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**CONFIDENTIAL  
PRIVATE PLACEMENT OFFERING MEMORANDUM**

**\$10,000,000 6.25% Secured Subordinated Bonds due 2026**

*No securities regulatory authority 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".*

May 30, 2019

**GRACORP CAPITAL LTD.  
("Gracorp" or the "Issuer")**

10840 - 27th Street S.E.  
Calgary, Alberta T2Z 3R6  
Phone: (403) 570-5000  
Fax: (403) 538-9188  
Email: info@gracorp.com

**Maximum Offering: CDN\$10,000,000 (10,000 Bonds)**

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**Subscription Price: CDN\$1,000 per Bond**

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**The Bonds of Gracorp do not trade on any exchange or market. Gracorp is not a reporting issuer in any province or jurisdiction and is not a SEDAR filer.**

**THE OFFERING**

<b><i>Securities offered:</i></b>	Maximum: 10,000 Bonds.
<b><i>Price per security:</i></b>	CDN\$1,000 per Bond.
<b><i>Minimum/maximum offering:</i></b>	Minimum Offering: <b>There is no Minimum Offering. You may be the only purchaser.</b>  Maximum Offering: <b>CDN\$10,000,000. Funds available under the Offering may not be sufficient to accomplish the Issuer's proposed objectives.</b>
<b><i>Minimum subscription:</i></b>	CDN\$20,000 (20 Bonds).
<b><i>Proposed Closing Date(s):</i></b>	The initial Closing is scheduled for June 28, 2019 or such later dates as the Issuer shall determine, but in any event not later than July 31, 2019. Closings subsequent to the initial Closing may take place as determined by Gracorp.
<b><i>Payment terms:</i></b>	A purchaser is required to deliver to the Issuer, as soon as possible and, in any event, <b>not later than 4:00 p.m. (Calgary time) on June 14, 2019</b> or six business days before any subsequent Closing Date: (a) a duly completed and executed Subscription Agreement, in the form attached hereto as Schedule A, together with a certified cheque or bank draft to "Gracorp Capital Ltd." for the Bonds purchased or in such other manner as is acceptable to Gracorp.

- Income tax consequences:*** There are important income tax consequences to these securities. In particular, the Bonds will generally be a qualified investment for the purposes of an RDSP, RESP, RRIF, RRSP or a TFSA. **You should consult your own professional tax advisors to obtain advice respecting any tax consequences applicable to you.** See Item 6, "*Income Tax Consequences*".
- Selling agent:*** The Bonds are not being offered for sale by any agent. The Bonds will only be offered for sale by the Issuer.

## **BONDS**

- Maturity:*** The Maturity Date for the Bonds is June 30, 2026 with five year amortized principal payments from June 30, 2021 to June 30, 2026.
- Interest:*** 6.25% per annum, payable quarterly in arrears on March 31, June 30, September 30 and December 31 in each year, commencing September 30, 2019.
- GBT can use a Deferral Election on one occasion to defer interest payments under the GBT Loan Agreement, with a similar deferral to be effective on the Bonds for a period of one year (four payments, commencing on the Bond Payment Date following the Deferral Election). If the Issuer so elects, the interest rate on the Bonds is thereafter increased to 7.25% per annum from and including the period applicable to the aforesaid Bond Payment Date to Maturity Date.
- Interest compounds annually.
- Principal:*** Quarterly blended interest and principal payments will be made over the last five years of the Bond on an amortized schedule provided that any payments otherwise due following a Deferral Election shall be added to the principal amounts due following the Deferral Period to be amortized and paid thereafter. Payments will be equal over the amortization period with a larger portion of payments representing interest at the beginning of the amortization period and a larger portion representing principal payments at the end of the amortization period.
- Redemption:*** The Bonds may be redeemed by the Issuer, in whole or in part, in denominations equal to the principal amount outstanding per Bond, from time to time, at the Issuer's option on not more than 60 days and not less than 30 days prior written notice at a redemption price equal to the principal amount plus accrued and unpaid interest thereon.
- Ranking:*** All Bonds will rank equally and *pari passu* with one another. The Bonds will be secured against all of the Issuer's assets, ranking (a) senior in priority over the GBT Loan; (b) subordinate in priority to: (i) the fixed charge the Debentures hold over the Mortgaged Units, (ii) the security held over the Prior GBT Loans under the Prior Bond Indentures, (iii) the security held over loans made by the Issuer to GBT in respect of one or more future bond issuances, and (vi) certain other encumbrances securing other Senior Indebtedness; and (c) equal in priority with all other secured indebtedness of the Issuer (including the Prior Bonds) with respect to the Issuer's other assets.
- Guarantee:*** The Bonds will be guaranteed by Graham Business Trust. The obligations of Graham Business Trust under such guarantee will be postponed and subordinated in favour of the GBT Senior Bank Agent pursuant to a

subordination agreement to be entered into between the Bond Trustee, the GBT Senior Bank Agent, and GBT. See Item 5.1, "*Terms of Securities – Bond Guarantee*".

### **RESALE RESTRICTIONS**

You will be restricted from selling your Bonds for an indefinite period of time. For a description of the restrictions on resale, see Item 10, "*Resale Restrictions*".

### **PURCHASER'S RIGHTS**

You have two 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, "*Purchasers' Rights*".

### **RISK FACTORS**

Investing in Bonds involves certain risks. You should carefully consider the information described in the "Risk Factors" section of the Offering Memorandum. See Item 8.

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## GLOSSARY OF TERMS

*The following is a glossary of terms and abbreviations used throughout this Offering Memorandum and the Summary.*

**"2015 Bonds"** means 7.00% secured subordinated bonds of the Issuer issued under the 2015 Bond Indenture and due 2022;

**"2015 Bond Guarantee"** means the guarantee granted by GBT, as guarantor, in favour of the Bond Trustee, in respect of the obligations of the Issuer under the 2015 Bond Indenture, as the same may be amended, restated, modified or supplemented from time to time;

**"2015 Bond Indenture"** means the indenture dated June 10, 2015 between the Issuer and the Bond Trustee governing the terms of the 2015 Bonds, as amended by the supplemental indenture dated June 30, 2016, as the same may be further amended, restated, modified or supplemented from time to time;

**"2015 GBT Loan"** means amounts owing to Gracorp under the 2015 GBT Loan Agreement;

**"2015 GBT Loan Agreement"** means the loan agreement entered into between the Issuer and GBT on June 10, 2015, pursuant to which the Issuer advanced certain proceeds of the offering of 2015 Bonds to GBT, as the same may be amended, restated, modified or supplemented from time to time;

**"2016 Bonds"** means 7.00% secured subordinated bonds of the Issuer issued under the 2016 Bond Indenture and due 2023;

**"2016 Bond Guarantee"** means the guarantee granted by GBT, as guarantor, in favour of the Bond Trustee, in respect of the obligations of the Issuer under the 2016 Bond Indenture, as the same may be amended, restated, modified or supplemented from time to time;

**"2016 Bond Indenture"** means the indenture dated June 30, 2016 between the Issuer and the Bond Trustee governing the terms of the 2016 Bonds, as the same may be amended, restated, modified or supplemented from time to time;

**"2016 GBT Loan"** means amounts owing to Gracorp under the 2016 GBT Loan Agreement;

**"2016 GBT Loan Agreement"** means the loan agreement entered into between the Issuer and GBT on June 30, 2016, pursuant to which the Issuer advanced certain proceeds of the offering of 2016 Bonds to GBT, as the same may be amended, restated, modified or supplemented from time to time;

**"2017 Bonds"** means 7.00% secured subordinated bonds of the Issuer issued under the 2017 Bond Indenture and due 2024;

**"2017 Bond Guarantee"** means the guarantee granted by GBT, as guarantor, in favour of the Bond Trustee, in respect of the obligations of the Issuer under the 2017 Bond Indenture, as the same may be amended, restated, modified or supplemented from time to time;

**"2017 Bond Indenture"** means the indenture dated June 30, 2017 between the Issuer and the Bond Trustee governing the terms of the 2017 Bonds, as the same may be amended, restated, modified or supplemented from time to time;

**"2017 GBT Loan"** means amounts owing to Gracorp under the 2017 GBT Loan Agreement;

**"2017 GBT Loan Agreement"** means the loan agreement entered into between the Issuer and GBT on June 30, 2017, pursuant to which the Issuer advanced certain proceeds of the offering of 2017 Bonds to GBT, as the same may be amended, restated, modified or supplemented from time to time;

**"2018 Bonds"** means 7.00% secured subordinated bonds of the Issuer issued under the 2018 Bond Indenture and due 2025;

**"2018 Bond Guarantee"** means the guarantee granted by GBT, as guarantor, in favour of the Bond Trustee, in respect of the obligations of the Issuer under the 2018 Bond Indenture, as the same may be amended, restated, modified or supplemented from time to time;

**"2018 Bond Indenture"** means the indenture dated June 30, 2018 between the Issuer and the Bond Trustee governing the terms of the 2018 Bonds, as the same may be amended, restated, modified or supplemented from time to time;

**"2018 GBT Loan"** means amounts owing to Gracorp under the 2018 GBT Loan Agreement;

**"2018 GBT Loan Agreement"** means the loan agreement entered into between the Issuer and GBT on June 30, 2018, pursuant to which the Issuer advanced certain proceeds of the offering of 2018 Bonds to GBT, as the same may be amended, restated, modified or supplemented from time to time;

**"2019 PH&N Bonds"** means the \$40,000,000 aggregate principal amount of 5.90% secured subordinated bonds of the Issuer issued under the 2019 PH&N Bond Indenture and due 2026;

**"2019 PH&N Bond Guarantee"** means the guarantee granted by GBT, as guarantor, in favour of the Bond Trustee, in respect of the obligations of the Issuer under the 2019 PH&N Bond Indenture, as the same may be amended, restated, modified or supplemented from time to time;

**"2019 PH&N Bond Indenture"** means the indenture dated April 18, 2019 between the Issuer and the Bond Trustee governing the terms of the 2019 PH&N Bonds, as the same may be amended, restated, modified or supplemented from time to time;

**"2019 PH&N GBT Loan"** means amounts owing to Gracorp under the 2019 GBT Loan Agreement;

**"2019 PH&N GBT Loan Agreement"** means the loan agreement entered into between the Issuer and GBT on April 18, 2019, pursuant to which the Issuer advanced certain proceeds of the offering of 2019 PH&N Bonds to GBT, as the same may be amended, restated, modified or supplemented from time to time;

**"2019 PH&N Put Agreement"** means the put agreement dated April 18, 2019 between GBT and PH&N with the respect to the right to require GBT to purchase certain of the Bonds from PH&N and permitted assigns on the occurrence of certain events following certain triggering events;

**"ABCA"** means the *Business Corporations Act* (Alberta), as amended;

**"ACB"** means adjusted cost base within the meaning of the Tax Act;

**"AdminCo"** means GGL, as administrator under the Administration Agreement;

**"Administration Agreement"** means the agreement entered into on January 1, 2006 among GBT and AdminCo pursuant to which AdminCo agreed to provide certain administrative and support services to GBT, as from time to time amended, supplemented or restated;

**"Advisory Services and Facilitation Agreement"** means the agreement between Gracorp and GBT with respect to the advice of Gracorp provided for the structuring of this Offering and Gracorp's role through to maturity as part of the financing arrangements;

**"Applicable Securities Laws"** means the applicable securities legislation, rules, policies, notices and orders of each of the Offering Provinces;

**"Board"** means the board of directors of the Issuer;

**"Bond Guarantee"** means the guarantee of the Obligations made pursuant to the agreement between GBT, as guarantor, and the Bond Trustee, as the same may be amended, restated, modified or supplemented from time to time;

**"Bond Indenture"** means the indenture between the Issuer and the Bond Trustee governing the terms of the Bonds, as the same may be amended, restated, modified or supplemented from time to time;

**"Bond Trustee"** means AST Trust Company (Canada) and its successors and permitted assigns;

**"Bond Payment Date"** means the last day of March, June, September and December in each year, commencing on September 30, 2019;

**"Business Day"** means a day, other than a Saturday or Sunday, or a statutory holiday, on which major Canadian chartered banks are open for business in Calgary, Alberta;

**"Closing"** means the initial closing of this Offering which is expected to occur on or about the Closing Date;

**"Closing Date"** means June 28, 2019, the intended initial closing date for this Offering, unless extended by the Issuer in its sole discretion, and such other dates as determined by Gracorp, but in any event on or before July 31, 2019;

**"Construction and Engineering Limited Partnership Agreement"** means the limited partnership agreement among Graham Construction and Engineering Inc., as general partner, CR LP and each person who from time to time is accepted as and becomes a limited partner, pursuant thereto, as from time to time amended, supplemented or restated;

**"Construction and Engineering LP"** means the Graham Construction and Engineering LP, a limited partnership created pursuant to the Construction and Engineering Limited Partnership Agreement;

**"Construction Resources LP Agreement"** means the limited partnership agreement among Graham Construction Resources Ltd., as general partner, GBT and each person who from time to time is accepted as and becomes a limited partner, pursuant thereto, as from time to time amended, supplemented or restated;

**"CR LP"** means Graham Construction Resources LP, a limited partnership created pursuant to the Construction Resources Limited Partnership Agreement;

**"CR LP Bond"** means the CR LP bond in the aggregate amount of \$7,000,000 issued to Drillin Management Inc. effective October 1, 2017, bearing interest at a rate of 5.00% per annum, and maturing by October 1, 2024;

**"CRA"** means the Canada Revenue Agency;

**"CS Conversion Units"** means the non-voting series 2 subordinate units issued by GUT that have the right to receive a preferential distribution equal to one half of the amount of the distribution declared payable with respect to units of GIT for the fiscal year ended December 31, 2018;

**"CS Units"** means non-voting series 1 subordinate units issued by Graham Unit Trust that have the right to receive a distribution from certain project claims;

**"Debenture"** means the 12% \$7.00 Series B Senior Secured Debentures of Gracorp issued under the Trust Indenture;

**"Debenture Trustee"** means Graham Capital Ltd. (formerly named Gracorp Holdings Ltd.) as trustee under the Trust Indenture;

**"Declaration of Trust"** means the declaration of GIT dated as of November 22, 2005, and amended and restated on June 21, 2017, between the settlor and the trustees, as from time to time amended, supplemented or restated;

**"Deferral Period"** means the four calendar quarters from and including the calendar quarter in which GBT delivers a Deferral Election to Gracorp and the Bond Trustee;

**"Deferral Election"** means a written notice delivered by GBT pursuant to the GBT Loan Agreement, in which GBT elects to defer any principal and interest payments due under the GBT Loan Agreement from and including the first day of the calendar quarter in which the notice is delivered to, but excluding, the last day of the fourth calendar quarter after the election;

**"Design Builders Limited Partnership Agreement"** means the limited partnership agreement among Graham Design Builders Ltd., as general partner, CR LP and each person who from time to time is accepted as and becomes a limited partner, pursuant thereto, as from time to time amended, supplemented or restated;

**"Design Builders LP"** means the Graham Design Builders LP, a limited partnership created pursuant to the Design Builders Limited Partnership Agreement;

**"Eligible Investors"** has the meaning ascribed to it in NI 45-106;

**"Exempt Plans"** means, collectively, trusts governed RRSPs, TFSAs, RRIFs, RDSPs, and RESPs;

**"Financial Statements"** means the audited financial statements of the Issuer attached hereto as Schedule B;

**"GBT"** or the **"Trust"** means Graham Business Trust, an unincorporated investment trust established under the laws of Alberta, all of the beneficial interests of which are owned by Graham Unit Trust, all of the beneficial interests of which are, in turn, owned by GIT;

**"GBT General Partner"** means, as the case may be, in respect of Construction and Engineering LP, Graham Construction and Engineering Inc., in respect of Industrial Services LP, Graham Industrial Services Ltd., in respect of Infrastructure LP, Graham Infrastructure Ltd., in respect of Design Builders LP, Graham Design Builders Ltd., in respect of Management Services LP, Graham Management Services Ltd., each, directly or indirectly, a corporation wholly-owned by GGL which operate as the respective general partners, and in respect of CR LP, Graham Construction Resources Ltd., a corporation wholly-owned by GBT;

**"GBT Loan"** means amounts owing to Gracorp under the GBT Loan Agreement;

**"GBT Loan Agreement"** means the loan agreement to be entered into between the Issuer and GBT on Closing, pursuant to which the Issuer will advance certain proceeds of the Offering to GBT, as the same may be amended, restated, modified or supplemented from time to time;

**"GBT Operating LPs"** means Construction and Engineering LP, Design Builders LP, Industrial Services LP, Infrastructure LP, CR LP, Quinn Contracting Ltd., the operating limited partnerships owned, directly or indirectly, by GBT and such other operating limited partnerships formed, directly or indirectly, by GBT or Holding LP, from time to time;

**"GBT Senior Bank Agent"** means a Canadian chartered bank in its capacity as agent for a syndicate of lenders under the GBT Senior Credit Agreement and certain affiliates of such lenders;

**"GBT Senior Credit Agreement"** means the amended and restated credit agreement dated as of February 28, 2018 among GBT, GGL and Graham Construction Fund, as borrowers, the GBT Senior Bank Agent and a Canadian chartered bank and certain other financial institutions party thereto, as lenders, providing for credit facilities to such borrowers in the aggregate principal amount of \$425,000,000;

**"GGL"** means Graham Group Ltd.;



**"GIT"** means Graham Income Trust, an open ended trust established under the laws of Alberta pursuant to the Declaration of Trust;

**"Graham Capital Group"** means Graham Capital Ltd. and its wholly-owned Subsidiaries;

**"Graham Group"** means the entities, directly or indirectly, under the direction or control of GIT;

**"Graham US"** means Graham (US) Inc., a corporation incorporated under the laws of the State of Washington, a wholly owned Subsidiary of GGL;

**"Guarantor"** means GBT;

**"IFRS"** means International Financial Reporting Standards;

**"Industrial Services Limited Partnership Agreement"** means the limited partnership agreement among Graham Industrial Services Ltd., as general partner, CR LP and each person who from time to time is accepted as and becomes a limited partner, pursuant thereto, as from time to time amended, supplemented or restated;

**"Industrial Services LP"** means Graham Industrial Services LP, a limited partnership created pursuant to the Industrial Services Limited Partnership Agreement;

**"Infrastructure Limited Partnership Agreement"** means the limited partnership agreement among Graham Infrastructure Ltd., as general partner, CR LP and each person who from time to time is accepted as and becomes a limited partner, pursuant thereto, as from time to time amended, supplemented or restated;

**"Infrastructure LP"** means Graham Infrastructure LP, a limited partnership created pursuant to the Infrastructure Limited Partnership Agreement;

**"Inter-Bondholder Priority Agreement"** means the amended and restated inter-bondholder priority agreement to be entered into among the Bond Trustee, in its capacity as trustee, for and on behalf of the holders of the 2015 Bonds, the 2016 Bonds, the 2017 Bonds and the 2018 Bonds, the Bond Trustee, in its capacity as trustee, for and on behalf of the holders of the Bonds, the Issuer and GBT, setting out, among other things, the respective priority of the holders of the 2015 Bonds, the 2016 Bonds, the 2017 Bonds, the 2018 Bonds and the Bonds with respect to the assets of the Issuer and acknowledging the parties' respective covenants under the 2015 GBT Loan Agreement, the 2016 GBT Loan Agreement, the 2017 GBT Loan Agreement, the 2018 GBT Loan Agreement and the GBT Loan Agreement, as applicable, as the same may be amended, restated, modified or supplemented from time to time in accordance with the terms thereof;

**"Interest Obligation"** means the Issuer's obligation to pay interest on the Bonds in accordance with the Bond Indenture;

**"Management Services LP"** means Graham Management Services LP, a limited partnership created pursuant to the Management Services Partnership Agreement;

**"Management Services Partnership Agreement"** means the limited partnership agreement among Graham Management Services Ltd., as general partner, CR LP and each person who from time to time is accepted and becomes a limited partner pursuant to thereto, as from time to time amended, supplemented, or restated;

**"Maturity Date"** means June 30, 2026;

**"Mortgaged Units"** means the units in Connor, Clark & Lunn GVest Traditional Infrastructure Limited Partnership acquired by Gracorp with the funds raised from the offering of the Debentures and all rights to repayments, distributions or dividends therefrom;

**"NI 45-106"** means National Instrument 45-106 of the Canadian Securities Administrators;

**"Non-Resident"** means a person (within the meaning of the Tax Act but, for greater certainty, not including a partnership) who is not resident, or not deemed to be resident, in Canada for the purposes of the Tax Act;

**"Obligations"** means collectively, the Interest Obligations and Primary Obligations due at the applicable time under the Bond Indenture;

**"Offering"** means the offering of the Bonds as contemplated hereunder;

**"Offering Provinces"** means the Provinces of Alberta, British Columbia, Saskatchewan, Manitoba, Ontario, New Brunswick, Nova Scotia and the Territories of Canada;

**"PH&N"** means Phillips, Hager & North Investment Management, a division of RBC Global Asset Management Inc.;

**"Primary Obligations"** means the Issuer's obligation to pay principal on the Bonds and to pay and perform other obligations to the holders of the Bonds and the Bond Trustee, in accordance with the terms of the Bonds and the Bond Indenture;

**"Prior Bond Guarantees"** means, collectively, the 2015 Bond Guarantee, the 2016 Bond Guarantee, the 2017 Bond Guarantee, the 2018 Bond Guarantee and the 2019 PH&N Bond Guarantee;

**"Prior Bond Indentures"** means, collectively, the 2015 Bond Indenture, the 2016 Bond Indenture, the 2017 Bond Indenture, the 2018 Bond Indenture and the 2019 PH&N Bond Indenture;

**"Prior Bonds"** means, collectively, the 2015 Bonds, 2016 Bonds, 2017 Bonds, 2018 Bonds and 2019 PH&N Bonds;

**"Prior GBT Loan Agreements"** means, collectively, the 2015 GBT Loan Agreement, the 2016 GBT Loan Agreement, the 2017 GBT Loan Agreement, the 2018 GBT Loan Agreement and the 2019 PH&N GBT Loan Agreement;

**"Prior GBT Loans"** means, collectively, the 2015 GBT Loan, 2016 GBT Loan, 2017 GBT Loan, 2018 GBT Loan and the 2019 PH&N GBT Loan;

**"Prior Subordination Agreements"** means, collectively:

- (a) Subordination agreement dated June 10, 2015 between the GBT Senior Bank Agent, as agent, the Issuer, as subordinated creditor, and GBT in regards to the 2015 GBT Loan;
- (b) Subordination agreement dated June 10, 2015 between the GBT Senior Bank Agent, as agent, the Bond Trustee, on behalf of holders of 2015 Bonds, and GBT in regards to the 2015 GBT Guarantee;
- (c) Subordination agreement dated June 30, 2016 between the GBT Senior Bank Agent, as agent, the Issuer, as subordinated creditor, and GBT in regards to the 2016 GBT Loan;
- (d) Subordination agreement dated June 30, 2016 between the GBT Senior Bank Agent, as agent, the Bond Trustee, on behalf of holders of 2016 Bonds, and GBT in regards to the 2016 GBT Guarantee;
- (e) Subordination agreement dated June 30, 2017 between the GBT Senior Bank Agent, as agent, the Issuer, as subordinated creditor, and GBT in regards to the 2017 GBT Loan;
- (f) Subordination agreement dated June 30, 2017 between the GBT Senior Bank Agent, as agent, the Bond Trustee, on behalf of holders of 2017 Bonds, and GBT in regards to the 2017 GBT Guarantee;

- (g) Subordination agreement dated June 29, 2018 between the GBT Senior Bank Agent, as agent, the Bond Trustee, on behalf of holders of 2018 Bonds, and GBT in regards to the 2018 GBT Guarantee;
- (h) Subordination agreement dated June 29, 2018 between the GBT Senior Bank Agent, as agent, the Issuer, as subordinated creditor, and GBT in regards to the 2018 GBT Loan;
- (i) Subordination agreement dated April 18, 2019 between the GBT Senior Bank Agent, as agent, the Bond Trustee, on behalf of holders of 2019 PH&N Bonds, and GBT in regards to the 2019 PH&N GBT Guarantee;
- (j) Subordination agreement dated April 18, 2019 between the GBT Senior Bank Agent, as agent, the Issuer, as subordinated creditor, and GBT in regards to the 2019 PH&N GBT Loan; and
- (k) Subordination agreement dated April 18, 2019 between the GBT Senior Bank Agent, as agent, PH&N, as subordinated creditor, and GBT in regards to the 2019 PH&N Put Agreement;

**"pro rata basis"** means a ratio based on: (a) the aggregate of the outstanding principal and accrued and unpaid interest on the subject Gracorp bonds bears to (b) the outstanding principal and accrued and unpaid interest on the aggregate of issued and outstanding Gracorp bonds against which (a) is measured, including the amount described in (a);

**"Redemption Date"** means a date set for the redemption of all or a portion of the Bonds issued by the Issuer;

**"Related Parties"** means, with respect to any person or company, the promoters, officers, directors or other insiders of that person and associates or affiliates of these persons or companies;

**"Resident"** means a person who is resident, or deemed to be resident, in Canada for purposes of the Tax Act;

**"Risk Acknowledgement Form"** means the risk acknowledgement form required to be signed by purchasers pursuant to NI 45-106 which form a part of the Subscription Agreement;

**"RDSPs"** means trusts governed by registered disability savings plan as defined in the Tax Act;

**"RESPs"** means trusts governed by registered education savings plan as defined in the Tax Act;

**"RRIFs"** means trusts governed by registered retirement income funds as defined in the Tax Act;

**"RRSPs"** means trusts governed by registered retirement savings plans as defined in the Tax Act;

**"Securities Act"** means the *Securities Act* (Alberta), as amended;

**"Senior Credit Agreement"** means the amended and restated credit agreement dated as of February 28, 2018 among GBT, Graham Group Ltd. and Graham Construction Fund, as borrowers, a syndicate of lenders, as lenders, and Royal Bank of Canada, as agent for and on behalf of the Senior Lenders, as such credit agreement may be amended, amended and restated, modified, replaced, restated or supplemented from time to time;

**"Senior Indebtedness"** has the meaning attributed thereto under "*Securities Offered – Bonds – Rank*";

**"Shareholders"** means the holders from time to time of shares in the Issuer;

**"Subscription Agreement"** means the subscription agreement for Bonds attached hereto in Schedule A;

**"Subsidiaries"** has the meaning attributed thereto under the ABCA;

**"Tax Act"** means the *Income Tax Act* (Canada), as amended, including the regulations thereunder;

"**TFSA**" means qualifying arrangements that meet the requirements to be a tax-free savings account for the purposes of the Tax Act;

"**Treaty**" means the Convention Between Canada and the United States of America With Respect to Taxes on Income and on Capital, as amended;

"**Trust Indenture**" means the trust indenture between Gracorp, as issuer, and the Debenture Trustee, as trustee, providing for the issue of Debentures by Gracorp; and

"**Unit**" means a unit of GIT, each such Unit representing an equal undivided beneficial interest therein.

All references to "\$" herein are to the lawful currency of Canada, unless otherwise expressly stated.

Words importing the singular number only include the plural, and vice versa, and words importing any gender include all genders.

## ITEM 1 USE OF AVAILABLE FUNDS

### 1.1 Net Proceeds

Assuming the successful completion of the Maximum Offering hereunder, the Issuer will issue 10,000 Bonds for gross proceeds of \$10,000,000. The following table sets forth the estimated net proceeds of the Offering if no Bonds are sold hereunder or the Maximum Offering is completed:

	<u>Assuming No Bonds Sold</u>	<u>Assuming Maximum Offering</u>
Amount to be raised by this Offering	\$nil	\$10,000,000
Selling commissions and fees	\$nil	\$nil
Estimated Offering costs	\$30,000	\$100,000 <sup>(1)</sup>
Available Funds	\$(30,000)	\$9,900,000
Additional sources of funding required	\$nil	\$nil
Working capital deficiency	\$nil	\$nil
Net proceeds	\$(30,000)	\$9,900,000

Note:

- (1) Assumes Maximum Offering from subscribers in Alberta, any of which entails a fee payable to the Alberta Securities Commission of 0.025% of gross proceeds of the Offering in Alberta (\$2,500) plus professional and Bond Trustee fees.

