

# ANTRIM BALANCED MORTGAGE FUND LTD.

## OFFERING MEMORANDUM

October 20, 2021

*The securities referred to in this Offering Memorandum are being offered on a private placement basis. This Offering Memorandum constitutes an offering of securities only in those jurisdictions, and to those persons, where, and to whom, they may be lawfully offered for sale. The Offering Memorandum is not, and under no circumstances is it to be construed as, a prospectus or advertisement or a public offering of these securities. The securities offered under this Offering Memorandum qualify for distribution in the jurisdictions in which they are offered pursuant to exemptions under securities laws in those jurisdictions.*

*This Offering Memorandum is for the confidential use of only those persons to whom it is transmitted in connection with this offering. By their acceptance of this Offering Memorandum, recipients agree that they will not transmit, reproduce or make available to anyone, other than their professional advisers, this Offering Memorandum or any information contained therein. No person has been authorized to give any information or to make any representation not contained in this Offering Memorandum. Any such information or representation which is given or received must not be relied upon.*

*In this Offering Memorandum, “we”, “us”, “our” and the “Company” means Antrim Balanced Mortgage Fund Ltd.; “you”, “your” and “shareholder” mean you and all other investors in Preferred Shares of the Company; and the “Manager” means Antrim Investments Ltd.*

*The Company is a “connected issuer” and a “related issuer”, within the meaning of applicable securities legislation, of the Manager given the role of the Manager and given that the Company and the Manager have common directors and officers and certain of the directors and officers of the Company serve as trustees and are beneficiaries of a family trust that holds all of the voting shares in the Manager. See “8 Risk Factors – 8.2 Manager Conflicts of Interest”.*

### The Issuer

Name: **Antrim Balanced Mortgage Fund Ltd.**

Head office: 9089 Glover Road, Box 520  
Langley, British Columbia V1M 2R8

Phone #: (604) 530-2301

E-mail address: info@antriminvestments.com

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Currently listed or quoted? **These securities are not listed or quoted on any exchange or market.** Only Class B, Series C Preferred Shares (as defined below) may be purchased through TSX NAVex™, an order execution platform that may be used by investment advisors at certain registered dealers to submit subscriptions to the Company.

Reporting issuer? No

SEDAR filer? No (other than reports of exempt distributions in certain jurisdictions)

### The Offering

Securities offered: Non-voting Class “A” Preferred shares  
(**“Class A Preferred Shares”**)  
Non-voting Class “B”, Series B Preferred shares  
(**“Class B, Series B Preferred Shares”**)  
Non-voting Class “B”, Series C Preferred shares  
(**“Class B, Series C Preferred Shares”**, and together with the Class A Preferred Shares and Class B, Series B Preferred Shares, the **“Preferred Shares”**)

Price per security: \$1.00 per share

Minimum / Maximum offering:	<b>There is no minimum or maximum offering. You may be the only purchaser. Funds available under the offering may not be sufficient to accomplish the Company's proposed objectives.</b> However, Preferred Shares have been sold in prior offerings. As at the date of this Offering Memorandum, 729,319,719 Preferred Shares are issued and outstanding. See "4. Capital Structure – 4.1 Share Capital" and "– 4.3 Prior Sales".
Minimum subscription amount:	The minimum amount to be invested by each investor is generally \$1,000, subject to compliance with the terms of exemptions from prospectus requirements under applicable securities laws and the discretion of the Manager to waive or change the minimum amount from time to time. See "5. Securities Offered – 5.2 Subscription Procedure" and "– 5.3 Statutory Exemptions Relied Upon by the Company", and review the subscription agreement available from the Manager.
Payment terms:	You must pay the full subscription price for the Preferred Shares at the time of purchase by way of electronic funds transfer or other means acceptable to us.
Proposed closing date(s):	Closings will occur periodically at the discretion of the Company as subscriptions are received. See "5. Securities Offered – 5.2 Subscription Procedure".
Income tax consequences:	There are important tax consequences associated with an investment in Preferred Shares. See "6. Certain Canadian Federal Income Tax Considerations".
Selling agent:	The Company has not appointed an agent or underwriter to sell Preferred Shares. However, in certain jurisdictions Preferred Shares are available for purchase through registered dealers. See "7. Compensation Paid to Sellers and Finders".

