

**OFFERING MEMORANDUM**  
**Residents of British Columbia Only**  
**Dated May 25, 2011**  
for

**BANCORP BALANCED MORTGAGE FUND II LTD.**

**The Issuer**

Name: Bancorp Balanced Mortgage Fund II Ltd. (the "Company" or the "issuer")  
Head Office Address: Suite #1420 - 1090 West Georgia Street,  
Vancouver, BC., V6E 3V7  
Telephone No.: (604) 608-2717  
Fax No.: (604) 609-7107  
E-mail address: bancorp@bancorpfincial.com  
Currently Listed or quoted?: No. **These securities do not trade on any exchange or market.**  
Reporting Issuer?: No. The Company is not a reporting issuer under applicable securities legislation.  
SEDAR filer?: No. The Company does not make filings with SEDAR (The System for Electronic Document Analysis and Retrieval).

**The Offering**

Securities offered: Class A Preferred Shares, Class D Preferred Shares and Class F1 Preferred Shares of the Company (collectively, the "Preferred Share(s)")  
Price per security: \$1.00 per Preferred Share.  
Minimum / Maximum offering: \$0 (0 Preferred Shares) **There is no minimum. You may be the only purchaser.**  
\$100,000,000 (100,000,000 Preferred Shares) maximum. There will be a maximum of 100,000,000 Preferred Shares issued under this offering. The Company may issue any proportion of Class A, D and/or Class F1 Preferred Shares it decides, up to the foregoing total maximum number of Preferred Shares.  
**Funds available under this offering may not be sufficient to accomplish our proposed objectives.**  
Minimum subscription amount: Each new investor subscribing for the first time shall invest a minimum of \$25,000. An existing investor must invest a minimum of \$5,000.  
Payment terms: The full subscription price is due on closing.  
Proposed closing date(s): Closing dates will be determined from time to time by the Company, as subscriptions for Preferred Shares are received by the Company.  
Income tax consequences: There are important tax consequences to these securities. See Item 6.  
Selling Agent? No. There is currently no selling agent for this offering of Preferred Shares, but the Company reserves the right to retain one or more selling agents during the course of this offering. Annual trailer fees are paid on the Class A Preferred Shares. See Item 7.

**Resale Restrictions**

You will be restricted from selling your securities for an indefinite period. See Item 10.

**Purchaser's Rights**

You have 2 business days to cancel your agreement to purchase the 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.

**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.**

**The Company's Manager:**

**BANCORP FINANCIAL SERVICES INC.**

(the "Manager")  
Suite #1420 - 1090 West Georgia Street  
Vancouver, B.C., V6E 3V7  
Telephone (604) 608-2717  
Fax (604) 609-7107

## ITEM 1 USE OF NET PROCEEDS

### 1.1 *Net Proceeds*

The net proceeds of the offering and the funds which will be available to us after same, are as follows:

		Assuming min. offering	Assuming max. offering
A	Amount to be raised by this offering	\$0	\$100,000,000
B	Selling commissions and fees	\$0	\$0
C	Estimated offering costs (e.g., legal, accounting, audit.)	\$0	\$100,000
D	Net Proceeds: $D = A - (B + C)$	\$0	\$99,900,000
E	Additional sources of funding required	\$0	\$0
F	Working capital deficiency	\$0	\$0
G	Total: $G = (D+E) - F$	\$0	\$99,900,000

### 1.2 *Use of Net Proceeds*

We will use the net proceeds as follows:

Description of intended use of net proceeds listed in order of priority	Assuming min. offering	Assuming max. offering
Investment in mortgages and other permitted investments	\$0	\$ 99,900,000

### 1.3 *Reallocation*

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

## ITEM 2 BUSINESS OF THE COMPANY

### 2.1 *Structure*

We are a corporation incorporated under the laws of the Province of British Columbia on July 16, 2009. We are registered as an extra-provincial corporation in the Province of Alberta and will register in other Canadian jurisdictions as may be approved from time to time by our Board of Directors. If required by law, we will register under the *Mortgage Brokers Act (British Columbia)* or the equivalent legislation of any jurisdiction in which we carry on business.

### 2.2 *Our Business*

#### (a) Overview

The Company will provide mortgage financing for construction, land acquisition, land servicing and other purposes to owners and developers of residential, commercial and other real estate. Typically our mortgages are more complex or specialized and do not meet the financing criteria for institutional lenders. As a result our mortgages are expected to earn a higher rate of return than rates earned by institutional

lenders. The mortgages bear interest at a fixed rate of interest or at a specified rate over the prime lending rate of the Company's bank, and are often subject to a minimum rate of interest. The Company uses streamlined administrative processes and flexible lending criteria to offer prompt mortgage approvals.

The Company qualifies as a mortgage investment corporation under the *Income Tax Act (Canada)* (the "Tax Act"), which means that Preferred Shares will be an eligible investment for registered retirement savings plans ("RRSPs") and registered retirement investment funds ("RRIFs"). In order to maintain this status, the Company will invest at least 50% of its assets in residential mortgage loans and deposits with Canada Deposit Insurance Corporation - insured institutions. Residential mortgage loans include loans against single family and multiple unit residential projects and loans for servicing residential subdivisions.

(b) The Company's Investments

Because of the Company's flexibility and ability to commit quickly to mortgage applications and because the mortgage investments considered by Bancorp typically do not meet the criteria of institutional lenders, such loans will earn a higher rate of return than those of institutional lenders. The Company expects to minimize risk by following the investment criteria described later in subparagraph 2.2(c).