### 1.2 Use of Available Funds

The following table indicates the proposed use of available funds by the Issuer:

	<u>Assuming No Bonds Sold</u>	<u>Assuming Maximum Offering</u>
Loan to GBT	\$nil	\$9,900,000
Total	\$nil	\$9,900,000

The estimated net proceeds as shown in the table above will be used by the Issuer to make an interest-bearing unsecured subordinated loan to GBT under the GBT Loan Agreement.

### 1.3 Reallocation

We intend to use the available funds as stated. We will reallocate funds only for sound business reasons.

Although it is the intention of the Issuer to apply the net proceeds of the Offering in the manner described above, the Issuer will regularly review other opportunities which may become available from time to time.

## ITEM 2 BUSINESS OF THE ISSUER AND THE GUARANTOR

### 2.1 Business of the Issuer

#### 2.1.1 Structure

The Issuer is a corporation incorporated under the ABCA on February 28, 2008. The management of the Issuer are all employees, directly or indirectly, of GIT. The Issuer is not a reporting issuer in any province or territory of Canada and is not a SEDAR filer. The Issuer distributed its common shares, preferred shares, and debentures to various persons

through private placement exemptions under applicable securities legislation in various provinces or territories of Canada and declared itself to be a "public corporation" for the purposes of, and by election under the Tax Act on May 5, 2008. The head office and registered office of the Issuer is located at 10840 – 27th Street S.E., Calgary, Alberta, T2Z 3R6.

### **2.1.2 Our Business**

The business of the Issuer is to invest in private investment funds, which will invest in public-private partnerships, real estate development projects, power generation infrastructure (including wind, hydro and transmission assets), design-build-lease projects and private businesses (or interests therein) located in Canada and the United States.

Currently, the Issuer is invested in public-private partnerships through ownership of units in Connor, Clark & Lunn Traditional Infrastructure Limited Partnership. The Issuer also makes loans to GBT and earns interest and facilitation and advisory fees from GBT.

### **2.1.3 Development of Business**

The business of the issuer is based on a strategic plan and an ability to seek and invest in a diverse portfolio of projects in the asset classes we target. We strive to invest successfully in economic cycles through time diversification of our projects.

#### **2.1.3.1 2019 PH&N Bonds**

On April 18, 2019, Gracorp completed the issuance of \$40,000,000 aggregate principal amount of 2019 PH&N Bonds to PH&N. The 2019 PH&N Bonds bear 5.90% per annum interest that is payable semi-annually on the last day of June and December. The principal amount of the 2019 PH&N Bonds is due, in its entirety, on their maturity on June 30, 2026.

The 2019 PH&N Bonds are subject to the terms of the 2019 PH&N Put Agreement.

#### **2019 PH&N Put Agreement**

Under the 2019 PH&N Put Agreement, GBT granted PH&N and certain of its affiliates (the "**Putors**") the irrevocable right and option (the "**Put**"), exercisable upon the occurrence of either Trigger Event (as defined below) to sell, and to require GBT to purchase, from the Putors all, but not less than all, of the Putors' 2019 PH&N Bonds, under the terms of a 2019 PH&N Put Agreement. The Put will be exercisable for a period of 30 days after the occurrence of each Trigger Event.

Each occurrence of a Trigger Event will create an obligation on GBT to obtain a rating of the 2019 PH&N Bonds from a designated rating organization (i.e., S&P Global Ratings, a division of S&P Global Canada Corp., Moody's Investors Service, Inc., Fitch Ratings, Inc., or DBRS Ltd.), as soon as commercially practicable, and in any event within sixty (60) days.

A "**Trigger Event**" means either (a) certain circumstances constituting a change of control of GIT, including a person or group of persons becoming the beneficial owners, directly or indirectly, of more than 50% of the votes of GIT's securities, GIT ceasing to win, directly or indirectly, 100% of GBT, and the direct or indirect disposition of all or substantially all of the assets of GIT or GBT (on a consolidated basis) or (b) changes to certain credit metrics in the Senior Credit Agreement and within 180 days of such change, the 2019 PH&N Bond Indenture is not amended on terms and in a manner satisfactory to PH&N.

### **2.1.4 Long Term Objectives**

The objective of Gracorp is to: (a) provide investors with above average returns, to the maximum extent reasonably possible; and (b) maximize value through the effective management of the Issuer's investments.

The Issuer's strategy to achieve these objectives is to effectively manage and maintain the existing assets and to grow its portfolio through attractive development and investment opportunities that will provide positive long-term returns to investors.

In order to achieve our operational objectives, we intend to:

1. continue to seek profitable investment opportunities; and
2. focus on efficient management of the Issuer's financial resources.

#### **2.1.5 *Short Term Objectives and How We Intend to Achieve Them***

Our operational objectives for the next 12 months are:

1. to complete the GBT Loan from net funds raised under this Offering and to earn fees relating thereto under the Advisory Services and Facilitation Agreement. The target completion date of the GBT Loan is June 30, 2019; and
2. to earn advisory fees on the Prior Bonds and the Bonds.

#### **2.1.6 *Insufficient Proceeds***

The proceeds of the Offering may not be sufficient to accomplish all of our proposed objectives and there is no assurance that alternative financing will be available.

#### **2.1.7 *Material Agreements***

The Issuer is currently (or shall be following closing of the Offering) a party or related party to the following material agreements:

1. Bond Indenture, see Item 5.1, "*Terms of Securities – Bonds*", and "*Terms of Securities – General*";
2. Bond Guarantee, see Item 5.1, "*Terms of Securities – Bond Guarantee*";
3. GBT Loan Agreement;
4. Advisory Service and Facilitation Agreement;
5. 2019 PH&N Put Agreement;
6. Inter-Bondholder Priority Agreement;
7. Prior Bond Indentures;
8. Prior Bond Guarantees; and
9. Prior GBT Loan Agreements.

##### **2.1.7.1 *GBT Loan Agreement***

Gracorp intends to utilize substantially all of the net proceeds under the Offering as an advance to GBT (the GBT Loan) under the GBT Loan Agreement. The GBT Loan Agreement will reflect substantially the same principal terms and conditions and repayment obligations incurred under the Bond Indenture to holders of the Bonds, and will require interest and principal repayments to match

those specific obligations as to amount and timing so as to accommodate satisfaction of the Issuer's Obligations under the Bond Indenture. In addition, the GBT Loan Agreement will contain provisions pursuant to which GBT may elect to defer for one year principal and interest payments due under the GBT Loan Agreement, provided GBT is not then in default, for amounts due on the next succeeding four Bond Payment Dates. On delivery of a Deferral Election, the interest rate under the GBT Loan Agreement will be increased to 7.25% per annum from and including the first day of the Deferral Period through to the maturity date of the GBT Loan. On delivery of a Deferral Election by GBT, a similar deferral shall automatically come into effect under the Bond Indenture such that the interest rate on the Bonds through to the Maturity Date will be 7.25% per annum, deferred interest will be paid on the Bond Payment Date following the end of the Deferral Period and deferred principal will be added to the amortized payments for the term of the Bonds through to the Maturity Date. GBT will also be permitted to prepay any amounts owing under the GBT Loan Agreement to Gracorp, designate that such amounts be utilized by Gracorp to effect a redemption of Bonds under the Bond Indenture, and Gracorp shall utilize such amounts to effect such redemptions of Bonds. The GBT Loan Agreement will be an unsecured obligation of GBT, ranking ahead of GBT equity, and payments thereunder, whether before or after default, will be made by GBT on a pro rata basis with payments made by GBT pursuant to other unsecured indebtedness of GBT to Gracorp arising in connection with other existing or future bond issuances, including, without limitation, under the Prior GBT Loans (such indebtedness, "**Unsecured Gracorp Bond Debt**"). Amounts received in contravention of the GBT Loan Agreement, or other agreements evidencing Unsecured Gracorp Bond Debt, shall not be the property of the recipient but shall be received and held in trust for the appropriate recipient thereof.

The obligations of GBT to Gracorp under the GBT Loan Agreement will be postponed and subordinated in favour of the GBT Senior Bank Agent pursuant to a subordination agreement to be entered into between Gracorp, the GBT Senior Bank Agent and GBT. Mandatory scheduled payments by GBT under the GBT Loan Agreement will be permitted prior to a default, event of default, or material adverse effect under the GBT Senior Credit Agreement

#### **2.1.7.2 *Advisory Services and Facilitation Agreements***

Gracorp and GBT have entered into the Advisory Services and Facilitation Agreement, pursuant to which Gracorp has agreed to advise and implement a structured financing, including its commitments with respect to the Offering and the GBT Loan Agreement, in exchange for the payment of a fee of \$50,000 by GBT to Gracorp on Closing of the Offering and the initial advance of the GBT Loan. In addition, for making the GBT Loan available and administering such arrangements, Gracorp will be paid an annual fee of \$25,000 by GBT on each anniversary of the initial advance under the GBT Loan Agreement, for so long as funds remain owing thereunder, and be reimbursed for any and all administration costs and disbursements associated with the GBT Loan Agreement.

#### **2.1.7.3 *Inter-Bondholder Priority Agreement***

Concurrent with the execution of the Bond Indenture, Gracorp will enter into the Inter-Bondholder Priority Agreement with the Bond Trustee, in its respective capacities as trustee under the Prior Bond Indentures and the Bond Indenture, in order to set out the relative priority of the Prior Bonds and the Bonds in respect of the assets of Gracorp and to confirm the equal priority of payments made by GBT under the Prior GBT Loan Agreements and the GBT Loan Agreement relative to each other and to other Unsecured Gracorp Bond Debt, as more particularly discussed under Item 2.1.7.1. – *GBT Loan Agreement*.

#### **2.1.7.4 *Prior Bond Indentures***

Gracorp and the Bond Trustee entered into the Prior Bond Indentures, each of which governs the terms of the respective Prior Bonds. Pursuant to the Prior Bond Indentures, the maturity date for the



Prior Bonds range from June 2022 to June 2025 with varying interest only period from June 2015 to June 2025. Interest on the Prior Bonds (other than the 2019 PH&N Bonds) is 7.00% per annum, payable quarterly in arrears on March 31, June 30, September 30 and December 31 in each year.

Interest on the 2019 PH&N Bonds is 5.90% per annum, payable semi-annually in arrears on June 30 and December 31 in each year. If GBT breaches certain of its financial covenants under the Senior Credit Agreement and such breach is waived but not cured within 120 days of it occurring, the interest on the 2019 PH&N Bonds will increase by 1.00% per annum.

Quarterly blended interest and principal payments are to be made over the last five years of the Prior Bonds (other than the 2019 PH&N Bonds) on an amortized schedule provided that any payments otherwise due following a deferral notice shall be added to the principal amounts due following such deferral period to be amortized and paid thereafter. Payments will be equal over the amortization period with a larger portion of payments representing interest at the beginning of the amortization period and a larger portion representing principal payments at the end of the amortization period.

The 2019 PH&N Bonds are interest only with the aggregate principal due on maturity on June 30, 2026.

The Prior Bonds (other than the 2019 PH&N Bonds) may be redeemed by the Issuer, in whole or in part, in denominations equal to the principal amount outstanding per Prior Bond, from time to time, at the Issuer's option on not more than 60 days and not less than 30 days prior written notice at a redemption price equal to the principal amount plus accrued and unpaid interest thereon, all in accordance with the terms of the respective Prior Bond Indenture.

The 2019 PH&N Bonds may be redeemed by the Issuer, in whole or in part, in denominations equal to the principal amount outstanding per 2019 PH&N Bond, from time to time provided that no default or event of default has occurred, at the Issuer's option on not more than 60 days and not less than 30 days prior written notice at a redemption price equal to: (A) prior to January 1, 2026, the greater of the principal amount of 2019 PH&N Bond and the price determined by an investment dealer selected by the Issuer equal to the present value of the remaining scheduled payments of interest and principal on such 2019 PH&N Bonds discounted to the redemption date on a semi-annual basis at a discount rate equal to yield of the most equivalent Canadian government bond plus 1.00% and (B) after January 1, 2026, the principal amount plus accrued and unpaid interest thereon.

The Prior Bonds are guaranteed by GBT.

#### **2.1.7.5 *Prior Bond Guarantees***

Under the Prior Bond Guarantees, the Guarantor fully, absolutely, unconditionally and irrevocably guaranteed, to each holder of Prior Bonds, and to the Bond Trustee, as trustee on behalf of holders of Prior Bonds and in its own capacity, the punctual payment and performance when due of all obligations and agreed to indemnify and hold harmless each Prior Bond holder and the Bond Trustee from all losses, damages, costs, expenses and liabilities suffered or incurred by the Prior Bond holders and the Bond Trustee resulting or arising from or relating to any failure by Gracorp to unconditionally and irrevocably pay in full or fully perform such obligations as and when due.

The obligations of the Guarantor to the Bond Trustee under the Bond Guarantees are postponed and subordinated in favour of the GBT Senior Bank Agent pursuant to a subordination agreement between the Bond Trustee, the GBT Senior Bank Agent and the Guarantor

#### **2.1.7.6 *Prior GBT Loan Agreements***

Gracorp utilized substantially all of the net proceeds of Prior Bonds as an advance to GBT under the respective Prior GBT Loan Agreements. The Prior GBT Loan Agreements reflect substantially the same principal terms and conditions and repayment obligations incurred under the Prior Bond Indentures to holders of the respective Prior Bonds, and require interest and principal repayments to match those specific obligations as to amount and timing so as to accommodate satisfaction of the Issuer's obligations under the Bond Indentures. In addition, the Prior GBT Loan Agreements contain provisions pursuant to which GBT may elect to defer for one year principal and interest payments due under each and any of the Prior GBT Loan Agreements, provided GBT is not then in default, for amounts due on the next succeeding four bond payment dates. On delivery of a deferral notice, the interest rate under that Prior GBT Loan Agreement will be increased to 8% per annum (other than the 2019 PH&N GBT Loan Agreement which will be increased to 6.90%) for the period from the beginning of that calendar quarter, through to the maturity date of the loan made under the Prior GBT Loan Agreements. On delivery of a deferral notice by GBT, a similar deferral shall automatically come into effect under the related Prior Bond Indenture such that the interest rate on the related Prior Bonds through to the maturity date will be 8% per annum (other than the 2019 PH&N Bonds which will be 6.90%), deferred interest will be paid at the end of the deferral period and deferred principal will be added to the amortized payments for the term of those Prior Bonds through to the maturity date. GBT will also be permitted to prepay any amounts owing under Prior GBT Loan Agreements to Gracorp on or after certain varying dates, designate that such amounts be utilized by Gracorp to effect a redemption of Prior Bonds under the related Prior Bond Indenture, and Gracorp shall utilize such amounts to effect such redemptions of those Prior Bonds. The Prior GBT Loan Agreement are unsecured obligations of GBT, ranking ahead of GBT equity and payments thereunder, whether before or after default, will be made by GBT on a pro rata basis with payments made by GBT pursuant to other Unsecured Gracorp Bond Debt, including, without limitation, under the GBT Loan. Amounts received in contravention of a Prior GBT Loan Agreement, or other agreements evidencing Unsecured Gracorp Bond Debt, are to be held in trust for the appropriate recipient thereof.

The obligations of GBT to Gracorp under the GBT Loan Agreements are postponed and subordinated in favour of the GBT Senior Bank Agent pursuant to subordination agreements between Gracorp, the GBT Senior Bank Agent and GBT. Mandatory scheduled payments by GBT under the GBT Loan Agreements are permitted prior to a default, event of default, borrowing limit excess or material adverse effect under the GBT Senior Credit Agreement.

## **2.2 *Business of the Guarantor***

### **2.2.1 *Structure***

GBT is an unincorporated open ended investment trust governed by the laws of Alberta and created pursuant to the Declaration of Trust. The head and principal office of the Guarantor is located at 10840 – 27th Street S.E., Calgary, Alberta, T2Z 3R6. Pursuant to the Administration Agreement, AdminCo provides certain administrative and supportive services to GBT.

### **2.2.2 *Graham Entities Operational Structure***

GBT carries on business, directly or indirectly, through GGL and the GBT Operating LPs. GBT General Partners manage GBT Operating LPs.

GBT also indirectly owns the Graham Capital Group, which develops public infrastructure and purpose-built facilities.

## **2.2.3 Our Business**

### **2.2.3.1 General**

Currently, GBT provides construction, engineering, design, general contracting and contract and development management services to the industrial, civil, infrastructure, institutional, commercial, multi-unit residential, retail, municipal and manufacturing based market sectors. GBT, through various subsidiaries and joint ventures, can provide construction, general contracting and construction management services in all jurisdictions of Canada except Quebec. Similar services are also provided in the United States, primarily in the Pacific Northwest and mid-western region. Clients include local, provincial and federal governmental agencies and corporations and private profit and non-profit developers. Graham Entities deliver these services using lump sum, cost reimbursable, unit based, design build, and construction management contract delivery methods.

GBT's operations are conducted through the following entities:

### **2.2.3.2 GBT Operating Entities**

Each of the GBT Operating Entities are limited partnerships formed under the laws of Manitoba pursuant to the GBT Operating LP Agreements and which are managed by the GBT General Partners, or corporations owned by GBT Operating Entities, to carry out Canadian business of the Graham Entities. Each of the GBT Operating Entities are wholly-owned, directly or indirectly, by GBT. The head and principal office of each of the GBT Operating Entities is located at 10840 - 27th Street S.E., Calgary, Alberta, T2Z 3R6.

### **2.2.3.3 Construction and Engineering LP**

Construction and Engineering LP is a Canadian based general contractor offering both general contracting and construction management services to a diverse list of clients principally in the commercial sector under a wide range of contract formats including stipulated firm price, unit price, cost plus agreements and guaranteed maximum price contracts ranging in value from a few hundred to multi-million dollars. Such services include site development, demolition, excavation, concrete foundations, civil infrastructure, building superstructures, building envelopes and interior finish packages and are provided to the institutional, commercial, multi-unit residential, retail, government and manufacturing based market sectors.

### **2.2.3.4 Design Builders LP**

Design Builders LP was created from the strength and experience of the Graham Entities to meet the growing demands associated with delivery of construction projects through the design-build process. Typically, Design Builders LP is the primary contact in dealing with owners for the procurement of design services and the construction of a project under one contract package. Design Builders LP contracts its services to a wide variety of clients and in many different sectors, both public and private, and for a wide variety of building requirements in the commercial, retail, institutional, civil infrastructure and resource based market sectors.

### **2.2.3.5 Industrial Services LP**

Industrial Services LP provides general contracting in the areas of earth works, civil works, site utilities, steel fabrication and erection, supply of pre-engineered buildings and erection, mechanical equipment installation and maintenance, process piping fabrication and installation, module and pipe rack assembly, and electrical installations. These services are provided to clients in a wide variety of industries including civil infrastructure, oil sands, power generation, mining, gas and oil

refineries and pumping, chemical plants, pulp, paper and wood products manufacturing and processing, and grain handling.

#### **2.2.3.6 *Infrastructure LP***

Infrastructure LP provides general contracting and construction management services specializing in the larger and more complex projects in the areas of infrastructure, transportation, energy generation and distribution, and water and wastewater management. Provision of these services, to both public and private clients, necessitates involvement in traditional bid build contracting, design build and joint ventures.

#### **2.2.3.7 *Construction Resources LP***

CR LP is an equipment rental provider to the GBT Operating Entities and GCF Operating LPs in Canada.

#### **2.2.3.8 *Quinn Contracting Ltd***

Quinn Contracting Ltd. provides maintenance, repair, operations and turnaround services to processing facilities, including gas plants, petrochemical, and SAGD clients in British Columbia, Alberta and Saskatchewan.

#### **2.2.3.9 *Management Services LP***

Management Services LP has been established to provide management expertise to the GBT Operating Entities and GCF Operating LPs in Canada and Graham US in the United States.

#### **2.2.3.10 *Graham Capital Group***

The Graham Capital Group develops public infrastructure such as hospitals, schools, roads, offices, and public water systems, and purpose-built private facilities including retail, industrial, hotel and multi-family residential. The Graham Capital Group also provides complete life-cycle asset management, including long-term operations and maintenance on public and commercial facilities.

#### **2.2.3.11 *Gracorp Properties Group***

Gracorp is a merchant style, private market real estate developer with offices in Vancouver, Calgary and Toronto. Gracorp manages the entire spectrum of the development process from land assembly through funding, entitlement, design, construction, leasing, property management, asset management and sales. From office, retail, hospitality, industrial and institutional to multi-family residential, Gracorp partners with a variety of land owners, developers and investment firms to deliver real estate investment opportunities to the marketplace.

#### **2.2.3.12 *Graham US***

Graham Group (US) Inc., a wholly-owned subsidiary of GGL, and its wholly-owned subsidiaries, Graham Construction Management Inc., Graham Construction Inc., Graham Construction Services Inc., Graham Contracting Ltd. and Gracorp Inc., provide general contracting and construction management services in the Pacific Northwest, Midwestern states and several other states, including site development, demolition, excavation, concrete foundations, civil infrastructure, building superstructures, building envelopes and interior finish packages to the institutional, commercial, multi-unit residential, retail, government and manufacturing based market sectors

#### **2.2.4 General**

GBT's business has a long history of profitable growth. This success is based on a solid strategic plan supported by diversity and an ability to succeed not only in a thriving marketplace but also during a market downturn. Throughout the recent changes in the economy, GBT has effectively executed its strategic plans in preparation for the future.

GBT is well positioned as it moves forward both in terms of its financial strength and its increased capabilities to perform larger, more complex projects. As the economy, along with the North American construction market, is almost entirely driven by world commodity prices, consumer spending, government spending, and a stable manufacturing sector, GBT is optimistic that it will be able to maintain revenues. GBT's plans are to continue to build on its past successes and shift its market focus as construction spending trends shift from its industrial segment to infrastructure segment.

GBT's U.S. operations are currently focused towards specific markets, such as North Dakota, Colorado, and the Pacific North West, and strategic clients. The infrastructure segment has transitioned its strategy in the U.S. to smaller regional work augmented by select major projects. Going forward, GBT's U.S. business is positioned to be an area of key strategic growth. As at the end of December 2018, GBT had a backlog of approximately US \$1.5 billion for its U.S. operations.

In the face of challenging market conditions in the industrial sector arising from low commodity prices for potash and uranium, Graham diversified into more stable industrial maintenance and renewal work through the acquisition of Quinn Contracting in 2017. GBT has successfully integrated Quinn Contracting into its Industrial division and is now offering comprehensive services to industrial clients from construction and development through to maintenance and renewal during operations. GBT also restructured its equipment, shops and yards support division to realign its equipment portfolio to better respond to current market demand.

In 2018 GBT won a number of significant major projects including SR 520 in Washington and several transportation and education projects. These projects have led to an increase in GBT's backlog which sits at approximately \$4.1 billion as of December 31, 2018 and is reflective of shifting spending patterns in the North American construction market.

During 2017, GBT completed the acquisition of Quinn Contracting Ltd which provides GBT with capacity to offer maintenance, repair, operations and turnaround services to gas plant, petrochemical and SAGD clients.

#### **2.2.5 Material Agreements**

GBT is currently a party or related party to the following material agreements:

1. The Declaration of Trust dated November 22, 2005, as amended, between the initial Unitholder and the Trustees, which created the Trust;
2. The GBT Trust Indenture dated November 22, 2005, as amended, between the trustees and the Trust as settlor and initial Unitholder, which created GBT;
3. The GCF Trust Indenture dated as of June 27, 2008 between GCF Trustee Corp., as trustee and the Trust, as settlor and initial Unitholder, which created GCF;
4. The GUT Trust Indenture dated as of December 16, 2015 between the initial Unitholder and the Trustees, which created the GUT;

5. Administration Agreement dated January 1, 2006, as amended, among the Trust, GBT and GGL pursuant to which GGL provides certain administrative and supportive services to the Trust and GBT;
6. GCF Administration Agreement dated June 27, 2008 between GCF and GGL pursuant to which GGL provides certain administrative and supportive services to GCF;
7. The Construction and Engineering Limited Partnership Agreement dated December 29, 2005 among Graham Construction and Engineering Inc., as general partner, GBT and each person who from time to time is accepted and becomes a limited partner;
8. The Design Builders Limited Partnership Agreement dated December 29, 2005; as amended and restated to December 28, 2011 among Graham Design Builders Ltd., as general partner, GBT and each person who from time to time is accepted and becomes a limited partner;
9. The Industrial Services Limited Partnership Agreement dated December 29, 2005; as amended and restated to December 28, 2011 among Graham Industrial Services Ltd., as general partner, GBT and each person who from time to time is accepted and becomes a limited partner;
10. The Infrastructure Limited Partnership Agreement dated January 2, 2007; as amended and restated to December 28, 2011 among Graham Infrastructure Ltd., as general partner, GBT and each person who from time to time is accepted and becomes a limited partner;
11. The Building Services Limited Partnership Agreement dated August 7, 2008 among Graham Building Services Ltd., as general partner, GCF and each person who from time to time is accepted and becomes a limited partner;
12. The Construction Resources Limited Partnership Agreement dated December 28, 2011; as amended and restated to November 8, 2017 among Graham Construction Resources Ltd., as general partner, GBT and each person who from time to time is accepted and becomes a limited partner;
13. The Management Services Limited Partnership Agreement dated September 20, 2012 among Graham Management Services Ltd., as general partner, CR LP and each person who from time to time is accepted and becomes a limited partner;
14. The Design Build Services Limited Partnership Agreement made as of August 7, 2008 among Graham Design Build Services Ltd., as general partner, GCF and each person who from time to time is accepted and becomes a limited partner;
15. The Unanimous Unitholders Agreement dated January 1, 2006, as amended and restated to June 21, 2017, among the Trust and each person who from time to time is accepted and becomes a Unitholder;
16. The Contingent Value Rights Agreement dated December 17, 2015 among GUT, GBT, GGL, Graham Construction Resources Ltd., CR LP, Graham Infrastructure Ltd., and Graham Infrastructure L.P. governing the terms of payment from certain project claims;
17. Series 1 Subordinate Unit Terms dated December 16, 2015 governing the terms of CS Units issued by GUT;
18. Series 2 Subordinate Unit Terms dated August 10, 2018 governing the terms of CS Conversion Units issued by GUT;
19. Capital leases in the aggregate amount of \$260,000 bearing interest at 2.83%, payable in blended monthly installments maturing between March and August 2019;

20. Revolving credit facility in the aggregate amount drawn of \$27,656,000 by means of financial letters of credit bearing interest at prime + 0.25% to 1.00% per annum and maturing February 28, 2022;
21. Performance letter of credit facility in the aggregate amount drawn of \$84,440,000 bearing interest at 0.25% to 0.95% per annum and maturing February 28, 2022;
22. Senior Credit Agreement;
23. Amended and Restated Indemnity Agreement dated January 26, 2016 executed by, among others, GBT in favour of Export Development Canada;
24. Inter-Bondholder Priority Agreement;
25. Prior Subordination Agreements;
26. Prior GBT Loan Agreements in the aggregate amount of (a) \$26,011,000 bearing interest at 7.00% per annum and with \$16,878,000 maturing by June 30, 2022, \$4,979,000 maturing by June 30, 2023, \$2,189,000 maturing by June 30, 2024, and \$1,965,000 maturing by June 30, 2025 and (b) \$40,000,000 bearing interest at 5.90% per annum and maturing on June 30, 2026;
27. Land and building lease agreements with total commitments of \$84,503,331 expiring at various dates between 2019 and 2034;
28. CR LP Bond in the aggregate amount of \$7,000,000 issued to Drillin Management Inc. effective October 1, 2017, bearing interest at a rate of 5.00% per annum, and maturing by October 1, 2024; and
29. GBT guarantee of the CR LP Bond.

In the normal course of business, some of the GBT's Subsidiaries are party to a number of joint venture arrangements. These Subsidiaries have provided joint and several guarantees for the due and punctual performance of obligations of all joint venture partners under the construction contracts, and the payment of any obligation under the guarantee of the GBT's Subsidiaries.

