosure of fair value information for all financial instruments, except in the cases where time and cost constraints make such information too difficult to reliably determine. As relevant and reliable fair value information was not obtainable, the Company has not disclosed the fair value information for its liability component of redeemable/retractable preferred shares. These shares do not trade in an organized/active market and no quoted market prices or prices from recent market transactions are available.

As there are no quoted prices in an active market for mortgages receivable or loan due from 1048377 BC Ltd. Management makes its determination of fair value based on its assessment of the current lending market of same or similar terms. Typically, the mortgages receivable approximate their carrying values given the mortgage investments consist of short-term loans that are repayable at the option of the borrower without yield maintenance or penalties. When collection of the principal amount of a mortgage is no longer reasonably assured, the fair value of the mortgage is reduced to the estimated net realizable value of the underlying security.

Fair value estimates are made at a specific point in time, based on available relevant market information and details of the financial instrument. However, in cases where they may not be fully supported by observable market prices or rates, assumptions may be subjective, and fair value cannot be estimated with precision.

15. Commitments

The Company has entered into one mortgage receivable to be funded in the 2017 fiscal year, for a total of \$400,000.

DATE AND CERTIFICATE

Date: August 31, 2016

THIS OFFERING MEMORANDUM DOES NOT CONTAIN A MISREPRESENTATION.

ALL ISLAND EQUITY MORTGAGE INVESTMENT CORP.

"Patrick Sullivan"

PATRICK SULLIVAN, President

"William Walker"

WILLIAM WALKER, Secretary

ON BEHALF OF THE BOARD OF DIRECTORS

"Mary-Anne Armstrong"

MARY-ANNE ARMSTRONG, Director

"Suzanne Fleury"

SUZANNE FLEURY, Director

PROMOTERS

"Patrick Sullivan"

PATRICK SULLIVAN, President & Director

"William Walker"

WILLIAM WALKER, Secretary & Director

**Schedule "A" to
Offering Memorandum of
ALL ISLAND EQUITY MORTGAGE INVESTMENT CORP.
Dated August 31, 2016**

**RISK ACKNOWLEDGEMENT
Form 45-106F4**

Risk Acknowledgement

- I acknowledge that this is a risky investment.
- I am investing entirely at my own risk.
- No securities regulatory authority or regulator has evaluated or endorsed the merits of these securities or the disclosure in the offering memorandum.
- I will not be able to sell these securities except in very limited circumstances. I may never be able to sell these securities.
- The securities are redeemable, but I may only be able to redeem them in limited circumstances.
- I could lose all the money I invest.

I am investing \$_____ [total consideration] in total; this includes any amount I am obliged to pay in future.

ALL ISLAND EQUITY MORTGAGE INVESTMENT CORP. will pay \$_____ of this to _____ as a fee or commission.

I acknowledge that this is a risky investment and that I could lose all the money I invest.

Date

Signature of Purchaser

Print name of Purchaser

Sign 2 copies of this document. Keep one copy for your records.

**W
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You have 2 business days to cancel your purchase

To do so, send a notice to **All Island Equity Mortgage Investment Corp.** stating that you want to cancel your purchase. You must send the notice before midnight on the 2nd business day after you sign the agreement to purchase the securities. You can send the notice by fax or deliver it in person to **All Island Equity Mortgage Investment Corp.** at its business address. Keep a copy of the notice for your records.

ALL ISLAND EQUITY MORTGAGE INVESTMENT CORP. (the "Company")

450A Wentworth Street
Nanaimo, BC V9R 3E1
Fax: (250) 754-7692

You are buying Exempt Market Securities

They are called *exempt market securities* because two parts of securities law do not apply to them. If an issuer wants to sell *exempt market securities* to you:

- the issuer does not have to give you a prospectus (a document that describes the investment in detail and gives you some legal protections), and
- the securities do not have to be sold by an investment dealer registered with a securities regulatory authority or regulator.

There are restrictions on your ability to resell *exempt market securities*. *Exempt market securities* are more risky than other securities.

You will receive an offering memorandum. Read the offering memorandum carefully because it has important information about the issuer and its securities. Keep the offering memorandum because you have rights based on it. Talk to a lawyer for details about these rights.

The securities you are buying are not listed. The securities you are buying are not listed on any stock exchange, and they may never be listed. You may never be able to sell these securities.

The issuer of your securities is a non-reporting issuer. A *non-reporting issuer* does not have to publish financial information or notify the public of changes in its business. You may not receive ongoing information about this issuer.

For more information on the exempt market, call your local securities regulatory authority or regulator as follows:

British Columbia Securities Commission

P.O. Box 10142, Pacific Centre
701 West Georgia Street
Vancouver, British Columbia V7Y 1L2
Telephone: (604) 899-6500
Toll free in British Columbia and Alberta 1-800-373-6393
Facsimile: (604) 899-6506

Alberta Securities Commission

4th Floor, 300 – 5th Avenue SW
Calgary, Alberta T2P 3C4
Telephone: (403) 297-6454
Facsimile: (403) 297-6156

Instruction: *The purchaser must sign 2 copies of this form. The purchaser and the issuer must each receive a signed copy.*