### **Resale Restrictions**

You will be restricted from selling your Preferred Shares to other investors for an indefinite period. However, Preferred Shares are redeemable by the holder by providing advance written notice, subject to certain restrictions. See "10. Resale Restrictions" and "5. Securities Offered – 5.1 Terms of Securities – Redemption Practices and Rights - Holder".

### **Purchasers' Rights**

You have two business days to cancel your agreement to purchase Preferred Shares. If there is a misrepresentation in this Offering Memorandum, you have the right to sue either for damages or to cancel the purchase agreement. See "11. Purchasers' Rights".

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

## TABLE OF CONTENTS

	Page
<b>SUMMARY .....</b>	<b>ii</b>
<b>FORWARD-LOOKING STATEMENTS .....</b>	<b>1</b>
<b>1. USE OF AVAILABLE FUNDS .....</b>	<b>1</b>
1.1 Net Proceeds .....	1
1.2 Use of Available Funds .....	2
1.3 Reallocation of Funds .....	2
<b>2. BUSINESS OF THE COMPANY .....</b>	<b>2</b>
2.1 Structure .....	2
2.2 Our Business .....	3
2.3 Development of Business .....	5
2.4 Long-Term Objectives .....	8
2.5 Short-Term Objectives .....	9
2.6 Insufficient Funds .....	9
2.7 Material Agreements .....	9
<b>3. MANAGEMENT OF THE COMPANY .....</b>	<b>10</b>
3.1 Directors, Officers, Promoters and Principal Shareholders of the Company .....	10
3.2 Management Experience .....	11
3.3 Penalties, Sanctions and Bankruptcy .....	12
3.4 Indebtedness to the Company .....	12
3.5 Antrim Investments Ltd. ....	12
3.6 Directors, Officers and Principal Shareholders of the Manager .....	13
3.7 Financial Services Agreement .....	14
3.8 Management Fees and Other Expenses of the Company .....	15
<b>4. CAPITAL STRUCTURE.....</b>	<b>16</b>
4.1 Share Capital .....	16
4.2 Long-Term Debt.....	16
4.3 Prior Sales and Redemptions .....	16
4.4 Principal Holders of Securities of the Company .....	19
<b>5. SECURITIES OFFERED.....</b>	<b>19</b>
5.1 Terms of Securities .....	19
5.2 Subscription Procedure.....	22
5.3 Statutory Exemptions Relied Upon by the Company .....	23
<b>6. CERTAIN CANADIAN FEDERAL INCOME TAX CONSIDERATIONS .....</b>	<b>23</b>
<b>7. COMPENSATION PAID TO SELLERS AND FINDERS.....</b>	<b>28</b>
<b>8. RISK FACTORS .....</b>	<b>29</b>
8.1 Risk Factors .....	29
8.2 Manager Conflicts of Interest .....	32
<b>9. REPORTING OBLIGATIONS.....</b>	<b>34</b>
Availability of Information.....	34
Auditors .....	34
<b>10. RESALE RESTRICTIONS .....</b>	<b>34</b>
<b>11. PURCHASERS' RIGHTS.....</b>	<b>35</b>
<b>12. FINANCIAL STATEMENTS.....</b>	<b>F-1</b>
<b>13. CERTIFICATE.....</b>	<b>C-1</b>

## SUMMARY

*The following is a summary of certain information contained in this Offering Memorandum, and is qualified in its entirety by the more detailed and additional information contained elsewhere in this Offering Memorandum. Capitalized terms used but not defined in this summary have the meanings given to such terms elsewhere in this Offering Memorandum.*

