**Providus Mortgage Investment Corporation**
**Offering Memorandum**

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|---|---|
| **Date:** | May 26, 2016 |

**<u>THE ISSUER</u>**

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|---|---|
| Name: | Providus Mortgage Investment Corporation |
| Head Office: | 203 – 1755 West Broadway, Vancouver, BC Canada V6J 4S5<br>Tel: (604) 662-8003<br>Fax: (604) 484-4448<br>Email: info@providus.ca |
| Currently listed or quoted: | **These securities do not trade on any exchange or market.** |
| Reporting issuer: | No |
| SEDAR filer: | No |

**<u>THE OFFERING</u>**

| | |
|---|---|
| Securities offered: | Series 1 Class "A" Preferred Non-Voting Shares |
| Price per security: | $1.00 per Share |
| Min/Max offering: | $0 / $10,000,000<br>**There is no minimum offering. You may be the only purchaser. Funds available under the offering may not be sufficient to accomplish the Company's proposed objectives.** |
| Minimum Subscription: | There is no minimum subscription amount an investor must invest. |
| Payment terms: | The subscription price for securities purchased is payable in full on the applicable closing of the offering. See Item 5.2, "Subscription Procedure". |
| Proposed closing date(s): | The board of directors will determine the closing date(s) as subscriptions are received. |
| Income tax consequences: | There are important tax consequences to these securities. See Item 6, "Income Tax Consequences and RRSP Eligibility". |
| Selling agent: | None. A selling agent has not been appointed. Securities may be distributed by any properly registered dealer, or by the Issuer. |
| Resale restrictions: | You will be restricted from selling your securities for an indefinite period. See Item 10, "Resale Restrictions". |
| Purchaser's rights: | You have 2 business days to cancel your agreement to purchase these securities. If there is a misrepresentation in this offering memorandum, you have the right to sue either for damages or to cancel the agreement. See Item 11, "Purchaser's Rights". |

**No securities regulatory authority or regulator has assessed the merits of these securities or reviewed this offering memorandum. Any representation to the contrary is an offence.**

**This is a risky investment. See Item 8, "Risk Factors".**

## Item 1: Use of Available Funds

### 1.1 *Funds*

The funds that will be available to Providus Mortgage Investment Corporation (the "Company") from this offering, together with the funds that will be available from other sources, are set out in the following table.

| | Description | Assuming Min. Offering | Assuming Max. Offering |
|---|---|---|---|
| A. | Amount to be raised by this offering | $0 | 10,000,000 |
| B. | Selling commissions and fees [(1)] | $0 | 500,000 |
| C. | Estimated offering costs (e.g. legal, accounting, audit.) | $10,000 | 10,000 |
| D. | Available funds: D=A-(B+C) | ($10,000) | 9,490,000 |
| E. | Additional sources of funding available [(2)] | $6,285,000 | 6,285,000 |
| F. | Working capital deficiency | $0 | 0 |
| G. | Total: H=(D+E)-F | $6,275,000 | 15,775,000 |

(1) Selling commissions and fees, when applicable, may comprise of referral fees to non-registered "finders", or of commissions and fees paid to registered dealers based on their own fee schedules. Commissions and fees will not be applicable on shares purchased directly from the Company. See Item 7, "Compensation Paid to Agents".

(2) The Company has previously raised $6,285,000 in Preferred Shares and short-term debt in reliance on certain prospectus and capital raising exemptions available under National Instrument 45-106 - *Prospectus and Registration Exemptions*.

### 1.2 *Use of Available Funds*

| Description of intended use of available funds listed in order of priority[(1)] | Assuming Min. Offering | Assuming Max. Offering |
|---|---|---|
| Investment in mortgages in Western Canada[(2)] | $6,100,000 | 15,325,000 |
| Working Capital | $175,000 | 450,000 |
| Total[(3)] | $6,275,000 | 15,775,000 |

(1) All figures are projections based on twelve months of operations subsequent to the date of this Offering Memorandum.

(2) Four mortgages are currently outstanding. This figure includes accrued interest receivable. The remainder under "Maximum Offering" assumes sufficient lending opportunities will be available. See Item 2.7, "Material Agreements" and Item 8, "Risk Factors".

(3) Amounts for operating expenses, management fees, and dividend distributions are not expected to be paid from the proceeds of this distribution. Since the Company is operational and profitable, these amounts have been, and are expected to continue to be, paid out of current mortgage income and working capital. Amounts for these items are expected to be approximately proportional to amounts paid in our previous operating year. See Item 12, "Financial Statements".

### 1.3 *Reallocation*

The Company intends to spend the available funds as stated. The Company will reallocate funds only for sound business reasons.

## Item 2: Business of Providus Mortgage Investment Corporation

### 2.1 *Structure*

The Company is a corporation incorporated on February 8, 2013 under the federal laws of Canada to carry on business as a mortgage investment corporation within the meaning of the *Income Tax Act* (Canada) by investing directly or indirectly in a portfolio of mortgages and real estate secured financing transactions. The Company is registered with the British Columbia Financial Institutions Commission ("FICOM") under registration number X300158.

### 2.2 *Our Business*

**Overview**

The Company is a "mortgage investment corporation" ("MIC"). Its business is to make loans to developers of residential, commercial, and/or mixed used properties. These loans will be secured by first and/or second mortgages, and may occasionally include third mortgages, on real estate properties located in Western Canada with the Lower Mainland of British Columbia being its main geographical focus.

The Company earns most of its income from the interest paid on these mortgages, and some additional income from a portion of mortgage application, placement, discharge, and other related fees paid by borrowers. To the extent that the Company's funds are not invested in loans from time to time, they will be held in cash deposited with a Canadian chartered bank. The balance of its income may be earned from short term rental of properties it may acquire from foreclosures under mortgages held by it and capital gains when such properties are sold.

**Taxation of a MIC**

Under the *Income Tax Act* (Canada), a MIC is not taxed on its net income if such income is distributed annually to its shareholders. Therefore, to qualify as a MIC and receive this favourable treatment, the Company will distribute all of its net income to holders of its Series 1 Class A Non-voting Preferred Shares ("Preferred Shares") by way of dividends within the time period specified in the *Income Tax Act* (Canada).

Dividends are paid quarterly, with an additional annual dividend paid after year-end to distribute any remaining unpaid net profit. At the election of shareholders, dividends may be paid in cash or in additional Preferred Shares. All dividends are subject to tax as described in Item 6, "Income Tax Consequences and RRSP Eligibility".

**Business Restrictions of a MIC**

To qualify as a MIC the Company is also restricted by the *Income Tax Act* (Canada) to carrying on the following activities:

A. its business must be passive and of an investment nature (therefore, the Company cannot actively manage or develop residential or commercial real estate properties); and
B. its only business can be the investment of funds.

Furthermore, the investments that the Company as a MIC can make are subject to the following restrictions:

a) at least 50% of the cost amount of all of its assets must consist of bank deposits or debts secured on Canadian homes or housing projects;

b) no more than 25% of the cost amount of all of its assets can consist of ownership of, or lease interests in, real estate unless acquired through foreclosure;

c) the Company cannot invest its funds in:

1. real estate located outside Canada or in leasehold interests in such real estate;

2. debts of persons not resident in Canada unless the debt is secured by a mortgage on real estate located within Canada;

3. shares of corporations not resident in Canada; and

d) its net leveraging (the ratio of the amount of its outstanding liabilities to the amount by which the cost of its assets exceeds its liabilities) cannot exceed a 3:1 ratio unless more than two-thirds of its investments are in residential mortgages and bank deposits, in which case its net leveraging cannot exceed a 5:1 ratio.

**Return on Investment**

As a MIC, the Company distributes all of its net income to shareholders annually as dividends. The dividends that shareholders receive are determined annually by its directors as at its December 31st financial year end. A distribution of dividends will only occur in the event of positive net income, and cannot be guaranteed.

Time-weighted returns to investors since inception were:

| | |
|---|---|
| 10.02% | (2015) |
| 9.11% | (2014) |
| 7.66% | (2013) (annualized). |

The factors which affect the amount of such dividends are described in Item 8, "Risk Factors". Published rates of return are averages for all of its holders of Preferred Shares ("Preferred Shareholders") and may not reflect the return received by any one Preferred Shareholder.

**Management of Providus Mortgage Investment Corporation**

To provide for the management of its business the Company entered into an administration and management services agreement (the "Management Agreement") dated as of January 2, 2014 with Providus Management Limited (the "Manager").

The Management Agreement has an indefinite term and continues without any further action required by the Company or the Manager. The Management Agreement may be terminated by either party on 90 days written notice, or immediately by either party if:

(i) the other party shall cease to carry on business, become bankrupt or insolvent, resolve to wind up or liquidate or if a receiver of any of the assets of the other party is appointed;

(ii) the other party shall commit any material breach of the provisions thereof and shall not have remedied such breach within 30 days after written notice requiring the same to be remedied; or

(iii) the other party shall commit any material fraudulent act in the performance of any of its obligations thereunder or any material deliberate misrepresentation thereunder,

provided, however, that rights already accrued at the time of termination of the Management Agreement shall not be affected by such termination.