The Company's investments will primarily consist of first mortgage loans advanced for the development of land, residential, recreational, commercial and industrial properties. Additional remuneration is sometimes realized through bonus payments and/or profit participation. The Company will also provide second mortgage financing on a select basis. The Company's loans will typically fall into the following major loan categories:

- (i) *Construction Loans* - These loans are advanced to finance the construction, development and re-development of various types of properties on a work-in-place/cost to complete basis.
- (ii) *Interim Loans* - These loans are advanced to finance completed or substantially completed buildings with unsold units remaining, or commercial buildings in the process of being leased up, after which the loan will be refinanced with a term lender. While construction risk is substantially eliminated, the success of these projects is subject to market conditions.
- (iii) *Land Loans* - These loans are typically advanced to finance the acquisition and/or the development of land currently zoned or designated by a municipality for a use consistent with the loan application. The development process includes, among other things, land acquisition, zoning and/or development approval, road construction, installation of services and utilities, and other improvements required by the governing municipality and our financing may be for all or any phase of the development process. The funding of progress advances is usually carried out on a work-in-place/cost-to-complete basis.
- (iv) *Term loans* - These loans are advanced to finance completed properties not for development. Term loans would typically be comprised of commercial, residential or industrial investment properties with tenants in place with positive cash flow. Owner occupied apartments, condominiums, townhouses and single family homes are also classified as term loans.

Loans will generally be for terms of six to 24 months and may include the ability to extend the term for further periods subject to the borrower meeting certain criteria.

The Company may share part of a mortgage investment with other lenders acceptable to the Company. By limiting its participation in large individual investments, the Company will have the benefits of increased portfolio diversification. It will also enable the Company to participate in the financing of larger real estate projects than would otherwise be possible.

(c) Investment Criteria

The Company's Directors have established investment criteria for the Company, which currently are the following:

- (i) The Company will make investments so that it maintains its status as a "mortgage investment corporation" under the Tax Act.
- (ii) Mortgage investments will be secured by mortgages and/or other appropriate security interests in favour of the Company, which will be registered in the appropriate land title or land registry office as a charge against the subject real property. The Company may hold beneficial interests in mortgages registered in the land title office in the name of another person or entity which enters into a written trust or agency agreement in favour of the Company in respect of same.
- (iii) The amount advanced by the Company on any one property will not exceed the greater of \$2,000,000 or 10% of the Company's paid-up capital.
- (iv) The amount advanced by the Company on any one property or to any one borrower (including affiliates of the borrower) will not exceed the greater of \$2,000,000 or 15% of the Company's paid-up capital.
- (v) Loans will be made to arm's length borrowers not related to the Manager or its affiliates, and in particular will not be made to any shareholder or officer of the Manager, or to any member of the Investment Committee or to any company in which a shareholder of the Manager holds an interest except where a loan is in default and the Manager, or a company related to the Manager, determines to take title to the property over which the loan was made.
- (vi) Loans will not be made to any person (a "Trust Party") who is an annuitant, beneficiary or employer, as the case may be, under a registered retirement savings plan, deferred profit sharing plan or registered retirement income fund as defined under the Tax Act which is a shareholder of the Company, or to any other person who is a relative of or otherwise does not deal at arm's length with the Trust Party, or to anyone else who would cause shares in the Company not to be a qualified investment under Regulation 4900(1)(c) of the Tax Act.
- (vii) Mortgage security will include either:
  - a. a first financial charge on the mortgaged property in a principal amount not exceeding 75% of its appraised value at the time of loan approval and upon completion; or
  - b. a second financial charge on the mortgaged property in a principal amount which, when added to the principal amount of the first financial charge, will not exceed 75% of its appraised value at the time of loan approval and upon completion.
- (viii) Prior to funding, the Company will typically obtain appraisal and environmental reports by reputable independent professionals on mortgaged properties and other security interests.
- (ix) Mortgages will generally be for an initial term of six to 24 months and any renewals or extensions of such term will be approved in accordance with investment policy guidelines.
- (x) The Company will only make investments in provinces of Canada in which the Company is lawfully permitted to do business.
- (xi) Surplus cash amounts will be maintained in government-backed securities, or deposits with Canadian chartered banks or other regulated financial institutions.

Other than paragraphs (i), (v), (vi), (x) and (xi) the Directors may vary the foregoing investment criteria from time to time to meet changing circumstances or permit particular investment opportunities, provided that in voting to do so, all Directors vote in favour.

(d) Investment Approval; Portfolio Administration; the Manager

Pursuant to the Management Agreement described in subparagraph 2.6(a), Bancorp Financial Services Inc. (the "Manager"), has established an Investment Committee (the "Manager's Investment Committee") which approves investment opportunities which it considers suitable to the Company and consistent with the Company's investment criteria.

Routine day-to-day administration and management of the Company's investment portfolio is provided by the Manager under the Management Agreement. The Manager reviews requests for mortgage draws and takes steps to confirm that all requirements have been met prior to the advance of funds. Material exceptions to the funding requirements in the agreement with the borrower are referred to the Manager's Investment Committee for approval. All funds are handled by the Manager under strict trust conditions and are completely segregated from the Manager's own funds.

In addition to ongoing monitoring and reporting procedures, the Manager provides the Company with quarterly reports on each mortgage in default for more than 90 days. Such reports include collection efforts, current security valuations and recommended reserves to be established for potential losses. The Manager periodically reviews and makes recommendations to the Directors of the Company as to the Company's policies and procedures, administration, share offerings and investment criteria and implements decisions of the Company's Directors.

The Manager's Investment Committee consists of directors and/or officers of the Manager. From time to time the Directors may add or appoint other persons experienced and knowledgeable of the region of the proposed investment to serve on the Manager's Investment Committee and may remove members as required.

The Manager's Investment Committee must review and approve all of the Company's proposed loans. Investment proposals are submitted to all members of the Manager's Investment Committee and loan authorizations require the approval of a quorum, consisting of at least three members of the Manager's Investment Committee one of whom shall be the Chairman, CEO or President of the Manager.