<b>Offering</b>	Non-voting Class A Preferred Shares at \$1.00 per share. Non-voting Class B, Series B Preferred Shares at \$1.00 per share. Non-voting Class B, Series C Preferred Shares at \$1.00 per share.
<b>Issuer</b>	Antrim Balanced Mortgage Fund Ltd. is a corporation incorporated under the laws of British Columbia and intends to conduct its business so as to qualify as a “mortgage investment corporation” under the <i>Income Tax Act</i> (Canada). See “2. Business of the Company”.
<b>Manager</b>	Antrim Investments Ltd. manages the Company’s mortgage investments and provides certain management, advisory and consulting services to the Company, including certain services relating to the distribution of the Preferred Shares and certain financial and administrative services. The Manager is in the business of managing mortgage investments and providing mortgage brokerage services. See “3. Management of the Company – 3.5 Antrim investments Ltd.”
<b>Eligible Investors</b>	Investors must invest the minimum amount established by the Manager from time to time and depending on the jurisdiction where they reside, may need to meet certain financial or other qualifications.  The minimum amount to be invested by each investor is generally \$1,000, subject to compliance with the terms of exemptions from prospectus requirements under applicable securities laws and the discretion of the Manager to waive or change the minimum amount from time to time.  See “5. Securities Offered – 5.2 Subscription Procedure” and “– 5.3 Statutory Exemptions Relied Upon by the Company”.
<b>Use of Proceeds</b>	The net proceeds to the Company from the sale of the Preferred Shares will be used to invest primarily in mortgages for owners of residential real estate, and may also invest from time to time in residential construction financing, commercial, industrial and land development loans, in accordance with the Company’s investment policies. See “1. Use of Available Funds” and “2. Business of the Company”.
<b>Closings</b>	Closings will occur periodically at the discretion of the Company as subscriptions are received. See “5. Securities Offered – 5.2 Subscription Procedure”.
<b>Dividend Policy</b>	The Company intends to payout all of its net income and net realized capital gains as dividends within the time periods specified in the <i>Income Tax Act</i> (Canada) and as such does not anticipate paying any income tax. Dividends received by shareholders (other than capital gains dividends) on Preferred Shares will generally be treated as interest income for the purposes of the <i>Income Tax Act</i> (Canada). Holders of Preferred Shares may elect to receive their dividends in cash or additional Preferred Shares. See “5. Securities Offered – 5.1 Terms of Securities - Dividend Entitlement” and “6. Certain Canadian Federal Income Tax Considerations”.

<b>Management Fee</b>	The Manager receives a management fee from the Company equal to 1.5% per annum of the principal amount of the mortgage portfolio as determined on the last day of each month. Management fees are calculated and payable monthly on the first day of each month. See “3. Management of the Company – 3.8 Management Fees and other Expenses of the Company”.
<b>Expenses</b>	The Manager bears the cost of administration of the mortgages in the Company’s mortgage portfolio, and certain administration and marketing costs.  In addition to the management fee paid to the Manager, the Company also pays the Manager’s reasonable out of pocket expenses in connection with the services. See “3. Management of the Company – 3.8 Management Fees and other Expenses of the Company”.
<b>Certain Canadian Federal Income Tax Consequences</b>	Provided the Company maintains its status as a “mortgage investment corporation” for the purposes of the <i>Income Tax Act</i> (Canada), dividends received by shareholders (other than capital gains dividends) on Preferred Shares will generally be treated as interest income to such shareholders for the purposes of the <i>Income Tax Act</i> (Canada) and Preferred Shares will generally be “qualified investments” to a trust governed by a registered retirement savings plan, deferred profit sharing plan, registered disability savings plan, registered education savings plan, registered retirement income fund, or tax-free savings account, provided the Company does not hold as part of its property at any time during a calendar year in which the particular time occurs any indebtedness (whether by way of a mortgage or otherwise) of a person who is an annuitant, beneficiary, employer or subscriber under, or a holder of, the trust or of any other person who does not deal at arm’s length with that person. See “6. Certain Canadian Federal Income Tax Considerations”.
<b>Risk Factors</b>	The purchase of Preferred Shares involves a number of significant risks. Certain of the risks associated with the purchase of Preferred Shares are described in this Offering Memorandum under the heading “8. Risk Factors”.
<b>How to Subscribe</b>	A person wishing to subscribe for Preferred Shares must deliver the documents referred to in “5. Securities Offered – 5.2 Subscription Procedure”.

## FORWARD-LOOKING STATEMENTS

This Offering Memorandum includes forward-looking statements with respect to the Company. A statement is forward-looking when it uses what we know and expect today to make a statement about the future. In particular, the information contained in “2. Business of the Company” may constitute “forward-looking information” for the purpose of securities legislation, as it contains statements of the intended course of conduct and future operations of the Company. You should not place undue reliance on the forward-looking statements. In particular and without limitation, this Offering Memorandum contains forward-looking statements pertaining to the following: the intended course of conduct and future operations of the Company, the intended mortgage portfolio and other investments, the Company's intended use of proceeds and the Company's short and long term objectives. These statements are based on assumptions made by us about the success of the Company's investment policies in certain economic and market conditions, relying on the experience of the Company's and the Manager's directors, officers and employees and their knowledge of historical economic and market trends, including our expectations regarding the composition of the mortgage portfolio, our expectation that we will complete the offering, the ability to adjust the mix of mortgages and other qualified investments in the Company's investment portfolio in response to market conditions and investment opportunities and anticipated costs and expenses of the offering. Investors are cautioned that the assumptions we make and the success of our investment policies are subject to a number of mitigating factors. Economic and market conditions may change, which may materially impact the success of our intended policies as well as the Company's actual course of conduct. By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, and a number of factors could cause actual results or events to differ materially from those anticipated in such forward looking statements. Investors are urged to consider various factors when considering these statements, including, but not limited to the risks discussed under “8. Risk Factors”. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. These forward-looking statements are made as of the date of this Offering Memorandum and we disclaim any intention and have no obligation or responsibility, except as required by law, to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

