OFFERING MEMORANDUM

Date: May 15, 2018

The Issuer

Name:		**CLASSIC MORTGAGE CORPORATION**
Head Office:	Address:	100 – 586 Leon Avenue, Kelowna, British Columbia V1Y 6J6
	Phone:	250-869-4912
	E-mail:	admin@canterra.net
	Fax:	250-869-4913
Currently listed or quoted?		**No. These securities do not trade on any exchange or market.**
Reporting issuer?		No
SEDAR filer?		No

The Offering

Securities offered:	**10,000,000 Voting Common Shares with a par value of $1.00 each**
Price per Security:	**$1.00**
Minimum offering:	**There is no minimum. You may be the only purchaser. Funds available under the offering may not be sufficient to accomplish our proposed objectives.**
Maximum offering:	**$10,000,000**
Minimum subscription amount:	**$10,000 - if you are a first-time investor**
	$3,000 – if you are already an investor in our Shares
Payment terms:	Bank draft, lawyer's trust cheque or certified cheque payable to our lawyers, in trust, at the time of subscription.
Proposed closing date(s):	Closings will be completed at the beginning of each month, as required, in 2018 and early 2019. All subscriptions received are subject to rejection or acceptance in full or in part and we may terminate or extend the offering at any time without notice.
Tax consequences:	**There are important income tax consequences to these Securities. See item 6 "Income Tax Consequences and RRSP Eligibility".**
Selling agent?	No

Resale Restrictions

You will be restricted from selling your Securities for an indefinite period. 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".

No securities regulatory authority or regulator has assessed the merits of these securities or reviewed this offering memorandum. Any representation to the contrary is an offence. This is a risky investment. See item 8 "Risk Factors".

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Item 1. USE OF NET PROCEEDS

1.1 Net Proceeds

The net proceeds of this offering and the estimated funds which will be available to us from other sources are as follows:

	Description	Assuming minimum offering	Assuming maximum offering
A	Amount to be raised by this offering	0	$ 10,000,000
B	Selling commissions and fees [1]	0	0
C	Estimated offering costs (including legal, accounting, audit, etc.) [2]	$ 30,000	30,000
D	**Available funds: D = A - (B+C)**	**$ (30,000)**	**$ 9,970,000**
E	Additional sources of funding required (available) [3]	$ 8,260,200	$ 8,260,200
F	Working capital (or deficiency) [4]	0	0
G	**Net Proceeds: G = (D+E) - F**	**$ 8,230,200**	**$ 18,230,200**

1. Neither we nor our Manager (Can Terra Financial Inc.) has retained, nor do we or the Manager intend to retain, an agent for this offering. Should we, on the advice of our Manager, choose to retain an agent and pay commissions and fees to the agent, we estimate they would not exceed 1% of the amount sold by the agent.
2. Our Manager is responsible to pay all of these costs which are not expected to exceed $30,000.
3. Balance available under our credit facility as at the date of this Offering Memorandum. The balance available depends on the amount of qualifying mortgage loans we have made, therefore, the full amount under the credit facility may not be available. Furthermore, it is unlikely we will borrow the full amount available under the credit facility. See Item 2.2 "Our Business – Credit Facility".
4. We do not have and do not expect to have significant working capital (as all cash on hand is generally lent loaned to borrowers) or a working capital deficiency.

1.2 Use of Net Funds

We intend to use the funds available to us from this offering and from other sources, as estimated in Item 1.1 "Net Proceeds", as follows:

Description of Intended Use of Available Funds [1] (Listed in Order of Priority)	Assuming minimum offering	Assuming maximum offering
Investment in residential, commercial, construction, industrial and other mortgage loans on properties in British Columbia and Alberta, and in financial institutions' deposit instruments	$ 8,230,200	$ 18,230,200
TOTALS	**$ 8,230,200**	**$ 18,230,200**

1. Our revenue from operations has been, and we expect it to continue to be, sufficient to cover our operating costs.
2. Full or partial repayment of our credit facility from the net proceeds of this offering will allow us to borrow an equal or possibly larger (due to our ability to leverage funds borrowed) amount from the facility and invest it in mortgages. See Items 2.2 "Description of our Business – Credit Facility" and 4.2 "Share Capital – Long Term Debt".

1.3 Reallocation

We intend to spend the net proceeds as stated. We will reallocate funds only for sound business reasons.

Item 2. BUSINESS OF CLASSIC MORTGAGE CORPORATION

2.1 Structure

We were incorporated as a company under the *Company Act* (British Columbia) on December 31, 2003. On January 11, 2006, we became subject to the successor statute to the *Company Act*, the *Business Corporation Act* (British Columbia).

We registered to carry on business as an extra-provincial corporation in Alberta on August 28, 2007.

2.2 Our Business

Overview

We are a mortgage investment corporation (a "**MIC**") and a registered or licenced mortgage broker in British Columbia. Our business involves making loans secured by mortgages on residential real estate [and occasionally other (bare land, farm, development and commercial) real estate loans] in British Columbia and Alberta. We may carry on business in other provinces of Canada if warranted.

We earn most of our income from the interest paid pursuant to these mortgages along with renewal fees, pre-payment penalties, performance bonuses and other fees and charges related to such mortgages. We may also make other permitted investments in financial instruments, such as guaranteed investment certificates ("**GICs**") issued by recognized financial institutions.

The Office of the Registrar of Mortgage Brokers at the Financial Institutions Commission of British Columbia regulates the mortgage brokering and lending activities of MICs under the *Mortgage Brokers Act* (British Columbia). The Registrar and the *Mortgage Brokers Act* do not regulate the capital raising and investment marketing activities of MICs which are subject to securities legislation and regulation.

Our Manager

Our business is managed by Can Terra Financial Inc. ("**Manager**"), a mortgage broker registered in British Columbia and licenced in Alberta.

Mortgage investment opportunities are sourced exclusively through our Manager. Furthermore, our Manager is responsible for managing our mortgage portfolio. Accordingly, we do not have, nor do we expect to have, any employees.

In addition to those mortgage portfolio functions, our Manager organizes our business operations, provides ongoing supervisory management services and office administration, facilities and equipment, retains the necessary professional advice, makes regulatory filings, reviews all organizational documentation, and seeks sources of investment capital. Our Manager also reviews, evaluates and makes recommendations concerning our policies and procedures, administration, accounting, legal and other professional representation, Share (as defined in Item 2.2 Our Business – Taxation of MICs) offerings and investment criteria.

Pursuant to a Management Agreement dated December 31, 2003 and amended January 1, 2005, March 27, 2013 and April 14, 2016 with us, our Manager carries out all of our mortgage brokerage activities, including

- acting as liaison with and contact for all potential and approved mortgage borrowers,
- receiving loan applications from potential borrowers,
- negotiating the terms of the mortgage loans we make to potential borrowers and renewals of mortgage loans we make with approved borrowers,
- providing borrowers with a Mortgage Disclosure Statement, and
- otherwise reporting to and dealing with all potential and approved mortgage borrowers.

In consideration of providing such services, our Manager is paid a fee equal to 21% of our total annual profit (total revenue less all operating expenses, excluding management fees and taxes), plus all applicable taxes we are required to remit. This fee is subject to a minimum of 1.4% per year and a maximum of 2.0% per year of our mortgage receivables under administration by our Manager and is paid monthly from the payments received from our mortgage portfolio. In addition to receiving such fee, our Manager is entitled to charge a mortgage broker fee to borrowers in such amount as may be negotiated between our Manager and the borrower.

From its fee, our Manager pays all

- expenses related to this Offering Memorandum and the offering, including legal, accounting and filing fees and related expenses,
- costs of origination and administration of funding from, and reporting to, investors,
- expenses in respect of our day-to-day operations including, costs to acquire mortgages, appraisal fees, commissions and brokerage fees, auditor fees, legal fees, costs of courier services, photocopying, land title searches, credit bureau reports, printing, survey certificates, postage, telephone, advertising, promotions and insurance, accounting fees and rent for office space,
- costs of submitting financial reports and providing other information to Shareholders (as defined in Item 2.2 Our Business – Taxation of MICs) and regulators, and
- expenses of our directors and officers.

We are responsible for all costs associated with the bank line of credit, as well as all collection costs, including legal fees, disbursements, or any foreclosure and other court proceedings, in connection with our mortgage loans.

The Management Agreement may be terminated on 12 months notice of either party or by us in the event of our Manager's insolvency or bankruptcy. The Management Agreement may also be terminated by us if our Manager fails to perform its duties and obligations or breaches any covenants or agreements under the Management Agreement.

Whenever it is reasonable or necessary to do so, we will negotiate renewals, amendments to or replacement of the Management Agreement. However, the Management Agreement may only be amended with the approval of two-thirds of the votes cast by those Shareholders voting at a Shareholder meeting.

Our Manager is wholly-owned by Mercuri Holdings Ltd. ("**Holdings**"), a company controlled by our President, Giovanni (John) Mercuri and the sole shareholders of which are John Mercuri and his wife (and our Secretary-Treasurer), E. Franca Mercuri. Holdings also owns another mortgage brokerage company, Premiere Home Mortgage Ltd. (doing business as "Premiere Mortgage"), which manages another MIC, Premiere Canadian Mortgage Corp., the President of which is also John Mercuri and the Controller and Secretary of which is his wife, E. Franca Mercuri.

Taxation of MICs

Under Canada's *Income Tax Act* (the "**Tax Act**"), a MIC is not taxed on its annual net income and capital gains if all of such income and one-half of such capital gains are distributed to the MIC's shareholders within 90 days of the MIC's financial year. Therefore, to qualify as a MIC and receive this favourable tax treatment, we annually distribute all of our net income and one-half of our capital gains ("**taxable capital gains**") to holders of our Voting Common Shares ("**Shares**"). The annual distribution is paid, at the election of each holder of a Share ("**Shareholder**"), in cash or in further Shares within 90 days of our financial year end. **These distributions are taxed as interest income and not as dividends** as described in Item 6 "Income Tax Consequences and Registered Plan Eligibility".

We may borrow to the extent that our Manager is satisfied that such borrowing and additional investments will increase our overall profitability, subject to debt to equity ratios required by our lenders and prescribed in the Tax Act.

Investment Guidelines

Our activities are, and will continue to be, conducted in accordance with the following policies and guidelines which are intended to keep us in conformity with the requirements for us to qualify as a MIC under the Tax Act:

(a) We will invest only in first and second mortgage loans secured against residential, agricultural, commercial, construction, industrial, other real estate located in Canada. We may also invest in various permitted financial instruments, such as GICs.

(b) We will not invest in a mortgage loan unless such investment has been approved by our Manager or credit committee (the "**Credit Committee**") in accordance with our lending policies.

(c) At least 50% of the cost amount of our assets will be investments in residential real estate loans or other financial instruments with a Canadian financial institution.

(d) No more than 25% of the cost amount of all of our assets can consist of ownership of, or lease interests in, real estate unless acquired through foreclosure.

(e) When we invest in mortgage loans, we require an independent appraisal report. If, however, our loan and any other prior loans (and other financial charges) represent less than 60% of the most current assessed value published by the British Columbia Assessment Authority for the property, the Credit Committee or our Manager may elect to waive the requirement for an independent appraisal report.

(f) If the independent appraisal report estimates a value for the property that is dependent upon further action by the borrower, we will advance funds by progress payments as recommended by our Manager.

(g) An investment in a mortgage loan will generally not exceed 75% of the appraised value of the property or properties securing the mortgage, including prior mortgage loans.

(h) We will invest primarily in mortgage loans with terms of one to five years and will attempt to stagger the maturities of the mortgage loans in order to produce an orderly turnover of assets and liabilities.

(i) We will invest any funds not invested in mortgages in short term deposit instruments with Canadian financial institutions until required.

We believe that our operations comply with the requirements for MICs under the Tax Act.

In addition to the foregoing requirements under the Tax Act, we have the following policies regarding:

(a) <u>Related party loans</u>: We do not fund loans to parties related to us or the Manager.

(b) <u>The concentration of loans with any one borrower, or group of affiliated borrowers</u>: Under the terms of our credit facility (described below), we are not permitted to make more than two loans to any one borrower or group of affiliated borrowers.

(c) <u>Interest-only loans</u>: We can and do make interest only loans, however, the majority of mortgages funded by us are the more common principal and interest mortgages amortized over 30 years or less.

(d) <u>Renewals</u>: The majority of our mortgages are made with one year terms, including renewals on existing mortgages, although the Company can and does offer term lengths of up to three years. Accordingly, many of our mortgages are renewed on a regular basis provided the mortgages are in good standing and we continue to have good security for such loans.

Credit Committee

Our Board of Directors (John Mercuri and Morley McEwen) act as our Credit Committee. While our Manager may independently approve all residential mortgages up to $300,000, the Committee must approve all residential mortgages in excess of $300,000 and all non-residential mortgages of any amount.