### 2.3 ***Development of Business***

The Company will invest primarily in mortgages in British Columbia and Alberta; however, it will consider mortgage investments elsewhere in Canada, as its capital permits. Emphasis will be on urban centres and growth areas.

### 2.4 ***Long Term Objectives***

The Company's long term objectives are:

- (i) To provide preferred shareholders with a return that is superior to term deposits, GICs and money market funds, with due consideration to preservation of their capital.
- (ii) To maintain profitability on a sustainable basis.
- (iii) To maintain the Company's status as a Mortgage Investment Corporation under the Tax Act.
- (iv) To carry on lending activities throughout Canada but primarily in Alberta and British Columbia.
- (v) To offer loans to suitable borrowers who seek financing from sources other than institutional lenders.

Since the Company will have an ongoing investment program, there is no target completion date for its business plan. Investments will be made as the Company's available funds permit. The costs to achieve the Company's objectives set out above will vary accordingly.

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

Our business objectives for the next 12 months are:

What we must do and how we will do it	Target completion date or number of months to complete	Our cost to complete
The Company intends to raise capital pursuant to this offering and to use same to fulfil its investment program as described in paragraphs 2.2, 2.3 and 2.4.	Since the Company will have an ongoing investment program, there is no target completion date for its business plan. Investments will be made as the Company's available funds permit.	N/A

## 2.6 **Alternate Sources of Funds**

### Bank Line of Credit Agreement

By a Credit Agreement dated October 19, 2010 the Company arranged a \$2,000,000 line of credit facility secured by a general security agreement and assignment of receivables with Canadian Imperial Bank of Commerce, which augments the Company's activities and allows it to borrow at interest rates less than it receives from its mortgage investments. Any borrowings by the Company will be payable on demand and bear interest at a variable rate of 1.5% per annum in excess of the bank's prime rate, which interest will be payable monthly. The line of credit requires the Company to maintain certain minimum equity and debt/equity requirements. The Company must also report to and provide financial statements to the bank on a regular basis. The line of credit facility is intended to assist in managing the Company's cash flow and the Company's operations will not normally rely upon the use of the line of credit or debt financing from a bank or any other source.

## 2.7 **Material Agreements**

The following summarizes the material agreements to which the Company is currently a party and any material agreements with a related party:

### (a) Management Agreement

The Manager and the Company have entered into an Agreement (the "Management Agreement") dated as of August 20, 2009, under which the Manager provides management services to the Company.

The Manager was incorporated under the British Columbia *Company Act* in 1984. It is a mortgage banking and financial intermediary company with its principal office located in Vancouver, B.C. and offices in Victoria, B.C. and Calgary, Alberta.

The Manager reports to the Directors of the Company, and is responsible for all aspects of the Company's organization, business operations including the operation of the Investment Committee, the retaining of necessary professional advice, making regulatory filings, and seeking sources of share capital for the Company.

The Manager approves investment opportunities to the Company which it considers suitable and consistent with the Company's investment criteria. It also administers and manages the Company's investment portfolio and day to day activities and operations. The Management Agreement came into force on August 20, 2009 for a term of five years. Pursuant to its terms, the Management Agreement will be automatically renewed for

successive one year periods thereafter, unless notice of intention not to renew is given by either party at least 120 days before the end of the term. Also, either party may at any time terminate the Management Agreement upon 120 days' written notice to the other.

As compensation for services rendered, the Company will pay to the Manager:

- (i) a management fee equal to 1.50% per annum (1/12 of 1.50% per month) of the outstanding balance of the Class D Preferred Shares plus applicable taxes thereon (the "Class D Fee"), a fee equal to 2.00% per annum (1/12 of 2.00% per month) of the outstanding balance of the Class A Preferred Shares plus applicable taxes thereon (the "Class A Fee") and a management fee equal to 1.00% per annum (1/12 of 1.00% per month) of the outstanding balance of the Class F1 Preferred Shares plus applicable taxes thereon (the "Class F1 Fee"), each such fee paid in monthly installments on the last day of each month. The Company considers such rate to be consistent with management fee rates generally charged in comparable circumstances; and
- (ii) in the event that the annual yield to the Class D Preferred Shareholders is greater than the two year Government of Canada benchmark bond yield plus 4.00% (as more fully described in 5.1(a) below), an amount greater than the two year Government of Canada Benchmark Bond yield plus 4.50% to Class F1 Preferred Shareholders and an amount greater than the two year Government of Canada Benchmark Bond yield plus 3.50% to Class A Preferred Shareholders, a profit participation (the "Profit Participation") equal to 25% of the annual net income of the Company, after provision for all expenses of the Company and including reserves against potential losses and provision for Priority Dividends and/or Priority Capital Allocations (as such terms are defined below) to the holders of the Preferred and Common Shares. This amount will be paid annually based on the net income of the Company as reported in its audited annual financial statements, within 90 days after the Company's fiscal year-end.

From the management fee payable to the Manager on the Preferred Shares, the Manager may pay commissions to registered dealers and sales agents in connection with the sale of Preferred Shares. Any such commission will generally be calculated as a percentage estimated not to exceed 1% per annum of the aggregate amount of Preferred Shares sold by such registered dealers or sales agents.

On most mortgage investments, the Manager negotiates with the borrower for payment of a commitment fee, and where appropriate, renewal and discharge fees and these fees will be paid to and retained by the Manager. The Company believes that these fees are fair market fees and reflect the degree of complexity in the types of financing to be undertaken by the Company. The profit participation amount payable by the Company to the Manager will not be adjusted to reflect any such other fees paid to the Manager.

The Manager bears all overhead and other internal expenses incurred by it in providing services under the Management Agreement. The Company bears all third party and other expenses incurred in connection with the Company's investments and operations.

The Manager will be reimbursed by the Company for costs and expenses which are incurred in connection with the Company's investments and operations and are the Company's responsibility under the Management Agreement.