## 2.2.6 Capital Structure of Guarantor

The following table sets out the capitalization of GBT as at December 31, 2018 both before and after giving effect to the Offering, assuming completion of the Maximum Offering.

Description of security	Authorized	Outstanding as at December 31, 2018, prior to giving effect to the Offering	Outstanding as at December 31, 2018, after giving effect to the Maximum Offering
<b>Debt:</b>			
Credit Facilities <sup>(1)</sup>	\$205,000,000	\$nil	\$nil
Other debt <sup>(2)</sup>	\$275,000,000	\$nil	\$nil
2015 Bonds <sup>(3)</sup>	\$23,899,000	\$16,878,000	\$16,878,000
2016 Bonds <sup>(4)</sup>	\$5,668,000	\$4,979,000	\$4,979,000
2017 Bonds <sup>(5)</sup>	\$2,189,000	\$2,189,000	\$2,189,000
2018 Bonds <sup>(6)</sup>	\$1,965,000	\$1,965,000	\$1,965,000
2019 PH&N Bonds <sup>(7)</sup>	\$40,000,000	\$nil	\$nil
Bonds	\$10,000,000	\$nil	\$10,000,000
CR LP Bonds <sup>(8)</sup>	\$7,000,000	\$7,000,000	\$7,000,000
<b>Equity: <sup>(9)</sup></b>			
Units <sup>(10)</sup>	Unlimited	\$316,713,000 (4,019,619 Units)	\$316,713,000 (4,019,619 Units)

Notes:

- (1) Credit facilities are revolving facility of up to \$130,000,000 and equipment facility loan of up to \$25,000,000 bearing interest of prime plus 0.25% to 1.00% subject to limits based on 75% of GBT's eligible accounts receivable. Through an accordion provision, GBT has the option to increase the revolving or performance letter of credit facility by up to \$50,000,000. The revolving facility is secured by way of a general security agreement over specific assets and property of GBT and its Subsidiaries. Financial letters of credit of \$25,458,926 have been issued under this facility, none of which has been drawn as at December 31, 2017.
- (2) Other debt is a performance letter of credit facility of up to \$275,000,000 bearing interest of 0.25% to 0.95%. Through an accordion provision, GBT has the option to increase the revolving or performance letter of credit facility by up to \$50,000,000. Performance letters of credit of 94,694,181 have been issued under this facility, none of which has been drawn as of December 31, 2017.
- (3) 2015 Bonds represent GBT's obligations under its guarantee of Gracorp's seven-year \$1,000 principal amount bonds bearing interest of 7.00% per annum, maturing by June 30, 2022.
- (4) 2016 Bonds represent GBT's obligations under its guarantee of Gracorp's seven-year \$1,000 principal amount bonds bearing interest of 7.00% per annum, maturing by June 30, 2023.
- (5) 2017 Bonds represent GBT's obligations under its guarantee of Gracorp's seven-year \$1,000 principal amount bonds bearing interest of 7.00% per annum, maturing by June 30, 2024.
- (6) 2018 Bonds represent GBT's obligations under its guarantee of Gracorp's seven-year \$1,000 principal amount bonds bearing interest of 7.00% per annum, maturing by June 30, 2025.
- (7) 2019 PH&N Bonds represent GBT's obligations under its guarantee of Gracorp's seven-year \$100 principal amount bonds bearing interest of 5.90% per annum, maturing by June 30, 2026.
- (8) CR LP Bonds represent seven-year \$1,000 principal amount bonds bearing interest of 5.00% per annum, maturing on September 30, 2024.
- (9) GIT's equity includes a reserve of \$3,746,000 representing the value of the CS Units and \$234,000 of non-controlling interest.
- (10) Units represent an equal undivided beneficial interest in GIT. The total number of Units outstanding as of December 31, 2018 prior to giving effect to the Offering includes Units issued through GIT's 2018 Distribution Reinvestment, and 48,479 non-voting Exchangeable Units valued at \$3,515,000. Exchangeable Units have the right to receive the same distribution as Trust Units and may be exchanged on a one-for-one basis into Trust Units.



## 2.2.7 Long Term Debt of Guarantor

The external long-term debt of GBT, as at December 31, 2018, includes the following:

Description of Long-Term Debt	Interest Rate per annum	Repayment Terms	Amount Outstanding at December 31, 2018	Amount Due Within 12 Months
Capital leases; collateralized by certain equipment	2.83%	Blended monthly instalments maturing between March and August 2019	\$260,000	\$260,000
Notes payable	prime + 4.15%	Maturing between November 22 and December 21, 2019	\$1,000,000	\$1,000,000
Revolving Credit Facility, secured by a General Security Agreement	prime + 0.25% to 1.00%	Interest only payments maturing December 14, 2019	\$Nil	\$Nil
Performance Credit Facility, secured by a General Security Agreement	0.25% to 0.95%	Interest only payments maturing December 14, 2019	\$Nil	\$Nil
Bonds, unsecured	7.00%	Interest and payments: \$16,878,000 maturing by June 30, 2022; \$4,979,000 maturing by June 30, 2023; \$2,189,000 maturing by June 30, 2024; and \$1,965,000 maturing by June 30, 2025	\$26,011,000	\$5,654,000
Bonds, unsecured	5.90%	Interest and payments: \$40,000,000 maturing by June 30, 2026;	\$Nil	\$Nil
Bonds, unsecured	5.00%	Interest and payments, \$7,000,000 maturing by September 30, 2024	\$7,000,000	\$310,000

## 2.2.8 Prior Sales

The following table sets out details of all securities issued by GIT within the last 12 months.

Date of issuance	Type of security issued	Number of GIT units issued	Price per GIT unit	Consideration received
March 29, 2018	Units	96,105	\$79.82	\$7,671,101
March 29, 2018	Units (DEP)	7,649	\$79.82	\$610,543
April 28, 2018	Units	305,682	\$79.82	\$24,399,537
August 10, 2018	CS Conversion Units <sup>(1)</sup>	61,916	\$100.00	\$6,191,600
March 29, 2019	Units	210,423	\$79.95	\$16,823,318

Notes:

- (1) Convertible promissory note dated August 10, 2018, among GIT and GUT, pursuant to which holders of CS Conversion Units (issued at \$100.00 per CS Conversion Unit) have been granted a right to receive a preferential distribution in an amount equal to one half of the amount of the distribution declared payable with respect to Units of GIT for the fiscal year ended December 31, 2018. A deemed redemption will occur on January 1, 2019, by way of cash payment with respect to the principal amount plus the preferential distribution by way of delivery of Units of GIT, on or before March 31, 2019 at the then prevailing unit value of the Units of GIT.

### ITEM 3

#### DIRECTORS, MANAGEMENT, PROMOTERS AND PRINCIPAL HOLDERS OF ISSUER

#### 3.1 Compensation and Securities Held

Until otherwise determined, directors are not compensated for attending Board, committee or management meetings or other agreed upon meetings for each director. The directors are entitled to be reimbursed for reasonable traveling and other expenses properly incurred by them in attending meetings of the Board or any committee thereof or in connection with their services as directors.

The following table provides information in relation to the compensation paid by the Issuer, in its most recently completed fiscal year 2018, to each director or officer and promoter of the Issuer, and each person who, directly or indirectly, beneficially owns or controls 10% or more of the voting securities of the Issuer.

Name and Municipality of principal residence	Position held with Issuer	Compensation		Number of Shares Held	Percentage of Voting Securities Held	
		Most Recently Completed Financial Year Salary/Fees /Bonuses	Anticipated for Current Financial Year		Before Giving Effect to the Maximum Offering	After Giving Effect to the Maximum Offering
Tim Heavenor Cochrane, Alberta	Chairman, director, President and CEO	nil	nil	1,700 <sup>(1)</sup>	0.61%	0.61%
Lyle Edwards Calgary, Alberta	Director	nil	nil	nil	nil	nil
Brian Nilsson, St. Albert, Alberta	Director	nil	nil	nil	nil	nil
Adam Burk Toronto, Ontario	Vice President	nil	nil	nil	nil	nil
Ryan Siah Calgary, Alberta	Vice President	nil	nil	nil	nil	nil

Note:

- (1) Represents 850 common shares of the Issuer owned directly and 850 Common Shares of the Issuer owned by Mr. Heavenor's spouse.

No directors or officers are compensated directly by the Issuer. Officers are all employees of an affiliate of Graham Capital Group which earns fees through a management service agreement with the Issuer. Management fees for 2018 were \$80,917.

#### 3.2 Management Experience

The following table sets out the principal occupations of the senior officers and directors of Gracorp over the past five years and any relevant experience they have in the business similar to the Issuer.

Name	Principal Occupation and Related Experience
Tim Heavenor Cochrane, Alberta	Tim Heavenor has been Chief Financial Officer of GIT since December 2014 and President of GIT Subsidiary, Gracorp Capital Advisors Ltd., since 2007. Tim contributes nearly 30 years of experience in major project development, team building, strategic planning, private equity, business development and corporate finance. Tim is also a founding director of the Connor Clark & Lunn GVest Traditional Infrastructure LP and the GVest Private Equity LP. Gracorp-managed funds have attracted investment commitments from over 300 employees of GIT and its Subsidiaries as well as Canadian institutional asset management firms. Previously, Tim was one of three executives that led Manvest Inc., a private investment company, to top-quartile returns over a ten-year period. In that capacity, Tim served on numerous private company boards, including roles as chair, and on audit and compensation committees. Tim also has investment and commercial banking experience.
Lyle Edwards Calgary, Alberta	Lyle Edwards is a Chartered Accountant who has been involved in a number of business ventures. Lyle is currently the Chairman of the Calgary Municipal Land Corporation. He is formerly President of Highfield Corporation Ltd., a real estate development company that had assets of \$500,000,000. Lyle is the founder, developer, and owner of Cottonwood Golf and Country Club. He continues to be involved in several real estate ventures, and is actively involved in a number of community organizations.
Brian Nilsson St.Albert, Alberta	Brian Nilsson is the Co-CEO of Nilsson Bros. Inc., a diversified agribusiness which operates across Western Canada and the United States. Brian is also the Co-CEO of XALTA Capital Partners Ltd., an Alberta based private equity fund which holds investments in various businesses including commercial properties and developments. These investments are primarily based in Western Canada and are outside of Brian's other agricultural investments. Brian has over thirty years of executive experience and has served on numerous industry related advisory boards and committees.
Adam Burk Toronto, Ontario	Adam Burk joined Graham Capital Group in 2013 and leads the finance team after being with Canada Life since 2009, where he structured, negotiated and placed approximately \$800 million annually of debt, specifically including \$600 million of P3 debt. Canada Life is one of Canada's largest buyers of P3 debt in both the private placement and bond markets. Adam was responsible for senior level relationship management with both sponsors and underwriters and is well known to these market players. He has seen most of the P3 transactions that have occurred in Canada since 2009 and is intimately familiar with structuring and pricing issues. Prior to joining Canada Life, Adam was in the Debt Capital Markets group at RBC Capital Markets. In this capacity, he advised clients on both bond and bank funding alternatives, including associated derivative products. He led and participated on deal teams to structure both public and private debt offerings. For a portion of his time at RBC, he was with the Fixed Income Origination group in London England. Adam has a Masters Degree in Finance and another in European Studies.
Ryan Siah Calgary, Alberta	Ryan Siah joined Graham Capital Group in 2014 and has gained experience in both public practice and the investment industry. Ryan is responsible for overseeing Graham Capital Group's financial reporting and compliance programs and currently manages the full cycle accounting and finance functions for 5 Public Private Partnership entities across western Canada, with total project values totaling over \$5.4 billion. Before joining Graham, Ryan spent four years at BDO LLP in Calgary as an auditor in the private company group, specializing in real estate and manufacturing. Ryan earned his CPA (CA) designation in 2013.

### 3.3 Penalties, Sanctions and Bankruptcy

There are no penalties or sanctions that have been in effect during the last ten years or any cease trade order that has been in effect for a period of more than 30 consecutive days during the past ten years against a director, executive officer or control person of the Issuer or against a company of which any of the foregoing was a director, executive officer or control person at the time. 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, has been in effect during the last ten years with regard to those individuals or any companies of which any of those individuals was a director, executive officer or control person.

## ITEM 4 CAPITAL STRUCTURE OF THE ISSUER

### 4.1 Capitalization

The following table sets out the capitalization of the Issuer, as at May 30, 2019, both before and after giving effect to the Offering, assuming completion of the Maximum Offering.

Description of security	Authorized	Outstanding as at May 30, 2019, prior to giving effect to the Offering	Outstanding as at May 30, 2019, after giving effect to the Maximum Offering
<b>Debt:</b>			
Debentures <sup>(1)</sup>	\$4,571,280 (653,040)	\$4,532,080 (647,440)	\$4,532,080 (647,440)
2015 Bonds	\$23,899,000 (23,899)	\$15,803,829 (23,899)	\$15,803,829 (23,899)
2016 Bonds	\$5,668,000 (5,668)	\$4,741,350 (5,668)	\$4,741,350 (5,668)
2017 Bonds	\$2,189,000 (2,189)	\$2,189,000 (2,189)	\$2,189,000 (2,189)
2018 Bonds	\$1,965,000 (1,965)	\$1,965,000 (1,965)	\$1,965,000 (1,965)
2019 PH&N Bonds	\$40,000,000 (400,000)	\$40,000,000 (400,000)	\$40,000,000 (400,000)
Bonds	\$10,000,000 (10,000)	Nil	\$10,000,000 (10,000)
Total Gracorp bonds <sup>(2)</sup>	\$43,721,000 (43,721)	\$69,231,259 (1,081,161)	\$79,231,259 (1,091,161)
<b>Equity:</b>			
Preferred Shares <sup>(3)</sup>	\$10,000,000	\$1,942,320 (647,440)	\$1,942,320 (647,440)
Common Shares	Unlimited	\$1 (278,800)	\$1 (278,800)

Notes:

- (1) Represents 647,040 Debentures with face value of \$4,532,080 that carry a 12% interest rate per annum and 10-year maturity to June 12, 2024 and July 13, 2025.
- (2) Represents \$23,899,000 of 2015 Bonds issued in June 2015, \$5,668,000 of 2016 Bonds issued in June 2016, \$2,189,000 of 2017 Bonds issued in June 2017, \$1,965,000 of 2018 Bonds issued in June 2018, \$40,000,000 of PH&N Bonds issued in April 2019, and up to a maximum of \$10,000,000 of Bonds to be issued under the Offering.
- (3) Represents 647,440 non-voting preferred shares issued by the Issuer that are entitled to receive dividends tied to certain investments held by the Issuer.

## 4.2 Long Term Debt

The external long-term debt of the Issuer, as at May 30, 2019, includes the following:

Description of Long Term Debt	Interest Rate	Repayment Terms	Amount Outstanding at May 30, 2019	Amount Due Within 12 Months
Debentures	12.00%	June 12, 2024 to July 13, 2025	\$4,532,080	\$nil
2015, 2016, 2017, 2018 Bonds	7.00%	June 30, 2018 to June 30, 2025	\$26,011,000 <sup>(1)</sup>	\$5,654,000
2019 PH&N Bonds	5.90%	June 30, 2026	\$40,000,000	\$nil

Note:

- (1) Representing the balance of the principal amount of the 2015 Bonds of \$15,803,829, the 2016 Bonds of \$4,741,350, the 2017 Bonds of \$2,189,000, and 2018 Bonds of \$1,965,000.

## 4.3 Prior Sales

### Issuer

The following table sets out details of all securities issued by the Issuer within the last 12 months.

Date of Issuance	Type of Security Issued	Number of Securities Issued	Price Per Security	Total Funds Received
June 30, 2018	2018 Bonds	1,965	\$1,000	\$1,965,000
April 18, 2019	2019 PH&N Bonds	400,000	\$100	\$40,000,000

## ITEM 5 SECURITIES OFFERED

### 5.1 Terms of Securities

#### Bonds

The Bonds will be issued under and pursuant to the provisions of the Bond Indenture. The following description of the Bonds is a summary of their material attributes and characteristics and is subject to the detailed provisions of the Bond Indenture and is qualified in its entirety by reference to the Bond Indenture. The Bond Indenture is available for inspection at the offices of the Issuer.

#### General

The Bonds will be limited to an aggregate principal amount of \$10,000,000. The Issuer may, however, from time to time, without the consent of the holders of any outstanding Bonds, issue bonds in addition to the Bonds offered hereby.

The Bonds will be dated as of the Closing Date. The Bonds will be issuable only in denominations of \$1,000 and integral multiples thereof, with a minimum subscription of \$20,000. The Bonds have a maturity date of June 30, 2026 and on that date, the holders shall be entitled to receive the balance of the principal amount of the Bonds at par together with all accrued and unpaid interest thereon. The Bonds will be repaid commencing June 30, 2021 in equal quarterly installments of amortized principal over the balance of the five-year term to the Maturity Date.

The Bonds will be issued in registered form described under "*Securities Offered – Bonds – Delivery and Form*".

The Bonds will bear interest, compounded annually, from the date of issue at 6.25% per annum, which will be payable quarterly on each Bond Payment Date (March 31, June 30, September 30 and December 31 in each year, commencing on September 30, 2019), computed on the basis of a 365-day year. The first payment will represent accrued interest for the period from the Closing Date up to, but not including, September 30, 2019.

Interest and principal payments on the Bonds will be deferred by the Bond Trustee on the delivery by GBT under the GBT Loan Agreement of a Deferral Election. On delivery by GBT of a Deferral Election the interest rate on the Bonds will be increased from the beginning of the calendar quarter in which the Deferral Election is delivered through to the Maturity Date, to 7.25% per annum, and deferred interest will be due and payable on the Bond Payment Date at the end of the Deferral Period. Deferred principal will be added to the principal due through to the Maturity Date from the Bond Payment Date at the end of the Deferral Period, and amortized payments will be recalculated for the balance of the term to the Maturity Date so that the Bonds will be fully repaid by the Maturity Date.

The Bond Indenture will not contain a requirement for the Issuer to increase the amount of interest or other payments to holders of Bonds should the Issuer be required to withhold amounts in respect of income or similar taxes on payment of interest or other amounts, including: (i) the Debentures (with respect to the Mortgaged Units) and (ii) the Prior Bonds (with respect to the Prior GBT Loan Agreements).

Principal and interest on the Bonds will be payable in lawful money of Canada, as further described under "*Securities Offered – Bonds – Payment upon Redemption or over Term and at Maturity*" and "*Securities Offered – Bonds – Redemption and Purchase*".

The Bonds will be the Issuer's direct obligation and will be secured by a specific charge on the GBT Loan and a general security interest over Gracorp's assets. The obligations of GBT under the GBT Loan Agreement will be postponed and subordinated in favour of the GBT Senior Bank Agent pursuant to a subordination agreement to be entered into between GBT, the GBT Senior Bank Agent and Gracorp. The security under the Bonds will rank (i) equally against Gracorp assets other than the Prior GBT Loans and the Mortgaged Units, (ii) senior in priority over the GBT Loan, and (iii) in all cases, ahead of the Gracorp unsecured creditors. The Bond Indenture will not restrict Gracorp or its Subsidiaries from incurring additional indebtedness for borrowed money or from mortgaging, pledging or charging its assets to secure any indebtedness.

The Bonds will be transferable in accordance with Applicable Securities Laws, but subject to the prior consent of the Issuer and GBT.

Under the Bond Indenture, an original purchaser of Bonds under the Offering will have a contractual right of rescission to receive the amount paid for the Bonds if this Offering Memorandum and any amendment contains a misrepresentation or is not delivered to such purchaser, provided such remedy for rescission is exercised within 180 days of Closing of the Offering. See Item 11, "*Purchasers' Rights - Statutory Rights of Action in the Event of a Misrepresentation*" and "*Purchasers' Rights – Contractual Rights of Action in the Event of a Misrepresentation*".

### ***Principal Payments***

The indebtedness represented by the Bonds will be amortized over the last five years of the term such that quarterly repayments of principal will commence on June 30, 2021 on an amortized basis and, subject to a Deferral Election by GBT, will be payable thereafter on each Bond Payment Date.

### ***Redemption and Purchase***

Prior to the Maturity Date, the Bonds may be redeemed in denominations of \$1,000 by the Issuer, with respect to all or a part of the outstanding Bonds, from time to time, at the Issuer's option on not more than 60 days and not less than 30 days prior written notice at a redemption price equal to the principal amount then outstanding plus accrued and unpaid interest thereon, if any, provided that GBT must consent to such redemption.

In the case of redemption of less than all of the Bonds, the Bonds to be redeemed will be selected by the Bond Trustee on a *pro rata* basis or in such other manner as the Bond Trustee deems equitable, subject to regulatory approvals.

The Issuer will have the right to purchase Bonds for cancellation, by tender or by private contract, at any time, subject to regulatory requirements.

#### ***Payment upon Redemption or at Maturity***

On any Redemption Date, including the Maturity Date, the Issuer will repay the indebtedness represented by the Bonds by paying to the Bond Trustee in lawful money of Canada an amount equal to the principal amount of the outstanding Bonds, together with accrued and unpaid interest thereon, if any, up to but not including the Maturity Date.

#### ***Cancellation***

All Bonds redeemed or purchased will be cancelled and may not be reissued or resold.

#### ***Rank***

The Bonds will be direct, secured obligations of Gracorp secured against all of Gracorp's assets ranking senior in priority over the GBT Loan; (b) subordinate in priority to: (i) the fixed charge the Debentures hold over the Mortgaged Units, (ii) the security held over the Prior GBT Loans under the Prior Bond Indentures, and (iii) upon request of the Issuer, the security held over loans made by the Issuer to GBT in respect of one or more future bond issuances (i through iii collectively, the "**Senior Indebtedness**"); and (c) equal in priority with all other secured indebtedness of the Issuer (including the Prior Bonds) with respect to the Issuer's other assets. The Bonds will rank *pari passu* with one another and all other existing and future secured indebtedness of the Issuer. The Bond Indenture will not restrict the ability of Gracorp or its Subsidiaries from incurring additional indebtedness or from mortgaging, pledging or charging their respective properties to secure any indebtedness or liabilities, including Senior Indebtedness. The Bonds will rank ahead of equity.

#### ***Subordination***

The payment by GBT to Gracorp of the principal and interest thereon, and premium, if any, under the GBT Loan, will be postponed and subordinated in favour of the GBT Senior Bank Agent pursuant to a subordination agreement to be entered into between Gracorp, the GBT Senior Bank Agent and GBT. Mandatory scheduled payments by GBT under the GBT Loan Agreement will be permitted prior to a default, event of default or material adverse effect under the Senior Credit Agreement. The obligations of GBT to the Bond Trustee under the Bond Guarantee will be postponed and subordinated in favour of the GBT Senior Bank Agent pursuant to a subordination agreement to be entered into between the Bond Trustee, the GBT Senior Bank Agent and GBT.

The Bond Trustee and the Issuer will also be authorized (and obligated upon a request from the Issuer) under the Bond Indenture to enter into subordination agreements on behalf of the holders of Bonds with: (i) the Bond Trustee, in its respective capacities as trustee for the Prior Bonds pursuant to the Inter-Bondholder Priority Agreement, (ii) the GBT Senior Bank Agent, with respect to GBT's obligations under the Bond Guarantee; (iii) the GBT Senior Bank Agent, with respect to GBT's obligations under the GBT Loan Agreement; and (iv) the trustee in respect of one or more future bond issuances, on the terms set forth in the Bond Indenture.

#### ***Modification***

The rights of the holders of Bonds may be modified in accordance with the terms of the Bond Indenture. For that purpose, among others, the Bond Indenture will contain certain provisions which make binding on all holders of outstanding Bonds, resolutions passed at meetings of the holders of outstanding Bonds by votes cast thereat by holders of not less than 66⅔% of the principal amount of the then-outstanding Bonds present at the meeting or represented by proxy, or rendered by instruments in writing signed by the holders of not less than 66⅔% of the principal amount of the then-outstanding Bonds. Under the Bond Indenture, certain amendments of a technical nature or which are not prejudicial to the rights of the holders of the Bonds may be made to the Bond Indenture without the consent of the holders of the Bonds. Without the consent of each Bond holder affected, an amendment or waiver may not (with respect to any Bonds held by a non-consenting holder): (a) reduce the principal amount of Bonds whose holders must

consent to an amendment, supplement or waiver; (b) reduce the principal of or change the fixed maturity of any Bond or alter the provisions with respect to the redemption of the Bonds; (c) reduce the rate of, or change the time for payment for, interest on any Bond; (d) waive a default or Event of Default (as defined below) in the payment of principal of, or interest or premium, if any, on the Bonds (except a rescission of acceleration of the Bonds by the holders of at least a majority in aggregate principal amount of the Bonds and a waiver of the payment default that resulted from such acceleration); (e) make any Bond payable in currency other than Canadian dollars; (f) make any change in the provisions of the Bond Indenture relating to waivers of past defaults or the rights of holders of Bonds to receive payments of principal of, or interest or premium, if any, on the Bonds; (g) waive a redemption payment with respect to any Bond; (h) release any portion of the collateral from the security interests created except as specifically provided for in the Bond Indenture; (i) amend or modify any of the provisions of the Bond Indenture or the Bonds if the effect would be to affect the ranking of the Bonds in any manner adverse to the holders; (j) impair the right to institute suit for the enforcement of any payment on or with respect to the Bonds; or (k) make any change in the preceding amendment and waiver provisions.

### ***Consolidation, Mergers or Sales of Assets***

The Bond Indenture will provide that the Issuer may not, directly or indirectly: (1) amalgamate, consolidate or merge with or into another person (whether or not the Issuer is the surviving corporation); or (2) sell, assign, transfer, convey or otherwise dispose of all or substantially all of the properties or assets of the Issuer and its Subsidiaries taken as a whole, in one or more related transactions, to another person; unless:

- (a) either: (i) the Issuer is the surviving corporation or (ii) the person formed by or surviving any such amalgamation, consolidation or merger (if other than the Issuer) or to which such sale, assignment, transfer, conveyance or other disposition has been made is a corporation organized or existing under the laws of Canada or any province thereof;
- (b) the person formed by or surviving any such amalgamation, consolidation or merger (if other than the Issuer) or the person to which such sale, assignment, transfer, conveyance or other disposition has been made assumes all the obligations of the Issuer under the Bond Indenture and the Bonds, in each case, pursuant to agreements reasonably satisfactory to the Bond Trustee; and
- (c) immediately after such transaction no default or Event of Default exists.

The transactions shall not result in the Issuer or the surviving corporation being required to make any deduction or withholding on account of taxes as described in the Bond Indenture that the Issuer would not have been required to make had such transactions or series of transactions not occurred.

The Bond Indenture will provide that any Subsidiary may amalgamate, consolidate or merge with or into or convey, transfer or lease, in one transaction or a series of transactions, all or substantially all of its assets to the Issuer or another Subsidiary.

An assumption of the Issuer's obligations under the Bonds and the Bond Indenture by such resulting, surviving, continuing or transferee person of the Issuer might be deemed for Canadian federal income tax purposes to be an exchange of the Bonds for new bonds by the holders thereof, resulting in recognition of gain or loss for such purposes and possibly other adverse tax consequences to the holders. Holders should consult their own tax advisors regarding the tax consequences of such an assumption.

### ***Events of Default***

The Bond Indenture will provide that an event of default ("**Event of Default**") in respect of the Bonds will occur if certain events described in the Bond Indenture occur, including if any one or more of the following described events has occurred and is continuing: (i) failure for 90 days to pay interest on the Bonds when due; (ii) failure to pay principal or premium, if any (whether by payment in cash or delivery of Units), on the Bonds when due, whether at maturity,



upon redemption, by declaration or otherwise; and (iii) certain events of bankruptcy, insolvency or reorganization of the Issuer under bankruptcy or insolvency laws.