Under the Management Agreement, the Manager is to provide administrative and management services to the Company, including:

(a) using reasonable efforts to arrange, and direct, financing and capital raising activities for the Company as required, including the preparation of offering documents and marketing materials and engaging sales agents;

(b) liaising on behalf of the Company with dealers, institutions and investors regarding sales of securities of the Company and responding to shareholders' enquiries;

(c) selecting, retaining, supervising, removing and conducting relations on behalf of the Company with service providers engaged in the operations of the Company, and any replacements, including without limitation, accountants, lawyers, transfer agents, trustees, brokers, administrators and other service providers and professional advisers;

(d) maintaining the books and financial records of the Company;

(e) arranging for and directing the preparation and dissemination of reports and other information required to be sent to shareholders, including periodic shareholder statements, annual tax information and all other communications with shareholders as required from time to time, and all documentation relating to, and arranging for, shareholders meetings, if any;

(f) arranging for and directing the processing of the payment of interest and distributions by the Company to their shareholders and the administration of the Company's dividend reinvestment plans;

(g) arranging for and directing registrar and transfer agent services for the Company, including without limitation, the processing and registration of subscriptions for, and transfers and redemptions of, Preferred Shares, the maintenance of the shareholders registers and direct registration system, and transaction reporting as required;

(h) coordinating and directing the preparation of financial statements and other disclosure and reporting documents and regulatory filings;

(i) administering the day-to-day affairs of the Company and providing, or arranging for, all necessary personnel, office facilities, telephone, fax and other communication services, office supplies, banking, custodian and bookkeeping and internal accounting and audit services, including preparation of tax returns, annual returns, corporate and regulatory filings and other usual and ordinary office services;

(j) if advisable, acting on behalf of the Company as its nominee or agent in connection with the services contemplated herein, including the execution of agreements or other instruments in writing for or on behalf of the Company;

(k) performing such other services or acts as shall be reasonably necessary or ancillary to the matters set out above or as the Company may from time to time reasonably request;

(l) referring potential investment opportunities that are applicable to a MIC to the Company; and

(m) assisting the Company with all due diligence matters and helping to coordinate and attend to all other matters to facilitate the closing of each loan transaction.

The Management Agreement provides that the Manager will be paid a management fee (the "Management Fee") for its administrative and management services of an amount equal to 1/12 of 2% of the weighted average of the principal amount of all capital deployed for the purpose of investing in mortgage loans as at the end of each month.

The Management Agreement stipulates that the Company shall be responsible for all expenses incurred in respect of the carrying on of its business. Without limiting the generality of the foregoing, such expenses may consist of:

(a) commissions and brokerage fees on the purchase and sale of eligible investments;

(b) taxes of all kinds to which the Company is or might be subject;

(c) interest expense;

(d) legal, audit, registrar, and transfer agent fees;

(e) insurance, custody, and safekeeping charges;

(f) operating and administrative fees, costs, and expenses;

(g) expenses relating to the issue, redesignation, and redemption of Preferred Shares, including dealer compensation programmes and any advertising, marketing, sponsorship, and promotional costs and expenses (other than deferred sales charges, which are the responsibility of Shareholders);

(h) costs and expenses of all financial statements and reports to Shareholders, the provision of information to Shareholders, the holding of meetings of Shareholders, all Disclosure Documents, all amendments to or renewals thereof, and all other documents as may be required to comply with Securities Legislation or other applicable laws, regulations, and policies, or as may be deemed beneficial to Shareholders by the Manager;

(i) fees and expenses payable to independent directors of the Manager or any other advisory body appointed by the Company or the Manager as compensation for considering matters relating to the Company; and

(j) any regulatory fees and expenses payable by the Manager in connection with it acting as Administrator of the Company.

Where the Manager may, from time-to-time, incur expenses in the operation of the business of the Company that are the responsibility of the Company, the Manager is entitled to recovery of such expenses and the Company will reimburse the Manager.

**Investment Strategy**

The Company's investment strategy is specifically intended to qualify for the special tax treatment afforded to MICs under the *Income Tax Act* (Canada). For this reason, the majority of its funds are invested in residential mortgage loans. In particular, the Company will focus on short to intermediate loans (typically 12 to 36 months) to assist developers in constructing residential and/or mixed-use development projects. These loans may include first and/or second mortgages which will normally comprise 75-100% of the Company's loan portfolio. In addition, the Company may invest up to 25% of its assets in short-term (typically 6 months to 24 months) land loans, bridge loans, third mortgages, and commercial developments.

No funds are ever loaned to one of its principals or officers. The Company endeavours to ensure that the types of mortgage loans the Company has invested in, and will continue to invest in, are consistent with the criteria for a MIC under the *Income Tax Act* (Canada). By adhering to these *Income Tax Act* (Canada) criteria, the Company should be accorded the 'flow through' tax treatment given to MICs which results in no tax obligations arising in respect of its net income, all of which is distributed in the form of dividends to its Preferred Shareholders.

See Item 6, "Income Tax Consequences and RRSP Eligibility".

**Competitive Environment**

In an environment of low yields for traditional fixed income investments, MICs have been attracting more capital in search of enhanced returns. This inflow has led to an increase in the overall number of MICs, more capital competing for the same number of mortgage opportunities, and general downward pressure on interest rates for available loans.

The Company uses its competitive advantages to address these challenges:

- We use our many business relationships, such as with mortgage brokers and property developers, that have been developed over many years to find and attract appropriate lending opportunities. Our relationships give us access to many opportunities that are not generally available to other MICs.
- Our experience in the industry gives us a flexible approach in formatting innovative loan structures to create win-win scenarios that many other firms have not generally been able to replicate.
- Our size enables us to react very quickly to opportunities and threats facing our business. We do not have layers of bureaucracy, and we can complete a thorough analysis of each opportunity in a time frame that gives us a 'first mover' advantage.
- We approach each loan with a risk-reducing approach. We work with borrowers to ensure that each loan proposal provides all parties with a beneficial exit strategy, even in worst-case scenarios.
- Importantly, we review each opportunity with a strict diligence process to ensure we are receiving appropriate risk-adjusted returns. We would rather turn down a proposal than loan funds at a lower rate than is justified by the risk of a particular opportunity.

## 2.3 *Development of Business*

The Company was incorporated on February 8, 2013 to raise capital to invest in mortgages to be made to developers and other qualified borrowers within the framework of the Company's Investment Strategy.

In three years of operations, the Company has issued a total of eight mortgages and has discharged one. Total assets at the end of 2015 stood at $6,300,000 (2014: $4,700,000).

The Company has been profitable in each year.

## Portfolio Composition

The company's current mortgage portfolio consists of 4 mortgages (to two separate borrowers) with a total value of $6,170,000, including accrued interest of $110,000. The following tables describe the portfolio composition.

a) Composition by Priority:

| | | |
|---|---|---|
| First Mortgages: | 13% | (13%)* |
| Second Mortgages: | 28% | (87%)* |
| Third Mortgages: | 59% | (0%) * |

* The third mortgage is to the same borrower as a second mortgage. Overall we are in second position with this borrower. Adjusting for this priority, our mortgage composition is 13% in first priority, and 87% in second priority.)

b) Composition by Loan-to-Value (LTV) Ratio:

All mortgages had a LTV ratio of less than 60% at the time of commitment, exclusive of additional security (if any), based on an "as-is" valuation. The current composition, by mortgage value, is:

| | |
|---|---|
| $1,100,000 | <70% LTV |
| $3,670,000 | 70 - 80% LTV |
| $1,400,000 | > 80% LTV |

The entire portfolio currently has a weighted average LTV ratio of 78% on a completed project and/or recovery basis. (see "Mortgage in Default" below)

No loans are considered by management to be impaired.

c) Composition by Geographic Area:

| | |
|---|---|
| Lower Mainland: | 77% |
| Sunshine Coast: | 23% |

## Mortgages in Default

Two mortgages (to the same borrower), in the total outstanding amount of $1,400,000, are currently in default. The Company has collected all interest due up to September 2015, and is accruing interest from that time to present. The company has commenced enforcing its rights through foreclosure, and believes that its security is sufficient to recover all amounts owing.

The Company has first and second mortgages on the lands and buildings of the borrower, a third mortgage on the principal residence of the borrower, and personal and corporate guarantees by the borrower. The real properties have all either been sold and approved by the courts, or under firm contract awaiting court approval. Upon closing of these properties there will be sufficient proceeds to repay all principal and interest amounts owing to the Company.

See also Item 2.7, “Material Agreements”.

## 2.4 *Long Term Objectives*

The Company’s long term objectives are:

- to maintain a diversified investment portfolio of first and second mortgages and other investment permitted by the *Income Tax Act* (Canada) for a MIC;

- to provide Preferred Shareholders with sustainable income while preserving capital for distribution and/or re-investment;

- to continue the development of its business and take a measured approach to increase the capital base invested in the Company to have $20 million under management by the year 2020. The cost to achieve this objective will be the costs associated with the preparation and filing of this Offering Memorandum, including professional fees and compensation paid to sellers and finders where applicable, together with the expenses set out in Item 1.2, “Use of Available Funds”; and

- to ensure that such capital growth occurs at a measured rate that will enable the Company to source and invest in prudent mortgage loans, in order to maximize its Preferred Shareholders’ capital rate of return while minimizing risk. There cannot be any assurance, however, of the actual rate of future returns.