For the purposes of this Offering Memorandum, the Manager is considered to be a party related to the Company. The current Directors and Officers of the Manager who are also Directors and Officers of the Company and their principal occupations within the preceding five years are as follows:

Name	Office held with the Company	Office held with the Manager and Principal Occupation
Richard Mackin	Director & CFO	Vice President Finance and Administration and Director of the Manager
Douglas Bentley	Director, President & CEO	President, and Director of the Manager

Name	Office held with the Company	Office held with the Manager and Principal Occupation
Arnold E. Miles-Pickup	Director, & Secretary	Chairman, CEO and Director of the Manager
Richard K. Nicholson	Director	Vice President and Director of the Manager
John L. (Lockie) McKinnon	Director	Vice President and Director of the Manager

## 2.8 **Auditors**

Mackay LLP, Chartered Accountants, 1100-1177 West Hastings Street, Vancouver, B.C., V6E 4T5 are the Company's auditors.

## 2.9 **Lawyers**

The Company's lawyers in connection with this offering are Richards Buell Sutton LLP, Barristers & Solicitors, #700 - 401 West Georgia Street, Vancouver, B.C., V6B 5A1.

## ITEM 3 DIRECTORS, MANAGEMENT, PROMOTERS AND PRINCIPAL HOLDERS

3.1 **Compensation and Securities Held** - The following table sets out specified information about each director, officer and promoter of the Company and each person who, directly or indirectly, beneficially owns or controls 10% or more of any class of voting securities of the Company (a "principal holder").

Name and municipality of principal residence	Positions and the date of obtaining that position	Compensation paid by the Company in the most recently completed financial year and the compensation anticipated to be paid in the current financial year	Number and percentage of securities of the Company held before completion of the Offering	Number and percentage of securities of the Company held after completion of maximum offering
Douglas Bentley, West Vancouver, BC	Director , President & CEO since July 2009	NIL	250 Common voting shares representing 25% of the issued Common Shares, 107,552 Class D Preferred Shares representing 1.00% of the issued Class D Preferred Shares, no Class F1 Preferred Shares and no Class A Preferred Shares.	250 Common voting shares representing 25% of the issued Common Shares, 107,552 Class D Preferred Shares representing 0.09% of the issued Class D Preferred Shares, no Class F1 Preferred shares and no Class A Preferred Shares.
Richard R. Mackin, Burnaby, BC	Director & CFO since July 2009	NIL	No Common Shares, 25,000 Class D Preferred Shares representing 0.23% of the issued Class D Preferred Shares, no Class F1 Preferred shares and no Class A Preferred Shares.	No Common Shares, 25,000 Class D Preferred Shares representing 0.02% of the issued Class D Preferred Shares, no Class F1 Preferred shares and no Class A Preferred Shares.
John L. (Lockie) McKinnon Victoria, BC	Director since July 2009	NIL	250 Common voting shares representing 25% of the issued Common Shares, no Preferred Shares.	250 Common voting shares representing 25% of the issued Common Shares, no Preferred Shares.



Arnold E. Miles-Pickup, West Vancouver, BC	Director, & Secretary since July 2009	NIL	250 Common voting shares representing 25% of the issued Common Shares, 235,264 Class D Preferred Shares representing 2.19% of the issued Class D Preferred Shares, no Class F1 Preferred shares and no Class A Preferred Shares.	250 Common voting shares representing 25% of the issued Common Shares, 235,264 Class D Preferred Shares representing 0.21% of the issued Class D Preferred Shares, no Class F1 Preferred shares and no Class A Preferred Shares.
Richard K. Nicholson, Victoria, BC	Director since July 2009	NIL	250 Common voting shares representing 25% of the issued Common Shares, 89,390 Class D Preferred Shares representing 0.83% of the issued Class D Preferred Shares, no Class F1 Preferred shares and no Class A Preferred Shares.	250 Common voting shares representing 25% of the issued Common Shares, 89,390 Class D Preferred Shares representing 0.08% of the issued Class D Preferred Shares, no Class F1 Preferred shares and no Class A Preferred Shares.

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

Name	Principal occupations and related experience
Douglas Bentley	President and Director of the Manager. He has more than 30 years experience in real estate development, investment and finance.
Richard R. Mackin	Vice President Finance and Administration, and Director of the Manager. He has been engaged in finance and administration activities for over 35 years.
Arnold E. Miles-Pickup	Chairman, CEO and Director of the Manager. He has held executive and management positions in the financial services industry for over 40 years.
John L. McKinnon	Vice-President and Director of the Manager. He has more than 30 years experience in real estate development, investment and finance.
Richard K. Nicholson	Vice-President and Director of the Manager. He has more than 30 years experience in real estate development, investment and finance.

**3.3 Penalties, Sanctions and Bankruptcy**

- (a) There has been no penalty, sanction or cease trade order that has been in effect for a period of more than 30 consecutive days during the last 10 years against:
- (i) a director, executive officer or control person of the Company, or
  - (ii) an issuer of which a person referred to in 3.3(a)(i) above was a director, executive officer or control person at the time.
- (b) There has been no declaration of bankruptcy, voluntary assignment in bankruptcy, proposal under any bankruptcy or insolvency legislation, proceedings, arrangement or compromise with creditors or appointment of a receiver, receiver manager or trustee to hold assets, that has been in effect during the last 10 years with regard to any:
- (i) director, executive officer or control person of the Company, or
  - (ii) issuer of which a person referred to in 3.3(b)(i) was a director, executive officer or control person at that time.