If an Event of Default has occurred and is continuing, the Bond Trustee must first seek recourse under Bond Guarantee and then, failing payment under such Bond Guarantee, may, in its discretion, and will, upon the request of holders of not less than 25% in principal amount of the then-outstanding Bonds declare the principal of (and premium, if any) and interest on all outstanding Bonds to be immediately due and payable. In certain cases, the holders of more than 50% of the principal amount of the Bonds then-outstanding may, on behalf of the holders of all Bonds, waive any Event of Default and/or cancel any such declaration upon such terms and conditions as such holders shall prescribe.

### ***Offers for Bonds***

The Bond Indenture will contain provisions to the effect that if an offer is made for the Bonds which is a take-over bid for Bonds within the meaning of Multilateral Instrument 62-104 – *Take-over Bids and Issuer Bids* and in Ontario, the *Securities Act* (Ontario) and OSC Rule 62-504 if the Bonds were considered equity securities, and not less than 90% of the principal amount of the then-outstanding Bonds (other than Bonds held at the date of the take-over bid by or on behalf of the offeror or associates or affiliates of the offeror) are taken up and paid for by the offeror, the offeror will be entitled to acquire the Bonds held by those who did not accept the offer on the terms offered by the offeror.

### ***Discharge of the Bond Indenture***

The Issuer may satisfy and discharge the Issuer's obligations under the Bond Indenture in certain circumstances, including by delivering to the Bond Trustee for cancellation all outstanding Bonds or by depositing with the Bond Trustee, or the paying agent, if applicable, after the Bonds have become due and payable, whether at stated maturity or any redemption date, or any purchase date, or otherwise, cash sufficient to pay the principal and premium of and all accrued and unpaid interest owing under all of the outstanding Bonds and paying all other sums payable under the Bond Indenture.

### ***Calculations in Respect of Bonds***

The Issuer is responsible for making all calculations called for under the Bond Indenture. The Issuer will make all these calculations in good faith and, absent manifest error, the Issuer's calculations are final and binding on holders of Bonds, the Issuer and the Bond Trustee. The Issuer will provide a schedule of the Issuer's calculations to the Issuer and Bond Trustee and the Bond Trustee is entitled to conclusively rely upon the accuracy of the Issuer's calculations without independent verification.

### ***No Personal Liability of Directors, Officers, Employees and Shareholders***

No past, present or future director, officer, employee or shareholder of the Issuer or any successor, as such, shall have any liability for any of the obligations of the Issuer under the Bonds or the Bond Indenture or for any claim based on, in respect of or by reason of, such obligations or their creation. Each holder of Bonds by accepting a Bond waives and releases all such liability. The waiver and release are part of the consideration for the issuance of the Bonds.

### ***Delivery and Form***

The Bonds will be issued in registered, definitive form.

### ***Transfer and Exchange of Bonds***

Only with prior written consent of the Issuer and GBT, registered holders of Bonds may transfer Bonds upon payment of taxes or other charges incidental thereto, if any, and by executing and delivering a form of transfer and evidence of compliance with applicable securities laws, required by the Issuer or registrar for the Bonds, together with the Bonds to the registrar for the Bonds at its principal offices in Calgary, Alberta or such other city or cities as may from time to time be designated by the Issuer, whereupon new Bonds will be issued in authorized denominations in the same

aggregate principal amount as the Bonds so transferred, registered in the names of the transferees. No transfer of a Bond will be registered on any Bond Payment Date or during the five Business Days preceding the Bond Payment Date or on any date of redemption or during the five Business Days preceding a date of redemption.

### ***Payments***

Payments of interest on each Bond will be made by electronic funds transfer, if agreed to by the holder of the Bond, or by cheque dated the Bond Payment Date and mailed to the address of the holder appearing in the register maintained by the Bond Trustee at least one Business Day prior to the applicable Bond Payment Date.

### ***Governing Laws***

The Bond Indenture and Bonds will be governed by, and construed in accordance with, the laws of the Province of Alberta and the federal laws of Canada applicable therein.

### **Bond Guarantee**

Under the Bond Guarantee, the Guarantor fully, absolutely, unconditionally and irrevocably guarantees, to the Bond Trustee, as trustee on behalf of holders of Bonds, the punctual payment and performance when due of all Obligations and agrees to indemnify and hold harmless each Bond holder and the Bond Trustee from all losses, damages, costs, expenses and liabilities suffered or incurred by the Bond holders and the Bond Trustee resulting or arising from or relating to any failure by Gracorp to unconditionally and irrevocably pay in full or fully perform the Obligations as and when due provided that the amount of such indemnification shall not exceed the amount of such Obligations. The Guarantor's liability shall extend to all amounts that constitute part of the Obligations and would be owed by Gracorp to such Bond holder or the Bond Trustee under the Bonds or the Bond Indenture but for the fact that they are unenforceable, reduced, limited, suspended or not allowable due to the existence of a bankruptcy, reorganization or similar proceeding involving Gracorp. The Bond Guarantee will be unsecured and will therefore rank subordinate in priority to all other secured indebtedness of GBT, but ahead of GBT equity.

The obligations of the Guarantor to the Bond Trustee under the Bond Guarantee will be postponed and subordinated in favour of the GBT Senior Bank Agent pursuant to a subordination agreement to be entered into between the Bond Trustee, the GBT Senior Bank Agent and the Guarantor.

## **5.2 Subscription Procedure**

A person can subscribe for Bonds by:

- (a) completing the Subscription Agreement attached hereto in Schedule A, including the Exhibits, by June 14, 2019 or within six Business Days of a closing date following the June 28, 2019 Closing Date; and
- (b) completing a Bond Offering – Redemption form or such other manner of funding as is acceptable to the Issuer in an amount equal to the product of \$1,000 multiplied by the number of Bonds subscribed for, with a minimum subscription of \$20,000;

and delivering (a) and (b) to Gracorp Capital Ltd. at 10840 – 27th Street S.E., Calgary, Alberta T2Z 3R6. The funds tendered by each person will be held in Issuer for a period of two days during which time the person may request a return of the tendered consideration by delivering a notice to the Issuer not later than midnight on the second Business Day after the person signs the Subscription Agreement.

## **5.3 Earning Coverages**

After giving pro forma effect to the Offering and other changes in indebtedness subsequent to the respective calculation periods as if the Bond issuance had occurred at the beginning of the respective calculation periods, and all servicing costs that have been, or are expected to be, incurred in connection therewith and after giving effect to this

Offering and assuming the retirement of certain other indebtedness, Gracorp's pro forma interest requirements for the 12 months ended December 31, 2019 and the 12 months ended December 31, 2020 were \$3.34 million and \$3.62 million, respectively, and Gracorp's net income before deducting interest and income taxes for such periods was \$4.08 million and \$4.31 million, respectively, being approximately 1.22 and 1.19 times Gracorp's pro forma interest requirements for such periods, respectively.

The following tables sets out the pro forma earnings coverage ratios discussed above.

(\$, except Earnings Coverage Ratio)	Pro forma for the 12 months ended December, 2019 <sup>(1)</sup>	Pro forma for the 12 months ended December, 2020 <sup>(1)</sup>
Interest Expense	3,952,000	4,232,000
Capitalized Interest	610,000	610,000
<b>Denominator for Earnings Coverage Ratio</b>	<b>3,342,000</b>	<b>3,622,000</b>
Net Income	129,000	79,000
Non-Controlling Interest	nil	nil
Income Taxes	nil	nil
Interest Income	3,952,000	4,232,000
<b>Numerator for Earnings Coverage Ratio</b>	<b>4,081,000</b>	<b>4,311,000</b>
<b>Earnings Coverage Ratio</b>	<b>1.22 times</b>	<b>1.19 times</b>

Note:

- (1) Includes a full 12 months of pro forma interest expense on indebtedness incurred as if the indebtedness was incurred at the beginning of the calculation period and includes income derived from the associated use of proceeds.

## ITEM 6 INCOME TAX CONSEQUENCES AND EXEMPT PLAN ELIGIBILITY

You should consult your own professional advisors to obtain advice on the tax consequences applicable to you.

The following summary describes certain Canadian federal income tax considerations under the Tax Act for those who purchase Bonds; it does not address United States federal or state income tax considerations that may be applicable to a holder subject to United States federal or state taxation. This summary is applicable to a holder who, for all purposes of the Tax Act, deals at arm's length (and is not deemed by the Tax Act not to deal at arm's length) with and is not affiliated with the Issuer and will hold Bonds as capital property. Generally, Bonds will be considered to be capital property to a holder provided the holder does not use or hold the Bonds in the course of carrying on a business of buying or selling securities and did not acquire them in one or more transactions considered to be an adventure or concern in the nature of trade. Certain holders who are Resident Holders (as described below) and who might not otherwise be considered to hold their Bonds as capital property may, in certain circumstances, be entitled to have them, and any other "Canadian security" (as defined in the Tax Act), treated as capital property by making the irrevocable election permitted by subsection 39(4) of the Tax Act. Holders contemplating making such an election should first consult their own tax advisors. This summary is not applicable to: a holder that is a "financial institution", a "specified financial institution", a holder an interest in which would be a "tax shelter investment", a holder whose "functional currency" is the currency of a country other than Canada, or a holder that has entered into, or will enter into, a "derivative forward agreement" in respect of the Bonds, all as defined in the Tax Act.

The Issuer has advised its counsel that it has validly filed the necessary election under the Tax Act to deem it to be a "public corporation" for purposes of the Tax Act.

This summary is based upon the facts set out herein, provisions of the Tax Act in force as of the date hereof, relevant specific proposals to amend the Tax Act that have been publicly announced by or on behalf of the Minister of Finance (Canada) prior to the date hereof ("**Proposed Amendments**") and current published administrative and assessing policies of the CRA. This summary is not exhaustive of all possible Canadian federal income tax consequences and, except for the Proposed Amendments, does not take into account or anticipate any changes in the law, whether by legislative, governmental or judicial actions or changes in the administrative and assessing practices of the CRA. This

summary does not take into account provincial, territorial or foreign tax considerations, which may differ significantly from those discussed herein. No assurance can be given that the Proposed Amendments will be enacted as currently proposed or at all.

**This summary is of a general nature only and is not intended to be, nor should it be construed to be, legal or tax advice or representations to any particular holder. Holders of Bonds and prospective holders should consult their own tax advisors in respect of the consequences to them having regard to their particular circumstances.**

## **Resident of Canada**

The following portion of the summary is generally applicable to a holder who, at all relevant times, for the purposes of the Tax Act, is or is deemed to be, resident in Canada (a "**Resident Holder**").

### ***Taxation of Interest on Bonds***

A Resident Holder of Bonds that is a corporation, partnership, unit trust or any trust of which a corporation or a partnership is a beneficiary will be required to include in computing its income for a taxation year any interest on the Bonds: (i) that accrues or that is deemed to accrue to it to the end of the particular taxation year; or (ii) that has become receivable by or is received by the Resident Holder before the end of that taxation year, except to the extent that such interest was included in computing the Resident Holder's income for a preceding taxation year.

Any other Resident Holder of Bonds (including an individual, other than certain trusts) should be required to include in computing income for a taxation year all interest on the Bonds that is received or receivable by the Resident Holder in that taxation year (depending upon the method regularly followed by the Resident Holder in computing income), except to the extent that the interest was included in the Resident Holder's income for a preceding taxation year. In addition, if at any time a Bond should become an "investment contract" (as defined in the Tax Act) in relation to a Resident Holder, such Resident Holder should be required to include in computing income for a taxation year any interest that accrues to the Resident Holder on the Bond up to the end of any "anniversary day" (as defined in the Tax Act) in that year to the extent such interest was not otherwise included in the Resident Holder's income for that year or a preceding taxation year.

Upon redemption or repayment at maturity of a Bond, interest accrued thereon to the date of redemption or repayment and that would otherwise be payable after that date will be included in computing the Resident Holder's income, except to the extent such amount was included in computing the Resident Holder's income for that or a previous taxation year.

A Resident Holder that is throughout the year a "Canadian-controlled private corporation" (as defined in the Tax Act) may be liable to pay an additional refundable tax on certain investment income, including interest income. In addition, such a Resident Holder may be required to reduce its business limit on a straight-line basis to the extent that it, together with other corporations associated with it, receive certain investment income in an amount exceeding \$50,000 for a particular taxation year. Resident Holders that are Canadian-controlled private corporations should consult their own tax advisors in this regard.

### ***Disposition of Bonds***

A disposition or deemed disposition of a Bond by a Resident Holder, including a redemption, payment at maturity or purchase for cancellation, will result in the Resident Holder realizing a capital gain (or, subject to certain rules in the Tax Act, a capital loss) equal to the amount by which the proceeds of disposition, net of any amount otherwise required to be included in the Resident Holder's income as interest, exceed (or are less than) the aggregate of the ACB to the Resident Holder thereof and any reasonable costs of disposition. Such capital gain (or capital loss) will be subject to the tax treatment described below under "*Residents of Canada – Taxation of Capital Gains and Capital Losses*".

Upon a disposition or deemed disposition of a Bond, interest accrued thereon to the date of disposition and not yet due will be included in computing the income of the Resident Holder as described above under "*Residents of Canada*".

– *Taxation of Interest on Bonds*", except to the extent such amount was otherwise included in the Resident Holder's income, and will be excluded in computing the Resident Holder's proceeds of disposition of the Bond.

### ***Taxation of Capital Gains and Capital Losses***

One-half of any capital gain (the "**taxable capital gain**") realized by a Resident Holder on a disposition of a Bond will generally be included in the Resident Holder's income for the year and one-half of any capital loss realized by the Resident Holder on the disposition of a Bond (the "**allowable capital loss**") may generally be deducted by such Resident Holder against taxable capital gains for the year. Any excess of allowable capital losses over taxable capital gains of the Resident Holder may be carried back up to three taxation years or forward indefinitely and deducted against net taxable capital gains in those other years subject to the detailed provisions of the Tax Act.

A Resident Holder that is a Canadian-controlled private corporation (as defined in the Tax Act) may be liable to pay an additional refundable tax on certain investment income, including taxable capital gains. In addition, such a Resident Holder may be required to reduce its business limit on a straight-line basis to the extent that it, together with other corporations associated with it, receive certain investment income in an amount exceeding \$50,000 for a particular taxation year. Resident Holders that are Canadian-controlled private corporations should consult their own tax advisors in this regard.

### ***Minimum Tax***

Net income of the Issuer that is paid or payable to a Resident Holder that is designated as taxable dividends or as net taxable capital gains, as well as capital gains realized on the disposition of capital property such as Bonds may increase the holder's liability for minimum tax if the holder is an individual, including a trust.

### **Non-Residents of Canada**

The following portion of this summary generally is applicable to a Non-Resident who does not use or hold, and is not deemed to use or hold, Bonds in connection with carrying on a business in Canada, to whom the Bond is not "designated insurance property" as defined in the Tax Act and who is a resident of the United States and beneficially entitled to benefits under the Treaty (a "**Non-Resident Holder**") unless the Non-Resident Holder is "not dealing at arm's length" with the Issuer pursuant to the Income Tax Act.

### ***Taxation of Interest on Bonds***

A Non-Resident Holder will not be subject to Canadian withholding tax in respect of amounts paid or deemed to have been paid or credited by the Corporation as, on account or in lieu of, or in satisfaction of, interest or principal on the Bonds.

### ***Disposition of Bonds***

A Non-Resident Holder generally will not be subject to tax under the Tax Act in respect of any capital gain realized on a disposition or deemed disposition of a Bond unless the Bond constitutes "taxable Canadian property" for purposes of the Tax Act of the Non-Resident Holder at the time of disposition and no relief is available to the Non-Resident Holder under the Treaty. A Bond that is not convertible into shares of a corporation, an interest in a partnership, or an interest in a trust will generally not be considered to be taxable Canadian property of a Non-Resident Holder.

## **6.1 Eligibility for Investment**

Provided the Issuer qualifies as a public corporation, the Bonds should be qualified investments under the Tax Act for Exempt Plans. As discussed above, the Issuer has advised its counsel that it has validly filed the necessary election under the Tax Act to deem it to be a "public corporation" for purposes of the Tax Act.

Notwithstanding that the Bonds may be qualified investments as discussed above, if the Bonds are "prohibited investments" for an annuitant under an Exempt Plan which holds such Bonds, such annuitant will be subject to a penalty tax. Provided that the annuitant deals at arm's length with the Issuer for the purposes of the Tax Act and does not have a "significant interest" (within the meaning of the Tax Act) in the Issuer then the Bonds should not be "prohibited investments" for the purposes of the Tax Act. **Prospective investors who intend to hold the Bonds in their Exempt Plan should consult their own tax advisors as to whether the Bonds would constitute a prohibited investment for their particular Exempt Plan.**

If the Issuer ceases to qualify as a public corporation, the Bonds will cease to be qualified investments for Exempt Plans. **Adverse tax consequences may apply to an Exempt Plan, or an annuitant thereunder, if the Exempt Plan acquires or holds property that is not a qualified investment for the Exempt Plan. Accordingly, Exempt Plans that own Bonds should consult their own advisors before deciding to purchase Bonds.**

See Item 8, "*Risk Factors*", below.

## ITEM 7 COMPENSATION PAID TO SELLERS AND FINDERS

No person or company will receive any compensation as a seller or finder in connection with the Offering.

## ITEM 8 RISK FACTORS

An investment in the Bonds of the Issuer should be considered highly speculative due to the nature of the Issuer's activities, including the advance of proceeds of the Offering under the GBT Loan Agreement, the business of the Issuer and the present stage of its development. The following is a summary of certain risk factors relating to the activities of the Issuer and the Guarantor and the ownership of Bonds which Subscribers should carefully consider before making a decision to invest. A Subscriber should consider carefully all such risk factors.

In addition there are a number of risks associated with the business conducted by GBT, the GBT Operating LPs, GBT General Partners and GGL.

### **Investment Risks**

#### *Credit Risk*

The likelihood that purchasers of the Bonds will receive payments owing to them under the terms of the Bonds will depend on the Issuer's financial health, dependent in large part on fulfillment of obligations by GBT under the GBT Loan Agreement, and creditworthiness of the Issuer at the time of such payments.

If GBT's cash flow and capital resources are insufficient to fulfill its obligations under the GBT Loan Agreement, the Issuer could face substantial liquidity problems and could be forced to reduce or delay investments and capital expenditures or to dispose of material assets or operations, seek additional debt or equity capital or restructure or refinance its indebtedness, including the Bonds. The Issuer may not be able to effect any such alternative measures on commercially reasonable terms or at all and, even if successful, those alternative actions may not allow the Issuer to meet its scheduled debt service obligations.

GBT's inability to generate sufficient cash flow to satisfy its debt obligations, or to refinance its indebtedness on commercially reasonable terms or at all, would materially and adversely affect the Issuer's business, results of operations, financial condition and its ability to satisfy its obligations under the Bonds.

Existing, Prior and Pari Passu Ranking Indebtedness

The Bonds will be subordinate to Senior Indebtedness of the Issuer. Pursuant to their terms, as well as the Inter-Bondholder Priority Agreement, the Debentures, the 2015 Bonds, the 2016 Bonds, the 2017 Bonds, the 2018 Bonds and the 2019 PH&N Bonds amounting to approximately \$4.6 million, \$23.9 million, \$5.7 million, \$2.2 million, \$2.0 million and \$40.0 million of issued Gracorp debt, respectively, are subordinate to the Bonds as against the GBT Loan, but have a secured priority as against the Mortgaged Units, the Prior GBT Loans, respectively. In the event of the Issuer's insolvency, bankruptcy, liquidation, reorganization, dissolution or winding up, its assets would be made available to satisfy the obligations of the creditors of any Senior Indebtedness before being available to pay the Issuer's obligations to the holders of the Bonds. However, as noted, the Bond Trustee will have a specific charge against the GBT Loan and proceeds therefrom. Accordingly, all or a substantial portion of the Issuer's assets could be unavailable to satisfy the claims of the holders of the Bonds.

The Issuer's ability to meet its debt-service requirements will depend on its ability to generate cash in the future, which depends on many factors, including the Issuer's financial performance, debt-service obligations, working capital and future capital-expenditure requirements. In addition, the Issuer's ability to borrow funds in the future and to make payments on outstanding debt will depend on the satisfaction of covenants in then existing credit agreements and other agreements. A failure to comply with any covenants or obligations under the Issuer's consolidated indebtedness could result in a default, which, if not cured or waived, could result in the acceleration of the relevant indebtedness. If such indebtedness were to be accelerated, there can be no assurance that the Issuer's assets would be sufficient to repay such indebtedness in full. There can also be no assurance that the Issuer will generate cash flow in amounts sufficient to pay outstanding indebtedness or to fund any other liquidity needs.

Market for Bonds

There is currently no market through which the Bonds may be sold and purchasers may not be able to resell Bonds purchased under this Offering Memorandum. No market for Bonds is expected to develop after completion of the Offering, or if developed, that such a market will be sustained at the price level of the Offering.

Resale of Bonds

Since Gracorp is not a reporting issuer in any jurisdiction, unless permitted under securities legislation, holders of Bonds must not trade Bonds before the date that is four months and a day after the later of the Closing under which the Bonds were acquired and the date Gracorp becomes a reporting issuer in any province or territory in Canada. Gracorp has no present plans to become a reporting issuer in any province or territory of Canada. As a result, the restricted or hold period may never expire. See "*Resale Restrictions*" below.

Coverage Ratios

See "*Earnings Coverage*", above, which is relevant to an assessment of the risk that Gracorp may be unable to pay interest or principal when Bonds when due.

Repayment of the Bonds

The Issuer may not be able to refinance the principal amount of the Bonds in order to repay the principal outstanding or may not have generated enough cash from operations to meet principal payment obligations as they become due. There is no guarantee that the Issuer will be able to repay the outstanding principal amount of the Bonds when payments become due.

Absence of Covenant Protection

The Bond Indenture will not restrict the Issuer or any of its Subsidiaries from incurring additional indebtedness or from mortgaging, pledging or charging its assets to secure any indebtedness, including security ranking ahead of or *pari passu* with the security under the Bond Indenture. The Bond Indenture will not contain any provisions specifically

intended to protect holders of the Bonds in the event of a future leveraged transaction involving the Issuer or any of its Subsidiaries.

*Redemption Prior to Maturity*

The Bonds may be redeemed, at the option of the Issuer prior to the Maturity Date at any time and from time to time, at par, together with any accrued and unpaid interest, provided that GBT must consent to such redemption. See Item 5.1, "*Securities Offered – Bonds – Redemption and Purchase*". Holders of Bonds should assume that this redemption option will be exercised if the Issuer is able to refinance at a lower interest rate or it is otherwise in the interest of the Issuer to redeem some or all of the Bonds.

*Change in Tax Laws*

The Bond Indenture will not contain a requirement that the Issuer increase the amount of interest or other payments to holders of Bonds in the event that the Issuer is required to withhold amounts in respect of income or similar taxes on payment of interest or other amounts on the Bonds. At present, no amount is required to be withheld from such payments to holders of Bonds resident in Canada or a non-resident of Canada who deals at arm's length with the Issuer, but no assurance can be given that applicable income tax laws or treaties will not be changed in a manner that may require the Issuer to withhold amounts in respect of tax payable on such amounts.

*Changes in Legislation*

There can be no assurance that laws, including tax laws, policies and assessing practices of the Canada Revenue Agency, which have an impact on the Issuer, the Guarantor, Bondholders and Exempt Plans, will not be subject to future adverse changes.

*Investment Eligibility*

If the Issuer ceases to qualify as a "public corporation" under the Tax Act, the Bonds will cease to be qualified investments for Exempt Plans which will have adverse tax consequences to Exempt Plans or their annuitants or beneficiaries.

**Issuer Risks**

*Debt Service and Principal Repayment*

The Issuer will be relying on the unsecured payment obligations of GBT under the GBT Loan Agreement and the assurance provided by the Bond Guarantee to meet its Obligations under the Bonds and Bond Indenture. See "*GBT Risks*", below. If GBT should be unable to fulfill its obligations to Gracorp, it is unlikely that Gracorp will be able to then meet its Obligations to the Bond Trustee and the holders of Bonds to the extent there is a deficiency to fully meet Obligations.

*Taxation of Issuer and Unitholders*

If the Issuer ceases to qualify as a "public corporation" under the Tax Act, the income tax considerations described under the heading "*Certain Canadian Federal Income Tax Considerations*" would be materially and adversely different in certain respects.

*Speculative Investment*

This Offering should be considered highly speculative due to the nature of the Issuer's investments.



### Management

Due to the nature of the Issuer, as an investor of funds, GBT, and GBT's business and its involvement in the construction industry, purchasers of Bonds must rely on the ability, expertise, judgment and integrity of the GBT trustee, management of GGL and GBT General Partners, and that of GIT (the ultimate parent of GBT) and its trustees.

### Dependence on Key Personnel

The success of the Issuer is largely dependent on the performance of its key employees. Failure to retain key employees and to attract and retain additional key employees with necessary skills could have a material adverse impact upon the growth and profitability of the Issuer. Gracorp's progress to date has been dependent to a significant extent on the skills of Gracorp's senior management. The departure or death of members of the executive team could have a material adverse effect upon the Issuer.

## **Industry Risks**

### Risks Specific to Business of Gracorp

There is no assurance that Gracorp will be able to maintain profitable operations in the future.

### Asset Class Diversification

The Issuer's investments will not be widely diversified by asset class. Substantially all of the Issuer's investments will be in the Prior GBT Loans. A lack of asset class diversification increases risk because each class is subject to its own set of risks; in this case the risks associated with GBT's ability to make scheduled interest and principal payments and to operate profitably in order to do so.

### Competition

Gracorp competes with other entities that have greater financial resources and larger marketing departments. Competition generally places pressure on market opportunities, availability of capital and profit margins. Intense competition is expected to continue which will present challenges to the ability to maintain strong growth rates and profit margins.

### Conflicts of Interest

The Issuer and its directors or officers may become engaged in business interests on their own behalf and on behalf of other entities and situations may arise where its Issuer and the directors and officers will be in direct competition with the Issuer. Conflicts, if any, will be subject to the procedures and, to the extent applicable, remedies available under the ABCA. The ABCA provides that in the event that a director has an interest in a contract or a proposed contract, the director shall disclose his interest in such contract or proposed contract and shall refrain from voting on any matter in respect of such contract or proposed contract unless otherwise provided for by the ABCA.

### Financial Resources

There can be no assurance that the proceeds of this Offering and the current working capital of the Issuer will be sufficient to enable the Issuer to implement its business plans. There can be no assurance that, if, as and when the Issuer seeks additional equity or debt financing, the Issuer will be able to obtain the additional financial resources required to successfully compete in its markets on favourable commercial terms or at all.

No Prior Market, No Liquidity

There is currently no market through which the Bonds can be sold and there can be no assurance that any active public market will develop. The Bonds are currently not listed or quoted for trading on any stock exchange or quotation network nor do we have current plans to list the Bonds.

**GBT Risks**

There are a number of risks to an investment in the Bonds offered hereunder associated with GBT, in its capacity as Guarantor and as borrower under the GBT Loan Agreement. These risks include:

GBT Loan Agreement and Guarantor Obligations

The obligations of GBT to make interest and principal payments to Gracorp under the GBT Loan Agreement, or to respond to the Bond Trustee under the Bond Guarantee, are unsecured, and thus will rank behind secured creditors of GBT and equal to other unsecured creditors in the event of a default by GBT. Payments under the GBT Loan, whether before or after default, are also to be made on a *pro rata* basis with payments under other unsecured Gracorp bond debt. In the context of the current business of Gracorp, the inability of GBT to meet its obligations under the GBT Loan Agreement will almost certainly translate to the same inability of Gracorp to meet its Obligations under the Bond Indenture.

**Industry Risks of GBT**

Risks Specific to Business of GBT or its Subsidiaries

There is no assurance that GBT will be able to maintain profitable operations in the future. There is no assurance that the construction services offered by GBT will continue to receive market acceptance or that GBT and its Subsidiaries will be successful in obtaining new construction contracts. The construction industry is cyclical and subject to significant fluctuations in demand for the construction services offered by GBT and its Subsidiaries which can have an adverse effect on the profitability of GBT.