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

The Company’s business objective for the next 12 months is to complete this offering and to invest most of the available funds from this offering in mortgage loans in British Columbia, Alberta or such other provinces as the Company may determine as described in Item 2.2, “Our Business - Investment Strategy” above.

| What we must do and how do we do it | Target completion date or, if not known, number of months to complete | Our cost to complete |
|---|---|---|
| To provide Preferred Shareholders with sustainable income while preserving capital for distribution and/or re-investment. The Company will seek to achieve this investment objective by investing in | Ongoing. | N/A (1) |

| | | |
|---|---|---|
| mortgage loans. The Company's income will primarily consist of interest received on the mortgage loans, less the amount payable to the Manager in consideration of the services provided under the Management Agreement and net of any administration service fees payable to the Company's employees, if any, its officers or financial agents, if any, who sell Preferred Shares. | | |

(1) The Company is currently engaged in this activity. Funds raised from this offering will be used to increase the scale of the business, and the costs associated with the increase will be approximately proportional to current costs. See Item 12, "Financial Statements".

## 2.6 *Insufficient Funds*

Not applicable. The company already has operating funds and has mortgages outstanding.

## 2.7 *Material Agreements*

The Company currently is a party to the following material contracts:

(a) Management Agreement between the Company and the Manager dated January 2, 2014 (see Item 2.2, "Our Business - Management of Providus Mortgage Investment Corporation");

(b) Transfer Agent, Registrar and Dividend Disbursing Agent Agreement with Computershare Investor Services, Inc. ("Computershare") dated April 8, 2013, whereby Computershare provides investor services for the Company;

(c) Subscription Agreements between each subscriber for Preferred Shares and the Company, pursuant to which the subscriber will agree to subscribe for Preferred Shares on the terms and conditions described in this Offering;

(d) a Promissory Note payable to a Preferred Shareholder, with a remaining balance of $925,000 at an interest rate of 7.975% calculated and compounded daily, and expiring December 31, 2016. The Company has also secured an option to increase the amount of the loan to $2,000,000;

(e) Promissory Notes to two Preferred Shareholders with a total balance of $900,000 at an interest rate of 10.50%, calculated monthly and compounded semiannually, and expiring September 30, 2016. The notes were taken out specifically to assist in funding of a project with a rate of return higher than the interest rate of the notes;

(f) various mortgages as negotiated with borrowers in accordance with our investment strategy, lending criteria, and the business restrictions of a MIC, as described in Items 2.2, "Our Business" and 2.3, "Development of Business".

## 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 the Company's directors and officers and each person who, directly or indirectly, beneficially owns or controls more than 10% of its voting securities (a "Principal Holder").

| Name and municipality of principal residence | Positions held and the date of obtaining that position | Compensation paid by us in the most recently completed financial year (and the compensation anticipated to be paid in the current financial year) | Number, type and percentage of securities of the issuer held after completion of minimum offering | Number, type and percentage of securities of the issuer held after completion of maximum offering |
|---|---|---|---|---|
| Clement Chung Vancouver, BC | Director, President, and Principal Holder February 8, 2013 | \$150,000 (2015) \$150,000 (2016) see note (1) below | 25 Common Shares (25%) | 25 Common Shares (25%) |
| Emily Ho Vancouver, BC | Principal Holder, October 15, 2013 | Nil | 25 Common Shares (25%) | 25 Common Shares (25%) |
| Eva Lee Richmond, BC | Director, Principal Holder December 23, 2013 | Nil | 16 Common Shares (16%), 58,541 Series 1 Class A Preferred Shares (1.3%) | 16 Common Shares (16%), 58,541 Series 1 Class A Preferred Shares (0.4%) |
| Michael Sorba Vancouver, BC | Director and Principal Holder February 8, 2013 Secretary January 31, 2014 | Nil | 25 Common Shares (25%), 77,463 Series 1 Class A Preferred Shares (1.7%) | 25 Common Shares (25%), 77,463 Series 1 Class A Preferred Shares (0.5%) |

(1) These amounts are paid by the Manager (as described in Item 2.2, "Our Business – Management of Providus Mortgage Investment Corporation") and are included in the management fees paid by the Company. Mr. Chung is the holder of the mortgage broker

license required by FICOM, and the amounts paid are in relation to mortgage brokerage activities performed for the Company.

### 3.2 *Management Experience*

The following table discloses the principal occupations of its directors and executive officers over the past five years and their relevant experience in businesses similar to the Company's.

| Name | Principal occupations and related experience |
|---|---|
| Clement Chung | Director and President of the Company since its inception. Designated Individual for the Company as per FICOM registration rules. Licensed submortgage broker specifically for the Company. Over 13 years of mortgage underwriting experience and over 25 years of experience in real estate investment, development, and management with the last 13 years being in British Columbia, Alberta, Washington and California. |
| Eva Lee | Director of the Company. A Chartered Accountant with 30 years of experience in accounting, auditing, tax and forensic accounting. Also a member of the Association of Certified Fraud Examiners and the Hong Kong Institute of Certified Public Accountants. |
| Michael Sorba | Director and Secretary of the Company. A Chartered Financial Analyst and a registered Portfolio Manager with over 20 years of experience in the investment industry, including 10 years in the area of investment fund development and management. |

### 3.3 *Penalties, Sanctions and Bankruptcy*

None of its directors, executive officers or control persons or issuers of which they were a director, executive officer or control person at the time, has been at 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) 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*

The Company is not indebted to any of its directors, management, promoters and principal holders, nor are any of them indebted to us.

**Item 4: Capital Structure**

**4.1 *Share Capital***

The Company's 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 | Number outstanding after min. offering | Number outstanding after max. offering |
|---|---|---|---|---|---|
| Voting Common | Unlimited | $1.00 | 100 | 100 | 100 |
| Class A Preferred | Unlimited | N/A. | 0 | 0 | 0 |
| Series 1 Class A Preferred Non-Voting | Unlimited | $1.00 | 4,507,866 | 4,507,866 | 14,507,866 |
| Class B Preferred | Unlimited | N/A. | 0 | 0 | 0 |
| Class C Preferred | Unlimited | N/A. | 0 | 0 | 0 |
| Class D Preferred | Unlimited | N/A. | 0 | 0 | 0 |

**4.2 *Long Term Debt***

The Company has no long-term debt other than Preferred Shares as outlined in Item 4.1, "Share Capital", which are itemized as a liability in the Company's financial statements.

**4.3 *Prior Sales***

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

| Date of issuance | Type of security issued | Number of securities issued | Price per security | Total funds received |
|---|---|---|---|---|
| March 27, 2015 | Preferred Shares, Series 1, Class A | 184,117 | $1.00 | $184,117 |

| | | | | |
|---|---|---|---|---|
| April 23 – 30, 2015 | Preferred Shares, Series 1, Class A | 632,024 | $1.00 | $632,024 |
| May 8, 2015 | Preferred Shares, Series 1, Class A | 19,910 | $1.00 | $19,910 |
| July 23, 2015 | Preferred Shares, Series 1, Class A | 465,868 | $1.00 | $465,868 |
| August 28, 2015 | Preferred Shares, Series 1, Class A | 15,000 | $1.00 | $15,000 |
| October 22, 2015 | Preferred Shares, Series 1, Class A | 31,583 | $1.00 | $31,583 |
| January 22, 2016 | Preferred Shares, Series 1, Class A | 32,306 | $1.00 | $32,306 |
| February 24, 2016 | Preferred Shares, Series 1, Class A | 25,000 | $1.00 | $25,000 |
| March 21, 2016 | Preferred Shares, Series 1, Class A | 46,009 | $1.00 | $46,009 |

## Item 5 - Securities Offered

### *5.1 Terms of Securities*

The securities being offered for sale by this Offering Memorandum are Series 1, Class A Non-voting Preferred shares.

All shares issued to date are, and those issued pursuant to this Offering Memorandum shall be, fully paid and non-assessable.

*Voting*

The Company's Preferred Shares do not have any right to vote except in respect of any amendment to their special rights and privileges or as required by law.

*Conversion*

Neither voting Common shares ("Common Shares") nor Preferred Shares are convertible into any other form of share or security.

*Dividends*

Holders of Preferred Shares are entitled to receive pari passu and rateably according to the length of time since allotment as declared in the discretion of the directors of the Company, all of the profits of the Company available for the payment of dividends. Any dividends declared on the Preferred Shares shall be rateably adjusted for the period of time since the date of the last dividend of the Company and, on any Preferred Shares issued or allotted since that date, the period of time since the date of issue or allotment.

Subject to the discretion of the directors, the Company intends to declare a quarterly dividend to the Preferred Shareholders in an amount equal to between 1% and 2% of the price of the Preferred Shares, and to declare an annual dividend to the Preferred Shareholders of record in an amount equal to the difference between the profits of the Company (after payment of the Management Fee, operating expenses and the Seller/Finder's fee as described in Item 7, "Compensation Paid to Agents") less the amount paid to the Preferred Shareholders by way of quarterly dividends. The Company intends to pay such dividends on the dividend declaration date.

The payment of dividends may be made by the issuance of further Preferred Shares or by way of cash, as decided by the Preferred Shareholder.

Common Shares are not entitled to dividends.

*Dividend Reinvestment Plan*

The Company has a dividend reinvestment plan (the "DRIP") entitling Preferred Shareholders to reinvest all cash distributions made by the Company into additional Preferred Shares of the Company. Pursuant to the DRIP, the Company may issue Preferred Shares under a dividend reinvestment at the Issue Price.