## ITEM 4 CAPITAL STRUCTURE

4.1 **Share Capital** - The following table sets out information with respect to the Company's outstanding securities (including options, warrants and other securities convertible into shares):

Description of security	Number authorized to be issued	Number outstanding as at May 18, 2011 (not more than 30 days prior to the Offering Memorandum date)	Number outstanding after min. offering	Number outstanding after max. offering
Common voting shares without par value	Unlimited	1,000	1,000	1,000
Class D Preferred Shares without par value	Unlimited	10,753,205	10,753,205	110,753,205 <sup>(1)</sup>
Class A Preferred Shares without par value	Unlimited	3,299,230	3,299,230	103,299,230 <sup>(2)</sup>
Class F1 Preferred Shares without par value	Unlimited	0	0	100,000,000 <sup>(3)</sup>
Total Preferred Shares		14,052,435	14,052,435	114,052,435 <sup>(4)</sup>

Notes:

- (1) Assumes the Company issues only Class D Preferred Shares and no Class F1 or Class A Preferred Shares under this Offering.
- (2) Assumes the Company issues only Class A Preferred Shares and no Class D or Class F1 Preferred Shares under this Offering.
- (3) Assumes the Company issues only Class F1 Preferred Shares and no Class A or Class D Preferred Shares under this Offering.
- (4) The Company will issue only up to 100,000,000 Preferred Shares under this Offering. The respective number of Class D Preferred Shares, Class A Preferred Shares and Class F Preferred Shares actually issued under this Offering will be decided by the Company, such that the total number of Class D Preferred Shares plus the total number of Class A Preferred Shares plus the total number of Class F Preferred Shares issued under this Offering will be no greater than 100,000,000.

## 4.2 Long Term Debt

The following table summarizes information about outstanding long term debt of the Company:

Description of long term debt	Interest rate	Repayment terms	Amount outstanding on the date of this Offering Memorandum
Nil	N/A	N/A	Nil

### 4.3 **Prior Sales**

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

Date of issuance	Type of security issued	Number of securities issued	Price per security	Total funds received
May 18, 2010 – May 18, 2011	Common Shares	0	\$1.00	\$ 0
May 18, 2010 – May 18, 2011	Class D Preferred Shares	5,446,395	\$1.00	\$5,446,395
May 18, 2010 – May 18, 2011	Class A Preferred Shares	1,762,857	\$1.00	\$1,762,857
May 18, 2010 – May 18, 2011	Class F1 Preferred Shares	0	\$1.00	\$0
			Total	\$7,209,252

## ITEM 5 SECURITIES OFFERED

### 5.1 **Terms of Securities**

The securities offered are the Preferred Shares of the Company which are without par value and have the following material terms:

Note: Class D Preferred shares are available to investors on a direct purchase basis. Class A Preferred shares and Class F1 Preferred shares are available only through investment dealers and financial intermediaries who have entered into a distribution agreement with the Fund Manager.

#### (a) Dividends

At the end of each fiscal year and after preparation of the Company's financial statements, it is intended that, subject to the *Business Corporations Act* (British Columbia), all of the Company's profits available for dividends will be fully distributed by way of dividends to the holders of the Preferred Shares and the Common Shares as described below:

- (i) The holders of Preferred Shares and Common Shares will be entitled to non-cumulative dividends ("Priority Dividends") from the Company's net profits available for dividends. Such dividends will be calculated so as to yield to:
  - (A) the Class D Preferred and Common Shareholders, a return equal to the two year Government of Canada Bond Yield (described later) plus 4.00% per annum, and
  - (B) to the Class A Preferred Shareholders, a return equal to the two year Government of Canada Bond Yield (described later) plus 3.50% per annum,
  - (C) to the Class F1 Preferred Shareholders, a return equal to the two year Government of Canada Bond Yield (described later) plus 4.50% per annum

before any Profit Participation amount as described below is paid to the Manager.

The "two year Government of Canada Benchmark Bond yield" means the effective yield to maturity of a series of non-callable Government of Canada Bonds payable in Canadian dollars and having a maturity date of approximately two years, expressed as a percentage per annum calculated half-yearly not in advance. The yield will be determined by calculating the average yield on the bonds

on the first business day immediately after the end of each month in the fiscal year of the Company as quoted by the Bank of Canada as the "Benchmark Bond Yield: two year term" on the Bank of Canada's web site, or if unavailable, as provided by an investment dealer selected by the Company's Directors.

If all or part of the Company's profits for the year are not available for Priority Dividends due to a deficit in the Company's retained earnings account, such an amount (a "Priority Capital Allocation") will be retained in the Company for the benefit of the shareholders to the extent necessary to eliminate the Company's deficit position, and any balance of profits will be paid out as Priority Dividends.

- (ii) The balance of the Company's profits, after payment of the above Priority Dividend will be distributed as follows:

(A) 75% of such balance available for dividends will be paid by way of a dividend to the holders of the Preferred and Common Shares (rateably according to the ratio of the number of shares held, to be prorated in the case of shares not issued for a full fiscal year); and

(B) 25% of such balance will be paid to the Manager as Profit Participation under the Management Agreement. See "Material Contracts" above.

No dividends will be paid to any class of shareholder in priority to any other class of shareholder and no new class of shares will be issued with a priority to any other class of shares without the consent of the existing classes of shareholders.

The Directors may, in their sole discretion, pay interim dividends before the Company's fiscal year-end.

When subscribing, a Preferred Shareholder may elect in writing to receive their interim dividends in cash or to reinvest their interim dividends in additional Preferred Shares to be issued after the fiscal year end.

Capital gains realized by the Company will be distributed at the discretion of the Directors. However, no distribution of income or assets will be made that would impair the ability of the Company to repay borrowings or to meet other commitments and requirements.

In the case of a shareholder holding shares for less than a full fiscal year, dividends will be prorated according to the portion of that year that such person is a shareholder.

(b) Priority on Liquidation, Dissolution

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

- (i) first, to the holders of the Preferred Shares pro rata in accordance with the number of Preferred Shares held, the lesser of: (A) \$1.00 per Preferred Share plus dividends declared but not yet paid, plus pro rata share of any income earned but not declared as dividends and (B) the book value of the Preferred Shares as determined in the Company's audited or unaudited financial statements at the time of the winding up or distribution; and
- (ii) the balance to the registered holders of the Common Shares, pro rata in accordance with the number of Common Shares held.