Risks Specific to GIT

A material adverse matter impacting GIT, the ultimate holding entity of GBT, could have a material adverse effect on GBT, which could affect, *inter alia*, GBT's ability to meet its obligations under any or all of the GBT Loan Agreement, the Bond Guarantee, the Prior GBT Loan Agreements and the Prior Bond Guarantees. This could in turn translate into the inability of Gracorp to meet its Obligations under the Bond Indenture and the Prior Bond Indentures.

Geographic Concentration- Economic and Political Climate

On a revenue basis, approximately 44% of the consolidated GBT business activity is in Alberta, 23% is in Saskatchewan and Manitoba, 8% is in British Columbia, 10% is in Ontario and New Brunswick, and 15% is in the United States. The provinces and states in which GBT is active, present social, economic and political conditions that are reasonably stable but may be subject to economic upheaval due to commodity prices, trade barriers and other factors. Recent declines in economic conditions in western Canada and other regions in which GBT operates could adversely affect the operations and profitability of GBT and the ability of GBT to make payments on the GBT Loan Agreement or the Guarantee or other payment obligations of GBT.

Volatility of Industry Conditions

The demand, pricing and terms of construction, engineering, design, general contracting and construction management services largely depends upon the level of industry activity and infrastructure development. This would include local, provincial or state and federal government agencies and public and private developers. Industry conditions are influenced by numerous factors in various geographic regions over which GBT has no control, including commodity

prices (in particular, oil and natural gas and mineral prices); demand for oil and natural gas and minerals; weather conditions; political, military, regulatory and economic conditions; and the ability of governments and developers to raise equity capital or debt financing for construction and infrastructure.

Any prolonged substantial reduction in resource prices would likely affect financial resources available to governments in western Canada and therefore affect the demand for services of the GBT Operating LPs. A material decline in resource prices or Canadian or United States industry activity could have a material adverse effect on GBT's business, financial condition, results of operations and cash flows.

#### *Economic Downturns*

The demand for the services offered by the GBT Operating LPs is expected to fluctuate significantly as a consequence of economic downturns and government actions with respect to economic stimulation. During times of economic downturns, the ability of government entities and the private sector to make significant capital expenditure declines, the results of which could have a significant adverse affect on revenue and profitability.

There is no assurance that the GBT Operating LPs will be able to maintain profitable operations in the future. There is no assurance that the construction services offered by the GBT Operating LPs will continue to receive market acceptance or that the GBT Operating LPs will be successful in obtaining new construction contracts. The construction industry is cyclical and subject to significant fluctuations in demand for the construction services offered by the GBT Operating LPs which can have an adverse effect on the profitability of GBT.

#### *Fixed-Price Contracts*

Construction services undertaken by the GBT Operating LPs include fixed-priced contracts, for which the costs to complete may be affected by an array of factors, including the accuracy of the original estimate, site conditions, access, changes by the client and subtrade performance issues. Fixed price contracts inherently involve risks of cover overruns. In addition, the GBT Operating LPs undertake large design-build contracts on a fixed-price basis. In addition to the risks associated with fixed-price contracts, design-build contracts impose design risks upon the contractor. The GBT Operating LPs subcontract these design risks. There remains a risk of ineffective or inadequate risk transfer to engineering or architectural firms.

#### *Debt Service*

Each of the GBT Operating LPs and their respective affiliates may, from time to time, finance a significant portion of its operations through debt raised by GIT, GBT or GGL or each of the GBT Operating LPs. Amounts paid in respect of interest and principal on debt incurred by GIT, GBT or GGL or each of the GBT Operating LPs and their affiliates may impair GBT and the GBT Operating LPs' and their affiliates' ability to satisfy obligations under their debt instruments, including GBT's obligations under the GBT Loan Agreement. Variations in interest rates and scheduled principal repayments could result in significant changes in the amount required to be applied to debt service before required payment on debt.

#### *Material Prices*

The prices of building and construction materials are subject to fluctuation based on external factors over which GBT and the GBT Operating LPs have no control, including changing demand, available supply, and governmental restrictions. The GBT Operating LPs currently do not use a hedging strategy with respect to building materials and do not intend to implement such a strategy. Any increase in the price of building and construction materials could have a material adverse effect on market demand and on the growth and profitability of GBT and the GBT Operating LPs.

#### *Surety Obligations*

GBT and the GBT Operating LPs require bonds to be issued by a surety company for many of the projects they undertake. They must indemnify the surety company, make certain customary covenants and maintain sufficient

working capital to obtain these bonds. Satisfying these requirements could affect the ability to undertake projects and the amounts available to satisfy the payment on debt by those entities, and consequently Gracorp.

#### *Weather Conditions*

Weather conditions can have an adverse effect on the ability of GBT and the GBT Operating LPs to satisfy their contract commitments on a timely basis and such conditions effect the profitability of the operations of GBT and the GBT Operating LPs.

#### *Competition*

GBT and the GBT Operating LPs compete with other entities that have greater financial resources and larger marketing departments. Competition generally places pressure on contract prices and profit margins. Intense competition is expected to continue which will present challenges to the ability to maintain strong growth rates and profit margins. Market share could be lost to competition and GBT and the GBT Operating LPs could experience a reduction in profits. GBT and the GBT Operating LPs may not be successful in meeting competition, and competition may cause GBT and the GBT Operating LPs to lose customers, increase expenditures or reduce pricing, any one or more of which could have a material adverse effect on growth and profitability.

#### *Conflicts of Interest*

The GBT trustee, the GBT General Partners, the GBT Operating LPs and their respective directors or officers may become engaged in business interests on their own behalf and on behalf of other entities and situations may arise where one or more of the GBT trustee, the GBT General Partners, the GBT Operating LPs or any of their respective directors and officers will be in direct competition with the Issuer and GBT or the Issuer and one or more of GBT, the GBT General Partners, the GBT Operating LPs will be in direct competition. Conflicts, if any, will be subject to the procedures and, to the extent applicable, remedies available under the ABCA or similar provisions in the constating documents of the respective trusts or limited partnerships. The ABCA provides that in the event that a director has an interest in a contract or a proposed contract, the director shall disclose his interest in such contract or proposed contract and shall refrain from voting on any matter in respect of such contract or proposed contract unless otherwise provided for by the ABCA.

#### *New Business*

GBT and the GBT Operating LPs directly or indirectly, intend to enter new fields of business in the construction industry, while expanding the geographic scope of its present business. In addition, models through which GBT and the GBT Operating LPs provide services are changing due to market demands, including participation in P3s (public-private section partnerships). There is no assurance that these new ventures or models will be successful.

#### *Future Acquisitions and Reliance upon Management*

Neither Gracorp nor holders of Bonds, as such, will have an advance opportunity to evaluate the merits and risks of any future acquisitions by GBT or the GBT Operating LPs or the entering into by GBT or the GBT Operating LPs of joint ventures, partnerships or other similar relationships. There can be no assurance that any such acquisitions or other arrangements will be successfully completed or, if successfully completed, will be successfully implemented in a profitable manner. The future profitability of GBT or the GBT Operating LPs may depend to some degree upon the ability of the GBT trustee and GBT management to identify and complete commercially viable acquisitions and to successfully integrate acquired businesses with its own operations.

#### *Financial Resources*

There can be no assurance that the current working capital or access to additional working capital by GBT (including advances under the GBT Loan Agreement) will be sufficient to enable GBT to implement its business plans. There can be no assurance that, if, as and when GBT seeks additional equity or debt financing, GBT will be able to obtain

the additional financial resources required to successfully compete in its markets on favourable commercial terms or at all.

*Reliance on Suppliers, Subcontractors and Joint Venture Partners*

GBT and the GBT Operating LPs rely on third party suppliers, subcontractors and in some cases, joint-venture partners. The loss of, or inability to maintain, any of these relationships, or the failure of such third parties to execute or effectively manage their own business plans, deliver on their contract commitments, or in some circumstances, remain solvent, can have a material adverse effect upon the business, operating results and financial condition of GBT and the GBT Operating LPs.

*Industry Growth*

The overall market for construction services is cyclical in nature. There can be no assurance that the market for GBT's or the GBT Operating LPs' construction services will continue to grow, or that GBT or the GBT Operating LPs will be successful in retaining existing customers or in establishing new customer markets and contracts. If the various markets in which GBT and the GBT Operating LPs compete fails to grow, or grows more slowly than currently anticipated, or if GBT and the GBT Operating LPs are unable to obtain new contracts, the business, operating results, and financial condition of GBT would be materially adversely affected.

*Control by GIT and its Trustee and Management*

GIT currently owns all of the units of GBT. As a result, GIT and its trustees and management, acting together, exercise a significant influence over all matters of governance and operations of GBT.

**LEGAL PROCEEDINGS**

The Issuer is not currently a party to any legal proceedings; however, the Guarantor, GBT Operating LPs, GBT General Partners and GGL are parties to a number of legal proceedings and lien claims arising in the ordinary course of the construction business. The Board does not believe that any of the current proceedings or claims will have a material effect on the business, financial conditions or operations of the Issuer, GBT, the GBT Loan or the Guarantor.

**AUDITORS, REGISTRAR AND TRANSFER AGENT**

The auditors of the Issuer are Deloitte LLP, Chartered Professional Accounts, 700, 850 - 2nd Street SW, Calgary, Alberta, T2P 0R8.

The registrar and transfer agent of the Bonds is AST Trust Company (Canada), 608, 337 – 7<sup>th</sup> Avenue SW, Calgary, Alberta, T2P 2Z1.

**ITEM 9  
REPORTING OBLIGATIONS**

**We are not required to send you any documentation on an annual or ongoing basis.**

The Issuer is not a "reporting issuer" or equivalent under the *Securities Act* (Alberta) or similar legislation in any other jurisdiction. Accordingly, the Issuer is not subject to the "continuous disclosure" requirements of any securities legislation and there is therefore no requirement that the Issuer make ongoing disclosure of its affairs including, without limitation, the disclosure of financial information on a quarterly basis or the disclosure of material changes in the business or affairs of the Issuer. The Issuer will, however, provide to registered holders of Bonds annual audited financial statements within 120 days of its year end.

## **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 securities legislation.

### **10.2 Restricted Period**

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

### **10.3 Manitoba Resale Restrictions**

For trades in Manitoba, unless permitted under securities legislation, you must not trade the securities without the prior written consent of the regulator in Manitoba unless:

- (a) the Issuer has filed a prospectus with the regulator in Manitoba with respect to the securities you have purchased and the regulator in Manitoba has issued a receipt for that prospectus; or
- (b) you have held the securities for at least 12 months.

The regulator in Manitoba will consent to your trade if the regulator is of the opinion that to do so is not prejudicial to the public interest.

## **ITEM 11 PURCHASERS' RIGHTS**

If you purchase the Bonds you will have certain rights, some of which are described below. For information about your rights you should consult a lawyer.

**Two Day Cancellation Right** – You can cancel your agreement to purchase the Bonds. To do so, you must send us a cancellation notice to the Issuer by midnight on the 2nd business day after you sign your Subscription Agreement.

The following summaries are subject to the express provisions of the securities legislation applicable in each of the noted provinces of Canada and the regulations, rules and policy statements thereunder. Subscribers should refer to the securities legislation applicable in their province along with the regulations, rule and policy statements thereunder for the complete text of their provisions or should consult with their legal advisor. The contractual and statutory rights of action described in this Offering Memorandum are in addition to and without derogation from any other right or remedy a Subscriber may have at law.

**Statutory Rights of Action in the Event of a Misrepresentation** – If there is a misrepresentation in this Offering Memorandum, you have a statutory right to sue:

- (a) the Issuer to cancel the Subscription Agreement to buy the Bonds offered hereunder; or
- (b) for damages against the Issuer and the directors at the date of the Offering Memorandum, who signed the Offering Memorandum.

This statutory right to sue is available to you whether or not you relied on the misrepresentation. However, there are various defences available to the persons or companies that you have a right to sue. In particular, they have a defence if you knew of the misrepresentation when you purchased the securities. In action for damages, the amount Subscribers

may recover will not exceed the price that Subscribers paid for their Bonds and will not include any part of the damages that the defendant proves does not represent the depreciation in value of the Bonds resulting from the misrepresentation.

If you intend to rely on the rights described in (a) or (b) above, you must do so within strict time limitations. Subscribers resident in Alberta, British Columbia, Saskatchewan, Manitoba and Ontario must commence their action to cancel the agreement within 180 days from the purchase of the Bonds. You must commence your action for damages within: (i) 180 days from the day that such Subscriber had knowledge of facts giving rise to an action for damages; or (ii) three years (two years if you live in Manitoba and six years if you live in Saskatchewan) from the day that such Subscribers signed the agreement to purchase the Bonds.

Each director at the date hereof and each person who signed the Offering Memorandum is not liable for damages if the person proves that:

1. the Offering Memorandum was delivered to Subscribers without the person's knowledge or consent and that, on becoming aware of its delivery, the person gave written notice to the Issuer that it was delivered without the person's knowledge or consent;
2. on becoming aware of any misrepresentation in the Offering Memorandum, the person withdrew the person's consent to the Offering Memorandum and gave written notice to the Issuer of the withdrawal and the reason for it; or
3. with respect to any part of the Offering Memorandum purporting:
  - (a) to be made on the authority of an expert; or
  - (b) to be a copy of, or an extract from, a report, an opinion or a statement of an expert;

the person had no reasonable grounds to believe and did not believe that there had been a misrepresentation, or the relevant part of the Offering Memorandum did not fairly represent the report, opinion or statement of the expert, or was not a fair copy of, or an extract from, the report, opinion or statement of the expert.

The liability of all defendants is joint and several as between themselves with respect to the same cause of action. A defendant who is found liable to pay a sum in damages may recover a contribution, in whole or in part, from a person who is jointly and severally liable to make the same payment in the same cause of action, unless, in all the circumstances of the case, the court is satisfied that it would not be just and equitable.

If a misrepresentation is contained in a record incorporated by reference in this Offering Memorandum, or deemed incorporated into this Offering Memorandum, the misrepresentation is deemed to be contained in this Offering Memorandum.

**Contractual Rights of Action in the Event of a Misrepresentation** – If there is a misrepresentation in this Offering Memorandum, you have a contractual right to sue:

1. the Issuer to cancel the Subscription Agreement to buy the Bonds offered hereunder, or
2. for damages against the Issuer.

This contractual right to sue is available to you whether or not you relied on the misrepresentation. However, there are various defences available to the persons or companies that you have a right to sue. In particular, they have a defence if you knew of the misrepresentation when you purchased the securities. In action for damages, the amount you may recover will not exceed the price that you paid for your Bonds and will not include any part of the damages that the Issuer proves does not represent the depreciation in value of the Bonds resulting from the misrepresentation.

Subscribers who intend to rely on the rights described above must do so within strict time limitations. Subscribers must commence their action to cancel the Subscription Agreement within 180 days from the purchase of the Bonds. Subscribers must commence their action for damages with the earlier of: (i) 180 days after such Subscribers had knowledge of the facts giving rise to the cause of action; and (ii) three years after you signed the agreement to purchase the securities (two years if you live in Manitoba and six years if you live in Saskatchewan).

**ITEM 12  
FINANCIAL STATEMENTS**

The Audited Financial Statements of Gracorp for the years ended December 31, 2018 and December 31, 2017 are included as Schedule B to this Offering Memorandum. The Issuer prepares its financial statements in accordance with IFRS.

**ITEM 13  
DATE AND CERTIFICATE**

Dated this 30<sup>th</sup> day of May, 2019.

*This Offering Memorandum does not contain a misrepresentation.*

**GRACORP CAPITAL LTD.**

(signed) " *Tim Heavenor* "

Tim Heavenor, President and Chief Executive Officer

(signed) " *Ryan Siah* "

Ryan Siah, Vice President



**SCHEDULE A**  
**SUBSCRIPTION AGREEMENT FOR BONDS**

## SUBSCRIPTION AGREEMENT FOR BONDS

**TO: Gracorp Capital Ltd. ("Gracorp")**

The undersigned (hereinafter referred to as the "**Subscriber**") hereby irrevocably subscribes for and agrees to purchase the number of 6.25% secured, redeemable bonds of Gracorp ("**Bonds**") set forth below for the aggregate subscription price set forth below (the "**Aggregate Subscription Price**"), representing a subscription price of CDN\$1,000 per Bond, upon and subject to the terms and conditions set forth in "Terms and Conditions of Subscription for Bonds of Gracorp Capital Ltd." attached hereto (together with this page and the attached Exhibits, the "**Subscription Agreement**").

**In addition to this face page, the Subscriber must complete all applicable Exhibits attached hereto.**

<b><u>Subscriber's Particulars:</u></b>  _____ (Name of Subscriber – please print)  By: _____ (Authorized Signature)  _____ (Subscriber's Address)  _____ (Telephone Number)  _____ (E-Mail Address)  _____ (Social Insurance Number / Business Number / Tax Shelter ID)	<b><u>Aggregate Subscription Price:</u></b>  _____ <i>Minimum of CDN\$20,000, or 20 Bonds</i>  <b><u>Principal's Information:</u></b> (if not the same as the Subscriber) If the Subscriber is signing as agent for a principal and is not deemed to be purchasing as principal pursuant to NI 45-106 (as defined herein) by virtue of being either (i) a trust company or trust corporation acting on behalf of a fully managed account managed by the trust company or trust corporation; or (ii) a person acting on behalf of a fully managed account managed by it, and in each case satisfying the criteria set forth in NI 45-106 or Section 73.3 of the Securities Act (Ontario), complete the following to ensure that the applicable Exhibits are completed in respect of such principal ("Disclosed Beneficial Principal"):  _____ (Name of Principal)  _____ (Principal's Address)  _____ (Telephone Number)
<b><u>Register the Bonds as set forth below:</u></b> (only complete if different from above)  _____ (Name)  _____ (Account reference, if applicable)  _____ (Address)  _____	<b><u>Deliver the Bonds as set forth below:</u></b> (only complete if different from the registration instructions)  _____ (Name)  _____ (Contact Name)  _____ (Account reference, if applicable)  _____ (Address)  _____
<b><u>Insider or Registrant:</u></b> the Subscriber represents that it: (please check the boxes that apply)  <input type="checkbox"/> is or, <input type="checkbox"/> is not, an Insider of the Gracorp (as such term is defined in applicable securities laws).  <input type="checkbox"/> is or, <input type="checkbox"/> is not, a Registrant. " <b>Registrant</b> " means a person registered or required to be registered under applicable securities laws.	

**ACCEPTANCE:** Gracorp hereby accepts the subscription as set forth above on the terms and conditions contained in this Subscription Agreement.

\_\_\_\_\_, 20\_\_\_\_

**GRACORP CAPITAL LTD.**

**Per:** \_\_\_\_\_

**Subscription No:**

*(This is the first page of an agreement comprised of 12 pages (not including Exhibits))*

## TERMS AND CONDITIONS OF SUBSCRIPTION FOR BONDS OF GRACORP CAPITAL LTD.

### Terms of the Offering

1. The Subscriber acknowledges (on its own behalf and, if applicable, on behalf of each person on whose behalf the Subscriber is contracting) that this subscription is subject to rejection or allotment by Gracorp in whole or in part.
2. The Subscriber acknowledges (on its own behalf and, if applicable, on behalf of each person on whose behalf the Subscriber is contracting) that the Bonds subscribed for by it hereunder form part of a larger issuance and sale by Gracorp of up to 10,000 Bonds, subject to the discretion of the board of directors of Gracorp to increase the size of the offering (the "**Offering**").
3. Each Bond is a \$1,000 principal amount 6.25% secured, redeemable bond of Gracorp. The Bonds will be duly and validly created and issued pursuant to, and governed by, the terms and conditions of a bond indenture (the "**Bond Indenture**") to be dated the Closing Date (as defined herein) between Gracorp and AST Trust Company, as trustee, which Bond Indenture shall include the following terms:
  - (a) the Bonds will be limited in the aggregate principal amount of \$10,000,000 and will be issuable only in denominations of \$1,000 or multiples thereof;
  - (b) The maturity date for the Bonds is June 30, 2026 (the "**Maturity Date**") with five year amortized principal payments from June 30, 2021 to June 30, 2026;
  - (c) the Bonds will bear interest from the date of issue at 6.25% per annum, which will be payable quarterly on March 31, June 30, September 30 and December 31 (each a "**Bond Payment Date**") in each year, commencing on September 30, 2019, computed on the basis of a 365-day year;
  - (d) interest payments may be deferred on one occasion by Gracorp for a period of one year (the "**Interest Deferral Election**") if Gracorp is not otherwise in default of obligations under the Bond Indenture. Upon making the Interest Deferral Election:
    - (i) the Bonds shall thereafter bear interest at 7.25% per annum until the Maturity Date; and
    - (ii) deferred interest shall be due and payable on the fourth Bond Payment Date after the Interest Deferral Election occurred, and such deferred interest shall be calculated from the period commencing at the beginning of the quarter during which the Interest Deferral Election was made, to, but excluding, the fourth Bond Payment Date, after which the Interest Deferral Election was made;
  - (e) quarterly blended interest and principal payments will be made over the last five years of the Bond, commencing June 30, 2021, on an amortized schedule. Payments will be equal over the amortization period with a larger portion of payments representing interest at the beginning of the amortization period and a larger portion representing principal payments at the end of the amortization period;
  - (f) the Bonds may be redeemed by Gracorp, in whole or in part, in \$1,000 (or such lesser amount as may represent the principal outstanding at the effective time of redemption) denominations from time to time at Gracorp's option on not more than 60 days' and not less than 30 days' prior written notice at a redemption price equal to the principal amount plus accrued and unpaid interest thereon;
  - (g) the net proceeds of the Offering will be used to make an unsecured loan to Graham Business Trust (the "**GBT Loan**");

- (h) all Bonds will rank equally and pari passu with one another. The Bonds will be secured against all of Gracorp's assets, ranking (a) senior in priority over the GBT Loan; (b) subordinate in priority to: (i) the fixed charge the Debentures (as defined in the confidential offering memorandum of Gracorp dated May 30, 2019 (the "OM")) or held over the Mortgaged Units (as defined in the in the OM), (ii) the security held over the Prior GBT Loans under the Prior Bond Indentures (as defined in the OM), (iii) the security held loans made by Gracorp to GBT in respect of one or more future bond issuances, (iv) certain other encumbrances securing other Senior Indebtedness (as defined in the OM); and (c) equal in priority with all other secured indebtedness of Gracorp (including the Prior Bonds (as defined in the OM)) with respect to Gracorp's other assets.
- (i) the Bonds will be guaranteed by Graham Business Trust. The obligations of Graham Business Trust under such guarantee will be postponed and subordinated in favour of the GBT Senior Bank Agent pursuant to a subordination agreement to be entered into between the Bond Trustee, the GBT Senior Bank Agent, and GBT (as defined in the OM).

### **Representations, Warranties and Covenants by Subscriber**

4. The Subscriber (on its own behalf and, if applicable, on behalf of each person on whose behalf the Subscriber is contracting) (and for the purpose of the following representations, warranties and covenants, any reference to "it" or the "Subscriber" includes the Subscriber and any Disclosed Beneficial Principal for whom it is contracting hereunder, as applicable) represents, warrants and covenants to Gracorp and its counsel (and acknowledges that Gracorp, and its counsel, are relying thereon) that both at the date hereof and at the Closing Time (as defined herein) that:

- (a) it has been independently advised as to restrictions with respect to trading in the Bonds imposed by applicable securities legislation in the jurisdiction in which it resides; it confirms that no representation has been made to it by or on behalf of Gracorp with respect thereto; it acknowledges that it is aware of the characteristics of the Bonds, the risks relating to an investment therein and of the fact that it may not be able to resell the Bonds except in accordance with limited exemptions under applicable securities legislation and regulatory policy until expiry of the applicable restricted period and compliance with the other requirements of applicable law; and **it agrees that any certificates representing the Bonds will bear a legend indicating that the resale of such securities is restricted and the Subscriber further acknowledges that it has been advised to consult its own legal counsel in its jurisdiction of residence for full particulars of the resale restrictions applicable to it;** and
- (b) other than the OM, it has not received or been provided with, nor has it requested, nor does it have any need to receive any offering memorandum, any prospectus, sales or advertising literature or any other document (other than documents, the content of which is prescribed by statute or regulation) describing or purporting to describe the business and affairs of Gracorp which has been prepared for delivery to, and review by, prospective purchasers in order to assist it in making an investment decision in respect of the Bonds; and
- (c) it has not become aware of any advertisement in printed media of general and regular paid circulation (or other printed public media), radio, television or telecommunications or other form of advertisement (including electronic display, such as the internet) with respect to the distribution of the Bonds; and
- (d) unless it is purchasing under subparagraph 4(e), it is purchasing the Bonds as principal for its own account, not for the benefit of any other person, for investment only and not with a view to the resale or distribution of all or any of the Bonds, it is resident in or otherwise subject to applicable securities laws of the jurisdiction set out as the "Subscriber's Address" on the face page hereof and unless it is purchasing under subparagraph 4(e), it is purchasing the Bonds pursuant to:
  - (i) the "**Offering Memorandum Exemption**" under National Instrument 45-106 – *Prospectus and Registration Exemptions* ("**NI 45-106**") and:

- (A) has acknowledged that investing in the Bonds is a risky investment by correctly completing and delivering an original copy of Form 45-106F4 – Risk Acknowledgement Form attached hereto as **Exhibit 1** (including, as applicable, **Schedule 1** and **Schedule 2** attached thereto); and
- (B) if it is resident of Alberta, Manitoba, Northwest Territories, Nunavut, Prince Edward Island, Quebec or Saskatchewan, it acknowledges it is an "eligible investor" (as such term is defined in **Appendix A** to **Exhibit 2**) and has received a copy of the OM, and specifically represents and warrants that one or more of the categories set forth in the Eligible Investor Status Certificate attached hereto as **Exhibit 2** correctly, and in all respects, describes the Subscriber and the Subscriber has so indicated by marking the box next to the category which so describes it and executing and delivering a copy of the Eligible Investor Status Certificate with this Subscription Agreement and the Subscriber has also retained a correctly completed and original copy of the Eligible Investor Status Certificate for its records; and
- (C) if the Subscriber is an "eligible investor" as a person described in section 2.3 [*Accredited Investor*] of NI 45-106 or, as applicable in Ontario, subsection 7.3(3) of the *Securities Act* (Ontario), it specifically represents and warrants that it was not created and is not being used solely to purchase or hold securities as an accredited investor as described in paragraph (m) of the definition of "accredited investor" in NI 45-106 and has concurrently executed and delivered a Representation Letter in the form attached to this Subscription Agreement as **Exhibit 3** and specifically represents and warrants that one or more of the categories set forth in **Appendix "A"** attached to the Representation Letter correctly, and in all respects, describes the Subscriber, and will describe the Subscriber as at the Closing Date, and the Subscriber has so indicated by initialing or placing a check mark next to the category in such **Appendix "A"** which so describes the Subscriber and, if the Subscriber is an individual (unless investing under category J.1 of "accredited investor" set forth in **Appendix "A"** to **Exhibit 3**), has completed **Appendix "B"** hereto; or
  - (ii) the "**Accredited Investor Exemption**" under NI 45-106, it was not created and is not being used solely to purchase or hold securities as an accredited investor as described in paragraph (m) of the definition of "accredited investor" in NI 45-106 and has concurrently executed and delivered a Representation Letter in the form attached to this Subscription Agreement as **Exhibit 3** and specifically represents and warrants that one or more of the categories set forth in **Appendix "A"** attached to the Representation Letter correctly, and in all respects, describes the Subscriber, and will describe the Subscriber as at the Closing Date, and the Subscriber has so indicated by initialing or placing a check mark next to the category in such **Appendix "A"** which so describes the Subscriber and, if the Subscriber is an individual (unless investing under category J.1 of "accredited investor" set forth in **Appendix "A"** to **Exhibit 3**), has completed **Appendix "B"** hereto; or
  - (iii) it is a person resident in or otherwise subject to applicable securities laws of a jurisdiction in Canada and it is one of the following (please initial beside applicable category):
    - \_\_\_\_\_ (A) a director, executive officer or "control person" (as defined in NI 45-106) of Gracorp, or of an affiliate (as defined in NI 45-106) of Gracorp; or
    - \_\_\_\_\_ (B) a person of which a majority of the voting securities are beneficially owned by, or a majority of directors are, persons described in subparagraphs (A) above; or
    - \_\_\_\_\_ (C) a trust or estate of which all of the beneficiaries or a majority of the trustees or executors are persons described in subparagraphs (A) above; and
- (e) if it is not purchasing as a principal, it is duly authorized to enter into this Subscription Agreement and to execute and deliver all documentation in connection with the purchase on behalf of each beneficial

purchaser, each of whom is purchasing as principal for its own account, not for the benefit of any other person, and not with a view to the resale or distribution of all or any of the Bonds, it acknowledges that Gracorp is required by law to disclose to certain regulatory authorities the identity of each Disclosed Beneficial Principal of Bonds for whom it may be acting, and it is resident in the jurisdiction set out as the "*Subscriber's Residential Address*" and, subject to securities laws applicable to the Subscriber, it is acting as agent for one or more Disclosed Beneficial Principals, each of whom is resident in the jurisdiction set out as the "*Disclosed Beneficial Principal's Residential Address*", is purchasing as principal for its own account, not for the benefit of any other person, for investment only and not with a view to the resale or distribution of any or all of the Bonds and each such Disclosed Beneficial Principal complies with the criterion set forth in paragraph 4(d) hereof; and

