

# AMENDMENT No. 1 to OFFERING MEMORANDUM

Date: **August 4, 2015**

**The Issuer**

Name:



Head office:    Address:            **Unit 101, 19909 – 64<sup>th</sup> Avenue, Langley, British Columbia**  
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## **Amendments to Our Offering Memorandum**

Our Offering Memorandum dated May 15, 2015 is hereby amended in respect of our acquisition of the mortgage portfolio and other assets of Community One Mortgage Corp. (Items 2.3 and 2.7) and the following additional matters, some of which result from such acquisition:

- new investors no longer must purchase one Common Share (Cover page and Items 5.1, 9.1, 10 and 11)
- the funds that will be available to us from the offering (Item 1.1);
- how we intend to use the funds available to us and what we will do if there are insufficient funds (Items 1.2 and 2.6);
- an increase in the amount, and our compliance with the terms, of our credit facility (Item 2.2);
- the priority and effective annual interest rate of our mortgages (Item 2.3);
- the replacement of Edwina A. Lounsbury by Monique D. Tirshman as our Secretary and Treasurer and as one of our directors (Items 3.1 and 3.2);
- our history of redemption of our Preferred Shares and the source of funds for such redemptions (Item 5.1);
- the change of our auditors from “Certified General Accountants” to “Chartered Professional Accountants” (Items 6.2 and 6.3); and
- the restatement of a risk factor (Item 8), our reporting obligations (Item 9) and the resale restrictions on our shares (Item 10).

The amendments to our Offering Memorandum are set out on the pages following.

## Cover Page

All references to Common Shares are deleted.

### 1.1 Funds

The funds that will be available to us from this offering, together with funds available from other sources, as at the date of this First Amendment to our Offering Memorandum are set out in the following table.

	Description	Assuming Minimum Offering	Assuming Maximum Offering
A	Amount to be raised by this offering	\$ 0	\$ 5,000,000
B	Selling commissions and fees	0	0
C	Estimated offering costs (legal, accounting, audit, etc.)	25,000	40,000
D	<b>Available funds: D = A - (B+C)</b>	<b>(\$ 25,000)</b>	<b>\$ 4,960,000</b>
E	Additional sources of funding available		
	Cash on hand <sup>(1)</sup>	0	0
	Credit facility <sup>(2)</sup>	6,504,000	6,504,000
	Revenue from operations <sup>(3)</sup>	1,500,000	2,500,000
F	Working capital deficiency <sup>(4)</sup>	0	0
G	<b>Total: G = (D+E) - F</b>	<b>\$ 7,979,000</b>	<b>\$ 13,964,000</b>

(1) Cash on hand as at the date of this First Amendment to our Offering Memorandum.

(2) Balance available under our credit facility with Canadian Western Bank as at the date of this First Amendment to our Offering Memorandum. The balance available depends on the amount of qualifying mortgage loans we hold, therefore, the full \$12,500,000 of the credit facility may not be available. See Item 2.2 "Description of our Business – Credit Facility".

(3) Estimated revenue from operations for our current financial year based on revenue from our last financial year.

(4) As at the date of this First Amendment to our Offering Memorandum.

### 1.2 Use of Available Funds

The disclosure under this Item of our Offering Memorandum is amended by revising the introductory sentence and, in the table, by inserting a row respecting the annual distribution of our net income and half of our capital gains and reducing the amounts we may invest in residential mortgages accordingly, so that it reads as follows:

We intend to use the funds available to us from this offering and from other sources, as estimated in Item 1.1 "Funds", as set out in the following table.