Participation in the DRIP is open to Preferred Shareholders, other than those who are resident, or present, in the United States. If a participant in the DRIP plan is not resident in Canada, then participation in the DRIP will be subject to applicable withholding tax. No brokerage commissions will be payable in connection with the purchase of Preferred Shares under the DRIP and all administrative costs will be borne by the Company.

*Liquidation Entitlement*

If the Company is liquidated, dissolved or wound-up, the proceeds after payment of all expenses and outstanding indebtedness will be paid to the Preferred Shareholders in proportion to (and up to) the amount paid to the Company for their Preferred Shares. If any net proceeds remain, then the holders of its Common Shares will share in the remaining proceeds in proportion (and up to) the amount paid for their Common Shares. Finally, if any net proceeds remain, the holders of the Common Shares and Preferred Shares shall equally split such remaining proceeds in proportion to the number of shares (Common or Preferred) held. Since the Company pays out all of its net profits each year it is possible that on a liquidation, dissolution, or winding-up its shareholders may not be paid the full amount paid for their shares.

*Transferability*

The Company's shares (both Common Shares and Preferred Shares) are subject to restrictions on transfer:

(a) as contained in the Company's Articles to comply with the provisions of the *Income Tax Act* (Canada) respecting MICs; and

(b) as imposed by applicable securities legislation (see Item 10, “Resale Restrictions”).

The *Income Tax Act* (Canada) requires that a MIC may not have fewer than 20 shareholders and that no one shareholder, together with their spouse, children under the age of 18, and companies controlled by any of them, may hold more than 25% of any class of a MIC’s issued shares. Accordingly, the Company’s by-laws also prohibit any transfer of shares if such transfer would result in the Company having fewer than 20 shareholders or in any one shareholder, together with their spouse, children under the age of 18 and companies controlled by any of them, holding more than 25% of any class of its issued shares.

*Retraction Rights*

Subject to the provisions of applicable laws, the Company may elect to retract the whole or any part of the Preferred Shares outstanding either by invitation for tenders addressed to all the Preferred Shareholders or by private contract at the lowest price at which the Directors feel the Preferred Shares are obtainable. If upon any invitation for tenders the Company receives tenders at the same lowest price for which the Company is willing to pay for an aggregate number of Preferred Shares greater than the number for which the Company is prepared to accept tenders, the Preferred Shares so tendered will be purchased as nearly as may be, pro rata, according to the number of Preferred Shares so tendered by each of the Preferred Shareholders who submitted tenders at the same lowest price.

On the date specified for redemption, the Company will pay to the Preferred Shareholders required to be redeemed the redemption price and all unpaid dividends upon presentation and surrender at the designated place of redemption of the share certificates issued by the Company for such Preferred Shares. If a part only of the Preferred Shares represented by any share certificate is redeemed, a new share certificate for the balance will be issued at the expense of the Company.

*Redemption Rights*

Subject to applicable laws and the other restrictions described below, holders of Preferred Shares may request that the Company redeem the whole or any part of the Preferred Shares held by such Preferred Shareholder.

The right to request a redemption of Preferred Shares is subject to the following restrictions:

(a) Redemption of Shares will not be permitted until the date that is 18 months from the date of issue of the Shares (the “Eligibility Date”).

(b) The Company will hold “Liquidity Events” on April 30 and October 31 (or the next business day thereafter) of each year. Preferred Shareholders may, with a minimum of 60 days prior written notice, request that the Company redeem some or all of the Preferred Shares of that Shareholder on the date of the Liquidity Event. Preferred Shareholders may participate in *one* Liquidity Event per calendar year.

(c) Preferred Shareholders who purchased Shares through an agent or as part of an arrangement where a commission, finder's fee, or other such fee is paid by the Company will be subject to an early redemption fee payable to the Company, calculated as follows:
   - 5% of the redemption price, where the redemption is requested within one year following the Eligibility Date.
   - 3% of the redemption price, where the redemption is requested within two years following the Eligibility Date.
   - 1% of the redemption price, where the redemption is requested within three years following the Eligibility Date.
   - Nil, where the redemption is requested three years or more from the Eligibility Date.

   The Company reserves the right to waive early redemption fees in exceptional circumstances at its sole discretion, including in connection with the redemption of Shares purchased to provide short-term funding for the Company.

(d) Any Preferred Shareholder requesting a redemption at a time that is not a regular Liquidity Event will be subject to an additional 2% redemption fee.

(e) The Company reserves the right, in its sole discretion, to decline, modify or defer redemption requests to the extent necessary or advisable to ensure that the Company has sufficient cash resources or liquid assets to meet its financial commitments or requirements.

(f) The Company will not accept a redemption request if such redemption would result in the loss of the Company's status as a "mortgage investment corporation" under the *Income Tax Act* (Canada) or jeopardize the ability of the Company to maintain reasonable profitability in its portfolio of mortgages. The *Income Tax Act* (Canada) does not permit the Company to make any payment to purchase or redeem any Preferred Shares issued by it if there are reasonable grounds for believing that the Company is, or would be after payment, insolvent.

(g) The Company will not accept a redemption request if such redemption would be prohibited under applicable corporate legislation or otherwise under applicable laws.

### *5.2 Subscription Procedure*

If you wish to subscribe for the Company's Preferred Shares, please complete and sign a subscription agreement, and all schedules thereto, in the form accompanying this Offering Memorandum and return the subscription agreement to us together with a certified cheque, bank draft or money order payable to "Providus Mortgage Investment Corporation" for the number of Preferred Shares you wish to purchase.

All subscription funds will be held by us (as required by law) for a period of at least two business days after the closing of the offering of the Preferred Shares to which such subscription funds relate. Closing will occur as determined by the Company's directors, and a Direct Registration System ("DRS") advice will be sent by mail by our transfer agent following closing.

There are no conditions to any closing occurring, however, the Company reserves the right to not accept any or all subscription funds received, in which case the Company will return the applicable subscription agreement(s) and funds, without interest or deduction.

## Item 6 - Income Tax Consequences and RRSP Eligibility

### *6.1 Caution*

**You should consult your own professional advisers to obtain advice on the tax consequences that apply to you.**

### *6.2 Description of Income Tax Consequences*

The Manager has advised the Company (without the intention of giving tax advice to any investors) that so long as the Company is qualified as a MIC under the *Income Tax Act* (Canada) throughout the year, and if the Company pays out its net income for the year in dividends during the year or within 90 days after the end of the year, the Company may deduct the dividends from the Company's pre-tax income as if they were expenses, and the dividends are taxable in the hands of the shareholders as if they were interest payable on a bond issued by the Company. Accordingly, it is anticipated that for each taxation year of the Company throughout which it qualifies as a "mortgage investment corporation" under the *Income Tax Act* (Canada), the Company will receive "flow-through" treatment and will not be required to pay income taxes on the net earnings from which dividends are paid in each year. Income in excess of the allowable deductible reserves under the *Income Tax Act* (Canada) which is not distributed to shareholders within 90 days of each of the Company's year ends will be subject to ordinary corporate tax under the *Income Tax Act* (Canada).

### *6.3 Eligibility for RRSPs and Other Plans*

The Preferred Shares are qualified investments for a trust governed by a Registered Retirement Savings Plan ("RRSP"), Registered Retirement Income Fund (RRIF), Deferred Profit Share Plan (DPSP), Registered Education Savings Plan (RESP) or Tax Free Savings Account (TFSA) (each, a "Registered Plan") so long as the Company qualifies as a MIC under the *Income Tax Act* (Canada) at December 31, 2013 and at all times thereafter, and if the Company does not hold as part of its property any indebtedness, whether by way of mortgage or otherwise, of a person who is an annuitant under the particular plan or of any other person who does not deal at arm's length with that person. If the Preferred Shares cease to be a qualified investment for a Registered Plan, the Registered Plan will be subject to a penalty tax.

Notwithstanding that the Preferred Shares may be qualified investments for a trust governed by an RRSP, RRIF or TFSA, the annuitant of an RRSP or RRIF, or the holder of a TFSA, will be subject to a penalty tax if such securities are a "prohibited investment" for the

RRSP, RRIF or TFSA. The Preferred Shares will generally be a “prohibited investment” if the annuitant of an RRSP or RRIF, or the holder of a TFSA, does not deal at arm’s length with the Company for purposes of the *Income Tax Act* (Canada) or the annuitant of an RRSP or RRIF, or the holder of the TFSA, has a “significant interest” (within the meaning of the *Income Tax Act* (Canada)) in the Company or a corporation, partnership or trust with which the Company does not deal at arm’s length for purposes of the *Income Tax Act* (Canada). A “significant interest” in a corporation generally means ownership of 10% or more of the issued shares of any class of the capital stock of the corporation (or of any related corporation), either alone or together with persons with which the shareholder does not deal at arm’s length for purposes of the *Income Tax Act* (Canada).

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

## Item 7 - Compensation Paid to Agents

There is no appointed selling agent, and no agent fees or compensation arrangements have been negotiated to date. The Company may pay compensation to an agent who acts as a seller of its Preferred Shares or finder for an investor who wishes to purchase its Preferred Shares.

The compensation payable, where applicable, to a finder will be a negotiated percentage of the gross purchase price of the Preferred Shares subscribed for by an investor who has purchased their Preferred Shares as a result of a referral by a finder.