- (f) in the case of the purchase by the Subscriber of the Subscriber's Bonds as agent or trustee for a Disclosed Principal, whether their identity is disclosed or undisclosed or identified by the account number only, each beneficial subscriber of the Subscriber's Bonds for whom the Subscriber is acting is purchasing its Subscriber's Bonds as principal for its own account, and not for the benefit of any other person, for investment only and not with a view to resale or distribution, is a resident of the jurisdiction as set out under "Subscriber's Address" on page 1 above, and the Subscriber complies with and meets one of the criterion set forth in subparagraph 4(d) hereof, and the Subscriber has due and proper authority to act as agent or trustee for and on behalf of such beneficial subscriber in connection with the transactions contemplated hereby and this Subscription Agreement has been duly authorized, executed and delivered by or on behalf of, and constitutes a legal, valid and binding agreement of, such beneficial subscriber, and the Subscriber is acting as agent for one or more disclosed principals, each of which principal is purchasing as a principal for its own account, not for the benefit of any other person, and not with a view to the resale or distribution of all or any of the Bonds, and each of which principals complies with subparagraph 4(d) hereof; and
- (g) if it is a resident of or otherwise subject to applicable securities laws of a Province of Canada but not purchasing thereunder, it is purchasing pursuant to an exemption from prospectus and registration requirements (particulars of which are enclosed herewith) available to it under applicable securities legislation and shall deliver to Gracorp such further particulars of the exemption(s) and the Subscriber's qualifications thereunder as Gracorp or its counsel may request; and
- (h) if the Subscriber is resident in or otherwise subject to applicable securities laws of a jurisdiction other than Canada or the United States, the Subscriber confirms, represents and warrants that:
  - (i) the Subscriber is knowledgeable of, or has been independently advised as to, the applicable securities laws of the jurisdiction in which the Subscriber is resident (the "**International Jurisdiction**") and which would apply to the acquisition of the Bonds;
  - (ii) the Subscriber is purchasing the Bonds pursuant to exemptions from prospectus or registration requirements or equivalent requirements under applicable securities laws of the International Jurisdiction or, if such is not applicable, the Subscriber is permitted to purchase the Bonds under the applicable securities laws of the International Jurisdiction without the need to rely on any exemptions;
  - (iii) the applicable securities laws of the International Jurisdiction do not require Gracorp to make any filings or seek any approvals of any kind whatsoever from any securities regulator of any kind whatsoever in the International Jurisdiction in connection with the issue and sale or resale of the Bonds;
  - (iv) the acquisition of any of the Bonds by the Subscriber does not trigger:
    - (I) any obligation to prepare and file a prospectus or similar document, or any other report with respect to such purchase in the International Jurisdiction; or

- (II) any continuous disclosure reporting obligation of Gracorp in the International Jurisdiction; and
- (v) the Subscriber will, if requested by Gracorp, deliver to Gracorp either or both: (1) a certificate or opinion of local counsel from the International Jurisdiction which will confirm the matters referred to in subsections (ii), (iii) and (iv) above (and such other matters as maybe reasonably be requested by Gracorp or its counsel) to the satisfaction of Gracorp, acting reasonably; and/or (2) such other evidence of compliance with all aforementioned matters as Gracorp or its counsel may request;
- (i) it acknowledges that:
  - (i) no securities commission or similar regulatory authority has reviewed or passed on the merits of the Bonds; and
  - (ii) there is no government or other insurance covering the Bonds; and
  - (iii) there are risks associated with the purchase of the Bonds; and
  - (iv) there are restrictions on the Subscriber's ability to resell the Bonds and it is the responsibility of the Subscriber to find out what those restrictions are and to comply with them before selling the Bonds; and
  - (v) Gracorp has advised the Subscriber that Gracorp is relying on an exemption from the requirements to provide the Subscriber with a prospectus under the *Securities Act* (Alberta) and other applicable securities laws and, as a consequence of acquiring Bonds pursuant to this exemption, certain protections, rights and remedies provided by the *Securities Act* (Alberta) and other applicable securities laws, including statutory rights of rescission or damages, will not be available to the Subscriber; and
  - (vi) the Bonds shall not be resold until after the expiry of the applicable "hold" or "restricted" period attaching to the Bonds and the certificates evidencing the Bonds which it shall receive will bear a legend referring to such restrictions on resale and neither Gracorp nor any transfer agent of Gracorp will register any transfer of such Bonds not made in compliance with such restrictions on resale; and
- (j) it is aware that the Bonds have not been and will not be registered under the United States *Securities Act of 1933*, as amended ("**U.S. Securities Act**") or the securities laws of any state of the United States and that these securities may not be offered or sold, directly or indirectly, in the United States without registration under the U.S. Securities Act or compliance with requirements of an exemption from registration and the applicable laws of all applicable states and acknowledges that Gracorp have no present intention of filing a registration statement under the U.S. Securities Act in respect of the Bonds; and
- (k) it is aware that the Bonds have not been offered to the Subscriber in the United States, and the individuals making the order to purchase the Bonds and executing and delivering this Subscription Agreement on behalf of the Subscriber were not in the United States when the order was placed and this Subscription Agreement was executed and delivered; and
- (l) it is not a U.S. Person (as defined in Regulation S under the U.S. Securities Act, which definition includes, but is not limited to, an individual resident in the United States, an estate or trust of which any executor or administrator or trustee, respectively, is a U.S. Person and any partnership or corporation organized or incorporated under the laws of the United States) and is not purchasing the Bonds on behalf of, or for the account or benefit of, a person in the United States or a U.S. Person; and
- (m) it undertakes and agrees that it will not offer or sell the Bonds in the United States unless such securities are registered under the U.S. Securities Act and the securities laws of all applicable states of the United States or an exemption from such registration requirements is available, and further that it will not resell the

Bonds, except in accordance with the provisions of applicable securities legislation, regulations, rules, policies and orders and stock exchange rules; and

- (n) if a corporation, partnership, unincorporated association or other entity, it has the legal capacity to enter into and be bound by this Subscription Agreement and take all action pursuant hereto and further certifies that all necessary approvals of directors, shareholders or otherwise have been given and obtained; and
- (o) if an individual, it is of the full age of majority and is legally competent to execute this Subscription Agreement and take all action pursuant hereto; and
- (p) this Subscription Agreement has been duly and validly authorized, executed and delivered by and constitutes a legal, valid, binding and enforceable obligation of the Subscriber; and
- (q) in the case of a subscription by it for Bonds acting as agent for a Disclosed Beneficial Principal, it is duly authorized to execute and deliver this Subscription Agreement and all other necessary documentation in connection with such subscription on behalf of such Disclosed Beneficial Principal and this Subscription Agreement has been duly authorized, executed and delivered by or on behalf of, and constitutes a legal, valid, binding and enforceable agreement of, such Disclosed Beneficial Principal; and
- (r) it has such knowledge in financial and business affairs as to be capable of evaluating the merits and risks of its investment and is able to bear the economic risk of loss of its investments or, where it is not purchasing as principal, each Disclosed Beneficial Principal is able to bear the economic risk of loss of its investment; and
- (s) it has relied solely upon the OM and publicly available information relating to Gracorp and not upon any verbal or written representation as to fact or otherwise made by or on behalf of Gracorp, such publicly available information having been delivered to the Subscriber without independent investigation or verification by Gracorp, and agrees that Gracorp assumes no responsibility or liability of any nature whatsoever for the accuracy, adequacy or completeness of the publicly available information or as to whether all information concerning Gracorp required to be disclosed by Gracorp has been generally disclosed and acknowledges that Gracorp's counsel is acting as counsel to Gracorp and not as counsel to the Subscriber; and
- (t) it understands, acknowledges and is aware that the sale and delivery of the Bonds is conditional upon such sale being exempt from the requirements under applicable securities legislation as to the filing of a prospectus or delivery of an offering memorandum or upon the issuance of such orders, consents or approvals as may be required to permit such sale without the filing of a prospectus or delivering an offering memorandum and, as a consequence: (i) it is restricted from using most of the civil remedies available under securities legislation; (ii) it may not receive information that would otherwise be required to be provided to it under securities legislation; and (iii) Gracorp is relieved from certain obligations that would otherwise apply under securities legislation; and
- (u) if required by applicable securities legislation, regulations, rules, policies or orders or by any securities commission, stock exchange or other regulatory authority, the Subscriber will execute, deliver, file and otherwise assist Gracorp in filing such reports, undertakings and other documents with respect to the issue of the Bonds; and
- (v) it will not resell the Bonds except in accordance with the provisions of applicable securities legislation and stock exchange rules, if applicable, and it acknowledges that it has the sole responsibility to determine and comply with any restrictions on resale; and
- (w) it is aware that no stock exchange or governmental agency, authority, regulatory body, securities commission or other entity has made any finding or determination as to the merit of investment in, nor has any such governmental agency, authority, regulatory body, securities commission, or other entity made any recommendation or endorsement with respect to the Bonds; and



- (x) the Subscriber acknowledges that no person has made to the Subscriber any written or oral representations that any person will resell or repurchase the Bonds, that any person will refund the Aggregate Subscription Price of the Bonds or any portion thereof, or to the future price or value of the Bonds; and
- (y) the acquisition of the Bonds hereunder by the Subscriber will not result in the Subscriber becoming a "control person", as defined under applicable securities laws; and
- (z) the entering into of this Subscription Agreement and the completion of the transactions contemplated hereby do not and will not result in a violation of any of the terms or provisions of any law applicable to the Subscriber or any agreement to which the Subscriber is a party or by which it is bound, or if the Subscriber is not a natural person, any of the Subscriber's constating documents; and
- (aa) the Subscriber acknowledges that it has been encouraged to obtain independent legal, income tax and investment advice with respect to its subscription for the Bonds and, accordingly, has had the opportunity to acquire an understanding of the meanings of all terms contained herein relevant to the Subscriber for purposes of giving representations, warranties and covenants under this Subscription Agreement.

### Closing

5. The Subscriber agrees to deliver to Gracorp not later than 4:00 p.m. (Calgary time) on June 14, 2019 or six business days before any subsequent Closing Date:

- (a) this duly completed and executed Subscription Agreement, including (as applicable):
  - (i) if the Subscriber is subscribing under the **Offering Memorandum Exemption**, a completed and duly signed copy of (A) the Form 45-106F4 – Risk Acknowledgement Form attached hereto as **Exhibit 1** (including, as applicable, **Schedule 1** and **Schedule 2** attached thereto); (B) if the Subscriber is a resident of Alberta, Manitoba, Northwest Territories, Nunavut, Prince Edward Island, Quebec or Saskatchewan, a completed and duly signed copy of Eligible Investor Status Certificate attached hereto as **Exhibit 2**, including a duly completed copy of **Appendix A** thereto; and (C) if the Subscriber is an "eligible investor" as a person described in section 2.3 [*Accredited Investor*] of NI 45-106 or, as applicable in Ontario, subsection 7.3(3) of the *Securities Act* (Ontario), a completed and duly signed copy of the Representation Letter in the form attached to this Subscription Agreement as **Exhibit 3** (including, as applicable, **Appendix "A"** and **Appendix "B"** attached thereto); or
  - (ii) if the Subscriber is subscribing under the **Accredited Investor Exemption**, a completed and duly signed copy of the Representation Letter in the form attached to this Subscription Agreement as **Exhibit 3** (including, as applicable, **Appendix "A"** and **Appendix "B"** attached thereto); and
- (b) a certified cheque or bank draft payable to "Gracorp Capital Ltd." for the Bonds purchased by the Subscriber or payment in such other manner as is acceptable to Gracorp (which certified cheque or bank draft or other manner of payment will equal the Aggregate Subscription Price).

6. The sale of the Bonds pursuant to this Subscription Agreement will be completed at Gracorp's offices at 10840 – 27<sup>th</sup> Street S.E., Calgary, Alberta, T2Z 3R6 on June 28, 2019 or such later dates as Gracorp shall determine (the "**Closing Date**"), but in any event not later than July 31, 2019, and at such time (the "**Closing Time**") as Gracorp may choose, in their sole discretion. Closings subsequent to the initial Closing Date may take place as determined by Gracorp.

7. Gracorp shall be entitled to rely on delivery of a emailed copy of executed Subscription Agreements and acceptance by Gracorp of such emailed subscriptions shall be legally effective to create a valid and binding agreement between the Subscriber and Gracorp in accordance with the terms hereof. Notwithstanding the foregoing,

the Subscriber shall deliver an originally executed copy of the Subscription Agreement and if applicable, such required Exhibits listed in Section 5 hereof to Gracorp six business days prior to the Closing Time. In addition, this Subscription Agreement may be executed in counterparts, each of which shall be deemed to be an original and all of which shall constitute one and the same document.

8. Gracorp may, in its absolute discretion, accept or reject the Subscriber's subscription for Bonds as set forth in this Subscription Agreement, in whole or in part, and Gracorp reserves the right to allot to the Subscriber less than the amount of the Bonds subscribed for under this Subscription Agreement. Notwithstanding the foregoing, the Subscriber acknowledges and agrees that the acceptance of this Subscription Agreement will be conditional upon, among other things, the sale of the Bonds to the Subscriber being exempt from any prospectus requirements of applicable securities laws. Gracorp will be deemed to have accepted this Subscription Agreement upon delivery on the Closing Date of the certificates representing the Bonds to the Subscriber or upon the direction of the Subscriber in accordance with the provisions hereof.

9. If this Subscription Agreement is rejected in whole, any certified cheque(s) or bank draft(s) delivered by the Subscriber to Gracorp on account of the Aggregate Subscription Price for the Bonds subscribed for will be promptly returned to the Subscriber without interest. If this Subscription Agreement is accepted only in part, a cheque representing the amount by which the payment delivered by the Subscriber to Gracorp exceeds the subscription price of the number of Bonds sold to the Subscriber pursuant to a partial acceptance of this Subscription Agreement will be promptly delivered to the Subscriber without interest.

#### **General**

10. The Subscriber agrees that the representations, warranties and covenants of the Subscriber herein will be true and correct both as of the execution of this Subscription Agreement and as of the Closing Time and will survive the completion of the issuance of the Bonds. The representations, warranties and covenants of the Subscriber herein are made with the intent that they will be relied upon by Gracorp and its counsel in determining the eligibility of a purchaser of Bonds and the Subscriber agrees to indemnify and hold harmless Gracorp and its directors, trustees, affiliates, officers, partners, employees, agents and advisors from and against all losses, claims, costs, expenses and damages or liabilities whatsoever which any of them may suffer or incur which are caused or arise from a breach thereof. The Subscriber undertakes to immediately notify Gracorp via email at [info@gracorp.com](mailto:info@gracorp.com); or, via mail at 10840 – 27<sup>th</sup> Street S.E., Calgary, Alberta, T2Z 3R6, Attention: Chief Compliance Officer, of any change in any statement or other information relating to the Subscriber set forth herein which takes place prior to the Closing Time.

11. The Subscriber hereby irrevocably authorizes Gracorp: (a) to act as its representative at the Closing and to execute in its name and on its behalf all closing receipts and documents required; (b) to complete or correct any errors or omissions in any form or document, including this Subscription Agreement, provided by the Subscriber; (c) to receive on its behalf certificates representing the Bonds purchased under this Subscription Agreement; and (d) to approve any opinions, certificates or other documents addressed to the Subscriber.

12. The Subscriber acknowledges that this Subscription Agreement and the Exhibits hereto require the Subscriber to provide certain personal information to Gracorp. Such information is being collected by Gracorp for the purposes of completing the Offering, which includes, without limitation, determining the Subscriber's eligibility to purchase the Bonds under applicable securities legislation, preparing and registering certificates representing the Bonds to be issued to the Subscriber and completing filings required by any stock exchange or securities regulatory authority. The Subscriber's personal information may be disclosed by Gracorp to: (a) stock exchanges or securities regulatory authorities; (b) Gracorp's registrar and transfer agent; (c) the Canada Revenue Agency; and (d) any of the other parties involved in the Offering, including legal counsel, and may be included in record books in connection with the Offering. By executing this Subscription Agreement, the Subscriber is deemed to be consenting to the foregoing collection, use and disclosure of the Subscriber's personal information. The Subscriber also consents to the filing of copies or originals of any of the Subscriber's documents described in Section 5 hereof as may be required to be filed with any stock exchange or securities regulatory authority in connection with the transactions contemplated hereby.

13. Furthermore, the Subscriber is hereby notified that:

- (a) Gracorp may deliver to the applicable securities commission or regulatory authority certain personal information pertaining to the Subscriber, including such Subscriber's full name, residential address and telephone number, the number of Bonds purchased by the Subscriber and the total purchase price paid for such Bonds, the prospectus exemption relied on by Gracorp and the date of distribution of the Bonds;
- (b) such information is being collected indirectly by the applicable securities commission or regulatory authority under the authority granted to it in securities legislation;
- (c) such information is being collected for the purposes of the administration and enforcement of the securities legislation of each of the provinces and territories in which the Offering is being made; and
- (d) the Subscriber may contact the applicable public officials, in each of the applicable provinces and territories in which the Offering is being made, with respect to questions about the applicable securities commission or regulatory authority's indirect collection of such information at the applicable address and telephone number as set forth in **Exhibit 4** attached to this Subscription Agreement.

14. The Subscriber represents and warrants that the funds representing the Aggregate Subscription Price which will be advanced by the Subscriber to Gracorp hereunder will not represent proceeds of crime for the purposes of the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act* (Canada) (the "**PCMLTFA**") and the Subscriber acknowledges that Gracorp may in the future be required by law to disclose the Subscriber's name and other information relating to this Subscription Agreement and the Subscriber's subscription hereunder, on a confidential basis, pursuant to the PCMLTFA. To the best of its knowledge: (a) none of the subscription funds to be provided by the Subscriber (i) have been or will be derived from or related to any activity that is deemed criminal under the law of Canada, the United States of America, or any other jurisdiction, or (ii) are being tendered on behalf of a person or entity who has not been identified to the Subscriber; and (b) it shall promptly notify Gracorp if the Subscriber discovers that any of such representations ceases to be true, and will provide Gracorp with appropriate information in connection therewith.

15. The obligations of the parties hereunder are subject to acceptance of the terms of the Offering by all required regulatory approvals.

16. The Subscriber acknowledges and agrees that all costs incurred by the Subscriber (including any fees and disbursements of any special counsel retained by the Subscriber) relating to the sale of the Bonds to the Subscriber shall be borne by the Subscriber.

17. The contract arising out of this Subscription Agreement and all documents relating thereto shall be governed by and construed in accordance with the laws of the Province of Alberta and the federal laws of Canada applicable therein. The parties irrevocably attorn to the jurisdiction of the courts of the Province of Alberta. Time shall be of the essence hereof.

18. This Subscription Agreement represents the entire agreement of the parties hereto relating to the subject matter hereof and there are no representations, covenants or other agreements relating to the subject matter hereof except as stated or referred to herein.

19. The terms and provisions of this Subscription Agreement shall be binding upon and enure to the benefit of the Subscriber and Gracorp and their respective heirs, executors, administrators, successors and assigns; provided that, except for the assignment by a Subscriber who is acting as nominee or agent for the Disclosed Beneficial Principal and as otherwise herein provided, this Subscription Agreement shall not be assignable by any party without prior written consent of the other parties.

20. The Subscriber, on its own behalf and, if applicable, on behalf of others for whom it is contracting hereunder, agrees that this subscription is made for valuable consideration and may not be withdrawn, cancelled, terminated or revoked by the Subscriber, on its own behalf and, if applicable, on behalf of others for whom it is contracting hereunder.

21. Subject to Section 11, neither this Subscription Agreement nor any provision hereof shall be modified, changed, discharged or terminated except by an instrument in writing signed by the party against whom any waiver, change, discharge or termination is sought.

22. The Subscriber agrees to indemnify and hold harmless Gracorp and its directors, trustees, affiliates, officers, partners, employees, agents and advisors from and against any and all loss, liability, claim, damage and expense whatsoever (including, but not limited to, any and all fees and expenses whatsoever reasonably incurred in investigating, preparing or defending against any claim, lawsuit, administrative proceeding or investigation whether commenced or threatened) arising out of or based upon any representation or warranty of the Subscriber contained herein or in any document furnished by the Subscriber to Gracorp in connection herewith being untrue in any material respect or any breach or failure by the Subscriber to comply with any covenant or agreement made by the Subscriber herein or in any document furnished by the Subscriber to Gracorp in connection herewith.

23. Nothing herein shall constitute or be construed to constitute a partnership of any kind whatsoever between the Subscriber and Gracorp.

24. The invalidity, illegality or unenforceability of any provision of this Subscription Agreement shall not affect the validity, legality or enforceability of any other provision hereof.

25. The headings used in this Subscription Agreement have been inserted for convenience of reference only and shall not affect the meaning or interpretation of this Subscription Agreement or any provision hereof.

26. The covenants, representations and warranties contained herein shall survive the closing of the transactions contemplated hereby.

27. In this Subscription Agreement (including Exhibits), references to "\$" or money amounts are to Canadian dollars.

28. The parties hereto acknowledge and confirm that they have requested that this Subscription Agreement as well as all notices and other documents contemplated hereby be drawn up in the English language. **Les parties aux présentes reconnaissent et confirment qu'elles ont convenu que la présente convention de souscription ainsi que tous les avis et documents qui s'y rattachent soient rédigés dans la langue anglaise.**

29. Words importing the singular number shall include the plural and vice versa and words importing the masculine, feminine or neuter genders shall include the other genders.

**EXHIBIT 1 – RISK ACKNOWLEDGMENT**

**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 has evaluated or endorsed the merits of these securities or the disclosure in the offering memorandum.
- The person selling me these securities is not registered with a securities regulatory authority and has no duty to tell me whether this investment is suitable for me.
- I will not be able to sell these securities except in very limited circumstances. I may never be able to sell these securities.
- I could lose all the money I invest.

I am investing \$\_\_\_\_\_ in total; this includes any amount I am obliged to pay in future. Gracorp Capital Ltd. ("**Gracorp**") may retain agents in connection with the sale and distribution of these securities, in which case such agents may receive a commission on the gross proceeds raised in connection with the sale of these Securities.

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

\_\_\_\_\_  
Date

\_\_\_\_\_  
Signature of Subscriber

\_\_\_\_\_  
Print name of Subscriber

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

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

To do so, send a notice to Gracorp stating that you want to cancel your purchase. You must send the notice before midnight on the 2<sup>nd</sup> business day after you sign the agreement to purchase the securities. You can send the notice by email or deliver it in person to Gracorp at its business address. Keep a copy of the notice for your records.

Gracorp Capital Ltd.  
10840 – 27<sup>th</sup> Street S.E.  
Calgary, Alberta, T2Z 3R6  
Attention: Chief Compliance Officer  
Phone: (403) 570-5168  
Email: info@gracorp.com

**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.

**You will not receive advice**

You will not get professional advice about whether the investment is suitable for you. But you can still seek that advice from a registered adviser or investment dealer. In Alberta, Manitoba, Northwest Territories, Prince Edward Island, Quebec and Saskatchewan to qualify as an eligible investor, you may be required to obtain that advice.

**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.

<b>British Columbia Securities Commission – FOI Inquiries</b> P.O. Box 10142, Pacific Centre 701 West Georgia Street Vancouver, British Columbia V7Y 1L2 Telephone: (604) 899-6500 Toll free across Canada: 1-800-373-6393 Facsimile: (604) 899-6581	<b>Alberta Securities Commission – FOIP Coordinator</b> Suite 600, 250 – 5th Street SW Calgary, Alberta T2P 0R4 Telephone: (403) 297-6454 Toll free in Canada: 1-877-355-0585 Facsimile: (403) 297-2082
<b>Financial and Consumer Affairs Authority of Saskatchewan – Director</b> Suite 601, 1919 Saskatchewan Drive Regina, Saskatchewan S4P 4H2 Telephone: (306) 787-5842 Facsimile: (306) 787-5899	<b>Manitoba Securities Commission – Director</b> 500 – 400 St. Mary Avenue Winnipeg, Manitoba R3C 4K5 Telephone: (204) 945-2561 Toll free in Canada: 1-800-655-5244 Facsimile: (204) 945-0330
<b>Ontario Securities Commission – Inquiries Officer</b> 22 <sup>nd</sup> Floor, 20 Queen Street West Toronto, Ontario M5H 3S8 Telephone: (416) 593-3684 Toll free in Canada: 1-877-785-1555 Facsimile: (416) 593-8122	<b>Autorité des marchés financiers – Secrétaire générale</b> 800, Square Victoria, 22 <sup>nd</sup> Floor, C.P. 246, Tour de la Bourse Montréal, Québec H4Z 1G3 Telephone: (514) 395-0337 Toll free in Canada: 1-877-525-0337 Facsimile: (514) 873-6155 (for filing purposes only) Facsimile: (514) 864-6381 (for privacy requests only)
<b>Financial and Consumer Services Commission (New Brunswick) –</b> Chief Executive Officer and Privacy Officer 85 Charlotte Street, Suite 300 Saint John, New Brunswick E2L 2J2 Telephone: (506) 658-3060 Toll free in Canada: 1-866-933-2222 Facsimile: (506) 658-3059	<b>Government of Newfoundland and Labrador Financial Services Regulation Division – Superintendent of Securities</b> P.O. Box 8700, Confederation Building, 2 <sup>nd</sup> Floor, West Block Prince Philip Drive St. John's, Newfoundland and Labrador A1B 4J6 Telephone: (709) 729-4189 Facsimile: (709) 729-6187
<b>Nova Scotia Securities Commission – Executive Director</b> P.O. Box 458, Duke Tower, Suite 400, 5251 Duke Street Halifax, Nova Scotia B3J 2P8 Telephone: (902) 424-7768 Facsimile: (902) 424-4625	<b>Prince Edward Island Securities Office – Superintendent of Securities</b> P.O. Box 2000, Shaw Building, 4 <sup>th</sup> Floor, 95 Rochford Street Charlottetown, Prince Edward Island C1A 7N8 Telephone: (902) 368-4569 Facsimile: (902) 368-5283

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

**SCHEDULE 1 TO EXHIBIT 1*****Classification of Investors Under the Offering Memorandum Exemption***

**Instructions:** This schedule must be completed together with the Risk Acknowledgement Form and Schedule 2 by individuals purchasing securities under the exemption (the offering memorandum exemption) in subsection 2.9(2.1) of National Instrument 45-106 – *Prospectus Exemptions* in *Alberta, New Brunswick, Nova Scotia, Ontario, Québec and Saskatchewan*.

**How you qualify to buy securities under the offering memorandum exemption:**

Initial the statement under A or B containing the criteria that applies to you. (You may initial more than one statement.) If you initial a statement under B you are not required to complete A.