Description of Intended Use of Available Funds (Listed in order of priority)	Assuming Minimum Offering <sup>(1)</sup>	Assuming Maximum Offering <sup>(1)</sup>
Licences and dues	\$ 1,000	\$ 1,000
Insurance	\$ 35,000	\$ 35,000
Office and meeting expenses	\$ 5,000	\$ 6,000
Bank charges and interest	\$ 80,000	\$ 120,000
Professional fees	\$ 35,000	\$ 55,000

<b>Description of Intended Use of Available Funds</b> (Listed in order of priority)	<b>Assuming Minimum Offering <sup>(1)</sup></b>	<b>Assuming Maximum Offering <sup>(1)</sup></b>
Losses on foreclosures and property sales	\$ 100,000	\$ 150,000
Rental expenses	\$ 20,000	\$ 30,000
Property repairs and maintenance	\$ 20,000	\$ 25,000
Management fees <sup>(2)</sup>	\$ 375,000	\$ 450,000
Repayment of credit facility <sup>(3)</sup>	\$ 1,790,000	\$ 1,790,000
Annual distribution of net income and half of capital gains	\$ 650,000	\$ 900,000
Investment in residential mortgages <sup>(4)</sup>	\$ 4,878,000	\$ 10,402,000
<b>TOTALS</b>	<b>\$ 7,989,000</b>	<b>\$13,964,000</b>

(1) Amounts shown do not include applicable taxes.

(2) To be paid to Bayfield Mortgage Professionals Ltd., a company which is wholly-owned by one of our directors, Gordon H. J. Wintrup, and which provides us with administration and portfolio management services. From this amount, Bayfield pays our office rent, telephone, Internet service and the costs of maintaining our business and accounting books and records. See Item 2.2 "Description of Our Business – Portfolio Manager and Administrator".

(3) See Items 2.2 "Description of our Business – Credit Facility" and 4.2 "Share Capital – Long Term Debt".

(4) Repayment of our credit facility by the amount of the net proceeds from this offering will allow us to borrow an equal or possibly larger (due to our ability to leverage funds borrowed) amount from the facility and invest it in residential mortgages. See Item 2.2 "Description of Our Business".

## **2.2 Description of Our Business**

### *Credit Facility*

The first paragraph under this Item of our Offering Memorandum is amended to increase to \$12,500,000 from \$7,500,000 the amount available to be borrowed under our credit facility with CWB.

The following paragraph is added at the end of this Item of our Offering Memorandum:

We believe that we have complied, and are currently in compliance, with all of the requirements of our credit facility.

## **2.3 Development of Our Business**

The following paragraph is added after the first paragraph under this Item of our Offering Memorandum:

Pursuant to a Purchase Assumption and Assignment Agreement dated July 31, 2015 we acquired all of the mortgage portfolio, cash and other assets totalling \$11,511,307, and assumed all of the bank indebtedness, accounts payable, dividends payable, deferred income, outstanding preference shares and other liabilities totalling \$11,514,313 of Community One Mortgage Corp. effective August 1, 2015. Community One is a MIC with three common directors (one of whom subsequently resigned from our board of directors) and one common officer (who subsequently resigned as one of our officers) and the same Portfolio Manager, Administrator and head office as us. The acquisition was completed on the basis that each Community One shareholder received one of our Preferred Shares for each preference share of Community One held.

The fourth paragraph under this Item of our Offering Memorandum is amended to read as follows:

The effective annual yield since the inception of our business is 9.26%. Since such inception all of our distributions to our shareholders have been made out of our net income and capital gains received in each financial year, and none of such distributions have been funded by sources such as loans, share issuances or our credit facility. It is our intention to continue to make such distributions on that basis.

The last paragraph under this Item of our Offering Memorandum is amended to read as follows:

As at the date of this First Amendment to our Offering Memorandum, we held 184 mortgages as security for loans totalling approximately \$27.36 million with a weighted effective interest rate of 10.24% per year. Of these, 110 mortgages totalling approximately \$18.75 million (68 first mortgages totalling approximately \$14.97 million and 44 second mortgages totalling approximately \$3.77 million) were on properties in British Columbia, 72 mortgages totalling approximately \$8.43 million (21 first mortgages totalling approximately \$4.69 million and 49 second mortgages totalling approximately \$3.74 million) were on properties in Alberta and two mortgages totalling approximately \$170 thousand (no first mortgages and two second mortgages) were on properties in Manitoba. The properties were distributed between large metropolitan areas (Vancouver, Victoria, Calgary and Edmonton and their surrounding communities) and mid-sized and larger communities (such as Kelowna and Abbotsford, British Columbia and Red Deer and Lethbridge, Alberta). The ratio of the value of each loan to the appraised value of the property varies, but did not exceed 75%. All of the loans were secured by mortgages on residential properties, although we do, from time to time, make loans secured by mortgages on commercial properties.