The Company may also distribute its shares through registered dealers and pay fees to dealers that cover their compliance, diligence, and selling costs according to their published schedules and as may be negotiated between the Company and the dealer.
No compensation will be paid in respect of shares issued directly by the Company.

The Company anticipates that approximately 1/3 of the total amount of this offering will be distributed through each of the three channels. If the maximum number of Preferred Shares (10,000,000) are distributed, the total compensation is anticipated to be a maximum of $500,000.

## 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 other investors in mortgages that are professionally managed by the MIC.

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

In very general terms (see Item 5.1, "Terms of Securities"), you can sell your Preferred 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 your Preferred 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 and/or to create income.

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. Mortgages are subject to uncertainties such as costs of operation, financing, and fluctuating demand for real estate. The following is an overview of some of the specific risks that may apply to the investment in MICs:

- Your Investment is Not Guaranteed: Unlike guaranteed investment certificates (GICs) or money you have deposited in a bank account, your investment in a MIC is not guaranteed by the Canada Deposit Insurance Corporation, by any other government insurer, or by the Company.

- Your Investment May Fluctuate in Value: The value of a MIC's underlying investments changes from day to day, which in turn affects the value of the MIC. Some of the factors that can affect the value of a MIC's investments include:
    - (i) current economic conditions;
    - (ii) changes in interest rates;
    - (iii) undistributed income and expenses;
    - (iv) events in financial markets; and
    - (v) financial conditions of the borrowers to which the MIC has advanced funds.

  As a result of the changing value of the underlying mortgages, the value of your investment in a MIC can go up or down over time, and there is no guarantee that when you sell or redeem your Preferred Shares in the MIC they will be worth the price you paid for them.

- Fluctuations in the Real Estate Market: The primary security component of a MIC is the underlying value of the real estate granted as mortgage security to a MIC by borrowers. The fair market value of real estate fluctuates from time to time.

- Your Investment may be Subject to Changes in Interest Rates: The Company's financing, if any, may from time to time include indebtedness with interest rates which may fluctuate over time and which may result in fluctuations in the Company's cost of borrowing.

- Borrowers may become a Bad Credit Risk: Due to unforeseen circumstances, a borrower's credit-worthiness may deteriorate. The risk is that they may not be able, or may refuse, to repay the loan when it becomes due. While the Company believes its lending policy is conservative and minimal losses are anticipated, if a loss does occur it will be spread over all of its capital. Such losses could amount to a reduction in the anticipated return, or, in the worst circumstances could result in an investor losing part or all of their investment.

- The Company May be Unable to Redeem Your Preferred Shares: Retraction and redemption of shares is subject to the Company having access to sufficient cash or liquid assets and being in compliance with the Canada Business Corporations Act and is also subject to the terms of this Offering Memorandum, as determined solely by the Company. Under certain circumstances, the Company may suspend your right to redeem your Preferred Shares, for example, if the redemption would render the Company insolvent or if it would cause the Company not to meet the requirements for a MIC under the *Income Tax Act* (Canada).

- Its Shares are Subject to Restrictions on Resale: There is no market for the Preferred Shares, the Preferred Shares are not traded on any stock exchange and they may not be resold by Preferred Shareholders to third parties. Therefore, you cannot liquidate your investment through selling your Preferred Shares. See item 10 "Resale Restrictions".

- Short Operating History: The Company has been incorporated for the business purpose outlined in this Offering Memorandum and has a short operating history. The Company's operations are subject to all the risks inherent in the operation of a young business enterprise. The Company cannot guarantee that its investment strategy or development of the Company's business will be successful.

- The Loss of its Key Staff could Adversely Affect Its Business: The Company relies solely on its Manager and its key employees to review suitable investments. The loss of its Manager and/or its key employees would require the Company to retain another manager to perform such services at a possibly higher cost and with less successful investments than its current Manager. This may have a material adverse effect on the rate of return obtained on its capital and, therefore, on the value of your investment in its Preferred Shares. Additionally, the President of the Company is the Designated Individual for FICOM. The loss of the President would require the Company to hire or retain another qualified mortgage broker, possibly at a higher cost, to perform the same services.

- A Change in Tax Legislation could Adversely Affect Its Business: The Company has been created to comply with the MIC requirements of the *Income Tax Act* (Canada). Its Preferred Shares may have the benefits afforded by Registered Plans such as RRSPs, RRIFs, TFSAs and RESPs. While it is not anticipated the *Income Tax Act* (Canada) as it pertains to such registered-funds will change, there is always the possibility that it could be altered so that the Preferred Shares would no longer be eligible investments for such funds. Such changes could have an adverse effect on your investment.

  The Company intends its business to be operated so that it complies at all times with the current requirements for MICs under the *Income Tax Act* (Canada). Failure to meet such requirements could have a material adverse effect on its financial performance. The provisions of the *Income Tax Act* (Canada) could be changed so that its profits could be taxable in its, rather than your, hands. This could affect the value of your investment.

- Risk of Dealing with Trustees: The Company will deal with the trustees of Registered Plans as necessary but will not undertake any responsibility for the administration of any self-directed registered funds by trustees. The trust company of your registered fund may impose conditions upon the Company with which the Company is unable or unwilling to comply. As a result, your trustee may refuse to allow your Preferred Shares to be an eligible investment for your Registered Fund.

- Estimates and Assumptions: Preparation of its financial statements requires the Company to use estimates and assumptions. Accounting for estimates requires the Company to use its judgement to determine the amount to be recorded on its financial statements in connection with these estimates. If the estimates and assumptions are inaccurate, the Company could be required to write down its recorded values. On an ongoing basis, the Company re-evaluate its estimates and assumptions. However, the actual amounts could differ from those based on estimates and assumptions.

- Competition: The earnings of the Company depend on the Company's ability, with the assistance of the Manager, to locate suitable opportunities for investments and re-investments of the Company's funds and on the yields available from time to time on mortgages and other investments. The investment industry in which the Company operates is highly competitive. Competition may restrict the Company's share of the market and available investment opportunities, reduce interest rates and other rates of return and may reduce profit margin.

## Item 9 - Reporting Obligations

### *9.1 Continuous Reporting Documents*

The *Canada Business Corporations Act* governs how the Company conduct its corporate affairs (as opposed to its business affairs).

The Company is not a public company under the *Canada Business Corporations Act*, nor is it a reporting issuer in any jurisdiction in Canada. The Company is not required to send you any documents on an annual or ongoing basis. However, as a Preferred Shareholder of the Company, an investor will receive or be given access to annual audited financial statements in accordance with the *Canada Business Corporations Act*.

The financial statements must be sent to its holders of Common Shares in connection with its annual general meeting of holders of Common Shares held each year. All shareholders are welcome to view the financial statements on request.

From time to time, the Company may send out on its 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.

***Note: We are not required to send you any documents on an annual or on-going basis***

### *9.2 Access to Information about Us*

Since the Preferred Shares are not publicly traded, no corporate or securities information is available from a stock exchange or quotation and trade reporting system. Corporate information about the Company's incorporation, amendments to its constating documents, directors, officers, annual corporate filings and other corporate information can be obtained from Industry Canada through their website at http://www.ic.gc.ca. Certain information about the Company and its share issuances can be found at the British Columbia Securities Commission E-Services website at http://www.bcsc.bc.ca/EServices.

## Item 10 - Resale Restrictions

### *10.1 Overview*

The Preferred 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 applicable securities legislation.

### *10.2 Description of Restricted Period*

Unless permitted under securities legislation, you cannot trade the Preferred Shares before the date that is four months and a day after the date the Company becomes a reporting issuer in any province or territory of Canada. Currently the Company does not have any intention to become a reporting issuer in any Canadian province or territory or a SEDAR (the System for Electronic Document Analysis and Retrieval established by the Canadian Securities Administrators for reporting (public) companies in Canada) filer.

## Item 11 - Purchasers' Rights

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

### 1. Two Day Cancellation Right

You can cancel your agreement to purchase these securities. 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.

### 2. Statutory Rights of Action in the Event of a Misrepresentation

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

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

(b) for damages against the Company, its directors as at the date of this Offering Memorandum and every signatory to this Offering Memorandum.

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

If you intend to rely on the rights described in paragraphs (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 to you of the Preferred Shares. You must commence your action for damages within the earlier of 180 days after learning of the misrepresentation and three years after the issuance to you of the Preferred Shares.

## Item 12 – Financial Statements

Following are our audited financial statements for the financial year completed December 31, 2015.