<b>A. You are an eligible investor because:</b>		<b>Your Initials</b>
Eligible Investor	Your net income before taxes was more than \$75,000 in each of the 2 most recent calendar years, and you expect it to be more than \$75,000 in this calendar year. (You can find your net income before taxes on your personal income tax return.)	
	Your net income before taxes combined with your spouse's was more than \$125,000 in each of the 2 most recent calendar years, and you expect your combined net income to be more than \$125,000 in this calendar year. (You can find your net income before taxes on your personal income tax return.)	
	Either alone or with your spouse, you have net assets worth more than \$400,000. (Your net assets are your total assets, including real estate, minus your total debt including any mortgage on your property.)	

<b>B. You are an eligible investor, as a person described in section 2.3 [Accredited investor] of NI 45-106 (and reproduced in this Subscription Agreement at Exhibit 1) or, as applicable in Ontario, subsection 7.3(3) of the Securities Act (Ontario), because:</b>		<b>Your Initials</b>
Accredited Investor	Your net income before taxes was more than \$200,000 in each of the 2 most recent calendar years, and you expect it to be more than \$200,000 in this calendar year. (You can find your net income before taxes on your personal income tax return.)	
	Your net income before taxes combined with your spouse's was more than \$300,000 in each of the 2 most recent calendar years, and you expect your combined net income before taxes to be more than \$300,000 in the current calendar year.	
	Either alone or with your spouse, you own more than \$1 million in cash and securities, after subtracting any debt related to the cash and securities.	
	Either alone or with your spouse, you have net assets worth more than \$5 million. (Your net assets are your total assets (including real estate) minus your total debt.)	

**SCHEDULE 2 TO EXHIBIT 1****Investment Limits for Investors Under the Offering Memorandum Exemption**

**Instructions:** This schedule must be completed together with the Risk Acknowledgement Form and Schedule 1 by individuals purchasing securities under the exemption (the offering memorandum exemption) in subsection 2.9(2.1) of National Instrument 45-106 *Prospectus Exemptions* (NI 45-106) in *Alberta, New Brunswick, Nova Scotia, Ontario, Québec and Saskatchewan*.

**Investment limits you are subject to when purchasing securities under the offering memorandum exemption:**

You may be subject to annual investment limits that apply to all securities acquired under the offering memorandum exemption in a 12 month period, depending on the criteria under which you qualify as identified in Schedule 1. Initial the statement that applies to you.

A. You are an eligible investor because:		Your Initials
Eligible Investor	As an eligible investor that is an individual, you cannot invest more than \$30,000 in all offering memorandum exemption investments made in the previous 12 months, unless you have received advice from a portfolio manager, investment dealer or exempt market dealer, as identified in section 2 of this schedule, that your investment is suitable.  Initial one of the following statements:	
	You confirm that, after taking into account your investment of \$_____ today in this issuer, you have not exceeded your investment limit of \$30,000 in all offering memorandum exemption investments made in the previous 12 months.	
	You confirm that you received advice from a portfolio manager, investment dealer or exempt market dealer, as identified in section 2 of this schedule that the following investment is suitable.  You confirm that, after taking into account your investment of \$_____ today in this issuer, you have not exceeded your investment limit in all offering memorandum exemption investments made in the previous 12 months of \$100,000.	

B. You are an eligible investor, as a person described in section 2.3 [Accredited investor] of NI 45-106 or, as applicable in Ontario, subsection 7.3(3) of the Securities Act (Ontario).		Your Initials
Accredited Investor	You acknowledge that, by qualifying as an eligible investor as a person described in section 2.3 [Accredited investor], you are not subject to investment limits.	

**Registrant Information.** [Instructions: this section must only be completed if an investor has received advice from a portfolio manager, investment dealer or exempt market dealer concerning his or her investment.]

Gracorp Capital Advisors Ltd. (Registered as an exempt market dealer.)

Curtis Pelletier (Registered as Chief Compliance Officer)

10840 - 27th Street S.E.

Calgary, Alberta, T2Z 3R6

(403) 570-5168

curtis.pelletier@gracorp.com

Suitability advice given to the Subscriber on the \_\_\_\_\_ day of \_\_\_\_\_, 20\_\_\_\_



**EXHIBIT 2 – ELIGIBLE INVESTOR CERTIFICATE**

**MUST BE COMPLETED BY INVESTORS RESIDING IN ALBERTA, MANITOBA, NORTHWEST TERRITORIES, NUNAVUT, PRINCE EDWARD ISLAND, QUEBEC OR SASKATCHEWAN SUBSCRIBING UNDER THE OFFERING MEMORANDUM EXEMPTION**

TO: **Gracorp Capital Ltd. ("Gracorp")**

In connection with the purchase under the Offering Memorandum by the undersigned purchaser (the "**Subscriber**") of that number of 6.25% secured, redeemable bonds of Gracorp ("**Bonds**") as set out in the attached subscription agreement (the "**Subscription Agreement**"), the Subscriber hereby represents, warrants, covenants and certifies to Gracorp that:

1. The Subscriber is purchasing the Bonds pursuant to the Offering Memorandum Exemption (as defined in the Subscription Agreement) and Subscriber is an "eligible investor" within the meaning of National Instrument 45-106 – *Prospectus and Registration Exemptions* entitled "Prospectus and Registration Exemptions" by virtue of satisfying the indicated criterion as set out in **Appendix A** to this **Exhibit 2**; and
2. The above representations, warranties and covenants will be true and correct both as of the execution of the Subscription Agreement and as of the Closing Time (as defined in the Subscription Agreement) and will survive the completion of the issuance of Bonds; and

The foregoing representations, warranties and covenants are made by the undersigned with the intent that they be relied upon in determining its suitability as a purchaser of Bonds and the undersigned agrees to indemnify Gracorp and its directors and officers against all losses, claims, costs, expenses and damages or liabilities which any of them may suffer or incur caused or arising from reliance thereon. The undersigned undertakes to immediately notify Gracorp at 10840 – 27<sup>th</sup> Street S.E., Calgary, Alberta, T2Z 3R6, Attention: Chief Compliance Officer, of any change in any statement or other information relating to the Subscriber set forth herein which takes place prior to the Closing Time.

Dated: \_\_\_\_\_, 2019

\_\_\_\_\_  
Print name of Subscriber

By: \_\_\_\_\_  
Signature

\_\_\_\_\_  
Title

**IMPORTANT: PLEASE CHECK OR INITIAL THE CATEGORY  
IN APPENDIX A ON THE NEXT PAGE THAT DESCRIBES YOU.**

**APPENDIX A TO EXHIBIT 2**

**(Please place a checkmark or initial below the appropriate category)**

- ☐ 1. A person (an "eligible investor") whose:
  - (i) net assets, alone or with a spouse, in the case of an individual, exceed \$400,000;
  - (ii) net income before taxes exceeded \$75,000 in each of the two most recent calendar years and who reasonably expects to exceed that income level in the current calendar year; or
  - (iii) net income before taxes, alone or with a spouse, in the case of an individual, exceeded \$125,000 in each of the two most recent calendar years and who reasonably expects to exceed that income level in the current calendar year.
- ☐ 2. A person of which a majority of the voting securities are beneficially owned by eligible investors or a majority of the directors are eligible investors.
- ☐ 3. A general partnership of which all of the partners are eligible investors.
- ☐ 4. A limited partnership of which the majority of the general partners are eligible investors.
- ☐ 5. A trust or estate in which all of the beneficiaries or a majority of the trustees are eligible investors.
- ☐ 6. A person that has obtained advice regarding the suitability of the investment and, if the person is resident in a jurisdiction of Canada, that advice has been obtained from an eligibility advisor
- ☐ 7. An accredited investor (as described in section 2.3 of National Instrument 45-106 – *Prospectus and Registration Exemptions* ("NI 45-106")) – **IF ITEM 7 IS APPLICABLE, THE INVESTOR MUST COMPLETE EXHIBIT 3, INCLUDING APPENDICES "A" AND "B" ATTACHED THERETO**

**EXHIBIT 3 – ACCREDITED INVESTOR REPRESENTATION LETTER****TO: Gracorp Capital Ltd. ("Gracorp")**

In connection with the purchase of 6.25% secured, redeemable bonds of Gracorp ("**Bonds**") by the undersigned subscriber or, if applicable, the principal on whose behalf the undersigned is purchasing as agent (the "**Subscriber**" for the purposes of this Representation Letter), the Subscriber hereby represents, warrants, covenants and certifies to Gracorp that:

- (a) the Subscriber is resident in a Province of Canada or is otherwise subject to applicable securities laws of a Province of Canada;
- (b) the Subscriber is purchasing the Bonds as principal for its own account or complies with the provisions of Section 4(e) of the Subscription Agreement;
- (c) the Subscriber is an "accredited investor" within the meaning of National Instrument 45-106 - *Prospectus Exemptions* ("**NI 45-106**") or Section 73.3 of the *Securities Act* (Ontario) by virtue of satisfying the indicated criterion as set out in **Appendix "A"** to this Representation Letter;
- (d) the Subscriber fully understands the meaning of the terms and conditions of the category of "accredited investor" applicable to it, has had an opportunity to discuss the meaning of the category of "accredited investor" applicable to it with a representative of Gracorp or a dealer or advisor duly registered under applicable securities laws, and confirms that it has reviewed and understands the definitions in **Appendix "A"** to this Representation Letter in respect of the category of "accredited investor" applicable to it and, in particular, if the Subscriber is an "accredited investor" by virtue of satisfying paragraph (j), (j.1), (k) or (l) of **Appendix "A"** to this Representation Letter, it has reviewed and understands the definitions of "financial assets", "related liabilities" and "net assets", as applicable, contained in NI 45-106;
- (e) the Subscriber was not created or used solely to purchase or hold securities as an accredited investor as described in paragraph (m) of the definition of "accredited investor" in NI 45-106 or Section 73.3 of the *Securities Act* (Ontario);
- (f) if the Subscriber is an "accredited investor" by virtue of satisfying paragraph (j), (k) or (l) on **Appendix "A"** to this Representation Letter, it acknowledges that it needs to complete **Appendix "B"** to this Representation Letter and upon execution of this Representation Letter and **Appendix "A"** and **Appendix "B"**, as applicable, by the Subscriber, this Representation Letter and **Appendix "A"** and **Appendix "B"**, as applicable, shall be incorporated into and form a part of this Subscription Agreement and Gracorp and its counsel shall be entitled to rely thereon.

Dated: \_\_\_\_\_, 2019

\_\_\_\_\_  
Print name of SubscriberBy: \_\_\_\_\_  
Signature\_\_\_\_\_  
Print name of Signatory (if different from Subscriber)\_\_\_\_\_  
Title

**IMPORTANT: PLEASE CHECK OR INITIAL THE CATEGORY OR CATEGORIES  
IN APPENDIX "A" ON THE NEXT PAGE THAT DESCRIBE YOU**

## APPENDIX "A" TO EXHIBIT 3

## National Instrument 45-106 and Securities Act (Ontario)

## Prospectus Exemptions

(Please initial below beside the appropriate category)

In connection with the purchase of Bonds by the Subscriber, the Subscriber (or the signatory on behalf of the Subscriber) certifies for the benefit of Gracorp that the Subscriber is an "accredited investor" within the meaning of National Instrument 45-106 – *Prospectus Exemptions* or Section 73.3 of the *Securities Act* (Ontario) in the category indicated below:

- \_\_\_\_\_ (j) an individual who, either alone or with a spouse, beneficially owns financial assets having an aggregate realizable value that, before taxes, but net of any related liabilities, exceeds \$1,000,000;

*[Note: Financial assets include cash and securities, but do not include a personal residence – see the definition of "financial assets" below. Financial assets are generally liquid or relatively easy to liquidate. You must subtract any liabilities related to your financial assets to calculate your net financial assets—see the definition of "related liabilities" below. In the case where financial assets are held in a trust or in another type of investment vehicle for the benefit of an individual there may be questions as to whether the individual beneficially owns the financial assets. The following factors are indicative of beneficial ownership of financial assets: (i) physical or constructive possession of evidence of ownership of the financial asset; (ii) entitlement to receipt of any income generated by the financial asset; (iii) risk of loss of the value of the financial asset; and (iv) the ability to dispose of the financial asset or otherwise deal with it as you see fit. For example, securities held in a self-directed RRSP, for your sole benefit, are beneficially owned by you. In general, financial assets in a spousal RRSP would also be included for the purposes of the financial assets test in this paragraph (j); however, financial assets held in a group RRSP under which you do not have the ability to acquire the financial assets and deal with them directly are not considered to be beneficially owned by you. If you meet the higher financial asset threshold set out in paragraph (j.1) as an individual exclusive of your spouse, then initial paragraph (j.1) instead of this paragraph (j). If relying on this paragraph (j), you must deliver a completed **Appendix "B"**.]*

Please provide the following information to the best of your knowledge based on the most recent information available to you:

Aggregate realizable value of financial \$ - \_\_\_\_\_  
assets before taxes

Related liabilities \$ - \_\_\_\_\_

- \_\_\_\_\_ (j.1) an individual who beneficially owns financial assets having an aggregate realizable value that, before taxes but net of any related liabilities, exceeds \$5,000,000;

*[Note: See the definition of "financial assets" below and the guidance in paragraph (j) above. The financial assets of your spouse (including financial assets in a spousal RRSP) cannot be included in the calculation of net financial assets under this paragraph (j.1). If relying on this paragraph (j.1), you are not required to complete **Appendix "B"**.]*

*Please provide the following information to the best of your knowledge based on the most recent information available to you:*

Aggregate realizable value of financial assets before taxes \$ - \_\_\_\_\_

Related liabilities \$ - \_\_\_\_\_

- \_\_\_\_\_ (k) an individual whose net income before taxes exceeded \$200,000 in each of the two most recent calendar years or whose net income before taxes combined with that of a spouse exceeded \$300,000 in each of the two most recent calendar years and who, in either case, reasonably expects to exceed that net income level in the current calendar year;

*[Note: If relying on this paragraph (k), you must deliver a completed **Appendix "B"**.]*

*Please provide the following information (based on your two most recent notices of assessment from the Canada Revenue Agency or equivalent):*

Net income before taxes	Last year	Range - > \$100,000 <input type="checkbox"/> State Amount: \$ _____ Range - \$100,000-200,000 <input type="checkbox"/> Range - \$201,000-300,000 <input type="checkbox"/> Range - \$301,000-400,000 <input type="checkbox"/> Range - Greater than \$401,000 <input type="checkbox"/>
	Year prior to last year	Range - > \$100,000 <input type="checkbox"/> State Amount: \$ _____ Range - \$100,000-200,000 <input type="checkbox"/> Range - \$201,000-300,000 <input type="checkbox"/> Range - \$301,000-400,000 <input type="checkbox"/> Range - Greater than \$401,000 <input type="checkbox"/>
<u>If applicable</u> , net income before taxes of your spouse	Last year	Range - > \$100,000 <input type="checkbox"/> State Amount: \$ _____ Range - \$100,000-300,000 <input type="checkbox"/> Range - \$301,000-400,000 <input type="checkbox"/> Range - \$401,000-500,000 <input type="checkbox"/> Range - Greater than \$501,000 + <input type="checkbox"/>
	Year prior to last year	Range - > \$100,000 <input type="checkbox"/> State Amount: \$ _____ Range - \$100,000-300,000 <input type="checkbox"/> Range - \$301,000-400,000 <input type="checkbox"/> Range - \$401,000-500,000 <input type="checkbox"/> Range - Greater than \$501,000 + <input type="checkbox"/>

- \_\_\_\_\_ (1) an individual who, either alone or with a spouse, has net assets of at least \$5,000,000;

*[Note: To calculate net assets, take the value of your total assets (which may include a personal residence) and subtract your total liabilities (which may include a mortgage). The value attributed to assets should reasonably reflect their estimated fair value. Income tax should be considered a liability if the obligation to pay it is outstanding at the time of the distribution of these securities. If relying on this paragraph (1), you must deliver a completed **Appendix "B"**.]*

*Please provide the following information by subtracting your total liabilities from your total assets (for example, the value your personal residence minus the related liabilities, such as a mortgage) and note that the value attributed to assets should reasonably reflect their estimated fair value and income tax should be considered a liability if the obligation to pay it is outstanding at the time of the distribution:*

Total Assets \$ - \_\_\_\_\_

Minus - Total Liabilities (including outstanding taxes) \$ - \_\_\_\_\_

Equals = Net Assets \$ - \_\_\_\_\_

*[Note: If individual accredited investors wish to purchase through wholly-owned holding companies or similar entities, such purchasing entities must qualify under either sections (t) or (w) below, which must be initialled and the applicable information indicated completed.]*

- \_\_\_\_\_ (t) a person in respect of which all of the owners of interests, direct, indirect or beneficial, except the voting securities required by law to be owned by directors, are persons that are accredited investors;

*[Note: If you initialed (t), then indicate the name and category of accredited investor (by reference to the applicable letter above) of each of the owners of interests (attach additional pages if more than three):*

Name	Category of Accredited Investor
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- \_\_\_\_\_ (w) a trust established by an accredited investor for the benefit of the accredited investor's family members of which a majority of the trustees are accredited investors and all of the beneficiaries are the accredited investor's spouse, a former spouse of the accredited investor or a parent, grandparent, brother, sister, child or grandchild of that accredited investor, of that accredited investor's spouse or of that accredited investor's former spouse.

*[Note: If you initialed (w), then indicate the name and category of accredited investor (by reference to the applicable letter above) of each of the following (attach additional pages if more than three trustees):*

	<b>Name</b>	<b>Category of Accredited Investor</b>
Individual who established trust:	_____	_____
Trustee	_____	_____
Trustee	_____	_____
Trustee	_____	_____

**Capitalized terms used in this Appendix "A" to the Representation Letter have the meanings ascribed thereto in National Instrument 45-106 – *Prospectus Exemptions***

## APPENDIX "B" TO EXHIBIT 3

## FORM 45-106F9

## FORM FOR INDIVIDUAL ACCREDITED INVESTORS

*To be completed by individuals investing under categories (j), (k) or (l) of the definition of "accredited investor" in National Instrument 45-106 – Prospectus Exemptions or Section 73.3 of the Securities Act (Ontario), which are reproduced in Appendix "A" to the Representation Letter as paragraphs (j), (k) or (l), as applicable. Note that individuals investing under category (j.1) of the definition of "accredited investor" in National Instrument 45-106 – Prospectus Exemptions or Section 73.3 of the Securities Act (Ontario) do not need to complete this form.*

<b>WARNING!</b>	
<b>This investment is risky. Don't invest unless you can afford to lose all the money you pay for this investment.</b>	
<b>SECTION 1 TO BE COMPLETED BY THE ISSUER OR SELLING SECURITY HOLDER</b>	
<b>1. About your investment</b>	
<b>Type of securities:</b> 6.25% secured, redeemable bonds	<b>Issuer:</b> Gracorp Capital Ltd. ("Gracorp")
<b>Purchased from:</b> Gracorp	
<b>SECTIONS 2 TO 4 TO BE COMPLETED BY THE SUBSCRIBER</b>	
<b>2. Risk acknowledgment</b>	
This investment is risky. Initial that you understand that:	<b>Your Initials</b>
<b>Risk of loss</b> – You could lose your entire investment of \$_____ [Instruction: Insert the total dollar amount of the investment.]	
<b>Liquidity risk</b> – You may not be able to sell your investment quickly – or at all.	
<b>Lack of information</b> – You may receive little or no information about your investment.	
<b>Lack of advice</b> – You will not receive advice from the salesperson about whether this investment is suitable for you unless the salesperson is registered. The salesperson is the person who meets with, or provides information to, you about making this investment. To check whether this salesperson is registered, go to <a href="http://www.aretheyregistered.ca">www.aretheyregistered.ca</a> .	
<b>3. Accredited investor status</b>	
You must meet <b>at least one</b> of the following criteria to be able to make this investment. Initial the statement that applies to you. (You may initial more than one statement.) The person identified in section 6 is responsible for ensuring that you meet the definition of accredited investor. That person, or the salesperson identified in section 5, can help you if you have questions about whether you meet these criteria.	<b>Your Initials</b>
• Your net income before taxes was more than \$200,000 in each of the 2 most recent calendar years, and you expect it to be more than \$200,000 in the current calendar year. (You can find your net income before taxes on your personal income tax return.)	
• Your net income before taxes combined with your spouse's was more than \$300,000 in each of the 2 most recent calendar years, and you expect your combined net income before taxes to be more than \$300,000 in the current calendar year.	
• Either alone or with your spouse, you own more than \$1 million in cash and securities, after subtracting any debt related to the cash and securities.	
• Either alone or with your spouse, you have net assets worth more than \$5 million. (Your net assets are your total assets (including real estate) minus your total debt.)	



<b>4. Your name and signature</b>	
By signing this form, you confirm that you have read this form and you understand the risks of making this investment as identified in this form.	
<b>First and last name (please print):</b>	
<b>Signature:</b>	<b>Date:</b>
<b>SECTION 5 TO BE COMPLETED BY THE SALESPERSON</b>	
<b>5. Salesperson information</b>	
<i>[Instruction: The salesperson is the person who meets with, or provides information to, the Subscriber with respect to making this investment. That could include a representative of the issuer or selling security holder, a registrant or a person who is exempt from the registration requirement.]</i>	
First and last name of salesperson (please print): Curtis Pelletier	
Telephone: 403-570-5168	Email: curtis.pelletier@gracorp.com
Name of firm (if registered): Gracorp Capital Advisors Ltd.	
<b>SECTION 6 TO BE COMPLETED BY THE ISSUER OR SELLING SECURITY HOLDER</b>	
<b>6. For more information about this investment</b>	
<p>Gracorp Capital Ltd.          10840 – 27<sup>th</sup> Avenue S.E.          Calgary, Alberta, T2Z 3R6          Attention: Chief Compliance Officer          Phone: (403) 570-5168          Email: info@gracorp.com</p> <p><b>For more information about prospectus exemptions, contact your local securities regulator. You can find contact information at <a href="http://www.securities-administrators.ca">www.securities-administrators.ca</a>.</b></p>	

**EXHIBIT 4**  
**NOTICE – COLLECTION AND USE OF PERSONAL INFORMATION**

Subscribers may contact the following public officials in each of the applicable provinces and territories, in which the Offering is being made, in respect of questions about the applicable securities commission or regulatory authority's indirect collection of personal information in that province and territory:

<b>British Columbia Securities Commission – FOI Inquiries</b> P.O. Box 10142, Pacific Centre 701 West Georgia Street Vancouver, British Columbia V7Y 1L2 Telephone: (604) 899-6500 Toll free across Canada: 1-800-373-6393 Facsimile: (604) 899-6581	<b>Alberta Securities Commission – FOIP Coordinator</b> Suite 600, 250 – 5th Street SW Calgary, Alberta T2P 0R4 Telephone: (403) 297-6454 Toll free in Canada: 1-877-355-0585 Facsimile: (403) 297-2082
<b>Financial and Consumer Affairs Authority of Saskatchewan – Director</b> Suite 601, 1919 Saskatchewan Drive Regina, Saskatchewan S4P 4H2 Telephone: (306) 787-5842 Facsimile: (306) 787-5899	<b>Manitoba Securities Commission – Director</b> 500 – 400 St. Mary Avenue Winnipeg, Manitoba R3C 4K5 Telephone: (204) 945-2561 Toll free in Manitoba 1-800-655-5244 Facsimile: (204) 945-0330
<b>Ontario Securities Commission – Inquiries Officer</b> 22nd Floor, 20 Queen Street West Toronto, Ontario M5H 3S8 Telephone: (416) 593-3684 Toll free in Canada: 1-877-785-1555 Facsimile: (416) 593-8122	<b>Autorité des marchés financiers – Secrétaire générale</b> 800, Square Victoria, 22nd Floor, C.P. 246, Tour de la Bourse Montréal, Québec H4Z 1G3 Telephone: (514) 395-0337 Toll free in Canada: 1-877-525-0337 Facsimile: (514) 873-6155 (For filing purposes only) Facsimile: (514) 864-6381 (For privacy requests only)
<b>Financial and Consumer Services Commission (New Brunswick) –</b> Chief Executive Officer and Privacy Officer 85 Charlotte Street, Suite 300 Saint John, New Brunswick E2L 2J2 Telephone: (506) 658-3060 Toll free in Canada: 1-866-933-2222 Facsimile: (506) 658-3059	<b>Government of Newfoundland and Labrador Financial Services Regulation Division – Superintendent of Securities</b> P.O. Box 8700, Confederation Building, 2nd Floor, West Block Prince Philip Drive St. John's, Newfoundland and Labrador A1B 4J6 Telephone: (709) 729-4189 Facsimile: (709) 729-6187
<b>Nova Scotia Securities Commission – Executive Director</b> P.O. Box 458, Duke Tower, Suite 400, 5251 Duke Street Halifax, Nova Scotia B3J 2P8 Telephone: (902) 424-7768 Facsimile: (902) 424-4625	<b>Prince Edward Island Securities Office – Superintendent of Securities</b> P.O. Box 2000, Shaw Building, 4th Floor, 95 Rochford Street Charlottetown, Prince Edward Island C1A 7N8 Telephone: (902) 368-4569 Facsimile: (902) 368-5283
<b>Government of Yukon Department of Community Services – Superintendent of Securities</b> Office of the Superintendent of Securities, 307 Black Street Whitehorse, Yukon Y1A 2N1 Telephone: 867-667-5466 Facsimile: (867)393-6251	<b>Government of the Northwest Territories Office of the Superintendent of Securities – Superintendent of Securities</b> P.O. Box 1320 Yellowknife, Northwest Territories X1A 2L9 Telephone: (867) 767-9305 Facsimile: (867) 873-0243
<b>Government of Nunavut Department of Justice – Superintendent of Securities</b> Legal Registries Division, P.O. Box 1000, Station 570, 1st Floor, Brown Building Iqaluit, Nunavut X0A 0H0 Telephone: (867) 975-6590 Facsimile: (867) 975-6594	

**SCHEDULE B**  
**FINANCIAL STATEMENTS OF ISSUER**

Financial statements of

**Gracorp Capital Ltd.**

December 31, 2018

# Gracorp Capital Ltd.

December 31, 2018

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## Independent Auditor's Report

To the Shareholders of  
Gracorp Capital Ltd.

### Opinion

We have audited the financial statements of Gracorp Capital Ltd. (the "Company"), which comprise the statements of financial position as at December 31, 2018 and 2017, and the statements of income and comprehensive income, changes in equity and cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

### Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

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

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

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

## **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

A handwritten signature in black ink that reads "Deloitte LLP". The signature is written in a cursive, flowing style.

Chartered Professional Accountants  
March 25, 2019

# Gracorp Capital Ltd.

## Statement of financial position as at December 31

	2018	2017
	\$	\$
<b>Assets</b>		
Current assets		
Cash	103,032	111,388
Accounts receivable	1,005	27,701
Prepaid expenses	3,333	3,333
	<b>107,370</b>	<b>142,422</b>
Non-current assets		
Investment at fair value - Connor, Clark & Lunn GVest Traditional Infrastructure Limited Partnership (Note 4)	9,172,923	8,753,646
Investment at fair value - Rhapsody UD Investors Limited Partnership (Note 5)	10	-
Loan receivable (Note 6 and 12)	26,011,298	28,851,163
Deferred taxes (Note 7)	1,052,098	909,868
	<b>36,236,329</b>	<b>38,514,677</b>
	<b>36,343,699</b>	<b>38,657,099</b>
<b>Liabilities</b>		
Current liabilities		
Accounts payable and accrued liabilities	42,469	91,318
Interest payable (Note 8)	308,429	379,915
	<b>350,898</b>	<b>471,233</b>
Non-current liabilities		
Notes payable (Note 8)	1,301,264	994,145
Debentures payable (Note 8)	4,548,880	4,571,280
Preferred shares (Note 9)	1,949,520	1,959,120
Bond payable (Note 10)	26,011,298	28,851,163
	<b>33,810,962</b>	<b>36,375,708</b>
	<b>34,161,860</b>	<b>36,846,941</b>
<b>Shareholders' equity</b>		
Share capital (Note 11)	1	1
Retained earnings	2,181,838	1,810,157
	<b>2,181,839</b>	<b>1,810,158</b>
	<b>36,343,699</b>	<b>38,657,099</b>

The accompanying notes to the financial statements are an integral part of this financial statement.