(c) Retraction by a Shareholder

A holder of Preferred Shares may at any time require the Company to redeem any or all such holder's Preferred Shares by giving at least 60 days written notice of retraction prior to the end of any fiscal quarter, of the Company, currently March 31, June 30, September 30 and December 31, with the effective date of

redemption being the first business day subsequent to the end of the fiscal quarter in which the Company receives such notice, currently April 1, July 1, October 1 and January 2, If such notice is not received by the Company at least 60 days before the end of the current fiscal quarter, the effective date of redemption shall be the first business day subsequent to the end of the fiscal quarter immediately following that fiscal quarter in which such notice is received.

The redemption price shall be:

- (A) where the effective date is January 2, the book value of the Preferred Shares as determined in the Company's audited financial statements as at such fiscal year end (currently Dec 31), or
- (B) where the effective date is other than January 2, the book value of the Preferred Shares as determined in the Company's unaudited financial statements as at the end of the corresponding third, sixth or ninth month of the Company's fiscal year, or
- (C) In the case of Preferred Shares that were issued in the current fiscal year, the lesser of \$1.00 per Preferred Share or (A) or (B) above.

The Company will only redeem Preferred Shares from available cash which is defined as cash on hand less operating expenses, accounts payable, outstanding loan commitments, bank loans outstanding and outstanding letters of intent.

Where cash is not available for full redemption of Preferred Shares tendered, the Company will redeem as many shares as can be redeemed with the available cash, on a pro rata basis and continue to redeem shares on a pro rata basis as cash becomes available until all Preferred Shares tendered in such retraction period have been redeemed.

The Company will redeem those Preferred Shares that have been tendered for redemption on a pro rata basis irrespective of the order in which the Company receives the respective retraction notice in the notice period.

Where Preferred Shares are being redeemed within 1 year of their issuance, the redemption price will be reduced by an amount equal to 5.00% of the original issuance price of such Preferred Shares. Where Preferred Shares are being redeemed after 1 year of their issuance but within 2 years of their issuance, the redemption price will be reduced by an amount equal to 3.50% of original issuance price of such Preferred Shares. Where Preferred Shares are being redeemed after 2 years of their issuance but within 3 years of their issuance, the redemption price will be reduced by an amount equal to 2.50% of original issuance price of such Preferred Shares. Preferred Shares being redeemed beyond 3 years of their issuance will receive the full redemption price. Notwithstanding the foregoing, the Company has waived such reductions of the redemption price for shares redeemed after 1 year of their issuance for all shares purchased before May 25, 2012, and the Company may, in its sole discretion and without guarantee, waive the other reductions in redemption price with respect to shares purchased before May 25, 2012.

In the event that the effective redemption date (described above) is April 1, July 1 or October 1, the redemption price will be payable on the first business day of May, August and November respectively. In the event that the effective redemption date is January 2, the redemption price will be payable on March 1.

Preferred Shares tendered for redemption in subsequent retraction periods will only be redeemed once all Preferred Shares previously tendered have been redeemed.

The Company may deduct or withhold from all redemption payments payable to any Shareholder any and all amounts required by applicable law to be so withheld.

The Preferred Shareholder may, in its sole discretion, provide written notice of its election to revoke its applicable Retraction Notice, and the Preferred shares of such shareholder shall not be redeemed until such time as such shareholder delivers a new Retraction Notice.

(d) No Redemption in Certain Circumstances

The Company will pay such redemption price of such Preferred Shares tendered for redemption, unless:

- i) as a result of such redemption, one holder of Preferred Shares or a related group of holders of any class of Preferred Shares would hold more than 25% of the outstanding Preferred Shares of that class;
- ii) the number of holders of Preferred Shareholders would be less than 20 after such redemption;
- iii) as a result of such redemption, the Company would cease to qualify as a "mortgage investment corporation" as defined in the Tax Act.

In the event of circumstances referred to above, if the Company has elected to make partial redemptions, the Company will make all such partial redemptions on a pro rata basis, and any Preferred Shares tendered for redemption but not redeemed shall be returned to the applicable Shareholder and shall not be redeemed until such time as (a) such Shareholder delivers a new Redemption Notice and (b) such above-described conditions no longer exist.

(e) Suspension of Retraction Right

The Company may suspend or continue suspension of the right of the Shareholder to require the Company to redeem Preferred Shares for any period during which the Board of Directors, in its sole discretion, determines that conditions are such that, if the disposal of some or all of the assets of the Company is required to facilitate such redemptions, such disposition is not reasonably practicable or that it is not reasonably practicable to determine fairly the value of the Company's assets or that any such redemption would be unduly prejudicial to the Company. The Company will not accept subscriptions for the purchase of Preferred Shares during any period in which redemption of its Preferred Shares has been suspended.

(f) Voting Rights

The registered holders of Preferred Shares shall not be entitled to have any voting rights for the election of Directors nor for any other purpose and will not be entitled to notice of nor to attend or vote at meetings of the holders of Common Shares, but shall be entitled to vote at meetings of the registered holders of Preferred Shares.

Meetings of the registered holders of Preferred Shares may be called at any time and for any purpose by the Directors.

Registered holders of Preferred Shares holding in aggregate not less than 25% of all Preferred Shares may requisition the Directors to call a meeting of registered holders of Preferred Shares for the purposes stated in the requisition

## 5.2 ***Subscription Procedure***

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

This offering is available to residents of British Columbia only.

Investors wishing to purchase Preferred Shares must complete and sign a subscription agreement in the form provided by the Company and submit same to the Company at its Head Office address shown at the beginning of page one together with a cheque or bank draft for the full subscription price, made payable to the Company. The subscription price will be held in trust until midnight on the second business day after the day on which we have received your signed subscription agreement.