### 1. USE OF AVAILABLE FUNDS

#### 1.1 Net Proceeds

The net proceeds available to the Company as a result of this offering are as follows:

		Assuming minimum offering <sup>(1)</sup>	Assuming maximum offering <sup>(1)</sup>
A.	Amount to be raised by this offering	\$0.00 <sup>(1)</sup>	\$50,000,000 <sup>(1)</sup>
B.	Selling commissions and fees	\$0.00 <sup>(2)</sup>	\$0.00 <sup>(2)</sup>
C.	Estimated offering costs (e.g., legal, accounting, audit, etc.)	(\$15,000)	(\$15,000)
D.	Net proceeds (D = A – (B+C))	(\$15,000)	\$49,985,000
E.	Additional sources of funding required	\$0.00 <sup>(3)</sup>	\$0.00 <sup>(3)</sup>
F.	Working capital deficiency	\$0.00 <sup>(4)</sup>	\$0.00 <sup>(4)</sup>
G.	Total (G = (D+E) – F)	(\$15,000)	\$ 49,985,000

<sup>(1)</sup> There is no minimum or maximum offering. The amounts shown under “Assuming maximum offering” are for illustrative purposes only based on an assumed maximum offering of 50,000,000 Preferred Shares. As at the date of this Offering Memorandum, 729,319,719 Preferred Shares are issued and outstanding.

- (2) It is not expected that a sales commission (or fee) will be payable to the Company when you purchase Preferred Shares. However, if you acquire Preferred Shares through a registered dealer, your dealer may charge you a sales commission or fee at a rate to be negotiated between you and your dealer.
- (3) Although the Company intends to fund its investments primarily through capital raised from the issuance of Preferred Shares or other equity financings, the Company may also fund investments through the use of leverage, as permitted by applicable legislation, by borrowing funds pursuant to the terms of the Credit Facilities (as defined below). The amount of any funds raised through the use of leverage is not known; however, subject to the limits described, the Company may borrow funds to the extent that the Board of Directors is satisfied that such borrowing and additional investments will increase the overall profitability of the Company. See “2.3 Development of Business – Credit Facilities” for a description of the credit facilities obtained by the Company.
- (4) As at the date of this Offering Memorandum, the Company does not have a working capital deficiency.

## 1.2 Use of Available Funds

The available funds will be used as follows:

Description of intended use of available funds (listed in order of priority)	Assuming minimum offering <sup>(1)</sup>	Assuming maximum offering <sup>(1)</sup>
A. Investments in mortgages and other qualified investments and operating expenses (See “2. Business of the Company”) <sup>(2)</sup>	\$0.00	\$49,985,000
B. Total (Equal to G in the table under 1.1 above)	\$0.00	\$49,985,000

(1) There is no minimum or maximum offering. The amounts shown under “Assuming maximum offering” are for illustrative purposes only based on an assumed maximum offering of 50,000,000 Preferred Shares. As at the date of this Offering Memorandum, 729,319,719 Preferred Shares are issued and outstanding.

(2) The available funds will be used to invest primarily in mortgages for owners of residential real estate, and may also invest from time to time in residential construction financing, commercial, industrial and land development loans, in accordance with the Company's investment policies. See “2. Business of the Company”. In the normal course, the Company would expect to pay the Company's operating expenses from its revenues and not directly from funds raised as part of this offering. However, there is no assurance that this will always be possible and it may from time to time be necessary to use a portion of the funds raised as part of this offering to cover the Company's operating expenses. The operating expenses of the Company include the management fee paid to the Manager as consideration for the services provided by the Manager under the Financial Services Agreement. For the year ended June 30, 2021, the Company paid a management fee of \$7,605,690 to the Manager. See “3. Management of the Company – 3.8 Management Fees and Other Expenses of the Company”. The Company and the Manager share common directors and officers, and certain of the directors and officers of the Company serve as trustees and are beneficiaries of a family trust that holds all of the voting shares in the Manager. See “8.2 Manager Conflict of Interest” for further information.