## **2.6 Insufficient Funds**

The disclosure under this Item of our Offering Memorandum is replaced by the following:

There is no assurance that (i) any of the offering will be sold, (ii) the proceeds of the offering, if any, will be sufficient to accomplish our proposed objectives, or (iii) alternative financing will be available. If none of the offering is sold, we will continue to use our existing capital and cash flows to carry on our current business.

## **2.7 Material Agreements**

The disclosure under this Item of our Offering Memorandum is replaced by the following:

We are currently a party to the following contracts with related parties and material contracts:

- (a) Management Agreement dated February 1, 2013 with Bayfield Mortgage Professionals Ltd. See Item 2.2 “Description of Our Business – Portfolio Manager and Administrator”;
- (b) Overdraft Lending Agreement, General Security Agreement, Assignment of Accounts Receivable, Assignment of Mortgage Monies Due and General Assignment of Insurance, each dated December 3, 2014 with CWB. See Item 2.2 “Description of our Business – Credit Facility”; and

- (c) Purchase Assumption and Assignment Agreement dated July 31, 2015 with Community One respecting our acquisition of its assets. See Item 2.3 “Development of Our Business”.

### 3.1 Compensation and Securities Held

The row in the table under this Item of our Offering Memorandum respecting Edwina Lounsbury is deleted and replaced with the following:

Name & Municipality of Principal Residence	Positions Held & Date Appointed	Compensation Paid and Payable Last Year (Current Year)	Number, Type & Percentage of Our Securities held <sup>(1)</sup> after completion of the:	
			Minimum Offering	Maximum Offering <sup>(2)</sup>
TIRSHMAN, Monique D. Surrey, BC	Secretary, Treasurer & Director May 28, 2015	0 (0)	1 common (1.02%) 15,748 preferred (0.11%)	1 common (1.02%) 15,748 preferred (0.11%)

### 3.2 Management Experience

The row in the table under this Item of our Offering Memorandum respecting Edwina Lounsbury is deleted and replaced with the following:

Name & Position	Principal Occupation and Related Experience
TIRSHMAN, Monique D. Secretary, Treasurer & Director	Registered (British Columbia) and licensed (Alberta) mortgage agent. Administrator for and part of the management team of Bayfield Mortgage Professionals Ltd. since 1989 involved in collections and foreclosures of mortgages held by, and share purchases and redemptions and account administration for, Versatile and other MICs.

### 5.1 Terms of Securities

The first paragraph under this Item of our Offering Memorandum is amended by deleting the second sentence respecting new investors being required to purchase Common Shares.

The second paragraph under “*Redemption of Shares*” of this Item of our Offering Memorandum is amended to read as follows:

If a planned redemption would result in us not meeting the requirements for a MIC under the *Income Tax Act* or the solvency requirements of the *Business Corporations Act*, then we will only redeem such number of shares as may be necessary for us to continue to meet such requirements. During our last two financial years and up to the date of our Offering Memorandum we have paid all redemption requests in full using our cash on hand and, if necessary, funds available from our credit facility.

### 5.2 Subscription Procedure

The first paragraph under this Item of our Offering Memorandum is amended by deleting the reference to new investors being required to purchase Common Shares.

## 6.2 Description of Income Tax Consequences

The reference under this Item of our Offering Memorandum to our auditor, Malish & Clark, Certified General Accountants, is changed to Malish & Clark, Chartered Professional Accountants, due to the restructuring of the regulatory bodies for accountants in British Columbia.

## 6.3 Eligibility for RRSPs and Other Registered Plans

The reference under this Item of our Offering Memorandum to our auditor, Malish & Clark, Certified General Accountants, is changed to Malish & Clark, Chartered Professional Accountants, due to the restructuring of the regulatory bodies for accountants in British Columbia.