**Providus Mortgage Investment Corporation**
**Financial Statements**
*December 31, 2015*

## Providus Mortgage Investment Corporation

### Contents

*For the year ended December 31, 2015*

## Independent Auditors' Report

To the Shareholders of Providus Mortgage Investment Corporation:

We have audited the accompanying financial statements of Providus Mortgage Investment Corporation, which comprise the statement of financial position as at December 31, 2015, and the statements of income and other 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 Providus Mortgage Investment Corporation as at December 31, 2015 and its financial performance the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Surrey, British Columbia

May 25, 2016

MNP LLP
Chartered Professional Accountants

*Suite 301 – 15303 31st Avenue, Surrey, British Columbia, V3Z 6X2, Phone: (604) 536-7614, (800) 761-7772*

MNP

## Providus Mortgage Investment Corporation
### Statement of Financial Position
*As at December 31, 2015*

| | *2015* | *2014* |
|---|---|---|
| **Assets** | | |
| **Current** | | |
| Cash and cash equivalents | **157,437** | 156,931 |
| Trade and other receivables | **-** | 6,208 |
| Mortgages receivable *(Note 7)* | **6,115,935** | 3,977,500 |
| Interest receivable *(Note 7)* | **164,013** | 541,016 |
| Prepaid expenses | **2,987** | 3,660 |
| | **6,440,372** | 4,685,315 |
| **Non-current** | | |
| Intangible asset | **-** | 10,979 |
| **Total assets** | **6,440,372** | 4,696,294 |
| **Liabilities** | | |
| **Current** | | |
| Trade and other payables *(Note 8)* | **45,635** | 29,170 |
| Accrued interest payable | **26,370** | 15,108 |
| Deferred revenue | **-** | 1,718 |
| Note payable *(Note 10)* | **1,800,000** | 1,510,000 |
| Dividends payable *(Note 8), (Note 9)* | **201,814** | 145,170 |
| | **2,073,819** | 1,701,166 |
| **Non-current** | | |
| Liability component of redeemable, retractable preferred shares *(Note 11)* | **4,366,453** | 2,995,028 |
| | **6,440,272** | 4,696,194 |
| **Commitment** *(Note 12)* | | |
| **Equity** | | |
| **Share capital** *(Note 13)* | **100** | 100 |
| | **6,440,372** | 4,696,294 |

**Approved on behalf of the Board**

*"Clement Chung"* *"Michael Sorba"*

*The accompanying notes are an integral part of these financial statements*

## Providus Mortgage Investment Corporation
### Income Statement and Other Comprehensive Income
*For the year ended December 31, 2015*

| | | 2015 | | 2014 |
|---|---|---|---|---|
| **Revenue** | | | | |
| Interest | | **707,192** | | 464,081 |
| Fees and other income | | **102,518** | | 48,795 |
| **Total revenue** | | **809,710** | | 512,876 |
| **Expenses** | | | | |
| Administration fees *(Note 8)* | | **79,380** | | 32,800 |
| Advertising and promotion | | **273** | | 1,155 |
| Financial services fees *(Note 8), (Note 18)* | | **103,857** | | 70,733 |
| Insurance | | **7,549** | | 4,637 |
| Interest on long-term debt *(Note 10)* | | **169,776** | | 125,744 |
| Office | | **4,302** | | 2,367 |
| Professional fees | | **37,114** | | 32,544 |
| Rent and occupancy costs | | **10,748** | | 10,701 |
| Travel | | **530** | | 830 |
| | | **413,529** | | 281,511 |
| **Operating profit (loss)** | | **396,181** | | 231,365 |
| Loss on sale of intangible asset *(Note 8)* | | **(8,979)** | | - |
| **Net income and comprehensive income** | | **387,202** | | 231,365 |
| **Earnings per share** | | | | |
| Basic and diluted net income per share *(Note 14)* | $ | 0.1002 | $ | 0.0911 |

*The accompanying notes are an integral part of these financial statements*

## Providus Mortgage Investment Corporation
### Statement of Changes in Equity
*For the year ended December 31, 2015*

| | *Share capital* | *Retained earnings* | *Total equity* |
|---|---|---|---|
| **Balance January 1, 2014** | **100** | **-** | **100** |
| Net income and comprehensive income | **-** | **231,365** | **231,365** |
| Dividends on preferred shares *(Note 9)* | **-** | **(231,365)** | **(231,365)** |
| **Balance December 31, 2014** | **100** | **-** | **100** |
| Net income and comprehensive income | **-** | **387,202** | **387,202** |
| Dividends on preferred shares *(Note 9)* | **-** | **(387,202)** | **(387,202)** |
| **Balance December 31, 2015** | **100** | **-** | **100** |

*The accompanying notes are an integral part of these financial statements*

## Providus Mortgage Investment Corporation
### Statement of Cash Flows
*For the year ended December 31, 2015*

| | 2015 | 2014 |
|---|---|---|
| **Cash provided by (used for) the following activities** | | |
| **Operating activities** | | |
| Net income and comprehensive income | 387,202 | 231,365 |
| Loss on sale of intangible asset | 8,979 | - |
| Amortization of share issuance costs | 14,255 | 12,172 |
| | 410,436 | 243,537 |
| Changes in non-cash working capital accounts | | |
| Trade and other receivables | 6,208 | (6,208) |
| Prepaid expenses | 674 | (3,660) |
| Interest receivable | 377,002 | (331,630) |
| Trade and other payables | 27,728 | 25,345 |
| Deferred revenue | (1,718) | (5,334) |
| Dividends payable | 56,643 | 25,731 |
| | 876,973 | (52,219) |
| **Financing activities** | | |
| Proceeds from issuance of preferred share liability | 1,367,586 | 1,057,577 |
| Dividends paid | (387,202) | (231,365) |
| Share issuance costs | (10,416) | (21,877) |
| Proceeds (repayments) from note payable | 290,000 | (200,000) |
| | 1,259,968 | 604,335 |
| **Investing activities** | | |
| Proceeds from disposal of intangible asset | 2,000 | - |
| Advances of mortgages receivable | (2,138,435) | (695,000) |
| | (2,136,435) | (695,000) |
| **Increase (decrease) in cash resources** | 506 | (142,884) |
| **Cash resouces, beginning of year** | 156,931 | 299,815 |
| **Cash resources, end of year** | 157,437 | 156,931 |
| **Supplementary cash flow information** | | |
| Interest received | 349,355 | 132,451 |
| Interest paid | 143,406 | 110,636 |

*The accompanying notes are an integral part of these financial statements*

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## 1. Reporting entity

Providus Mortgage Investment Corporation (the "Company") was incorporated under the Canada Business Incorporation Act of British Columbia on February 14, 2013. The Company is domiciled in Canada.

The address of the Company's registered office is 1755 West Broadway, Richmond, British Columbia.

The Company makes investments and operates its business at all times in such a manner as to qualify as a mortgage investment corporation ("MIC") under the provisions of the Canadian Income Tax Act. The Company derives its earnings from the receipt of mortgage interest and fees associated with the setup, renewal and discharge of mortgages.

These annual financial statements for the year ended December 31, 2015 were authorized for issuance by the directors of the Company on May 19, 2016.

## 2. Statement of compliance

The financial statements present the results of financial performance and cash flows of the Company for the year ended December 31, 2015, along with the comparative results for the year ended December 31, 2014. These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

## 3. Basis of preparation

***Basis of measurement***

The financial statements have been prepared in the historical basis except for the revaluation of certain non-current assets and financial instruments.

***Functional and presentation currency***

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

***Significant accounting judgments, estimates and assumptions***

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

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

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

***Mortgages receivable***

The Company is required to make an assessment of the impairment of mortgages receivable. The mortgages receivable are considered to be impaired only if objective evidence indicates that one or more events ("loss events") have occurred after its initial recognition, that have a negative effect on the estimated future cash flows of that asset. The estimation of future cash flows include assumptions about local real estate market conditions, market interest rates, availability and terms of financing, underlying value of the security and various other factors. These assumptions are limited by the availability of reliable comparable data, economic uncertainty, ongoing geopolitical concerns and the uncertainty of predictions concerning future events. Illiquid credit markets and volatile equity markets have increased the uncertainty inherent in such estimates and assumptions. As such, by their nature, estimates of impairment are subjective and do not necessarily result in precise determinations. Should the underlying assumptions change, the estimated allowance for impairment losses could vary by a material amount.

**3. Basis of preparation** *(Continued from previous page)*

***Measurement of fair values***

The Company's accounting policies and disclosures require the measurement of fair values for both financial and non-financial assets and liabilities. When measuring the fair value of an asset or liability, the Company uses market observable data where possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 - Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and

Level 3 - Inputs that are not based on observable market data (that is, unobservable inputs).

The Manager/Administrator reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or appraisals are used to measure fair values, the Manager/Administrator will assess the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of IFRS, including the level in the fair value hierarchy in which such valuations should be classified.

The information about the assumptions made in measuring fair value is included in Note 15.

**4. Significant accounting policies**

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

***Cash and cash equivalents***

Cash and cash equivalents comprise cash on hand, demand deposits and short-term highly liquid investments with original maturities of three months or less that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

***Mortgages receivable***

The mortgages receivable are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, the mortgages receivable are measured at amortized cost using the effective interest method, less any impairment losses. The mortgages receivable are assessed on each reporting date to determine whether there is objective evidence of impairment. A financial asset is considered to be impaired only if objective evidence indicates that events have occurred after initial recognition that have a negative effect on the estimated future cash flows of the asset.

The Company considers evidence of impairment for mortgages receivable at both a specific asset and collective level. All individually significant mortgages receivable are assessed for specific impairment. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identifiable at an individual mortgage level. Mortgages receivable that are not individually significant are collectively assessed for impairment by grouping together mortgages receivable with similar risk characteristics.

In assessing collective impairment, the Company reviews historical trends of the probability of default, the timing of recoveries and the amount of the loss incurred, adjusted for management's judgments as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of specific mortgages receivable is calculated as the difference between its carrying amount including accrued interest and the present value of the estimated cash flows discounted at the receivable's original effective interest rate. Losses are recognized in profit and loss and reflected in an allowance account against the mortgages receivable. When a subsequent event causes the amount of an impairment loss to decrease, the decrease in impairment loss is reversed through profit and loss in the period the new information becomes available.