Credit Facility

We fund our mortgage loans through equity financings, however, we may borrow additional funds to employ leverage (the ratio of the amount of our outstanding liabilities to the amount by which the cost of our assets exceeds our liabilities), as permitted by the Tax Act and other applicable legislation, to increase our returns on investment.

Our credit facility with The Toronto-Dominion Bank allows us to borrow up to the lesser of $10,000,000 and the sum of (i) 75% of the principal amount of first and second mortgages on single (owned occupied) and multi-family residences, (ii) 65% of the principal amount of interest only first and second mortgages on single (owned occupied) family residences, and (iii) 50% of the principal amount of first mortgages on commercial and industrial properties. Among other criteria, such mortgages cannot (i) exceed 75% of appraised property value (including prior mortgages), (ii) have a term exceeding three years, or (iii) have an amortization period exceeding 30 years and the property must be located in a region with a mortgage market acceptable to the Bank The facility provides that all mortgages on any single unit residence cannot exceed $500,000, $700,000 on any multi-unit residence and $1,000,000 on any commercial property. It further provides that no more than 10% of the credit facility can be allocated to mortgages on multi-unit residential properties, 10% to mortgages on commercial properties, 25% to second mortgages and 40% to interest only mortgages. Each borrower is limited to two mortgages. We are in compliance with the requirements of the credit facility.

We use the credit facility to meet mortgage lending commitments and thereby increase our returns by leverage. Under the Tax Act we may borrow up to five times the net book value of our assets if more than two-thirds of our investments are in residential mortgages and bank deposits. However, the Bank restricts our leveraging to 0.75 times the net book value of our assets. The Bank also requires us to maintain an interest coverage ratio of 300%, meaning that our earnings, before interest and taxes, must exceed three times our interest payable.

The line of credit was established on February 7, 2013 and re-established on April 11, 2017 by a demand operating facility agreement. It is secured by a general security agreement creating a first floating charge over all of our assets and a business insurance policy for $1,000,000. The credit line requires us to pay interest at an annual rate of prime plus 0.85% and is paid down whenever investment funds or revenues are available in excess of operating requirements. The line of credit is subject to regular reviews by the Bank and is repayable on demand.

Competition

There are over 150 MICs operating in British Columbia in addition to other private and commercial lenders. This results in significant competition in the mortgage lending business – not only among MICs and other private lenders but, to a lesser degree, with commercial banks.

This competition can have an adverse effect on the interest rates that we may charge to our borrowers and in the rate of return that we make for our Shareholders. We do not expect this competition to diminish in the future and may, in fact, increase.

2.3 Development of the Business

We intend to develop business by lending primarily in British Columbia and Alberta. We will consider, however, lending elsewhere in Canada as our capital permits, circumstances warrant and our Investment Guidelines are met.

Summary of Operations

The following table summarizes our operations for our last two financial years.

Description	**December 31, 2016**		**December 31, 2017**		
			Amount		**Change from 2016**
Gross Revenue	$2,808,966		$3,220,695		+14.7%
Total Expenses	$691,742		$805,898		+16.5%
Net Profit	$2,117,224		$2,414,797		+14.0%
Net Yield / Return on Investment	**7.41%**		**7.54%**		**+0.75%**
Total Mortgages Receivables*	$32,469,714		$40,278,319		+24.0%
Total Number of Mortgages	178		206		+15.7%
Total British Columbia Mortgages	126	71% of total	148	72% of total	+12.7%
Total Alberta Mortgages	52	29% of total	58	28% of total	+11.5%
Number of 1st Mortgages	154	87% of total	183	89% of total	+18.8%
Dollar Amount of 1st Mortgages	$30,844,325	95% of total	$38,099,373	95% of total	+23.5%
Average Loan To Value	49%		51%		+4.1%
Share Capital Invested	$29,606,860		$33,505,472		+13.2%
Number of Shareholders	110		122		+10.9%
Foreclosures in Progress	5		5		N/C

* Summary data is based on gross mortgage receivables. Net receivables (gross receivables less $200,000 loss reserves) are referenced in our annual financial statements for the last financial year. See Note 5 of the financial statements under Item 12 “Financial Statements”.

In terms of revenue, the key factors contributing to our higher profitability were:

- Interest income totalled $2.77 million in 2017, up from $2.44 million in 2016. This $330,000 increase reflected the growth in our mortgage portfolio over 2017, up by 24.0% from 2016.
- Lender fees increased by 23% in 2017, up from approximately $315,000 in 2016 to just over $388,000 in 2017. This includes lender fees generated on both new mortgages as well as on renewals of existing mortgages.
- Prepayment penalties and miscellaneous (collection) fees increased moderately in 2017, by roughly $13,000 for the year.

With respect to operating costs, a summary of our expenses is as follows:

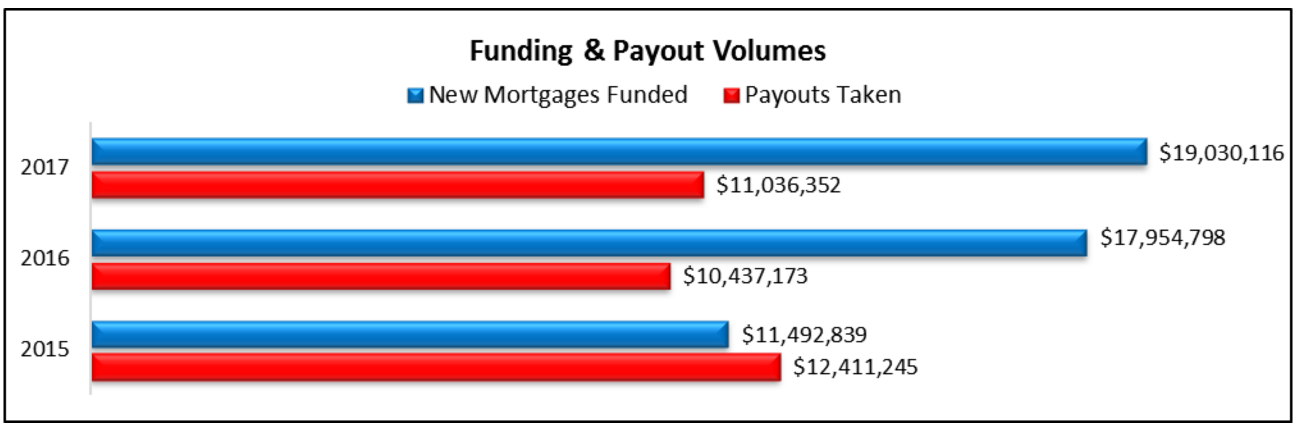
- Interest and banking costs increased from approximately $51,000 in 2016 to just over $87,000 in 2017. The increase in this expense reflected the expanded use of our bank line of credit, averaging $2.2 million per month in 2017.

- Write offs taken in 2017 were nominal at $35,800, slightly below our write offs in 2016 of $42,000. As our write offs were not significant in 2017, none of our accumulated $200,000 in loan loss reserves was used to offset any of these losses.
- Administration fees increased by approximately 14% in 2017, in step with our increased profitability and rate of return to Shareholders. If the previous management compensation formula was still in place (2% of total mortgage receivables) instead of the current percentage of profit model (at 21%), management fees would have been roughly $59,000 higher. This would have reduced the rate of return by approximately .20%, from the reported 7.54% to 7.35%.

Overall, total profitability for the 2017 financial year increased by roughly $300,000, an improvement of 14% over 2016 profit results.

Funding and Payout Volumes

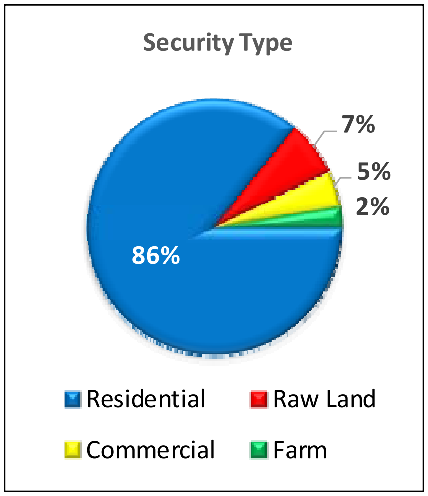
As shown in the chart below, our funding levels have increased in each of the past three years, with just over $19 million in new business funded in 2017 (90 mortgages). Our strong funding levels over this period can be attributed to more robust business conditions in British Columbia, improvement in the Alberta market, as well as our continued marketing activities in both provinces. Payout volumes have been fairly consistent over the past few years, with just over $11 million taken in 2017 (62 mortgages).



Based on our performance in 2017, we finished with a net gain of roughly $7.8 million in our total mortgage portfolio – an increase of 24% over 2016.

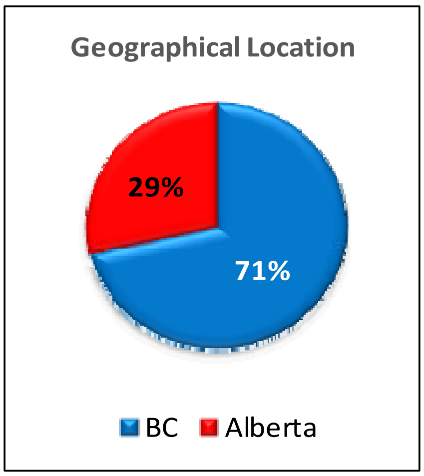
Portfolio Composition

The following is a detailed analysis of the various components of our mortgage portfolio and business as of and for the financial year ended December 31, 2017.



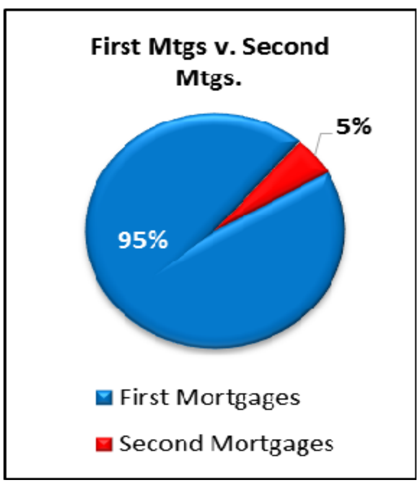
Residential lending remained our focus as these properties provide the strongest security for funds invested. During our 2017 financial year, we funded mortgages on the following types of properties:

- Residential – $34.6 million – 175 mortgages.
- Raw Land – $2.8 million – 18 mortgages.
- Commercial – $1.8 million – 8 mortgages.
- Farm – $1 million – 5 mortgages.



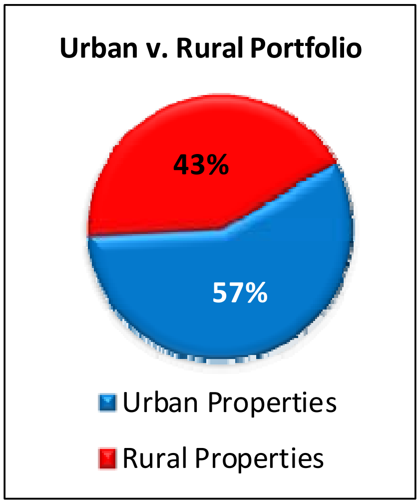
British Columbia remained our core lending market. Alberta lending continued to be more conservative due to softer market conditions in the province. During our 2017 financial year, we funded mortgages in those provinces as follows:

- British Columbia – $28.8 million – 148 mortgages.
- Alberta – $11.4 million – 58 mortgages.



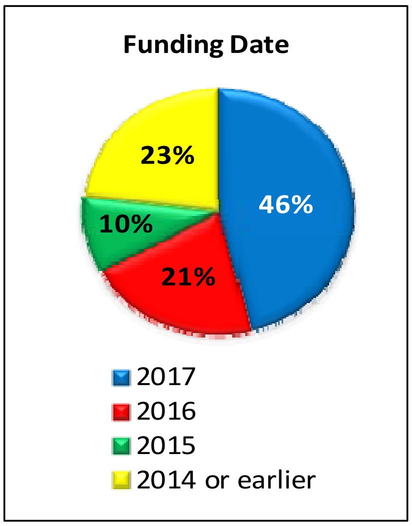
While we continue to focus on first mortgages as they are more secure, we will consider risk appropriate second mortgages as we can generate a higher yield on them. During our 2017 financial year, we funded the following types of mortgages:

- First Mortgages – $38 million – 183 mortgages.
- Second Mortgages – $2.2 million – 23 mortgages.



Urban properties are located in or within commuting distance to cities with populations of at least 15,000. Rural properties are located in smaller communities, as well as rural locations, including farm and acreage properties. During our 2017 financial year, the urban to rural breakdown of mortgages we funded was:

- Urban Properties – $23.2 million – 106 mortgages.
- Rural Properties – $17.0 million – 100 mortgages.



As illustrated, almost 50% of our current mortgage investments were funded during the 2017 financial year. As a result, our property valuations and inspections are more recent and should provide a more accurate indication of current condition of our security if a default occurs.