# Gracorp Capital Ltd.

## Statement of income and comprehensive income year ended December 31, 2018

	2018	2017
	\$	\$
Revenue		
Loan initiation and administration fee (Note 6)	175,000	250,000
Interest and investment income (Note 6)	1,973,577	2,098,411
	<b>2,148,577</b>	<b>2,348,411</b>
Expenses		
Interest (Notes 8 and 10)	2,575,753	2,683,356
Management fees (Note 12)	80,917	81,169
Professional fees	22,279	24,119
Insurance	4,000	5,667
Administration fees	4,723	4,571
Other	11,383	5,645
	<b>2,699,055</b>	<b>2,804,527</b>
Loss before change in fair value of investments	(550,478)	(456,116)
Change in fair value of investment in Connor, Clark & Lunn Traditional Infrastructure Limited Partnership (Note 4)	845,529	772,289
Income before income taxes	295,051	316,173
Income taxes		
Deferred tax recovery (Note 7)	142,230	182,026
<b>Net income and total comprehensive income</b>	<b>437,281</b>	<b>498,199</b>

The accompanying notes to the financial statements are an integral part of this financial statement.

# Gracorp Capital Ltd.

## Statement of changes in equity year ended December 31, 2018

	Share capital	Retained earnings	Total
	\$	\$	\$
<b>Balance at January 1, 2017</b>	1	1,396,958	1,396,959
Common share dividend (Note 11)	-	(85,000)	(85,000)
Net income and total comprehensive income	-	498,199	498,199
<b>Balance at December 31, 2017</b>	1	1,810,157	1,810,158
Common share dividend (Note 11)	-	(65,600)	(65,600)
Net income and total comprehensive income	-	437,281	437,281
<b>Balance at December 31, 2018</b>	1	2,181,838	2,181,839

The accompanying notes to the financial statements are an integral part of this financial statement.

# Gracorp Capital Ltd.

## Statement of cash flows year ended December 31, 2018

	2018	2017
	\$	\$
<b>Operating activities</b>		
Net income and comprehensive income	437,281	498,199
Items not affecting cash		
Change in fair value of investment in Connor, Clark & Lunn Traditional Infrastructure Limited Partnership	(845,529)	(772,289)
Deferred income tax recovery	(142,230)	(182,026)
Changes in working capital		
Accounts receivable	26,696	(789)
Prepaid expenses	-	1,667
Accounts payable and accrued liabilities	(48,849)	33,313
Interest payable	291,914	153,744
	(280,717)	(268,181)
<b>Financing activities</b>		
Issuance of note payable (Note 8)	307,119	433,553
Common share dividends paid (Note 11)	(65,600)	(85,000)
Interest paid on debentures (Note 8)	(363,400)	(235,000)
Retraction of preferred shares	(9,600)	-
Retraction of debentures	(22,400)	-
Issuance of bond payable (Note 10)	1,965,000	2,189,000
Repayment of bond payable (Note 10)	(4,804,865)	(2,904,837)
	(2,993,746)	(602,284)
<b>Investing activities</b>		
Investment in Rhapsody UD Investors Limited Partnership	(10)	-
Receipt of distributions from Connor Clark & Lunn GWest Traditional Infrastructure Limited Partnership	384,968	207,745
Redemption of units in Connor Clark & Lunn Gvest Traditional Infrastructure Limited Partnership	41,284	-
Loan receivable (Note 6)	(1,965,000)	(2,189,000)
Repayment of loan receivable (Note 6)	4,804,865	2,904,837
	3,266,107	923,582
Increase (decrease) in cash during the year	(8,356)	53,117
Cash, beginning of the year	111,388	58,271
<b>Cash, end of the year</b>	<b>103,032</b>	<b>111,388</b>

The accompanying notes to the financial statements are an integral part of this financial statement.

# Gracorp Capital Ltd.

## Notes to the financial statements

December 31, 2018

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### 1. Nature of operations

Gracorp Capital Ltd. (the "Company") is a private company, established under the laws of the province of Alberta on February 28, 2008, with its principal business office located at 10840 - 27 Street S.E. Calgary, Alberta, Canada, T2Z 3R6.

The business of the Company is to invest in private investment funds, which will invest in public-private partnerships, real estate development projects, power generation infrastructure (including wind, hydro and transmission assets), design-build-lease projects, and private businesses (or interests therein) located in Canada.

### 2. Significant accounting policies

#### a) *Statement of compliance*

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), effective as at December 31, 2018.

These financial statements were authorized for issuance by the Board of Directors of the Company on March 13, 2019.

#### b) *Basis of presentation*

These financial statements have been prepared on a going concern basis and on the historical cost basis, except for certain financial instruments that have been measured at fair value.

#### c) *Investments in subsidiaries and investee companies*

The Company records its investments in subsidiaries and investee companies at fair value through profit or loss ("FVTPL"). The consolidation method is not used to record its investments in subsidiaries and investee companies because the Company is an investment entity in accordance with IFRS 10.

#### d) *Financial instruments*

Financial assets and financial liabilities are initially recognized at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss ("FVTPL")) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognized immediately in profit or loss.

Financial assets are classified into the following categories: financial assets at FVTPL, financial assets through other comprehensive income and amortized cost. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Financial liabilities are classified as at FVTPL or amortized cost. An instrument is classified as FVTPL if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated as at FVTPL if the Company makes purchase and sale decisions based on their fair value in accordance with the Company's risk management strategy.

The Company is an investment company, investing primarily in projects that are sold in the short to medium-term. The investments are managed and their performance is evaluated on a fair value basis, in accordance with the Company's documented investment strategy and, as such, its investments are designated on initial recognition as at FVTPL in accordance with IFRS 9, Financial Instruments. Financial instruments at FVTPL are measured at fair value, and changes therein are recognized in profit or loss. The determination of fair value of these investments measured at FVTPL has been determined as described in further detail in Notes 4 and 5.

Cash, accounts receivable, and loan receivable are classified as financial assets carried at amortized cost. Accounts payable and accrued liabilities, interest payable, notes payable, debentures payable, preferred shares payable, and bond payable are classified as financial liabilities carried at amortized cost. Loans and receivables and other financial liabilities are recognized initially at fair value then measured at amortized cost using the effective interest method, less any impairment losses.

# Gracorp Capital Ltd.

## Notes to the financial statements

December 31, 2018

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### 2. Significant accounting policies (continued)

#### e) *Impairment*

For financial assets other than those classified as FVTPL, an assessment is made each period by management as to whether any objective evidence of impairment exists. Factors considered in determining such objective evidence include the length of time and the extent of unrealized loss, the financial condition and near-term prospects of the issuer, and the Company's ability and intent to hold the investment for a period of time sufficient to allow for any anticipated recovery.

For financial assets carried at amortized cost, if, in subsequent periods, the amount of the loss decreases and the decrease can be objectively related to an event occurring after the impairment was recognized, the loss is reversed in the statement of income and comprehensive income. The reversal is limited to the amortized amount of the financial asset had there been no impairment recognized in a prior period.

The Company reviews non-financial assets annually for impairment. If the net carrying amount of an asset, which is considered impaired, exceeds the estimated recoverable amount, the excess is charged to the statement of income and comprehensive income as an impairment loss.

Management also assesses annually whether there is any indication that an impairment loss recognized in a prior period may no longer exist or may have decreased. If such indication exists, the estimated recoverable amount is compared to the carrying amount and, if the recoverable amount exceeds the carrying amount, the prior impairment loss is reversed, to bring the carrying amount to a maximum of the carrying amount that would have been determined (net of amortization) had no impairment loss been recognized in a prior period.

#### f) *Provisions*

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

#### g) *Revenue recognition*

Investment revenue and guarantee revenue are recognized when the Company's right to receive payment has been established provided that it is probable that the economic benefits will flow to the Company and the amount of income can be measured reliably.

Interest revenue from a financial asset is recognized when it is probable that the economic benefits will flow to the Company and the amount of income can be measured reliably. Interest revenue is recognized by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

#### h) *Income tax*

Tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from income or loss as reported in the statement of income and comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

# Gracorp Capital Ltd.

## Notes to the financial statements

December 31, 2018

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### 2. Significant accounting policies (continued)

#### *h) Income tax (continued)*

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit, nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amounts of its assets and liabilities.

Current and deferred taxes are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity, respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

#### *i) Use of estimates and judgments*

In the application of the Company's accounting policies, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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 the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Information about significant areas of estimation, uncertainty and critical judgments in the applying accounting policies that have the most significant effect on the amounts recognized in the financial statements relate to the following:

#### *i. Critical judgments in applying accounting policies*

##### Valuation of deferred taxes

The Company applies judgment in determining the tax rate applicable for the year of operations and identifying temporary differences in respect to the Company. Deferred taxes related to temporary differences arising from the Company's operations are measured based on the tax rates that are expected to apply in the year when the asset is realized, or the liability is settled. Temporary differences are differences that are expected to reverse in the future and arise from differences between accounting and tax asset values.

# Gracorp Capital Ltd.

## Notes to the financial statements

December 31, 2018

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### 2. Significant accounting policies (continued)

#### i) *Use of estimates and judgments (continued)*

##### i. Critical judgments in applying accounting policies (continued)

###### Financial instruments

Management applies critical judgment in determining the designation of the financial instruments into the appropriate classifications. Judgment is also applied in determining whether the Company has significant influence or control over the investments.

The Company's accounting policies relating to financial instruments are described in Note 2(d). Critical judgments inherent in these policies related to applying the criteria set out in IFRS 9, Financial Instruments, to designate financial instruments into categories.

##### ii. Key sources of management uncertainty

###### Fair value of investments

Investments at FVTPL are initially recognized through the statement of income and comprehensive income as gains or losses on investments at cost. They are subsequently recognized at fair value on each reporting date with any difference recognized in profit or loss.

###### Accounting for acquisitions

Management must assess whether the acquisition of an investment should be accounted for as an asset purchase or business combination. This assessment impacts the treatment of transaction costs, the allocation of acquisition costs and whether or not goodwill is recognized.

#### j) *Change in significant accounting policies*

##### IFRS 9 – Financial instruments

On January 1, 2018, the Company adopted IFRS 9 "Financial instruments" as issued by the International Accounting Standards Board ("IASB"). IFRS 9 includes a new classification and measurement approach for financial assets and a forward-looking expected credit loss model. The adoption of IFRS 9 did not have a material impact on the Company's financial statements. The Company has revised the description of its accounting policy for financial instruments to reflect the new classification approach as follows:

On initial recognition, financial instruments are measured at fair value. Measurement in subsequent periods depends on the classification of the financial instrument as described below:

- i. Fair value through profit or loss: Financial instruments under this classification include investments in projects.
- ii. Amortized cost: Financial instruments under this classification include cash, accounts receivable, fixed income securities, deposits held in trust, due from related parties, promissory note receivable, notes receivable, accounts payable and accrued liabilities and due to GWest PE Ltd.

##### IFRS 15 – Revenue from contracts with customers

IFRS 15 introduces a principle to report information about the nature, timing and uncertainty of revenue from contracts with customers in a single, comprehensive revenue recognition model.

The Company has applied IFRS 15 for its reporting period commencing January 1, 2018; however, the adoption did not have any impact on the current period or any prior period and is not likely to affect future periods.

# Gracorp Capital Ltd.

## Notes to the financial statements

December 31, 2018

### 3. Accounting standards and amendments issued but not yet adopted

In January 2016, the IASB issued IFRS 16: Leases ("IFRS 16") which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ("lessee") and the supplier ("lessor") and replaces the previous leases standard, IAS 17: Leases and IFRIC 4: Determining whether an Arrangement contains a Lease. IFRS 16 is effective for annual reporting periods beginning on or after January 1, 2019. The standard is required to be adopted either retrospectively or using a modified retrospective approach. The Company anticipates it will adopt IFRS 16 using the modified retrospective approach. The actual impact of applying IFRS 16 on the financial statements in the period of initial application will depend on multiple factors and conditions, including but not limited to, the Company's borrowing rate at January 1, 2019, the composition of the Company's lease portfolio at that date, the Company's latest assessment of whether it will exercise any lease renewal options, and the extent to which the Company chooses to use practical expedients and recognition exemptions.

The Company continues to review all existing contracts in detail. The full extent of the impact has not yet been determined.

### 4. Investment in Connor, Clark & Lunn GWest Traditional Infrastructure Limited Partnership

The Company holds a 14.7% (December 31, 2017 - 14.6%) investment in Connor, Clark & Lunn GWest Traditional Infrastructure Limited Partnership ("CCL/GWest"), which has been accounted for as an investment at FVTPL. CCL/GWest's principal activity is to invest, directly or indirectly, in the equity and/or debt of entities that contract with governmental authorities for the provision of privately financed public infrastructure facilities in North America.

On June 10, 2009, the Company signed a subscription agreement to make an aggregate capital commitment to CCL/GWest of \$8,100,000.

In 2018, the Company redeemed 41,506 CCL/GWest units for proceeds of \$41,284.

As at December 31, 2018, the Company has invested \$8,060,715 (2017 - \$8,101,999) in exchange for 8,420,283 limited partnership units (2017 - 8,461,789).

Total units owned and cost of the investment in CCL/GWest are as follows:

			2018
	Units owned	Cost per unit	Cost total
		\$	\$
Security			
Limited partnership units	8,420,283	0.74-14.80	8,060,715
			2017
	Units owned	Cost per unit	Cost total
		\$	\$
Security			
Limited partnership units	8,461,789	0.74-14.80	8,101,999



# Gracorp Capital Ltd.

## Notes to the financial statements

December 31, 2018

### 4. Investment in Connor, Clark & Lunn GVest Traditional Infrastructure Limited Partnership (continued)

The change in fair value of CCL/GVest is shown below:

Reconciliation of investment at fair value in CCL/GVest	
Balance, December 31, 2017	8,753,646
Distribution	(384,968)
Unit redemption	(41,284)
Change in fair value	845,529
Balance, December 31, 2018	9,172,923

### 5. Investment in Rhapsody UD Investors Limited Partnership

The Company holds a 99.99% investment in Rhapsody UD Investors Limited Partnership ("Rhapsody"), which has been accounted for as an investment at FVTPL. Rhapsody's principal activity is a to provide financing for the development of a mixed-use rental apartment and retail building, comprised of 288 rental units and approximately 63,500 square feet of main floor commercial space located in Calgary, AB.

Total units owned and cost of the investment in Rhapsody are as follows:

			2018
	Units owned	Cost per unit	Cost total
		\$	\$
Security			
Limited partnership units	1	10	10

The change in fair value of Rhapsody UD is shown below:

	\$
Reconciliation of investment at fair value in Rhapsody UD	
Balance, December 31, 2017	-
Initial investment	10
Change in fair value	-
Balance, December 31, 2018	10

As per a loan agreement between the Company, Rhapsody UD, and Graham Capital Ltd., Rhapsody UD has agreed that any income (loss) in Rhapsody UD will be paid to (from) Graham Capital Ltd. until repayment of the loan. As a consequence of this agreement, the Company has also assigned its rights to the income (loss) in Rhapsody UD to Graham Capital Ltd. and the fair value of the investment in Rhapsody is the initial investment value.

### 6. Loan receivable

#### 2018 loan receivable

On June 30, 2018, the Company granted a loan receivable of \$1,965,000 to Graham Business Trust ("GBT"). The interest rate is 7% per annum, compounded quarterly with repayments that will commence on September 30, 2018. Blended quarterly payments of principal and interest of \$112,623 will be made over five years with the maturity date being June 30, 2025. The loan is secured by a guarantee provided by GBT. GBT may prepay all or a portion of the principal after June 30, 2023 without penalty.

# Gracorp Capital Ltd.

## Notes to the financial statements

December 31, 2018

### 6. Loan receivable (continued):

#### 2018 loan receivable (continued)

A one-time loan initiation fee of \$50,000 was received in 2018 and a \$25,000 fee will be received annually thereafter from GBT in consideration for facilitating the loan.

#### 2017 loan receivable

On June 30, 2017, the Company granted a loan receivable of \$2,189,000 to Graham Business Trust ("GBT"). The interest rate is 7% per annum, compounded quarterly with repayments that commenced on September 30, 2017. Blended quarterly payments of principal and interest of \$125,462 will be made over five years with the maturity date being June 30, 2024. The loan is secured by a guarantee provided by GBT. GBT may prepay all or a portion of the principal after June 30, 2022 without penalty.

A one-time loan initiation fee of \$150,000 was received in 2017 and a \$25,000 fee will be received annually thereafter from GBT in consideration for facilitating the loan.

#### 2016 loan receivable

On June 30, 2016, the Company granted a loan receivable of \$5,668,000 to GBT. The interest rate is 7% per annum, compounded quarterly with repayments that commenced on September 30, 2016. Blended quarterly payments of principal and interest of \$338,330 will be made over five years with the maturity date being June 30, 2023. The loan is secured by a guarantee provided by GBT. GBT may prepay all or a portion of the principal after June 30, 2021 without penalty.

A one-time loan initiation fee of \$150,000 was received in 2016 and a \$25,000 fee will be received annually thereafter from GBT in consideration for facilitating the loan.

#### 2015 loan receivable

On June 10, 2015, the Company granted a loan receivable of \$23,899,000 to GBT. The interest rate is 7% per annum, compounded quarterly with repayments that commenced on September 30, 2015. Blended quarterly payments of principal and interest of \$1,369,763 will be made over five years with the maturity date being June 30, 2022. The loan is secured by a guarantee provided by GBT. GBT may prepay all or a portion of the principal after June 30, 2020 without penalty.

A one-time loan initiation fee of \$250,000 was received in 2015 and a \$75,000 fee will be received annually thereafter from GBT in consideration for facilitating the loan.

### 7. Income taxes

	2018	2017
	\$	\$
Income tax recovery	142,230	182,026
The income tax recovery can be reconciled to the accounting profit as follows		
Income before income taxes of the Company	2,485,609	316,173
Income tax recovery calculated at 27% (2017 - 27%)	671,114	85,367
Non-taxable income	(878,800)	(262,499)
Taxable capital gains	-	-
Effective change in tax rate	-	-
Other temporary differences	65,456	(4,894)
Deferred tax recovery	(142,230)	(182,026)

# Gracorp Capital Ltd.

## Notes to the financial statements

December 31, 2018

### 7. Income taxes (continued)

The net deferred taxes consist of the following:

	2018	2017
	\$	\$
Cumulative eligible capital	3,573	3,842
Losses carried forward	1,048,525	906,026
	<b>1,052,098</b>	<b>909,868</b>

The Company incurred the following non-capital losses:

	Loss	Expiry date
	\$	
2011	585,000	2021
2012	-	2022
2013	-	2023
2014	429,000	2024
2015	532,000	2025
2016	1,504,000	2026
2017	305,000	2027
2018	528,000	2028

### 8. Debentures payable

	2018	2017
	\$	\$
Series B Senior Secured Debentures, bearing interest at 12% per annum payable each February 28, maturing the earlier of 10 years less a day on the date of issuance, and on the date of dissolution of CCL/GVest when a final distribution on the units occurs. The debentures are secured by the limited partnership units of CCL/GVest	<b>4,548,880</b>	4,571,280
Accrued interest on Series B Senior Secured Debentures	<b>308,429</b>	379,915
	<b>4,857,309</b>	4,951,195
Less: current portion	<b>(308,429)</b>	(379,915)
	<b>4,548,880</b>	<b>4,571,280</b>

In 2018, 3,200 debentures were retracted at a cost of \$22,400. \$6,762 of accrued interest relating to debentures was also repaid.

Of the total debentures payable, \$1,002,400 (2017 - \$1,002,400) is held by a related party through common ownership as at December 31, 2018.

Notes payable of \$1,301,264 (2017 - \$994,145) relate to unsecured promissory notes issued by the Company to pay interest on debentures, which are payable with respect to the period to December 31 of each year during which they are outstanding on or before February 28 following that year. The notes bear interest at a rate of bank prime plus 1% per annum and have a term not exceeding the remaining term of the debenture's maturity date.

# Gracorp Capital Ltd.

## Notes to the financial statements

December 31, 2018

### 8. Debentures payable (continued)

At December 31, 2018, \$125,682 (2017 - \$66,362) of interest has been accrued on the note payable and has been recorded as interest payable. Of the total notes payable, \$284,031 (2017 - \$215,275) is held by a related party through common ownership as at December 31, 2018. Of the total interest payable, \$351,508 (2017 - \$298,324) is owed to a related party through common ownership as at December 31, 2018.

In 2018, the Company paid \$363,400 (2017 - \$235,000) of interest payable to debenture holders.

### 9. Preferred shares

#### *Authorized*

The Company is authorized to issue 10,000,000 First Preferred Shares, CCL/GVest Series ("CCL/GVest Preferred Shares"). The CCL/GVest Preferred Shares are non-voting and entitle the holder to receive dividends in priority to holders of common shares. The holders of the CCL/GVest Preferred Shares are entitled to require the Company to retract any CCL/GVest Preferred Shares, at a price equal to the retraction price, together with all accrued and unpaid dividends up to the retraction date. The holders of the CCL/GVest Preferred Shares are entitled to receive a dividend equal to the distribution received by the Company on the units of CCL/GVest, net of any tax payable, outstanding interest payable on the debentures and a reasonable allocation of the Company's operating expenses.

	2018		2017	
	Issued and outstanding	Amount	Issued and outstanding	Amount
	#	\$	#	\$
CCL/GVest Preferred Shares	649,840	1,949,520	653,040	1,959,120

In 2018, 3,200 preferred shares were retracted at a cost of \$9,600. The premium on the retraction is recorded in the statement of income (loss).

Of the total preferred shares, \$429,600 (2017 - \$429,600) is held by a related party as at December 31, 2018.

### 10. Bond payable

On June 10, 2015, 7% senior secured subordinated bonds were issued for \$23,899,000. These bonds mature on June 30, 2022 and interest is payable quarterly, which commenced on September 30, 2015.

On June 30, 2016, 7% senior secured subordinated bonds were issued for \$5,668,000. These bonds mature on June 30, 2023 and interest is payable quarterly, which commenced on September 30, 2016.

On June 30, 2017, 7% senior secured subordinated bonds were issued for \$2,189,000. These bonds mature on June 30, 2024 and interest is payable quarterly, which commenced on September 30, 2017.

On June 30, 2018, 7% senior secured subordinated bonds were issued for \$1,965,000. These bonds mature on June 30, 2025 and interest is payable quarterly, which commenced on September 30, 2018.

The bonds are secured obligations, with a specific priority security on the GBT loan receivable, equal ranking with all other secured indebtedness of the issuer and are subordinated to the debentures payable with respect only to the fixed charge the debentures payable hold over the units in CCL/GVest. The bonds are guaranteed by GBT.

# Gracorp Capital Ltd.

## Notes to the financial statements

December 31, 2018

### 11. Share capital

#### *Authorized*

An unlimited number of common shares has been authorized, which entitle the holders to receive dividends subsequent to the GVest Preferred Shares and the CCL/GVest Preferred Shares. The common shares entitle the holder to receive notice of and attend, and vote at all meetings of shareholders of the Company, except meetings of holders of another class of shares.

#### *Issued*

	2018	2017
	\$	\$
278,800 common shares	1	1

In 2018, a \$65,600 (2017 - \$85,000) dividend was declared and paid to common shareholders.

### 12. Related party transactions

During the year, the Company had related party transactions as follows:

	2018	2017
	\$	\$
Management services paid to Graham Capital Partners LP	80,917	81,169

The Company entered into a management services agreement with Graham Capital Partners LP ("GCP"). GCP is considered a related party as it is the manager of CCL/GVest in which the Company has investments in and exerts significant influence. Under the terms of the management services agreement, GCP is entitled to receive a fee calculated and payable quarterly in advance of 0.25% of the face value of the outstanding debentures and carrying value of the preferred shares outstanding. As at December 31, 2018, there are \$Nil (2017 - \$20,292) outstanding related party balances with GCP.

The loan receivable of \$26,011,298 (2017 - \$28,851,163) was issued to GBT, an entity related by way of common management (see Note 6).

These transactions are in the normal course of operations and are measured at the exchange amount. The exchange amount is the amount of consideration established and agreed to by the related parties at the time of the transactions.

# Gracorp Capital Ltd.

## Notes to the financial statements

December 31, 2018

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### 13. Financial instruments and risk management

The Company is exposed to a variety of financial risks. The Company's exposure to financial risks is concentrated in its investment holdings. The Company's risk management practice includes oversight by the Company's Board of Directors. GCP manages the potential effects of financial risks on the Company's performance by regularly monitoring the Company's investments and market events.

#### *a) Risk management*

##### Market risk

Market risk is the risk that the fair value of financial instruments will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or factors affecting all similar financial instruments traded in a market.

As at December 31, 2018, 97% (2017 - 98%) of the Company's assets were held in privately held entities that are not traded in an active market.

##### Credit risk

Credit risk is the risk that a loss could arise from an investor or counterparty to a financial instrument not being able to meet its financial obligation. To-date, no significant risk of default has been identified for the Company's accounts receivable or loan receivable.

Credit risk also arises from cash held at banks. The maximum exposure to credit risk is the carrying value of financial instruments as disclosed in the statement of financial position. Cash balances are held on deposit with a Canadian financial institution.

##### Interest rate risk

The Company is subject to interest rate cash flow risk arising from fluctuations in interest rates on its cash held with a Canadian chartered bank. The Company's notes payable are also subject to interest rate cash flow risk arising from fluctuations in the floating bank prime rate.

The Company is also subject to interest rate price risk on the loan receivable, debentures payable and bond payable.

##### Currency risk

Currency risk is the risk that the value of investments denominated in foreign currencies will fluctuate due to changes in exchange rates. The Company's exposure to currency risk is not significant as there are currently no investments denominated in foreign currencies.

##### Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting its financial liabilities. Liquidity risk may result from an inability to sell an investment at close to its fair value. Given the private nature of the Company's investments, there can be no assurances that the Company will readily be able to sell the investments. Sufficient cash balances are maintained to cover the operating expenses of the Company.

##### Capital management

The Company's capital comprises of non-current liabilities and shareholders' equity. The Company's objective in managing capital is to maximize returns to debenture holders and shareholders while maintaining sufficient liquidity and resources to fund day-to-day operations and meet long-term growth objectives. There are no externally imposed restrictions on capital.

# Gracorp Capital Ltd.

## Notes to the financial statements

December 31, 2018

### 13. Financial instruments and risk management (continued)

#### b) Fair values

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 - fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 - fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 - fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The carrying values of cash, accounts receivable, accounts payable and accrued liabilities, and interest payable approximates their fair value due to the immediate or short-term maturity of these financial instruments.

There are no Level 1 or Level 2 financial instruments measured at fair value.

	2018		2017	
	Carrying value	Fair value	Carrying value	Fair value
	\$	\$	\$	\$
Loan receivable	26,011,298	26,106,782	28,851,163	28,851,163
Notes payable	1,301,264	1,301,264	994,145	994,145
Debentures payable	4,548,880	4,548,880	4,571,280	4,571,280
Preferred shares	1,949,520	2,989,264	1,959,120	2,814,602
Bond payable	26,011,298	26,106,782	28,851,163	28,851,163
Level: 3 fair value measurements				
Investment in CCL/Gvest	9,172,923	9,172,923	8,753,646	8,753,646
Investment in Rhapsody	10	10	-	-

The Company's policy is to recognize transfers out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer. As at December 31, 2018, all the Company's investments were Level 3 inputs. There were no transfers in or out of Level 3 fair value measurements during the year. See Notes 1, 4, and 5 for a reconciliation of the Level 3 (investment) fair value measurements.

Fair values have been determined by management and are subjective in nature and involve estimates and matters of judgment. The fair value measurements for investments are primarily driven by the underlying fair value of CCL/GVest as derived from their financial statements. A change to reasonably possible alternative estimates and assumptions used in the valuation of non-public investments may have a significant impact on the fair values calculated for these financial assets. A change in the valuation of the underlying investments may have an impact on the Company's financial statements and that impact is dependent on the method of accounting used for that investment and the funds within which that investment is held.