**4. Significant accounting policies** *(Continued from previous page)*

***Financial instruments***

**Loans and receivables**

The Company has classified the following financial assets as loans and receivables: trade and other receivables, mortgages receivables and interest receivable. These assets 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.

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

**Financial liabilities measured at amortized cost**

The Company has classified the following financial liabilities as financial liabilities measured at amortized cost: trade and other payables, note payable and 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.

***Derecognition of financial assets***

The Company derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred, or in which the Trust neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. Any interest in such transferred financial assets that qualify for derecognition that is created or retained by the Company is recognized as a separate asset or liability. On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognized in other comprehensive income (loss) is recognized in net income (loss).

***Share capital***

Common shares are classified as equity and presented at the value of the shares issued. Incremental costs directly attributable to the issue of common shares are recognized as a deduction from equity.

***Preferred share liability***

The Company classifies financial instruments issued as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments. As such, Series 1 Class A preferred shares, which are redeemable, are presented as a liability of the Company. The preferred shares are redeemable at a price equal to their original issue amounts plus the amount of dividends declared and unpaid and a pro-rata share of retained earnings (deficit) at the time the redemption is paid out. Incremental costs directly attributable to the issue of preferred shares are recognized as a deduction from the liability.

**4. Significant accounting policies** *(Continued from previous page)*

***Revenue recognition***

Interest income on mortgage investments is recognized on an accrual basis by the effective interest method, using an effective interest rate which exactly discounts estimated future cash receipts to the net carrying amount of the financial asset over the asset's expected life. Accrued but uncollected interest is reversed whenever a loan is considered to have become impaired. A loan is classified as impaired generally when management is of the opinion that there is a doubt as to the collectability of the principal.

The Company charges upfront commitment fees, such as lender, broker and renewal fees, based on the gross mortgage values for all mortgages funded. These fees are recognized when the mortgage agreement is signed and funds are released.

***Income taxes***

The Company is a Mortgage Investment Corporation as defined in Section 130.1(6) of the Canadian Income Tax Act and, as such, is not taxable on income which flows through to the shareholders in the form of dividends paid during the year or within 90 days of the end of the year. It is the Company's policy to flow such dividends out to the shareholders and as such have no taxable income for the year. Accordingly, no provision for corporate income taxes has been made in the accounts.

***Provisions***

A provision is recognized, if, as a result of a past event, the Company has a legal or constructive obligation that can be estimated reliably and it is probable that a future outflow of economic benefits will be required to settle the obligation. The timing or amount of the outflow may still be uncertain.

Provisions are measured by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and specific risks of the obligation. Where there are a number of obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. All provisions are reviewed at each reporting date and adjusted accordingly to reflect the current best estimate.

There are no provisions recorded at December 31, 2015.

***Impairment of long-lived assets***

Financial Assets

A financial asset not carried at fair value through net comprehensive income (loss) is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Company on terms that the Company would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, or the disappearance of an active market for a security.

The Company considers evidence of impairment for mortgage receivables at both a specific asset and collective level. All individually significant receivables are assessed for specific impairment. All individually significant receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Receivables that are not individually significant are collectively assessed for impairment by grouping together receivables with similar risk characteristics.

In assessing specific impairment, the Company uses historical trends of the probability of default, timing of recoveries and the value of the underlying security used as collateral against the mortgage receivable, adjusted for management's judgment as to total proceeds expected in case of a foreclosure.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in net comprehensive income (loss) and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognized through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through net comprehensive income (loss).

Non-financial assets

**4. Significant accounting policies** *(Continued from previous page)*

A long-lived asset is tested for impairment whenever events or changes in circumstance indicate that its carrying amount may not be recoverable. An impairment loss is recognized when the carrying amount of the asset exceeds the sum of the undiscounted cash flows resulting from its use and eventual disposition. The impairment loss is measured as the amount by which the carrying amount of the long-lived asset exceeds its fair value. No such impairment loss was recorded in 2015.

**5. Change in accounting policies**

***Standards and Interpretations effective in the current period***

The Company adopted amendments to the following standards, effective January 1, 2015. Adoption of these amendments had no effect on the Company's financial statements.

- IFRS 12 Disclosure of interests in other entities
- IFRS 13 *Fair value measurement*

In addition, the Company adopted the following new and/or revised standards, effective January 1, 2015. As indicated, adoption of the following new and/or revised standards, had a material impact on the Company's financial statements.

***IFRS 13 Fair value measurement***

IFRS 13 establishes a framework for measuring fair value and making disclosures about fair value measurements when such measurements are required or permitted by other IFRSs. It unifies the definition of fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It replaces and expands the disclosure requirements about fair value measurements in other IFRSs, including IFRS 7. As a result, the Company has included additional disclosure in this regard (Note 15).

**6. Standards issued but not effective**

Certain new accounting standards and interpretations have been published that are not mandatory for the December 31, 2015 reporting period. Those which may be relevant to the Company are set out below. Management has decided against early adoption of these standards.

***IFRS 9 Financial instruments***

The IASB issued a new standard, IFRS 9, which will ultimately replace IAS 39, Financial Instruments - Recognition and Measurement. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment model to be used, replacing the multiple impairment methods in IAS 39. On November 19, 2013, IFRS 9 was formally amended to remove the January 1, 2015 effective date, and the IASB tentatively decided that the mandatory date of IFRS 9 will be no earlier than the annual periods beginning on or after January 1, 2018. The extent of the impact of adoption of these amendments has not yet been determined.

***IFRS 15 Revenue from contracts with customers***

In May 2014, the IASB issued IFRS 15, which provides a single revenue recognition standard to align the financial reporting revenues from contracts with customers and related costs. A company would recognize revenue when it transfers goods or services to a customer in the amount of consideration the company expects to receive from the customer. The standard is effective January 1, 2017. The extent of the impact of adoption of these amendments has not yet been determined.

***IAS 1 Presentation of Financial Statements***

Amendments to this standard introduce new requirements for reporting material information in the financial statements, other comprehensive income, notes to the financial statements. Amendments to the standards are effective for annual periods beginning on or after January 1, 2016, with early application permitted. The extent of the impact of adoption of these amendments has not yet been determined.

**6. Standards issued but not effective** *(Continued from previous page)*

***IFRS 16 Leases***

In January 2016, the IASB issued IFRS 16, which brings most leases on the statement of financial position for lessees under a single model, eliminating the distinction between operating and finance leases. Lessor accounting, however, remains largely unchanged and the distinction between operating and finance leases is retained. This standard would be effective for annual periods beginning on or after January 1, 2019. The extent of the impact of adoption of these amendments has not yet been determined.

**7. Mortgages receivable**

Mortgages receivable of $6,115,935 (2014 - $3,977,500) are due within one year of the fiscal year end and, as such, are classified as a current asset.

At year-end, $6,115,935 (2014 - $3,977,500) of the total mortgages receivable are residential.

The mortgages are secured by first and/or second and/or third charges on real property.

Total mortgages receivable are carried at the unpaid principal amount. On a periodic basis, management reviews the mortgage portfolio and the overall general real estate market to determine whether it is necessary to record an allowance for mortgage losses. Management may consider an allowance for potential future mortgage losses as deemed necessary, based on any payment arrears, known risks, historical mortgage loss and current economic conditions and trends.

Two mortgages with the carrying values of $800,000 and $549,997, on which the Company holds a first and second mortgage respectively, are in default. The Company does not expect to incur losses on these mortgages in default at December 31, 2015 taking into account market conditions, the value of real property securing the mortgages and other factors. The Company was granted Conduct of Sale on the related security on February 18, 2016 by the Supreme Court of British Columbia.

The portfolio of mortgages receivable earn interest at a weighted average rate of 14.28% per annum (2014 - 11.98% per annum).

An allowance has not been recorded in these financial statements as management considers all amounts to be collectible.

**8. Related party transactions**

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

(a) During the year, the Company paid loan administration fees of $79,380 (2014 - $32,800) to a company in which the directors hold a controlling interest.

(b) During the year, the Company recorded management fees of $103,857 (2014 - $70,733) to a company in which the directors hold a controlling interest. Accounts payable and accrued liabilities includes management fees payable in the amount of $1,159 (2014 - $8,004).

(c) During the year, directors, close-related family members and companies under common control with common shareholders, who own Series 1 Class A preferred shares in the Company received $167,874 (2014 - $118,588) in dividend income. These dividends were paid in the normal course of business consistent with all Series 1 Class A preferred shares.

(d) During the year, directors, close-related family members and companies under common control with common shareholders, who own Series 1 Class A preferred shares in the Company subscribed for $425,000 (2014 - $299,446) Series 1 Class A preferred shares.

(e) During the year, the Company sold an intangible asset which resulted in a loss of $8,979 (2014 - $NIL) to a company in which the directors hold a controlling interest.

There are no commitments or guarantees attributed to the Company from the related parties at December 31, 2015 (2014 - $NIL).