Approximately 97% of all mortgages were written on a one-year term. Our maximum term is two years, and most mortgages are amortized over 30 years or less.

Shorter, one year terms are more advantageous as we reprice renewals of existing mortgages to reflect increasing lending rates.

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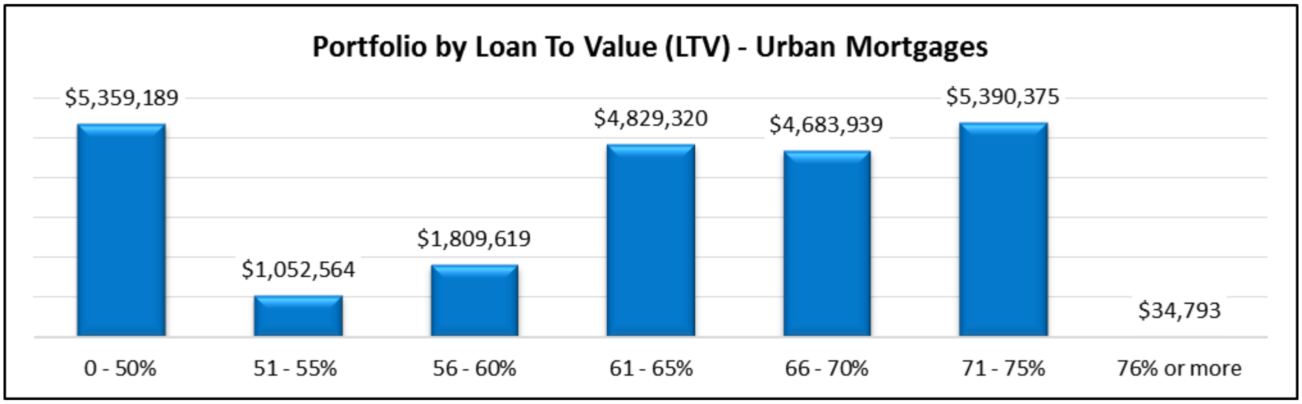
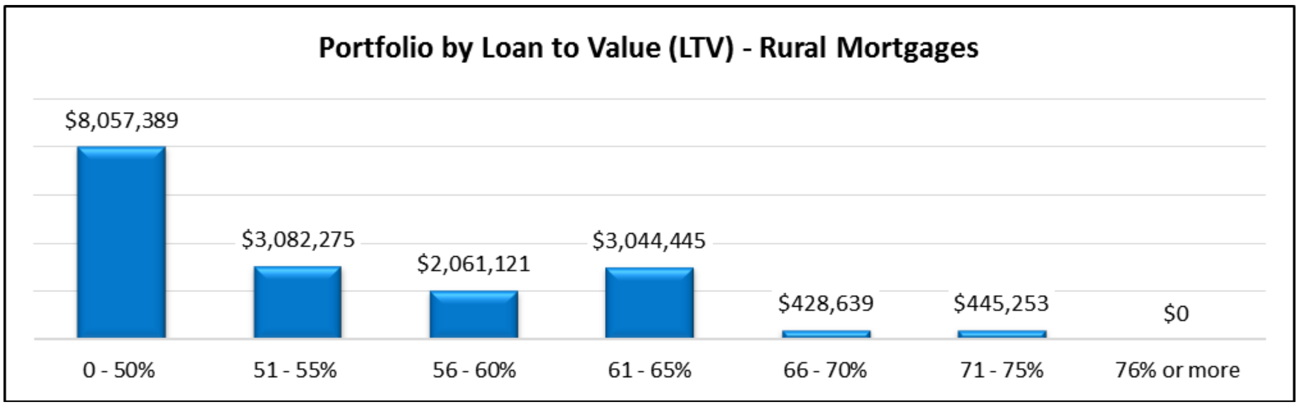


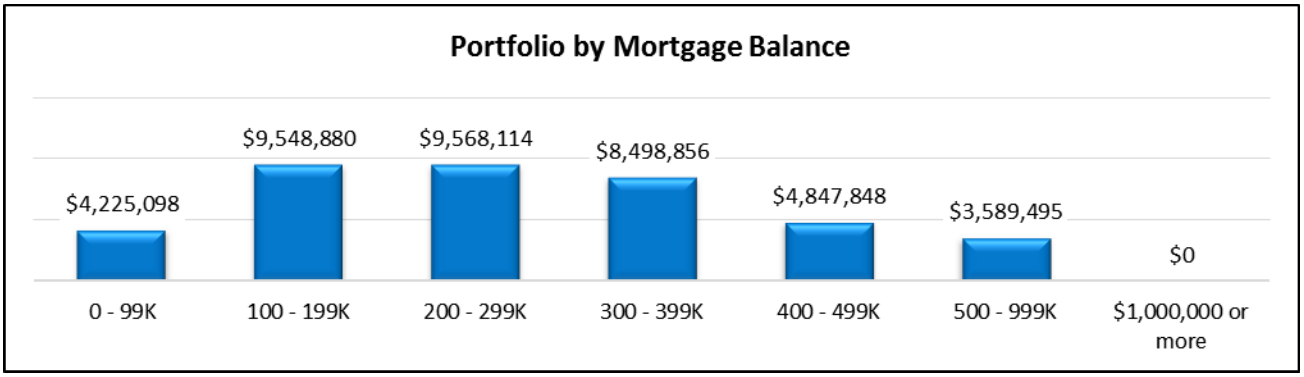


At the end of 2017, the overall loan to value ("LTV") ratio for our mortgage portfolio was 51%. As illustrated above, a further break down of our mortgage investments as at December 31, 2017, based on our most recent property appraisals or market evaluations, was as follows:

- Urban Mortgages –76% of our portfolio was invested at 70% or less (2018 – 75%).
- Rural Mortgages –77% of our portfolio was invested at 60% or less (2016 – 70%).

As at December 31, 2017, we held a small number of mortgages where the loan to value exceeded our usual maximums of 75% on urban properties and 65% on small town and rural properties. These mortgages fell into one of the two following categories:

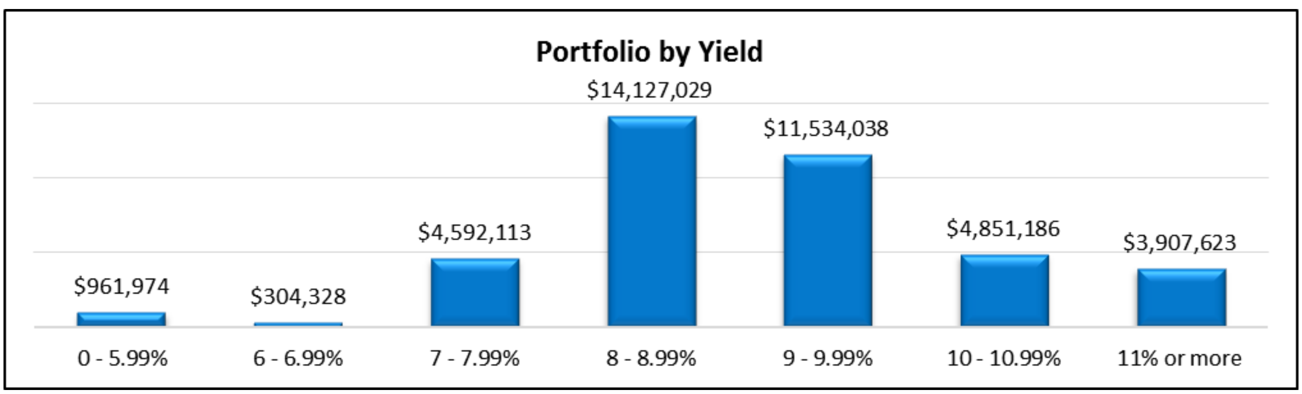
- The first group consisted of mortgages under foreclosure where the LTV had increased due to updated "forced sale" appraisals usually resulting in a lower market value and a higher loan to value. As of December 31, 2017, we had five mortgages falling into this category – four rural mortgages totalling approximately $450,000 and one urban mortgage for approximately $35,000.
- The second group consisted of mortgage renewals, where we capitalized renewal fees upon maturity, rather than requiring the borrower to pay these costs up front (in cash), and thereby increased the LTV beyond our usual maximums of 75% and 65%. This practice improves our ability to retain mortgages at maturity, and allows us to generate additional income from lender bonuses on renewals. In 2017, we generated approximately $190,000 from lender fees on renewals, an increase of 61% over 2016 results of $118,000.



As at our December 31, 2017 year-end:

- The average mortgage balance was $195,500.
- 95% of our total loan capital was in first mortgage investments.
- 189 mortgages (92% of total) of our 206 mortgages had a balance under $400,000, with only 17 mortgages in excess of this amount.
- The largest mortgage held was just under $780,000.

By having most of our funds invested in relatively small mortgages, we reduce the risk of any disproportionately larger mortgages going into default, which can have a greater negative impact on overall profitability and rates of return to Shareholders than smaller mortgages going into default.



As at December 31, 2017:

- 85% of our portfolio was generating a yield of 8% or better.
- 50% was generating a yield of 9% or better.
- Our second mortgage portfolio was generating an average yield of 12.45%.

Mortgages yielding below 8% represent very low risk and LTV first mortgage investments. These mortgages are approved on a case by case basis, and are reviewed at maturity (if renewing) for repricing to current yield expectations of prime + 4.0% or better (presently 7.45%)

The mortgages in the 0 – 5.99% category represent mortgages in foreclosure as at December 31, 2017 where we stopped accruing interest on the mortgages. Once the foreclosure is resolved, usually through a property sale, we will collect all interest owing to us on completion of such sale, provided we are not in a loss position.

Over the course of 2016, we maintained a minimum yield of roughly 7% (prime + 4%) on all new business. Overall, we generated an average yield of 9.31% on all new mortgages funded the 2016 financial year.

The marketplace continues to be very competitive relative to the supply of private funds available, low market rates, as well as the number of private lenders vying for better quality mortgage business. As a result of these on-going market conditions, the need to provide competitive pricing remains, resulting in the lower yields we have been experiencing over the past few years. That being said, we continually strive to ensure we secure the maximum return possible, without taking on undue risk.

Delinquencies and Foreclosures

Over the past two years, our delinquency and foreclosure levels have been quite stable. We have averaged four or five foreclosures at any given time, and our write offs have not been substantial, with roughly $42,000 in losses in 2016 and just under $36,000 in 2017.

Thus far in 2018, we have incurred losses of approximately $108,000 as we sold two problematic foreclosure properties – a farm property in south eastern Alberta and a raw land parcel in the Kootenays. While these losses will have a short-term impact on our rate of return for the first quarter of 2018, we do not anticipate any further losses of significance for the balance of the 2018 financial year. In addition, we have $200,000 set aside as loan loss reserves, which can be used to address any larger or unusual write offs we may incur.

Nevertheless, there are always unknowns when dealing with mortgages in default, whether they are in the early stages of collection, or have escalated to legal action. We will continue to address all impaired mortgages in the most appropriate manner possible and in cases where legal action is necessary, we will work to bring these properties to market as soon as possible to preserve equity and minimize our exposure to losses. Should actual losses be lower than expected, we will add to our reserves at the end of the 2018 financial year so that we may be best positioned to continue to address future losses without a significant impact on profitability. Setting appropriate reserves will be determined at that time, with the consultation of both our Board of Directors and our auditor.

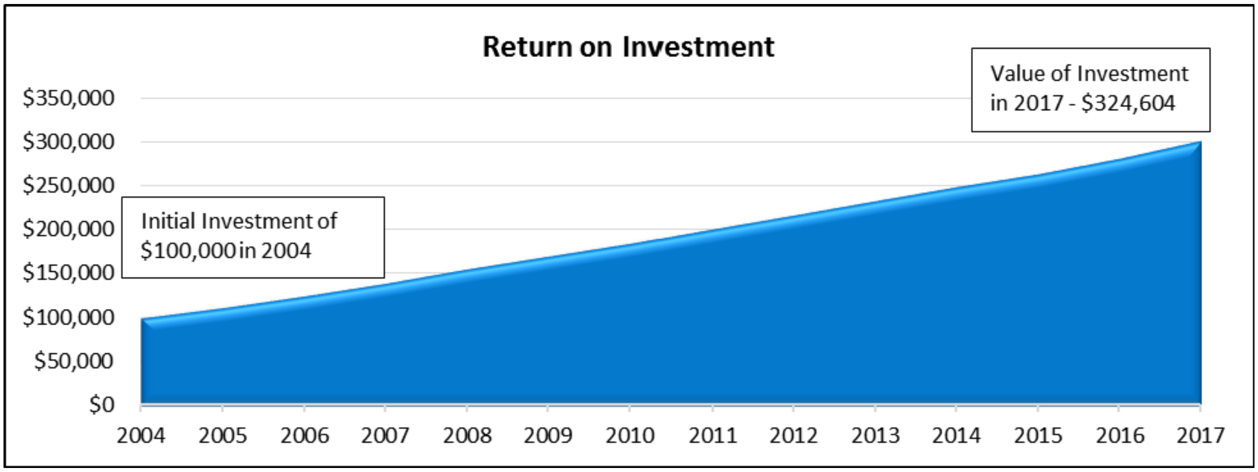
Shareholder Capital

As of December 31, 2017, we had 122 Shareholders (a net increase of 12) with approximately $33.5 million invested in our Shares. Over the past year, we had a net increase of $3.9 million in share capital, including $1.65 million in reinvested dividends from 2016. For the 2017 financial year, $1.79 million in dividends were reinvested (75% of total).