Such subscriptions will be subject to rejection or acceptance in whole or in part by the Company. The Company will not accept subscriptions from persons whom the Company has made loans to or holds mortgage interests against. Upon acceptance, the subscription price for the Preferred Shares will be deposited in a designated bank account. Upon the Preferred Shares having been issued, the subscription price will be made available to the Company for use in its business, as set out in this Offering Memorandum.

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

### 5.3 ***Costs of Offering***

Costs incurred by the Company in connection with this offering will be borne by the Company. These costs will include legal and accounting fees, regulatory filing fees, printing, postage and delivery costs and all other out-of-pocket costs, expenses and disbursements. The total of all such costs is not expected to exceed \$100,000 if the Maximum Offering is achieved.

## **ITEM 6 CANADIAN INCOME TAX CONSEQUENCES AND RRSP ELIGIBILITY**

### 6.1 ***Investors' Independent Tax Advice***

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

### 6.2 ***Mortgage Investment Corporation Status; Income Tax Consequences***

The Tax Act stipulates that for a corporation to qualify as a mortgage investment corporation, among other requirements, the corporation must have a minimum of 20 shareholders and no shareholder can own in excess of 25% of the total issued and outstanding shares of any class of the capital of the corporation. A minimum of 50% of the cost of the corporation's assets must be invested in residential mortgages as defined in the Tax Act including mortgages on multiple unit residential developments and deposits with Canada Deposit Insurance Corporation insured institutions.

The Company intends to maintain its qualification as a mortgage investment corporation under the terms of the Tax Act, which would mean that its shares are an eligible investment for RRSPs and RRIFs. However, you should consult your own professional advisers to obtain advice on the RRSP and RRIF eligibility of these securities. As a mortgage investment corporation, if it pays out all of its net income annually in the form of dividends during the year or within 90 days after the end of the year it may deduct the dividend amount paid as if it was an expense. **The dividends received are not subject to usual dividend treatment in the hands of shareholders. Rather, they will be taxable in the hands of shareholders who are subject to tax as if they had received an interest payment.**

Accordingly, it is anticipated that for each taxation year of the Company throughout which it qualifies as a mortgage investment corporation under the Tax Act, 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 allowable deductible reserves under the Tax Act 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 Tax Act.

**The Company is making the foregoing income tax disclosure, but it makes no other warranties or representations, implied or otherwise, with respect to taxation issues.**

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

## ITEM 7 COMPENSATION PAID TO SELLERS AND FINDERS

The Manager will pay annual trailer fees to registered dealers and sales agents, from the management fee payable to the Manager, in connection with the sale of Class A Preferred Shares. Such trailer fees shall be equal to a percentage estimated not to exceed 1% per annum of the aggregate outstanding amount of (i) the subscription price; plus (ii) any re-invested distributions of Class A Preferred Shares sold by such registered dealers or sales agents. The Manager does not pay these fees in connection with the sale of Class D or Class F1 Preferred Shares.

Investors acquiring Preferred Shares through registered dealers or sales agents will be responsible for the payment of any additional commissions that may be negotiated between them and such dealers or agents.

## ITEM 8 RISK FACTORS

### 8.1 *Speculative Investment*

The Preferred Shares offered by this Offering Memorandum are speculative securities. Investment in the Preferred Shares should be considered only by Investors who are able to make a long term investment and are aware of the risk factors involved in such an investment.

### 8.2 *Risks Associated With Mortgage Loans*

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

- (a) Credit Risk: As with most mortgage investment corporations, we provide financings to borrowers who may not meet financing criteria for conventional mortgages from institutional sources and, as a result, these investments generally earn a higher rate of return than what institutional lenders may receive. Credit risk is the risk that the mortgagor will fail to discharge the obligation causing the Company to incur a financial loss. We minimize our credit risk primarily by ensuring that the collateral value of the security fully protects both first and second mortgage advances, that there is a viable exit strategy for each loan, and that loans are made to experienced developers and owners. In addition, we limit concentration of risk by diversifying our mortgage portfolio by way of location, property type, maximum loan amount on any one property and maximum loan amount to any one borrower or connection.
- (b) Liquidity Risk: We commit to mortgage investments only on an assured cash availability basis. We use cash flow projections to forecast funding requirements on mortgage proposals and anticipated redemption of Preferred Shares. We intend to establish a line of credit with a Canadian Chartered Bank to hedge the liquidity risk. See "Bank Line of Credit Agreement" under the section "Short Term Objectives and How We Intend to Achieve Them".
- (c) Mortgage Insurance: The Company's mortgage loans will not usually be insured by CMHC or any other mortgage insurer in whole or in part.
- (d) Default: In case of default on a mortgage, it may be necessary for the Company, in order to protect the investment, to engage in foreclosure or sale proceedings and to make further outlays to complete an unfinished project or to maintain prior encumbrances in good standing.
- (e) Impaired Loans: The Company may from time to time have one or more impaired loans in its portfolio, particulars of which can be obtained by contacting the Company. The Company defines loans as being impaired where full recovery is considered in doubt based on a current evaluation of the security held and



for which write-downs have been taken or specific loss provisions established. As at May 25, 2011 there were no loans considered to be impaired.

- (f) Priority: Financial charges funded by first mortgage lenders may in some cases rank in priority to the mortgages registered in favour of the Company. In the event of default by the mortgagor under any prior financial charge, the Company may be required to arrange a new first mortgage or pay out same, in order to avoid adverse financial implications.

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

### 8.3 ***Redemption Risk***

The mortgages held by the Company are contractual obligations and the ability of the Company to sell the mortgages or realize on the underlying security can take a lengthy period of time. As such, Preferred Shares have limited liquidity and are appropriate investments when considered as investment vehicles to be held for the longer term.