## 9. Dividends payable

The Company has declared dividends to the holders of Series 1 Class A non-voting, non-cumulative preferred shares, in accordance with the provisions for mortgage investment corporations in the Income Tax Act, where dividends paid within 90 days from the end of the fiscal period are deductible from the income of the Company. For the preferred shareholders, however, these dividends are taxed as interest income.

The Company declared dividends of $387,202 (2014 - $231,365) ($0.1002 (2014 - $0.0911) per preferred share based on a time-weighted average number of shares issued and outstanding).

## 10. Note payable

The promissory notes payable to shareholders are interest bearing at rates ranging between 7.975% (plus additional interest of 1.578% per annum (2014 - 0.79%)) calculated and compounded daily, and 10.5% per annum, calculated and compounded semiannually, unsecured and due on or before December 31, 2016. The term of the note is extendable solely with the written consent of the lenders.

## 11. Preferred share liability

The Company has authorized unlimied Series 1 Class A non-voting, non-cumulative preferred shares. As at December 31, 2015, there were 4,404,551 (2014 - 3,036,965) issued and outstanding shares for $4,366,453 (2014 - $2,995,028).

| | *2015* | *2014* |
|---|---|---|
| Opening preferred share liability | **2,995,028** | 1,947,156 |
| Subscriptions - cash | **1,235,024** | 1,009,946 |
| Subscriptions - dividend reinvestments | **132,561** | 47,630 |
| Share transaction costs, net of amortization | **3,840** | (9,704) |
| | **4,366,453** | 2,995,028 |

During the year, the Company recognized share issuance costs of $14,255 (2014 - $12,172) in net comprehensive income.

## 12. Commitment

The Company leases its office under an operating lease agreement expiring on October 31, 2016. Future minimum lease payments for the year ended December 31, 2016 is $8,805.

## 13. Issued capital

| | *2015* | *2014* |
|---|---|---|
| 100 Common shares | **100** | 100 |

Common shares, which have a par value of $1 each, carry one vote per share but do not carry a right to dividends.

## 14. Basic and diluted net income per share

The following table reconciles the numerator and denominator of both the basic and diluted net income per share:

| | *2015* | *2014* |
|---|---|---|
| Net and comprehensive income | **387,202** | 231,365 |
| Weighted average shares | **3,864,473** | 2,540,678 |
| | **0.1002** | 0.0911 |

**15. Financial instruments**

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

***Fair value of all financial assets and liabilities approximate carrying amounts***

The carrying amount of cash and cash equivalents, interest receivable, mortgages receivable and trade and other payables, notes payable and dividends payable are approximated by their fair value due to their short term nature.

***Risk management policy***

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

***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. In seeking to minimize the risks from interest rate fluctuations, the Company manages exposure through lending policies that set minimum interest rates for its mortgages.

The Company is exposed to interest rate risk with respect to mortgages receivable and its note payable all of which are expected to be realized within one year, and which are subject to fixed interest rates.

Mortgages written by the Company for greater than a one year term typically earn interest at fixed rate for the first year and become variable at the Royal Bank of Canada Prime Business Rate plus interest ranging from 6.5% to 10.5% per annum. The minimum rate mitigates the effect of a drop in short-term market interest rates, while the floating rate allows for increased interest earnings where short-term rates increase. The interest rate risk on accounts payable and accrued liabilities and dividends payable are not considered significant.

***Credit risk***

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

The maximum exposure to credit risk at December 31, 2015 is the carrying value of its mortgage investments, including accrued interest receivable, which total $6,279,948 (2014 - $4,518,516). The Company has recourse under these investments in the event of default by the borrower; in which case, the Company would claim against the underlying collateral.

As with most mortgage investment corporations, the Company provides financings to borrowers who may not meet financing criteria for conventional mortgages from institutional sources and, as a result, these investments generally earn a higher rate of return than what institutional lenders may receive. The Company minimizes its credit risk primarily by ensuring that the collateral value of the security fully protects first, second and subsequent mortgage advances and that there is a viable exit strategy for each loan. In addition, the Company limits concentration of risk by diversifying its mortgage portfolio by way of location, property type, maximum loan amount on any one property and maximum loan amount to any one borrower.

A credit concentration exists relating to mortgages receivable. As at December 31, 2015, two mortgages receivable account for 78% (December 31, 2014 – two mortgages for 64%) of total mortgages receivable. The amount of these mortgages is $4,765,938 (2014 - $2,562,500).

**15. Financial instruments** *(Continued from previous page)*

***Liquidity risk***

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivery of cash or another financial asset. The Company is committed to pay dividends to shareholders for which repayment is required at specific dates. Liquidity risk is measured by reviewing the Company's future net cash flows for the possibility of negative net cash flow.

The Company manages the liquidity risk by maintaining a note payable. Successful utilization of leverage, as contemplated by any bank line of credit or other financing depends on the Company's ability to borrow funds from outside sources and to use those funds to make loans and other investments at rates of return in excess to the Company of the borrowed funds. Leverage increases exposure to loss.

**16. Fair value measurements**

The following table presents the Company's assets and liabilities that are measured at fair value:

| | | **2015** | | 2014 | |
|---|---|---|---|---|---|
| Financial Instrument Classification | Note | Carrying Value | Fair Value | Carrying Value | Fair Value |
| **Financial assets** | | | | | |
| Trade and other receivables | (b) | - | - | 6,208 | 6,208 |
| Mortgages receivable | (b) | 6,115,935 | 6,115,935 | 3,997,550 | 3,977,550 |
| Interest receivable | (b) | 164,013 | 164,013 | 541,016 | 541,016 |
| **Financial liabilities** | | | | | |
| Trade and other payables | (b) | 45,635 | 45,635 | 29,170 | 29,170 |
| Accrued interest payable | (b) | 26,370 | 26,370 | 15,108 | 15,108 |
| Deferred revenue | (b) | - | - | 1,718 | 1,718 |
| Note payable | (b) | 1,800,000 | 1,800,000 | 1,510,000 | 1,510,000 |
| Dividend payable | (b) | 201,814 | 201,814 | 145,170 | 145,170 |

The valuation inputs and techniques used for the Company's financial instruments are done so at (a) Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities, (b) Level 2 - Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly and (c) Level 3 - Inputs that are not based on observable market data (that is, unobservable inputs).

There were no transfers between Level 1, Level 2 and Level 3 fair value hierarchies during the years ended December 31, 2015 and 2014.

**17. Capital management**

The Company's objectives when managing capital are:

(a) Maintain financial flexibility in order to preserve its ability to meet its financial commitments, including possible obligations;

(b) Maintain a capital structure that allows it to finance its growth strategy with cash flows from its operations and its debt capacity;

**17. Capital management** *(Continued from previous page)*

(c) Optimize the use of its capital to provide an appropriate return on investment to its shareholders and to maintain sufficient liquidity in the company to distribute dividends to shareholders quarterly throughout the fiscal year and within 90 days thereafter to reduce its taxable income to a negligible amount.

The Company defines capital as the sum of its assets, net of its liabilities, which approximates shareholders' equity.

The Company's investment guidelines are subject to externally imposed capital requirements to maintain the Company's eligibility as a Mortgage Investment Corporation as defined in Section 130.1(6) of the Canadian Income Tax Act. These guidelines state that (i) at least 50% of the Company assets must be residential mortgages and/or cash and insured deposits at Canada Deposit Insurance Corporation member financial institutions, (ii) no more that 25% of its assets must be in real estate, and (iii) that all investments must be within Canada. During the year the Company complied with these requirements.

The Company's financial strategy is developed and adapted on the basis of market conditions to maintain a flexible capital structure consistent with the objectives stated above and to respond to the risk characteristics of the underlying assets. In order to maintain or adjust its capital structure, the Company may refinance an existing debt, take out new borrowings, repurchase preferred shares for cancellation pursuant to normal course issuer bids or issue new preferred shares.

The Company's financial strategy and objectives are reviewed annually. The Company believes that its current ratios are satisfactory, given its size, capital management objectives and growth strategy.

**18. Financial services fees**

The Manager is responsible for the day-to-day operations, including administration of the Company's mortgage investments. Pursuant to the Management Agreement dated January 2, 2014, the Company shall pay to the Manager, Financial Services fee equal to 2% per annum of the Company's total month end value of the Company's mortgage portfolio, calculated and payable monthly.

The Manager bears all overhead and other internal expenses incurred by it in providing the services under the Management Agreement. The Company bears all third party and other expenses incurred in connection with the Company's mortgage investments and operations, including, without limitation, legal, audit, other professional fees, interest and bank charges, rent, and office costs as well as directors' and officers' fees for attending formal meetings of the Company.

**19. Key management personnel compensation**

The compensation to the senior management of the Company is paid through the management fees paid to a related party (Note 8).

**20. Comparative figures**

Certain prior year figures have been reclassified to conform to the current year's presentation.

## Item 13 – Date and Certificate

Dated May 26, 2016

This Offering Memorandum does not contain a misrepresentation.

PROVIDUS MORTGAGE INVESTMENT CORPORATION

(signed by) *"Clement Chung"*
Clement Chung, President

(signed by) *"Michael Sorba"*
Michael Sorba, Secretary

ON BEHALF OF THE BOARD OF DIRECTORS OF THE COMPANY:

(signed by) *"Clement Chung"*
Clement Chung, Director

(signed by) *"Michael Sorba"*
Michael Sorba, Director

(signed by) *"Eva Lee"*
Eva Lee, Director