Our ability to accept additional investments going forward will continue to be dependent on our on-going business volumes and cash-flow requirements.

Since inception, we have provided a positive, consistent return year over year. **The rates of return are averages for all of our Shareholders and may not reflect the return received by any one investor. There is no guarantee that such rates of return will continue or that investors will receive similar returns in future years.** The factors which affect the rate of return are described in Item 8 "Risk Factors".

The following graph illustrates the performance of a $100,000 investment in our Shares from 2004 to the end of 2017, assuming reinvestment of dividends into our Shares. Note that it does not take into consideration any potential tax obligations of any kind.



Bank Line of Credit

Over the course of 2017, we utilized our bank line of credit to a much greater degree, with average borrowings of $2.2 million per month (2016 – $1.3 million per month). **This use of leverage improved our rate of return by approximately 0.28%. If we had opted to take in additional share capital to address our lending requirements rather than using leverage as we did, our net return would have been closer to 7.26% instead of our actual return of 7.54% for 2017.**

The benefits of having access to lower cost, borrowed funds on an as needed basis far outweighs the costs to maintain our bank credit line as it not only improves our profitability and subsequent rate of return to our Shareholders, but also provides much more flexibility with our cash-flow management and on-going liquidity. Business volumes and the availability of additional investment from Shareholders will vary on an on-going basis, sometimes quite substantially, so this flexibility is vital to our business activities.

The use of leverage in this manner will continue to be a key business plan component for Classic going forward, and if volumes permit, we will look to increase our borrowing capacity in a responsible and prudent manner.

Interest Rates

For several years, the Bank of Canada (overnight) prime rate has been set at record lows, initially in an effort to stimulate the Canadian economy after the financial crisis of 2008-09 and later in 2015 to offset the negative consequences of slumping oil prices on the nation's economy. However, over the course of 2017, the Canadian economy preformed quite well, reporting overall economic growth of 3.0% at year end. These positive results were driven by several factors, including improving employment statistics, greater business investment and a strong housing market.

In light of these economic developments, for the first time since 2010, the Bank of Canada increased their overnight interest rate in July 2017 by 0.25%. There were two subsequent increases in September 2017 and January 2018, pushing up the overnight rate to the present 1.25%. In response to this, banks and other conventional lenders increased their prime lending rate from 2.70% (in July 2017) to 3.45% at present. Following this trend, there has also been some upward movement in longer term, fixed rate mortgages with banks and conventional lenders.

Private mortgage lenders have also been reacting to the changing interest rates, albeit it in an inconsistent manner. Some private lenders have increased pricing while others have not yet reacted to this shift in costs. We have incorporated incremental increases in our lending rates of 0.25% - 0.50% on most new mortgage business as well as with renewals.

Along with the upward movement with interest rates, we are also experiencing a shift in the demand for private mortgage funds. Unlike the past several years, where the supply of mortgage funds exceeded demand and resulted in lower yields on private mortgage investments, this trend is starting to turn. Should greater demand for private mortgage funds prevail over the course of 2018, our increased pricing should not impact our funding volumes or our potential for quality portfolio growth. We continue to monitor these developments in the marketplace and will adjust our business plan as needed to ensure we remain as competitive as possible, while still looking to increase our yields on mortgage investments.

Government Action

Both the federal and British Columbia governments implemented measures in 2016 to address concerns about the housing market through more stringent mortgage lending regulations and additional taxation. The trend continued into 2017 with the following additional measures:

1. Government of Canada

In 2016, the federal government imposed tighter qualification rules for mortgages insured by Canada Mortgage and Housing (the "**CMHC**") and other mortgage insurers in Canada. The objective of these changes was to slow the rapidly accelerating real estate markets in certain parts of the country, specifically Vancouver and Toronto.

While the changes to CMHC insured mortgages mostly focused on mortgage lending where borrowers were seeking financing in excess of 80% LTV for purchase financing, they also eliminated the ability for borrowers to obtain an insured mortgage for other purposes, such as debt consolidation or the purchase of rental property.

In late 2017, the federal government announced further regulatory changes that would apply to conventional (non-insured) mortgages provided by all banks and federally regulated lending institutions, which went into effect on January 1, 2018. These new rules go beyond the changes to CMHC insured lending (applied in 2016), and now makes qualifying for a bank mortgage of any type more challenging for consumers.

The most significant of these new regulations included the requirement that borrowers qualify under new "stress test" parameters. Rather than qualifying for a mortgage based on the contractual rate being offered, borrowers now have to qualify using the Bank of Canada's five-year benchmark rate or the contract rate of the mortgage plus 2%, whichever is greater. This additional requirement reduces a consumer's borrowing potential by roughly 20% as compared to the previous model. A similar interest rate stress test was implemented with CMHC insured mortgages in 2016.

2. Province of British Columbia

Earlier this year, in their first provincial budget, the British Columbia government proposed several controversial measures to counter high real estate values, curtail speculation and attempt to increase the supply of affordable housing in the province.

The first proposal is to increase the Foreign Buyer Tax on residential real estate purchases (first instituted in August 2016) from 15% to 20% of the purchase price, as well as expanding the geographical area where this tax would apply. Aside from greater Vancouver, this tax will include the southern half of Vancouver Island, Fraser Valley and central Okanagan regions.

The second proposal is the implementation of a new Speculation Tax on properties owned by parties who do not pay income taxes in British Columbia, whether they are foreign owners or residents of other parts of Canada. This will include vacant properties, vacation homes, and some rental properties. If enacted as originally presented, this additional property tax will be assessed annually, at a rate equal to 0.5% of the property's assessed value in 2018 and increase to 2% of the assessment value thereafter.

In addition, initiatives to increase property transfer tax rates and school tax rates on properties valued at $3 million or higher were also proposed.

There has been considerable objection to these tax proposals, citing concerns over the negative impact on local real estate values and development, overall economic implications, and the potential erosion to municipal property tax revenues. In response, the British Columbia government has expressed some willingness to revisit these proposals to address some of the concerns expressed thus far.

3. Summary

While the new lending regulations do not apply to private lenders, such as us, continued government intervention will influence economic and real estate market conditions from both a short and long term perspective.

With more stringent lending guidelines in place, fewer consumers will qualify for bank mortgages, which may prompt them to pursue private lenders for funding. While we have not seen a significant increase in new business so far in 2018, we expect that to be more likely as the year progresses. If this becomes the case and we do experience higher borrowing volumes this year, the ability to increase our yield on new mortgage business should become more viable.

While the potential for more business and a higher yield are positives, any reduction in available lending capital will eventually dampen real estate markets to some degree, although actual results will vary from region to region. It will benefit efforts to address escalating values and affordability issues in the Vancouver market, however regions where values and activity are more balanced or have already slowed, such as small towns or rural areas, may be more adversely affected by any reduction in available mortgage funding in the marketplace.

In response to these activities, we have become more selective in our lending at higher loan to value ratios and have increased the interest rates we charge, if possible. We will continue to monitor these trends, and if warranted, adjust our lending activities on a region by region basis to address any potential market changes that may become evident.

2.4 Long Term Objectives

Our long term objectives are to:

(a) provide income to our Shareholders that will generate a return to them which is superior to investments in term deposits, GICs and money market funds, and

(b) continue the development of our business and growth of our earnings and assets and operations in accordance with prudent commercial lending practices while minimizing risk to our capital base.

There cannot be any assurance, however, that we will meet either objective. See Item 8 "Risk Factors".

2.5 Short Term Objectives and How We Intend to Achieve Them

Our objectives for the next 12 months are substantially similar to our long term objectives set out in Item 2.4 "Long Term Objectives". We intend to meet those objectives for the next 12 months as set out in the following table.

What we must do and how we will do it	Target completion date or, if not known, number of months to complete	Our cost to complete *	
		Minimum Offering	Maximum Offering
Carry out the offering as described in this Offering Memorandum.	Next 12 months	0	0
Invest the capital raised in this offering by making loans in accordance with our ongoing lending program and business plan and as market circumstances permit.	Next 12 months	0	$ 10,000,000

* The costs of this offering are to be paid by our Manager from its management fee. See Item 2.2 "Our Business – Our Manager".

2.6 Insufficient Proceeds

There is no assurance that any proportion of this offering will be sold or that alternative financing will be available. If none of this offering is sold, we will continue to use our existing capital and cash flows to carry on our current business.

2.7 Material Agreements

The following summarizes the material agreements to which we are currently a party, and the material agreements of related parties:

1. Management Agreement dated December 31, 2003 and amended January 1, 2005, March 27, 2013 and April 14, 2016 with our Manager. See Item 2.2 "Our Business – Our Manager"; and
2. Demand Operating Facility Agreement dated October 11, 2017, as amended April 20, 2018, and General Security Agreement dated February 7, 2013 with The Toronto-Dominion Bank. See Item 2.2 "Our Business – Credit Facility".

Item 3. INTERESTS OF DIRECTORS, MANAGEMENT, PROMOTERS AND PRINCIPAL HOLDERS

3.1 Compensation and Securities Held

The following table discloses the compensation paid to, and securities held by, each of our directors, officers and promoters and each person who, directly or indirectly, beneficially owns or controls 10% or more of any class of our voting securities (a "**Principal Holder**").

Name & Municipality of Principal Residence	**Positions Held & Date Appointed**	**Compensation Paid & Payable** [1] Last Year (Current Year)	**Number and percentage of our Securities held** [2] **after completion of**	
			Minimum Offering	**Maximum Offering** [3]
Giovanni (John) Mercuri [4] Kelowna, BC	President since March 2013 Director since October 2012	\$0 (\$0)	1,861,469 Shares [5] (5.00%)	1,861,469 Shares [5] (3.94%)
Morley Gordon McEwen [4] Kelowna, BC	Director since December 2003 President from Dec. 2003 to March 2013	\$0 (\$0)	1,771,821 Shares (4.76%)	1,771,821 Shares (3.75%)
Elia Franca Mercuri Kelowna, BC	Secretary-Treasurer since March 2014	\$0 (\$0)	42,963 Shares (0.11%)	42,963 Shares (0.09%)

1. Our directors and officers do not receive any direct compensation from us and are remunerated by our Manager. See Item 2.2 "Our Business – Our Manager" for details of the remuneration of our Manager.
2. Shares beneficially held, directly or indirectly, or over which control or direction is exercised, by each person. Amounts are subject to variation depending on the Share purchases and redemptions during the term of this offering.
3. Assuming this offering is fully sold and the person does not purchase any Shares under this offering.
4. Member of the Credit Committee.
5. These Shares are owned by Mercuri Holdings Ltd., a private company equally owned by John and Franca Mercuri, over which Mr. Mercuri has control and direction.

3.2 Management Experience

The principal occupations of our executive officers and directors over the past five years and any relevant experience in a business similar to ours are set out in the following table:

Name	Principal occupations and related experience
Giovanni (John) Mercuri	President of Classic Mortgage Corporation since March 2013 and director since October 2012. President and director of the Manager since acquisition in October 2012. Mr. Mercuri oversees and directs all business activities for both Classic and the Manager. Mr. Mercuri has been a licensed mortgage broker in British Columba since 2000 with over 26 years of experience with alternate mortgage and loan lending and administration. Previously held several management positions with Beneficial Canada Inc., a major consumer finance company specializing in secondary mortgage financing. Mr. Mercuri also controls and directs the activities of Premiere Home Mortgage Ltd. (d.b.a. Premiere Mortgage), a mortgage brokerage which administers another MIC, Premiere Canadian Mortgage Corp. Mr. Mercuri acts as President (since 2011) and director (since 2006) for both companies. Mr. Mercuri was previously Vice President of Premiere from February 2005 to 2011.
Morley G. McEwen	President of Classic Mortgage Corporation from inception to March 2013 and formerly Managing Partner of our Manager. One of the founders of both Classic and our Manager, and continues to advise both companies on an on-going basis. Over 36 years of experience in the mortgage and real estate investment and development businesses.
E. Franca Mercuri	Extensive experience in MIC management and administration through her involvement with Classic Mortgage Corporation and another MIC, Premiere Canadian Mortgage Corp. Secretary-Treasurer of Classic Mortgage Corporation since March 2014, she oversees all administrative, accounting and banking activities for both Classic and our Manager. Licensed mortgage broker in British Columbia since 2004. Previously spent 15 years with the Bank of Montreal holding both lending and investment administrative positions through British Columbia.