In addition, although Preferred Shareholders may tender their Preferred Shares for redemption pursuant to the terms and conditions hereto, certain restrictions apply to such redemption. As such, the Company cannot guarantee that redemptions will be made on a timely basis. Further, as the redemption price to be paid in respect of any Preferred Shares tendered for redemption will be determined at the Board of Director's discretion, such redemption price cannot be known with certainty prior to the Board of Directors exercising its discretion.

### 8.4 ***Competition***

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

### 8.5 ***Marketability***

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

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

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

### 8.6 ***Risks of Leverage***

The Company has negotiated a bank line of credit as described in subparagraph 2.6 and it is intended to be used for managing the cash flow of the Company. The Company's operations will not rely upon the use of the line of credit or debt financing from a bank or any other source. Leverage increases exposure to potential losses.

### 8.7 ***Income Tax Designation***

Under the Management Agreement, the Manager is responsible for ensuring that the Company's operations are conducted in a manner that will not jeopardize its designation as a mortgage investment corporation under the Tax

Act. **As a mortgage investment corporation, the normal gross-up and dividend tax credit rules will not apply to dividends paid on the Preferred Shares. Rather, the dividends will be taxable in the hands of shareholders who are subject to tax as if they had received an interest payment.** If for any reason the Company fails to maintain its designation, the dividends paid by the Company on the Preferred Shares would cease to be deductible from the income of the Company. In addition, the Preferred Shares would cease to be qualified investments for trusts governed by RRSPs, deferred profit sharing plans and RRIFs with the effect that a penalty tax of 1% per month of the value of the Preferred Shares would be payable.

#### **8.8 *Conflict of Interest***

The Company and its shareholders are dependent in large part upon the experience and good faith of the Manager. The Manager is entitled to act in a similar capacity for other companies with investment criteria similar to those of the Company. As such, there is a risk the Manager will not be able to originate sufficient suitable investment opportunities to keep the Company's funds fully invested. Also, the majority of the directors of the Company and the Manager are employed by or act in other capacities for other companies involved in mortgage and lending activities.

Accordingly, there may be instances in which an investment opportunity may be suitable for the Company as well as other mortgage lenders or investors with whom they have business relations. In such case, the Manager has the right to take such action as it sees fit.

Except as noted in 2.2(c) above, the Directors of the Company may by unanimous resolution vary the Company's investment criteria. The Directors are also entitled to terminate the Management Agreement. It may be difficult for some of the Directors to exercise independent judgement about these and other matters.

#### **8.9 *Lack of Separate Counsel***

Counsel for the Company in connection with this offering is also counsel to the Manager. The Company and the Manager have not been represented by their own legal counsel and have not each had the benefit of independent legal advice.

#### **8.10 *Impact of Changes in Government Regulations***

We may need to change the manner in which we conduct our business if government legislation or regulation increases or changes.

### **ITEM 9 REPORTING OBLIGATIONS**

#### **9.1 *Documents provided to Shareholders annually or on an ongoing basis***

The Company is not a reporting issuer in British Columbia, and is not required to provide documents to its shareholders on an annual or ongoing basis. However, the Company will provide a quarterly report to shareholders within 60 days after the end of each fiscal quarter. The quarterly report will include an analysis of operations and results for the period in question together with unaudited financial statements prepared by management consisting of a balance sheet and income statement. Audited financial statements will also be provided to the shareholders with the fiscal year-end reports within 140 days after the fiscal year-end.

#### **9.2 *Sources of Information about the Company***

Information about the Company's incorporation, amendments to its constating documents, directors, officers, annual corporate filings and other corporate information can be obtained from the British Columbia Registrar of Companies, 2<sup>nd</sup> Floor – 940 Blanshard Street, (PO Box 9431 Stn. Prov. Govt.) Victoria, B.C., V8W 9V3 (telephone number 250.356.8658, fax 250.356.9422).

## **ITEM 10        RESALE RESTRICTIONS**

### **10.1            *General Statement re Resale Restrictions***

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

### **10.2            *Restricted Period for Resales***

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

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

A fee shall be payable to the Company by a shareholder requesting a transfer or change in registered holder of Preferred Shares, the amount of which is currently \$75 plus applicable taxes. The Company shall have the right to deduct any such unpaid fees from dividends payable to the shareholders who are party to such transfer or change.

## **ITEM 11        PURCHASERS' RIGHTS**

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

### **(a)        *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 2nd business day after you sign the agreement to buy the securities.

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

#### **Rights for Purchasers in British Columbia**

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

circumstances in which it was made. A “material fact” means any fact that significantly affects or could reasonably be expected to significantly affect the market price or the value of the Preferred Shares.

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

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

Reference is made to the *Securities Act* (British Columbia) for the complete text of the provisions under which these rights are conferred and this summary is subject to the express provisions of the *Securities Act* (British Columbia).

## **ITEM 12 FINANCIAL STATEMENTS**

The Company commenced operations on October 1, 2009 and the following year-end Audited Financial Statements represent a fiscal quarter.

Attached to this Offering Memorandum, immediately following this item, are the following:

- (a) audited statements of income, retained earnings and cash flows for the most recently completed financial year that ended before the date of this Offering Memorandum and an audited balance sheet dated as at the last day of such financial year; and
- (b) unaudited interim statements for the fiscal quarter that ended before the date of this Offering Memorandum but after the date of the financial statements attached pursuant to item 12(a), including an unaudited balance sheet dated as at the last day of such period, including comparatives for all of same for the prior year.

**ITEM 13      DATE AND CERTIFICATE**

**This Offering Memorandum does not contain a misrepresentation.**

DATED as of this 25<sup>th</sup> day of May 2011.

**BANCORP BALANCED MORTGAGE FUND II LTD.**

per:



Chief Executive Officer



Chief Financial Officer



Director



Director