## Item 8 – RISK FACTORS

### What are the risks of investing in MICs?

The following new risk factor is added under this Item of our Offering Memorandum:

#### *Preferred Shareholders have Restricted Voting Rights Risk*

Shareholders who own only Preferred Shares are not able to vote at annual general meetings of our shareholders in respect of the election of directors and the appointment of an auditor. Only Common Shareholders are entitled to vote on such matters. However, matters specifically affecting the rights of Preferred Shareholders are subject to approval by a vote of the Preferred Shareholders.

The disclosure under “*Our Borrowers are or could become a Bad Credit Risk*” of this Item of our Offering Memorandum is replaced by the following:

Our borrowers often have incomes that are seasonal or fluctuate or they may have been refused credit from banks and other traditional financial institutions. Accordingly, our borrowers may be considered to be higher risk and, as a result, there is a risk they may not be able to, or may refuse to, pay back their loans when due. We believe our lending policy is conservative and anticipate that minimal losses will be incurred. Furthermore, if a loss does occur, it will be spread over all of our capital. Nevertheless, such losses could amount to a reduction in anticipated return on your investment or, in the worst circumstances, result in you losing your entire investment.

## Item 9 – REPORTING OBLIGATIONS

The disclosure under this Item of our Offering Memorandum is replaced by the following:

### 9.1 Continuous Disclosure

We are not a reporting issuer” under applicable securities legislation, nor will we become a reporting issuer following the completion of the offering. **Consequently, we are not required to send you any documents on an annual or ongoing basis.** Since we are not, and will not become, subject to the continuous disclosure requirements of such securities legislation, we are not required to issue press releases or to send to you our interim and annual financial statements, management’s discussion and analysis respecting such statements or annual reports.

However, the *Business Corporations Act* (British Columbia) requires us to hold a general meeting of our shareholders in each calendar year and, at the meeting, to provide our shareholders with audited financial statements for the previous financial year. Instead of providing our annual financial statements at the meeting, we mail them to our Preferred Shareholders together with the notice for our annual general meeting of Shareholders held in the fall of each year. At the same time, we send a letter to shareholders reporting on our previous year's business.

From time to time, we may send out on our own accord, or in response to a request from one or more shareholders, further information to all shareholders such as a reporting letter and interim financial statements.

## **9.2 Access to Corporate and Securities Information about Us**

Since we are not a reporting issuer and our Preferred Shares are not publicly traded, no corporate or securities information about us is available from a government, regulatory authority, stock exchange or quotation and trade reporting system. Some securities information about this and previous offerings is available from the British Columbia Securities Commission at [www.bcsc.bc.ca](http://www.bcsc.bc.ca). Further information about us is available from Bayfield Mortgage Professionals Ltd. at the phone and fax numbers and e-mail address set out on the front cover.

## **Item 10 – RESALE RESTRICTIONS**

The disclosure under this Item of our Offering Memorandum is replaced by the following:

### **10.1 Overview**

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 securities legislation.

### **10.2 Description of Restricted Period**

Unless permitted under securities legislation, you cannot trade the securities before the date that is four months and a day after the date we become a reporting issuer in any province or territory of Canada.

We are not a reporting issuer in any Canadian province or territory, we will not become a reporting issuer upon completion of this offering and we do not anticipate becoming a reporting issuer. Accordingly, the resale restriction on our Preferred Shares you acquire under this Offering Memorandum may never expire.

## **ITEM 11 – PURCHASERS' RIGHTS**

The first paragraph under this Item of our Offering Memorandum is amended by deleting the reference to new investors being required to purchase Common Shares.

**DATE AND CERTIFICATE**

Dated: **August 4, 2015**

**The Offering Memorandum, as amended by this Amendment, does not contain a misrepresentation.**

**The Issuer**

(signed) GARTH A. BUTCHER  
President  
(chief executive officer)

(signed) MONIQUE D. TIRSHMAN  
Treasurer  
(chief financial officer)

**On Behalf of the Directors**

(signed) GORDON H. J. WINTRUP  
Director

(signed) DAVID J. RISHEL  
Director