3.3 Penalties, Sanctions and Bankruptcy

None of our directors, executive officers or control persons or issuers of which they were a director, executive officer or control person at the time, has been any time during the last 10 years:

(a) subject to any penalty or sanction;

(b) subject to any cease trading order in effect for more than 30 consecutive days; or

(c) the subject of any 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.

3.4 Loans

We are not indebted to any of our directors, management, Principal Holders or promoters, nor are any of them indebted to us, for any loans.

Item 4. CAPITAL STRUCTURE

4.1 Share Capital

Our share capital is set out in the following table:

Description of Security *	Number authorized to be issued	Price per Security	Number outstanding		
			as at the date of this Offering Memorandum	after minimum offering	after maximum offering
Voting Common Shares	60,000,000	$1.00	37,227,210	37,227,210	47,227,210

* There are not any options, warrants or other securities convertible into Shares issued or outstanding.

4.2 Long Term Debt Securities

Our current and long term indebtedness is set out in the following table:

Description of Debt & Whether Secured *	Interest Rate (annual)	Repayment Terms	Amount Outstanding as at the Date of this Offering Memorandum
Current			
Demand Loan	Prime + 0.85%	Interest payable monthly & Principal repayable on demand	$1,739,800
Long Term			
Term Loans	N/A	–	Nil

* All loans are secured as described in Item 2.2 “Our Business – Credit Facility”.

4.3 Prior Sales

During the last 12 months we have issued the following Shares:

Date of Issuance	Type of Security Issued	Number of Securities Issued	Price per Security	Total funds Received
May 2017	Voting Common Shares	0	$1.00	0

Date of Issuance	Type of Security Issued	Number of Securities Issued	Price per Security	Total funds Received
June 2017	Voting Common Shares	180,000	$1.00	$ 180,000
July 2017	Voting Common Shares	1,200,000	$1.00	$ 1,200,000
August 2017	Voting Common Shares	620,000	$1.00	$ 620,000
September 2017	Voting Common Shares	1,000,000	$1.00	$ 1,000,000
October 2017	Voting Common Shares	322,577	$1.00	$ 322,577
November 2017	Voting Common Shares	0	$1.00	0
December 2017	Voting Common Shares	431,000	$1.00	$ 431,000
January 2018	Voting Common Shares	1,760,800	$1.00	$ 1,760,800
February 2018	Voting Common Shares	15,000	$1.00	$ 15,000
March 2018	Voting Common Shares	365,000	$1.00	$ 365,000
April 2018	Voting Common Shares	1,883,000	$1.00	$ 1,883,000
May 1 - 15, 2018	Voting Common Shares	35,0000	$1.00	$ 35,000
Totals	-	**7,812,377**	**$1.00**	**$ 7,812,377**

4.4 Redemption History

During our last two financial years and subsequent period to the date of this Offering Memorandum, we have redeemed the following Shares:

Financial Year	Redemption Requests							
	Opening Outstanding Requests		Received during Financial Year		Paid Out during Financial Year		Ending Outstanding Requests	
	No.	Amount	No.	Amount	No.	Amount	No.	Amount
2016	0	0	9	$576,142	9	$576,142	0	0
2017	0	0	16	$2,528,905	16	$2,528,905	0	0
2018*	0	0	14	$2,128,291	14	$2,128,291	0	0

* Redemptions during the current financial year until the date of this Offering Memorandum.

Item 5. SECURITIES OFFERED

5.1 Terms of Securities

The Shares we are offering for sale are Voting Common Shares with a par value of $1.00 each. All of our Shares issued to date are, and those issued pursuant to this Offering Memorandum shall be, fully paid and non-assessable.

Voting Rights

Each holder of a Share is entitled to one vote at all our general meetings of Shareholders.

Distribution of Profits

Each Shareholder is entitled to a proportion of all of our profits in each financial year ending on December 31st. When subscribing for Shares, you may elect in your Subscription Agreement whether you wish to receive your annual distributions in cash or to reinvest it in additional Shares. You may change your election by written notice to us.

We will not distribute income or assets that would jeopardize or impair our ability to meet our financial commitments or requirements. Where a Shareholder holds a Share for less than a full financial year, the dividends (distributions of our net income and taxable capital gains) are pro-rated according to the portion of the year (i.e. number of months) that the person holds the Share.

Restrictions on Ownership

The Tax Act imposes significant penalties on investments by Registered Retirement Savings Plans (RRSP) and Tax Free Savings Accounts (TFSA) if the ownership through an RRSP and TFSA by an investor and parties related to the investor equals 10% or more of the shares of a MIC. A “related party” includes the investor and anyone related to the investor by blood, marriage, “common law” partnership or adoption. **These Tax Act rules are complex and investors should seek advice from an accountant, investment advisor or other qualified person if the investor and the investor’s related parties might jointly own 10% or more of our Shares.**

Redemption and Retraction Rights

We may, at any time and for any reason deemed good and reasonable by our directors, redeem or repurchase any or all of our Shares held by one or more Shareholders (but not all of our Shares held by all Shareholders) not less than two months after notice thereof is given to our Shareholders. In addition, holders of Shares may, by giving written notice to us on or before November 30th each year, request that we redeem all or any part of the Shares held by them. On February 28th of the year following, we are required to redeem the number of Shares specified in the notice subject to certain restrictions set forth in the *Business Corporation Act* (British Columbia) respecting our solvency. The redemption price for each Share will be $1.00. We may waive notice of redemption by instrument in writing.

In addition to the solvency restrictions set out in the *Business Corporation Act* (British Columbia), the directors are authorized by our Articles to restrict redemptions in any given year to 10% of the Shares outstanding on November 30th of that year. It is the intention of the directors to do so any time requests for redemptions in a given year exceed 10% of the Shares outstanding.

The current policy of directors is to accept redemption requests from Shareholders on a monthly basis and to redeem Shares in the month following the request. However, the deadline for submitting redemption requests in any given year is November 30th and the directors may resolve, at any time up to the 31st day of December in any year, to decline to redeem Shares in order to determine whether the total Shares requested for redemption exceed 10% of the Shares at that date. In the event of such a resolution, the redemptions will be made on February 28th of the year following. If more than 10% of the

Shares outstanding are requested for redemption, the directors may make such redemptions to a maximum of 10% *pro rata* among those submitting written requisitions for redemption. Any Shares not redeemed pursuant to a redemption request before February 28th in the second year following the year in which the request is received will be redeemed the following year in priority to Shares requested for redemption in that following year, and so on from year to year, as necessary.

The directors also have the authority under our Articles, but are not required, to resolve to wind us up as a company and distribute all our assets to the Shareholders under the terms of the *Business Corporation Act* (British Columbia) if they receive requests for redemptions from registered holders of more than 25% of our issued Shares or where such redemptions would cause us to cease to qualify as a MIC.

Entitlement on Liquidation, Dissolution or Winding Up

In the event of a reduction of capital or our liquidation, dissolution or winding-up or other distribution of our property or assets among our Shareholders for the purpose of winding up our affairs, the holders of Shares will be entitled to a *pro rata* distribution of our assets.

Restrictions on Transferability

The Tax Act provides that a MIC must have 20 or more shareholders and no one shareholder may hold more than 25% of the issued shares of any class. For the purposes of calculating the percentage of issued shares of any class held by a shareholder, the Tax Act states that:

(a) a shareholder is deemed to own each share owned at that time by a person related to the shareholder;

(b) each beneficiary of a trust shall be deemed to own that proportion of all such shares owned by the trust at that time that the fair market value at that time of the beneficial interest of the beneficiary in the trust is of the fair market value at that time of all beneficial interests in the trust, provided that where a beneficiary's share of the income or capital of the trust depends on the exercise by any person of, or the failure of any person to exercise, any discretionary power, the beneficiary shall be deemed to own each Share owned at that time by the trust; and

(c) each member of a partnership shall be deemed to own that proportion of all the shares of any class of shares that are property of the partnership at that time that the fair market value at that time of the member's interest in the partnership is of the fair market value at that time of the interests of all members in the partnership.

For the purposes of this definition, the Tax Act states that a person is related to a shareholder if they meet the definition of "related persons" in the Tax Act, except that for individuals, the following individuals are considered to be related:

(a) an individual and the individual's child (as defined in s. 70(10) of the Tax Act) who is under 18 years of age; or

(b) an individual and the individual's spouse or common-law partner. The term "common-law partner" is defined in the Tax Act.

The Tax Act provides that a trust governed by a registered pension plan or a deferred profit sharing plan by which shares of a MIC are held is counted as four shareholders for the purposes of determining the number of shareholders in a MIC and as one shareholder for the purposes of determining if any one shareholder of the MIC owns more than 25% of the issued shares of any class of shares of the MIC. There is no one Shareholder that owns more than 25% of our Shares.

Part 22 of our Articles also contains certain restrictions on sale of any Shares by Shareholders. These restrictions apply unless the offering Shareholder obtains the consent of the Shareholders of at least two-thirds of the issued Shares. The restrictions require any Shareholder wishing to sell their Shares to give notice to us, and in turn must offer such Shares to all other Shareholders for a period of 60 days. If, after such period, acceptances from existing Shareholders are not sufficient to take up all Shares offered, the offering Shareholder may offer to sell the Shares to third parties for a period of 90 days at the same price, provided they are able to rely on an exemption from the prospectus and registration requirements and otherwise comply with resale restrictions imposed by the *Securities Act* and the Rules thereunder (see Item 10 "Resale Restrictions").

In addition to the foregoing restrictions, the Articles require the approval of the directors of any Share transfer and further permit the directors to refuse to approve any transfer in their absolute discretion without giving reasons therefor.

These restriction do not apply to a transfer of Shares to the Shareholder's Registered Retirement Savings Plan (RRSP), Registered Retirement Income Fund (RRIF), Deferred Profit Share Plan (DPSP), Registered Pension Plan (RPP), Registered Education Savings Plan (RESP), Tax Free Savings Account (TFSA), independent savings plan or other savings plan created by a province or the Canadian government (collectively, "**Registered Plans**") or a Registered Plan of the Shareholder's spouse.

Subscribers are required to affirm their knowledge that there are restrictions on transferability by executing the Subscription Agreement.

5.2 Subscription Procedure

You may subscribe for Shares by returning to us at 100 – 586 Leon Avenue, Kelowna, British Columbia V1Y 6J6:

(a) a completed, dated and signed subscription agreement; and

(b) a cheque, certified cheque or bank draft in the amount of your investment payable to our lawyers, "Bailey Morrison, Lawyers, In Trust".

Our lawyers will hold your subscription funds in trust until after the second business day after the day on which we received your signed subscription agreement.

Subscriptions for Shares will be accepted subject to rejection or allotment in full or in part by us. We reserve the right to accept or reject subscriptions in whole or in part at our discretion and to close the subscription books at any time without notice. Any subscription funds for subscriptions that we do not accept will be returned promptly without interest or deduction after we have determined not to accept the funds.

At the closing of this offering we will deliver to you, or at your direction, certificates representing fully paid securities, provided the subscription price has been paid in full. We may close this offering on an earlier or later date as we may determine.

Item 6. INCOME TAX CONSEQUENCES AND RRSP ELIGIBILITY

6.1 Caution

The following is a general overview of the tax consequences that relate to this offering. **You should consult your own professional advisers to obtain advice on the tax consequences that apply to you.**

6.2 Income Tax Consequences

The following fairly summarizes the principal income tax consequences under the Tax Act (together with all regulations made thereunder), applicable to the acquisition and holding of Shares pursuant to this offering by a person who, for the purposes of the Tax Act, is resident in Canada, holds all such Shares as capital property and deals and will deal with us at arm's length at all relevant times (a "**Subscriber**").

The summary is based upon the current provisions of the Tax Act, all proposals to amend the Tax Act publicly announced by the Government of Canada up to May 15, 2018 (the date of this Offering Memorandum), and on our understanding of the current administrative and assessing practices of the Canada Revenue Agency. It is assumed that all such proposed amendments will be enacted substantially as currently proposed, and that there will be no other material change to any relevant law or practice, although no assurances can be given in these respects. This summary is not exhaustive of all possible applicable income tax consequences, nor does it take into account any provincial, territorial or foreign income tax considerations, which considerations may differ significantly from those discussed.

It is further assumed for the purposes of this summary that we are now and was and will at all material times continue to be a MIC as defined in the Tax Act. It is assumed that no change in the circumstances or investments by us, or in the composition or activities of our Shareholders, will occur that would cause us to cease to qualify as a MIC (although no assurances can be given in these respects). It is also assumed that we and our Manager will take whatever steps are necessary to ensure that we will continue to meet the requirements of a MIC in the Tax Act.

THIS SUMMARY IS NOT, AND IS NOT TO BE CONSTRUED AS, LEGAL OR TAX ADVICE TO ANY PARTICULAR SUBSCRIBER. ACCORDINGLY, EACH SUBSCRIBER IS URGED TO CONSULT THE SUBSCRIBER'S OWN ADVISORS WITH RESPECT TO THE TAX AND LEGAL CONSEQUENCES ASSOCIATED WITH PARTICIPATION IN THIS OFFERING.

Tax Payable by Us

We are deemed to be a "public corporation" for income tax purposes and will be subject to the rules of income taxation generally applicable to a "public corporation" for the purposes of the Tax Act, except that we will, in computing our income for a taxation year, be entitled to deduct

(i) all taxable dividends (other than capital gains dividends) paid by us during the year or within 90 days after the end of the year and that were not deductible by us in a previous year; and

(ii) one-half of all capital gains dividends paid by us during the period that begins on the 91^{st} day of the year and ends on the 90^{th} day of the following year.

Tax Payable by Subscribers

Subscribers will be required to include any taxable dividend (other than a capital gains dividend) received on Shares in a taxation year in income in the year as interest income. The normal rules applicable to taxable dividends received from Canadian corporations will not apply to any such dividend received on Shares.

Subscribers receiving a capital gains dividend on a Share in a taxation year will not treat such a dividend as income from a Share. Instead, such a dividend is deemed to be a capital gain of the Subscriber from the disposition of a capital property in the year, and consequently the Subscriber will be required to include one-half of any such dividend in income for the year as a taxable capital gain. Characterization of a dividend as a capital gains dividend depends upon payment of the dividend and an appropriate election being made by us within prescribed time periods and on the capital gains realized by us and other factors.

On a redemption or purchase of Shares by us, the Subscriber will be deemed to receive a dividend to the extent, if any, that the payment by us for the Shares exceeds the paid-up capital of Shares, and the balance of the payment by us will be received by the Subscriber as proceeds of disposition of the Shares. To the extent, if any, that such proceeds of disposition exceed (or are exceeded by) the Subscriber's adjusted cost base of the Shares for purposes of the Tax Act, the Subscriber will realize a capital gain (or capital loss, respectively) that will be subject to the usual rules of the Tax Act applicable to capital gains (or losses) as described below.

A Subscriber disposing of a Share to another individual in a taxation year will generally realize a capital gain (or capital loss) equal to the amount by which the proceeds of disposition therefore exceed (or are exceeded by, respectively) the adjusted cost base to the Subscriber of the Share. One-half of any such capital gain (the taxable capital gain) must be included in the Subscriber's income to be taxed at normal rates.

The Subscriber may, subject to certain limits, deduct one-half of any such capital loss (referred to as an allowable capital loss) from taxable capital gains realized in the year (including taxable capital gains resulting from the receipt of capital gains dividends on Shares as discussed above) and, to the extent not so deductible, from taxable capital gains realized in any of the three preceding or any following taxation year.

6.3 Eligibility for Registered Investments

Shares are qualified investments for any Registered Plan provided that we do not hold any indebtedness, whether by way of mortgage or otherwise, of a person who is a "connected person" under the Registered Plan. A "connected person" means a person who is an annuitant, a beneficiary, an employer or a subscriber under, or a holder of, the governing plan and any person who does not deal at arm's length with that person.

Not all securities are eligible for investment in a registered investment. You should consult your own professional advisers to obtain advice on the eligibility of these securities for the purposes of your Registered Plan.

Item 7. COMPENSATION PAID TO SELLERS AND FINDERS

We may engage registered securities dealers to act on our behalf to market the Shares. If you purchase Shares with the assistance of a dealer, you may be requested by the dealer to pay a commission in addition to the subscription price. If Shares are acquired without the services of a dealer, no commission will be payable. It has not been our policy in the past to engage dealers to sell our Shares.

Item 8. RISK FACTORS

Nature of a Mortgage Investment Company

When you invest in a MIC you do so by buying its shares. The MIC then invests the money raised from you and a group of investors with similar investment objectives in mortgages that are professionally managed by the MIC's investment manager.

As a result, when you buy shares of a MIC you are indirectly buying these underlying mortgages. The value of your investment is determined by the performance of these underlying mortgages so you and the investors in the MIC share in any gains or losses generated by the MIC from these mortgages.

Generally, you can sell your shares back to the MIC (in other words, the MIC will redeem your shares) in order to take your money out of the MIC. When you sell you shares back to the MIC, the value of your original investment may have increased or decreased.

How risk is related to return

Generally, there is a strong relationship between the amount of risk associated with a particular investment, and that investment's long-term potential to increase in value.

Investments that have a lower risk also tend to have lower returns because factors that can affect the value of the investment, the risks, are well known or are well controlled and have already been worked into the price of the investment. On the other hand, investments that could have potentially higher returns if conditions for success are favourable also risk generating equally higher losses if conditions become unfavourable. This is because the factors affecting the value of such investments are unknown or difficult to control.

What are the risks of investing in MICs?

Like any investment, there are risks associated with investing in MICs. The specific risks that can apply to us are explained below.

(a) Investment Risk

- The subscription price for Shares has been arbitrarily selected by our directors as the same price as that at which Shares have been sold in the past.

- While you can require us to redeem your Shares, you may never be able to sell your Shares and recover any part of your investment from a third party since no market for Shares exists or will exist after this offering.

- We have the right pursuant to our Articles to limit redemption or re-purchase of Shares to 10% of the Shares outstanding in each year. Redemption and re-purchase are also subject to restrictions pursuant to the *Business Corporations Act* (British Columbia). Accordingly Shareholders have no assurance of their ability to redeem any or all of their Shares and receive the redemption amount in any given year (see Item 5.1 "Redemption and Retraction Rights").

- An investment in the Shares is high risk. You should buy them only if you are able to bear the risk of the entire loss of your investment and have no immediate need for liquidity in your investment. An investment in the Shares should not constitute a major portion of your portfolio.

- We are not a member institution of the Canada Deposit Insurance Corporation ("**CDIC**") and the Shares are not insured against loss through CDIC.

(b) Issuer Risk

- When assessing the risks and rewards of an investment in Shares, you are relying on our Manager to make appropriate decisions with respect to the management of our business. You will not have any right to take part in our management and we may be bound by the decisions of our Manager.

- If our Manager makes any improper distributions of dividends (distributions our net income and taxable capital gains), you might be deemed to be holding such distributions in trust for creditors who could recover the amount of such distributions from you. You should also know that if we default on secured indebtedness, the lender will be entitled to exercise available legal and equitable remedies against us which could result in the loss of our property secured by such creditors.

- Under the Management Agreement, our Manager has agreed to ensure that our operations are conducted so as to retain our qualification as a MIC under the Tax Act. If for any reason we fail to maintain our qualification as a MIC under the Tax Act, the dividends (distributions of our net income and taxable capital gains) paid by us on the Shares offered will cease to be deductible from our income. See Item 6 "Income Tax Consequences and RRSP Eligibility".

- We and our Shareholders are dependent in large part upon the experience, expertise and good faith of our Manager. Our Manager is not restricted from acting in a similar capacity for other MICs and those MICs may different investment policies to ours. Our Manager is contractually obligated pursuant to the terms of the Management Agreement to manage our affairs in a proper, prudent and adequate fashion. Our Manager regularly engages in mortgage brokering activities on behalf of financial institutions and borrowers.

- There are certain risks inherent in mortgage lending over which neither us nor our Manager has any control. These risks include abnormal fluctuations in interest rates, the general state of the economy, concentration of mortgages on properties which are in one geographic location and falling real estate values

- There are potential conflicts of interest to which our directors and officers may be subject in connection with our operations. These conflicts arise primarily out of the contractual relationship between us and our Manager, which is obligated to manage us to a certain standard (see Item 2.2 "Our Business – Our Manager"). In addition, a conflict may occur at the time we renegotiate the terms of the Management Agreement.

- The normal gross-up and dividend tax credit rules do not apply to the annual distributions paid on our Shares. Instead, such distributions are taxed as ordinary income.

- While Shares are qualified investments for any Registered Plan, that will not be the case if we hold at any time in a calendar year, any indebtedness of a person who is a connected person under the governing plan of the trust constituting the Registered Plan. This is a matter beyond the control of our Shareholders and such Shareholders will not know whether we conducted our affairs so as to ensure that Shares will be qualified investments for the Plan. See Item 6 "Income Tax Consequences and RRSP Eligibility".

- Although we usually obtain an evaluation of commercial properties to be subject to the mortgage, in the form of a Phase I Environmental Audit, environmental legislation and policies have become an increasingly important feature of property ownership and management in recent years. Under various laws, we could become liable for the cost of effecting remedial work necessitated by the release, deposit or presence of certain materials, including hazardous or toxic substances and wastes at or from a property, or disposed of at another location. The failure to affect remedial work may adversely affect an owner's ability to sell real estate or to borrow using the real estate as collateral and could result in claims against the owner.

- We follow the environmental program of our Manager, which includes policies and procedures to review and monitor environmental matters associated with its properties. Our Manager's environmental policy usually includes a Phase I Environmental Audit on commercial or industrial properties when warranted, conducted by an independent and experienced environmental consultant, before advancing a loan or acquiring a mortgage on commercial or industrial properties.

- There is a risk relating to use of a mortgaged property which is used for illegal purposes, such as growing marijuana. The value of such a building may decline substantially or totally. No insurance is available for these situations.

- While we utilize title insurance, there is still a substantial risk that losses could occur due to fraud.

- Fire insurance on the mortgaged properties may be inadequate to cover the mortgage amount or may be cancelled and unavailable in the event of a claim being made.

(c) Industry Risk

Our ability to achieve income is dependent upon our Manager being able to identify and assemble an adequate supply of mortgages. There is no assurance this will occur.

Our profitability will also be dependent on both general and local economic conditions and will be affected by fluctuations in the rate of economic growth and the rate of expansion of the real estate market in the target areas.

We will concentrate our lending activities in British Columbia and Alberta; however, we may act as mortgage lender in other areas in Canada.

- There are certain risks inherent in mortgage lending over which neither we nor our Manager has any control. These risks include abnormal fluctuations in interest rates, the general state of the economy, concentration of mortgages on properties that are in one geographic location and falling real estate values.

- Our business is to provide loans to borrowers who may not qualify for financing from conventional lenders. Accordingly, the risk of late payment or default of these loans may be high. Our income and funds available for distribution to Shareholders would be adversely affected if a significant number of borrowers were unable to pay their obligations, or repay their indebtedness, to us. On default by a borrower, we may experience delays in enforcing its rights as lender and incur substantial costs in protecting our investment.

- It is important that we match our mortgage investments with our debt obligations. Notwithstanding our best efforts to match, our net investment income may be affected by fluctuations in interest rates and by repayment rights and policies applicable to mortgages.

- Investment funds not advanced as loans are placed in interest bearing deposits with our bank and will earn lower rates of return than mortgage loans.

- We will be competing for mortgage loans with lenders seeking mortgage loan investments similar to those desired by us. Many of these investors will have greater financial resources than us, or operate without the investment or operating restrictions on, us or according to more flexible conditions. An increase in the availability of, investment funds, and an increase in interest in mortgage investments, may increase competition for real property investments, thereby increasing purchase prices and reducing the yield on investments.

- There can be no assurance that income tax laws and government incentive programs relating to the real estate industry will not be changed in a manner which adversely affects us or distributions received by its security holders.

Item 9. REPORTING OBLIGATIONS

9.1 Corporate

The *Business Corporations Act* (British Columbia) governs how we conduct our corporate affairs (as opposed to our business affairs).

That Act requires us to provide our Shareholders with audited financial statements for each financial year. The statements must be sent to our Shareholders in connection with our annual general meeting of Shareholders. At the same time, we send a letter to Shareholders reporting on our previous year's business.

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

9.2 Continuous Reporting Obligations to Shareholders

We are not a reporting issuer in British Columbia. Accordingly, you will not receive interim financial statements prepared in accordance with International Financial Reporting Standards nor will you receive Management's Discussion and Analysis of our audited financial statements, all as required for reporting issuers under the *Securities Act* (British Columbia).

Presently, we report to Shareholders annually regarding distributions of profit, quoting the rate of return net to the Shareholders for the year, stated as an effective annualized yield. We also provide our Shareholders with a quarterly unaudited financial summary. Annual audited financial statements are forwarded within 120 days of the end of each financial year. Unaudited quarterly financial statements are available on request.

Item 10. RESALE RESTRICTIONS

10.1 Overview

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

10.2 Description of Restricted Period

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

It is not anticipated we will ever become a reporting issuer. Accordingly, the hold period may never expire and you will not be able to trade or re-sell your Shares unless you comply with an exemption from the prospectus and registration requirements under applicable securities legislation.

Item 11. PURCHASER'S RIGHTS

If you purchase these securities [Shares] you will have certain rights, some of which are described below. For information about your rights you should consult a lawyer.

11.1 Two Day Cancellation Right

You can cancel your agreement to purchase these securities [Shares]. To do so, you must send a notice to us by midnight on the second business day after you sign the agreement to buy the securities [Shares].

11.2 Statutory Rights of Action in the Event of a Misrepresentation

If there is a misrepresentation in this Offering Memorandum, you have a right to sue:

(a) us to cancel the Subscription Agreement to buy the securities [Shares]; or

(b) us, each of our directors at the date of this Offering Memorandum, and every person who signed the Offering Memorandum, for damages.

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 such you purchased the securities [Shares].

In an action for damages, the amount you may recover will not exceed the price that you paid for the Shares and will not include any part of the damages that we proves does not represent the depreciation in value of the Shares resulting from the misrepresentation. We have a defence if we prove that you knew of the misrepresentation when you purchased the securities [Shares].

If you intend to rely on the rights described in (a) or (b) above, you must do so within strict time limitations. You must commence your action to cancel the agreement within 180 days after the issuance of the Shares to you. You must commence your action for damages within the earlier of 180 days after learning of the misrepresentation and three years the issuance of the Shares to you.

If you sue for damages, the amount you may recover will not exceed the price that you paid for your securities and will not include any part of the damages that we prove does not represent the depreciation in value of the securities resulting from the misrepresentation.

11.3 Contractual Rights of Action in the Event of a Misrepresentation

If you are resident outside of Canada and the securities legislation where you are resident does not provide a comparable statutory right and there is a misrepresentation in this Offering Memorandum, you have a contractual right to sue us

(a) to cancel your agreement to buy these securities, or

(b) for damages.

This contractual right to sue is available to you whether or not you relied on the misrepresentation. However, in an action for damages, the amount you may recover will not exceed the price that you paid for your securities and will not include any part of the damages that we prove does not represent the depreciation in value of the securities resulting from the misrepresentation. We have a defence if we prove that you knew of the misrepresentation when you purchased the securities.

If you intend to rely on the rights described in (a) or (b) above, you must do so within strict time limitations. You must commence your action to cancel the agreement within 180 days after you signed the agreement to purchase the securities. You must commence your action for damages within the earlier of 180 days after learning of the misrepresentation and three years after you signed the agreement to purchase the securities.

Item 12. FINANCIAL STATEMENTS

Our financial statements begin on the following page.

Classic Mortgage Corporation
Financial Statements
December 31, 2017

Classic Mortgage Corporation
Contents
For the year ended December 31, 2017

Page

Management's Responsibility

To the Shareholders of Classic Mortgage Corporation:

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

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

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

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

January 25, 2018

President

Independent Auditors' Report

To the Shareholders of Classic Mortgage Corporation:

We have audited the accompanying financial statements of Classic Mortgage Corporation, which comprise the statement of financial position as at December 31, 2017, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

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

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

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

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

Opinion
In our opinion, the financial statements present fairly, in all material respects, the financial position of Classic Mortgage Corporation as at December 31, 2017 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Kelowna, British Columbia

MNP LLP

January 25, 2018

Chartered Professional Accountants

Classic Mortgage Corporation
Statement of Financial Position
As at December 31, 2017

	2017	2016
Assets		
Accrued interest receivable	**290,238**	273,752
Mortgages receivable *(Note 5)*	**40,078,319**	32,269,714
Deferred income taxes *(Note 7)*	**6,100**	6,100
Intangible assets	**1,508**	1,508
	40,376,165	32,551,074
Liabilities		
Bank indebtedness *(Note 6)*	**4,466,729**	837,855
Dividends payable	**2,414,356**	2,117,192
	6,881,085	2,955,047
Shareholders' Equity		
Share capital *(Note 8)*	**33,505,472**	29,606,860
Deficit	**(10,392)**	(10,833)
	33,495,080	29,596,027
	40,376,165	32,551,074

Approved on behalf of the Board

Director

The accompanying notes are an integral part of these financial statements

Classic Mortgage Corporation
Statement of Comprehensive Income
For the year ended December 31, 2017

	2017	*2016*
Revenue		
Interest	**2,768,129**	2,442,603
Lender fees	**388,153**	315,303
Prepayment penalties	**38,759**	30,185
Miscellaneous	**25,654**	20,875
	3,220,695	2,808,966
Expenses		
Management fees *(Note 9)*	**683,082**	598,614
Interest and bank charges	**87,044**	51,119
Bad debts	**35,772**	42,009
	805,898	691,742
Total comprehensive income	**2,414,797**	2,117,224

Classic Mortgage Corporation
Statement of Changes in Equity
For the year ended December 31, 2017

	Share capital	*Deficit*	*Total equity*
Balance January 1, 2016	**26,710,933**	**(10,865)**	**26,700,068**
Comprehensive income for the year	**-**	**2,117,224**	**2,117,224**
Issuance of share capital	**3,472,069**	**-**	**3,472,069**
Redemption of share capital	**(576,142)**	**-**	**(576,142)**
Dividends	**-**	**(2,117,192)**	**(2,117,192)**
Balance December 31, 2016	**29,606,860**	**(10,833)**	**29,596,027**
Comprehensive income for the year	**-**	**2,414,797**	**2,414,797**
Issuance of share capital	**6,427,517**	**-**	**6,427,517**
Redemption of share capital	**(2,528,905)**	**-**	**(2,528,905)**
Dividends	**-**	**(2,414,356)**	**(2,414,356)**
Balance December 31, 2017	**33,505,472**	**(10,392)**	**33,495,080**

The accompanying notes are an integral part of these financial statements

Classic Mortgage Corporation
Statement of Cash Flows
For the year ended December 31, 2017

	2017	*2016*
Cash provided by (used for) the following activities		
Operating activities		
Cash received from customers (non-interest revenues)	**416,794**	353,298
Cash paid to suppliers and employees	**(683,082)**	(598,614)
Interest received	**2,751,644**	2,459,741
Interest paid	**(87,044)**	(51,119)
	2,398,312	2,163,306
Financing activities		
Proceeds from issuance of common shares	**4,777,577**	3,472,069
Payments for redemption of common shares	**(2,528,905)**	(576,142)
Dividends	**(467,253)**	(1,677,122)
	1,781,419	1,218,805
Investing activities		
Advances of mortgage receivable, net of repayments	**(7,808,605)**	(6,401,033)
Decrease in cash resources and cash equivalents	**(3,628,874)**	(3,018,922)
Cash resources (deficiency), beginning of year	**(837,855)**	2,181,067
Cash deficiency, end of year	**(4,466,729)**	(837,855)

The accompanying notes are an integral part of these financial statements

1. Reporting entity

Entity information

Classic Mortgage Corporation (the "Company") was incorporated under the Province of British Columbia on December 31, 2003 and extra provincially in the Province of Alberta. The Company qualifies as a Mortgage Investment Corporation as defined by Section 130.1(6) of the Income Tax Act and, as such, certain dividends paid are allowed as a deductible expense for income tax purposes.

The address of the Company's registered office is #100 - 586 Leon Avenue, Kelowna, British Columbia.

2. Statement of compliance

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

These financial statements for the year ended December 31, 2017 were approved and authorized for issue by the Board of Directors on January 25, 2018.

3. Basis of preparation

Basis of measurement

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

Functional and presentation currency

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

Significant accounting judgments, estimates and assumptions

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

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

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognized in the financial statements are described in the following notes:

- Note 5 – Mortgages receivable

Allowance for impaired loans

The Company reviews its individually significant loans at each reporting date to assess whether an impairment loss should be recognized. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the impairment loss.

In estimating these cash flows, the Company makes judgements about the borrower's financial situation and the net realizable value of collateral. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

Mortgages receivable that have been assessed individually and found not to be impaired and all individually insignificant loans are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether provision should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident. The collective provision assessment takes account of data from the loan portfolio such as credit quality, delinquency, historical performance and industry economic outlook. The impairment loss on mortgages receivable is disclosed in more detail in Note 5.

4. Summary of significant accounting policies

The following principle accounting policies have been adopted in the preparation of these financial statements.

Cash and cash equivalents

Cash consists of cash on hand and demand deposits. Other investments (term deposits and certificates of deposit) purchased with a maturity date of three months or less are also reported as cash.

Accounts receivable

Accounts receivables are recognized initially at the transaction price. They are subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of accounts receivable is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivable.

Mortgages receivable

Mortgages receivable are recognized at their amortized cost. Amortized cost is calculated as the loans' principal amount, less any allowance for anticipated losses, plus accrued interest.

Impairment of financial assets

For financial assets carried at amortized cost, the Company first assesses individually whether objective evidence of impairment exists for financial assets that are significant, or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed asset, it includes a financial asset in a group of financial assets with similar credit risk characteristics and collectively assessed them for impairment. Financial assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment for impairment.

If there is objective evidence that an impairment loss has occurred, the amount of the loss is measured as the difference between the asset carrying amount and the present value of estimated future cash flows, excluding future expected impaired financial assets that have not yet been incurred. The carrying amount of the financial asset is reduced through the use of the provision for impaired financial assets and the amount of the impairment loss is recognized in the statement of comprehensive income.

The present value of the estimated future cash flows is discounted at the financial assets original effective interest rate. The calculation of the present value of estimated future cash flows reflects the projected cash flows including provisions for impaired financial assets, prepayment losses, and costs to securitize and service financial assets.

Accounts payable

Accounts payable are stated at amortized cost which approximates the fair value due to the short-term nature of these liabilities.

Revenue recognition

Interest revenue is recorded on the accrual basis using the effective interest method. Lender fees are amortized over the term of the loan using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash receipts through the expected life of the mortgages to the carrying amount.

Interest penalties received as a result of loan prepayments are recognized as income in the year in which the prepayment is made, unless only minor modifications (based on a present value of future cash flows test) were made to the loan in which case they are deferred and amortized using the effective interest method.

Fees related to the origination or renewal of a loan are considered an integral part of the yield earned on a loan and are included in interest using the effective interest method over the estimated repayment term of the related loan.

Income taxes

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The calculation of current tax is based on the tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and liabilities are recognized where the carrying amount of an asset or liability differs from its tax base, except for taxable temporary differences arising on the initial recognition of goodwill and temporary differences arising on the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting or taxable income.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the assets are realized or the liabilities are settled. The calculation of deferred tax is based on the tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting year. Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Financial instruments

Fair value through profit or loss:

The Company has classified the following financial assets at fair value through profit or loss: cash.

The Company has designated bank line of credit and banker's acceptance notes on initial recognition at fair value through profit or loss. Items classified as fair value through profit or loss are initially recognized at their fair value. Fair value is approximated by the instrument’s initial cost in a transaction between unrelated parties. Transactions to purchase or sell these items are recorded on the trade date and transaction costs are immediately recognized in profit (loss).

Items classified as fair value through profit or loss are subsequently measured at their fair value. Net gains and losses arising from changes in fair value are recognized immediately in profit (loss).

Loans and receivables:

The financial assets classified as loans and receivables are initially measured at fair value, then subsequently carried at amortized cost. The Company's financial instruments classified as loans and receivables include accrued interest receivable and mortgages receivable.

Financial liabilities measured at amortized cost:

The Company has classified the following financial liabilities as financial liabilities measured at amortized cost: dividends payable. These liabilities are initially recognized at their fair value. Fair value is approximated by the instrument’s initial cost in a transaction between unrelated parties. Transactions to purchase or sell these items are recorded on the trade date.

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

New IFRS standards and interpretations not yet effective

The Company has not yet applied the following new standards, interpretations and amendments to standards that have been issued as at December 31, 2017 but are not yet effective. Unless otherwise stated, the Company does not plan to early adopt any of these new or amended standards and interpretations.

IFRS 9 Financial instruments

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

IFRS 15 Revenue from contracts with customers

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

Amendments to IFRS 15, issued in April 2016, clarify some requirements and provide additional transition relief for when an entity first applies IFRS 15.

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

5. Mortgages receivable

Principal and allowance by loan type

	Principal performing	*Principal impaired*	*Allowance specific*	*Allowance collective*	***2017*** *Net carrying value*
Residential	33,407,076	1,230,394	150,000	-	**34,487,470**
Raw land	2,709,000	76,006	50,000	-	**2,735,006**
Commercial	1,849,162	-	-	-	**1,849,162**
Farm	1,006,681	-	-	-	**1,006,681**
	38,971,919	1,306,400	200,000	-	**40,078,319**

	Principal performing	*Principal impaired*	*Allowance specific*	*Allowance collective*	***2016*** *Net carrying value*
Residential	25,842,789	1,207,791	120,000	-	**26,930,580**
Raw land	2,408,862	132,339	80,000	-	**2,461,201**
Commercial	1,635,631	-	-	-	**1,635,631**
Farm	1,242,302	-	-	-	**1,242,302**
	31,129,584	1,340,130	200,000	-	**32,269,714**

Loan allowance details

	2017	*2016*
Balance, beginning of year	**200,000**	200,000
Current year provision	**-**	-
Balance, end of year	**200,000**	200,000

Loans past due but not impaired

A loan is considered past due when a counterparty has not made a payment by the contractual due date. The table that follows presents the carrying value of loans at year-end that are past due but not classified as impaired because they are either i) less than 90 days past due, or ii) fully secured and collection efforts are reasonably expected to result in repayment.

	1-29 days	***30-59 days***	***60-89 days***	***90 days and greater***	***2017***
Residential	130,594	846,371	1,206,136	1,615,047	**3,798,148**
Other	-	-	-	75,931	**75,931**
	130,594	846,371	1,206,136	1,690,978	**3,874,079**

	1-29 days	***30-59 days***	***60-89 days***	***90 days and greater***	***2016***
Residential	-	2,193,832	32,528	519,352	**2,745,712**
Other	-	-	-	-	**-**
	-	2,193,832	32,528	519,352	**2,745,712**

The Other category in the tables above is comprised of commercial, farm and raw land loans.

6. Credit facility

The Company has an overdraft line of credit with TD Canada Trust, with a limit of $7,000,000 that is available to fund eligible mortgages. Interest is calculated at the financial institution's prime rate plus 0.85% per annum and the line of credit is secured by a general security agreement providing a first floating coverage over all assets of the Company. As at December 31, 2017 there was $4,466,729 (2016 - $837,855) owing on this facility.

The credit facility is subject to financial covenants with respect to maintaining an interest coverage ratio of no less than 300% and a debt to tangible net worth ratio of no more than 0.75:1. As of December 31, 2017 the Company is in compliance with these covenants. It is management's opinion that the Company is likely to remain in compliance with all covenants throughout the next 12 months subsequent to December 31, 2017.

7. Income taxes

The total provision for income taxes on the statement of comprehensive income is at a rate different from the combined federal and provincial statutory income tax rates for the following reasons:

	Amount	***2017 % of pre-tax income***	*Amount*	*2016 % of pre-tax income*
Combined federal and provincial income tax rates	**941,598**	**39.0 %**	592,823	**39.0 %**
Mortgage Investment Corporation dividend deduction	**(941,475)**	**(39.0)%**	(592,814)	**(39.0)%**
Non-deductible and other items	**(123)**	**- %**	(9)	**- %**
Income taxes as reported	**-**	**- %**	-	**- %**

The tax effects of temporary differences which give rise to the deferred income tax asset reported on the statement of financial position is from differences between accounts deducted for accounting and income tax purposes.

Net deferred income tax assets are comprised of the following:

	2017	*2016*
Deferred tax assets		
Provision for loan impairment	**6,100**	6,100
Deferred tax liability	**-**	-
Net balance	**6,100**	6,100

8. Share Capital

Common shares authorized:

Unlimited Common voting shares without par value

Common shares issued:

	2017	*2016*
33,505,472 Common Shares	**33,505,472**	29,606,860

Common shares may be redeemed at the request of the shareholders for the issue price, subject to certain restrictions outlined in the offering memorandum, including management approval.

During the year ended December 31, 2017, 6,427,517 Common shares were issued via cash and reinvested dividends for $6,427,517. In addition, 2,528,905 Common shares were redeemed for cash proceeds of $2,528,905.

During the year ended December 31, 2016, 3,472,069 Common shares were issued via cash and reinvested dividends for $3,472,069. In addition, 576,142 Common shares were redeemed for cash proceeds of $576,142.

9. Related party transactions and commitments

During the year, the Company paid $683,082 (2016 - $598,614) in management fees to Can Terra Financial Inc. The Company has a service contract with Can Terra Financial Inc., a company that is controlled by the President of Classic Mortgage Corporation through a holding company, for the procurement of management services. Can Terra Financial Inc. incurs all expenses for the Company outside of bank and interest charges, collection expenses and bad debts. The contract stipulates compensation equal to 21% of total per annum profit (excluding management fees and taxes), to be calculated and paid monthly. Applicable management fees (before taxes) under this model will be no less than 1.4% of total mortgage receivables, but no more than 2% of total mortgage receivables per annum. The contract is renewed annually and based on the Company's Articles, the service contract between the Company and Can Terra Financial Inc. may be modified with 2/3 shareholder approval passed at a properly convened meeting of the Shareholders of the Company.

Amounts paid to Can Terra Financial Inc. occurred in the normal course of business and at fair market value.

10. Financial instrument risk management

The Company, as part of its operations, carries a number of financial instruments which result in exposure to the following risks: credit risk, market risk and liquidity risk.

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

The Company's risk management policies and procedures include the following:
- Ensure all activities are consistent with the mission, vision and values of the Company;
- Balance risk and return;
  - Manage credit, market and liquidity risk through preventative and detective controls;
  - Ensure credit quality is maintained;
  - Ensure credit, market, and liquidity risk is maintained at acceptable levels
  - Diversify risk in transactions and loan portfolios;
  - Price according to risk taken; and
  - Using consistent credit risk exposure tools.

The risk policies, procedures and objectives have not changed significantly from the prior year.

Credit risk

Credit risk is the risk of loss resulting from the failure of a borrower or counterparty to honour its financial or contractual obligations to the Company. Credit risk primarily arises from mortgages receivable. Management and the Board of Directors review and update the credit risk policy annually. The Company's maximum credit risk exposure before taking into account any collateral held is the carrying amount of loans as disclosed on the statement of financial position. See Note 5 for further information.

Credit risk management

The Company uses a risk management process for its credit portfolio. The risk management process starts at the time of a loan application and continues until the loan is fully repaid. Management of credit risk is established in policies and procedures by the Board of Directors.

The primary credit risk management policies and procedures include the following:

- Loan security (collateral) requirements:
  - Security valuation processes, including method used to determine the value of real property and personal property when that property is subject to a mortgage of other charge; and
  - Maximum loan to value ratios where a mortgage or other charge on real or personal property is taken as security
- Borrower capacity (repayment ability) requirements;
- Borrower character requirements;
- Limits on aggregate credit exposure per individual and/or related parties;
- Limits on types of credit facilities and services offered;
- Internal loan approval processes;
- Loan documentation standards;
- Loan renegotiation, extension and renewal processes;
- Processes that identify adverse situations and trends, including risks associated with economic, geographic and industry sectors;
- Control and monitoring processes including portfolio risk identification and delinquency tolerances;
- Timely loan analysis processes to identify, assess and manage delinquent and impaired loans; and,
- Collection processes that include action plans for deteriorating loans.

Credit commitments

The Company has commitments to extend credit representing unused portions of loan authorizations. The amounts shown on the table below do not necessarily represent future cash requirements since many commitments will expire or terminate without being funded.

The Company had the following outstanding financial instruments subject to credit risk:

	2017	*2016*
Commitments to extend credit	**650,000**	677,000

Market risk

Market risk is the risk of loss in value of financial instruments that may arise from changes in market factors such as interest rates, equity prices and credit spreads. The Company's exposure changes depending on market conditions. Market risks that have a significant impact to the Company include fair value and interest rate risk.

Fair value risk

Fair value risk is the potential for loss from an adverse movement in the value of a financial instrument. The Company incurs fair value risk on its mortgages receivable. The Company does not hedge its fair value risk. See Note 11 for further information on fair value of financial instruments.

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument might be adversely affected by a change in the interest rates. Changes in market interest rates may have an effect on the cash flows associated with some financial assets and liabilities, known as cash flow risk, and on the fair value of other financial assets or liabilities, known as price risk. The Company incurs interest rate risk on its mortgages receivable, bank line of credit and banker's acceptance notes.

Contractual re-pricing and maturity

The following schedule identifies interest rate risk as prescribed by *IFRS 7 Financial Instruments: Disclosures*. All financial instruments are reported based on the earlier of their contractual re-pricing date or maturity date.

The schedule does not identify management's expectations of future events where re-pricing and maturity dates differ from contractual dates.

Interest rate re-price

	Within 6 months	*Over 6 months to 1 year*	*Over 1 year to 2 years*	*Over 2 years to 3 years*	*Not interest sensitive*	***2017 Total***	*2016 Total*
Assets							
Accrued interest receivable	-	-	-	-	290,238	**290,238**	273,752
Mortgages receivable	17,057,418	20,619,971	2,400,930	-	-	**40,078,319**	32,269,714
effective interest rate %	*9.39 %*	*9.13 %*	*9.33 %*	-	-	***9.25 %***	*9.29 %*
	17,057,418	20,619,971	2,400,930	-	290,238	**40,368,557**	32,543,466
Liabilities							
Bank indebtedness	4,466,729	-	-	-	-	**4,466,729**	837,855
effective interest rate %	*4.05 %*	-	-	-	-	**4.05 %**	3.55 %
Dividend payable	-	-	-	-	2,414,356	**2,414,356**	2,117,192
	4,466,729	-	-	-	-	**6,881,085**	2,955,047

Based on the current financial instruments, it is estimated that a 1.0% increase in the prime interest rate would decrease financial margin by $44,667 (2016 - $8,378). A 1.0% decrease in the prime interest rate would increase financial margin by $44,667 (2016 - $8,378).

Liquidity risk

Liquidity risk is the risk that the Company cannot meet a demand for cash or fund its obligations as they come due. The Company's management oversees the Company's liquidity risk to ensure the Company has access to enough readily available funds to cover its financial obligations as they come due.

11. Fair value measurements

Recurring fair value measurements

The Company's assets and liabilities measured at fair value on a recurring basis have been categorized into the fair value hierarchy as follows:

	2017 Fair Value	***Level 1***	***Level 2***	***Level 3***
Assets				
Liabilities				
Financial liabilities at fair value through profit or loss				
Bank indebtedness	**(4,466,729)**	**(4,466,729)**	**-**	**-**
Total recurring fair value measurements	**4,466,729**	**4,466,729**	**-**	**-**

	2016 Fair Value	*Level 1*	*Level 2*	*Level 3*
Assets				
Liabilities				
Financial liabilities at fair value through profit or loss				
Bank indebtedness	(837,855)	(837,855)	-	-
Total recurring fair value measurements	837,855	837,855	-	-

Transfers between levels of the fair value hierarchy

The Company's policy for when transfers between the levels of the fair value hierarchy are deemed to have occurred, is at the date of the event or change in circumstances that caused the transfer. No such transfers occurred during the year.

Asset and liabilities for which fair value is only disclosed

The following table analyses within the fair value hierarchy the Company's assets and liabilities (by class) not measured at fair value at December 31, 2017 but for which fair value is disclosed:

The Company's assets and liabilities not measured at fair value but for which fair value is disclosed, have been categorized into the fair value hierarchy as follows:

	2017 Fair Value	***Level 1***	***Level 2***	***Level 3***
Assets				
Accrued interest receivable	**290,238**	**-**	**290,238**	**-**
Mortgages receivable	**40,078,319**	**-**	**40,078,319**	**-**
Total assets	**40,368,557**	**-**	**40,368,557**	**-**
Liabilities				
Dividends payable	**2,414,356**	**-**	**2,414,356**	**-**

	2016 Fair Value	*Level 1*	*Level 2*	*Level 3*
Assets				
Accrued interest receivable	273,752	-	273,752	-
Mortgages receivable	32,269,714	-	32,269,714	-
Total assets	32,543,466	-	32,543,466	-
Liabilities				
Dividends payable	2,117,192	-	2,117,192	-

Fair value hierarchy

Financial instruments which are accounted for at fair value on the Company's statement of financial position are categorized in levels depending on the extent to which the instruments are measured at fair value using quoted market prices or observable or unobservable inputs to valuation models.

Level 1 financial instruments represent instruments measured at fair value using unadjusted market prices for identical assets or liabilities.

Level 2 reflects instances where observable market inputs other than quoted market prices are used to price instruments.

Level 3 reflects financial instruments that are measured at fair value with significant inputs based upon an entity's own internally generated assumptions in the valuation model.

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

As at December 31, 2017 and December 31, 2016, all financial instruments measured at fair value on the statement of financial position have been classified to Level 2; measured using inputs other than quoted prices in active markets that are observable for the asset or liability, either directly or indirectly.

12. Capital management

The Company's objective when managing capital is to maximize shareholder returns while ensuring that the Company is capitalized in a manner which supports its mortgage investments and working capital needs. The Company's capital management practices are focused on preserving the quality of its financial position by maintaining a solid capital base.

Capital of the Company is comprised of shareholders' equity of $33,495,080 (2016 - $29,596,027) and bank line of credit of $4,466,729 (2016 - $837,855). The Company's capital is primarily utilized in its ongoing business operations through reinvestment in mortgages. There were no changes in the Company's approach to capital management during the year.

Item 13. CERTIFICATE AND DATE

CERTIFICATE

Dated: May 15, 2018

This Offering Memorandum does not contain a misrepresentation.

CLASSIC MORTGAGE CORPORATION

GIOVANNI (JOHN) MERCURI
President (Chief Executive Officer)

E. FRANCA MERCURI
Secretary-Treasurer (Chief Financial Officer)

ON BEHALF OF THE DIRECTORS

GIOVANNI (JOHN) MERCURI
Director

MORLEY G. McEWEN
Director