## 1.3 Reallocation of Funds

The Company intends to spend the net proceeds as stated. We will re-allocate funds only for sound business reasons.

## 2. BUSINESS OF THE COMPANY

### 2.1 Structure

The Company was incorporated under the *Business Corporations Act* (British Columbia) on June 6, 2007.

The Company intends to carry on business as a “mortgage investment corporation” within the meaning of the *Income Tax Act* (Canada) (the “**Income Tax Act**”). See “6. Certain Canadian Federal Income Tax Considerations” for a description of conditions that must be met for the Company to qualify as a “mortgage investment corporation”. The directors of the Company intend to refuse registration of an allotment or transfer of Preferred Shares, which would result in the Company ceasing to meet such qualifications.

Antrim Investments Ltd. (defined above as the “**Manager**”) manages the Company's mortgage investments and provides certain management, advisory and consulting services to the Company, including certain services relating to the distribution of the Preferred Shares and certain financial and administrative services. See “3. Management of the Company – 3.5 Antrim Investments Ltd.”.

The head office of the Company and the Manager is located at 9089 Glover Road, Box 520, Langley, British Columbia V1M 2R8. The registered and records offices of the Company are located at 1200 Waterfront, 200 Burrard Street, British Columbia V7X 1T2. The Manager can be contacted by telephone at (604) 530-2301, by facsimile at (604) 530-2185, or by email at [info@antriminvestments.com](mailto:info@antriminvestments.com).

## 2.2 Our Business

### General

The Company intends to carry on business as a “mortgage investment corporation” within the meaning of the Income Tax Act by investing in permitted investments and distributing the net income of the Company as dividends to holders of Preferred Shares at the discretion of the board of directors of the Company (“**Board of Directors**”). See “6. Certain Canadian Federal Income Tax Considerations” for a description of conditions that must be met for the Company to qualify as a “mortgage investment corporation”.

The Company will invest primarily in mortgages granted as security for loans (“**mortgages**”) to owners of residential real estate, and may also invest from time to time in residential construction financing, commercial, industrial and land development loans, as well as mortgages made for the purpose of acquiring or re-financing income-producing property, and demand loans and term loans that are secured by income-producing real property, all of which are with arm’s length parties. From time to time, at the discretion of the Board of Directors, the Company may provide mortgage loans to builders and developers of residential, commercial and industrial real estate located in Canada. To the extent that any funds held by the Company are not invested in mortgages from time to time, at the discretion of the Board of Directors, these funds may be deposited with a Canadian chartered bank or credit union or invested in short-term deposits, saving accounts or government guarantee income certificates to maintain a level of working capital for our ongoing operations. The Company’s investments will be made in accordance with its investment objective and investment policies as determined from time to time by the Board of Directors. See “Investment Objective and Policies” below.

The Company may fund its investments through equity financings including the issuance of Preferred Shares, or through the use of leverage, as permitted by applicable legislation, by borrowing funds pursuant to the terms of the Credit Facilities (as defined below) or otherwise. The Company intends to borrow to the extent that the Board of Directors is satisfied that such borrowing and additional investments will increase the overall profitability of the Company. See “2.3 Development of Business – Credit Facilities” for a description of the Credit Facilities obtained by the Company.

As a mortgage investment corporation under the Income Tax Act, the Company is generally permitted to deduct dividends it pays in computing its income. At the discretion of the Board of Directors, the Company may pay out all of its net income and net realized capital gains as dividends within the time period specified in the Income Tax Act and in such cases, the Company would not anticipate paying any income tax. See “5. Securities Offered – 5.1 Terms of Securities – Dividend Entitlement” and “6. Certain Canadian Federal Income Tax Considerations”.

The Company is registered under the *Mortgage Brokers Act* (British Columbia) to carry on business as a mortgage investment corporation in British Columbia and has been so registered since June 2007. Additionally, the Manager is licensed as a mortgage broker in British Columbia, Alberta and Ontario. The Company and the Manager may apply for licensing or registration, where required, to carry on business as a mortgage investment corporation in other jurisdictions of Canada when business conditions justify the geographic expansion.

As noted above, Antrim Investments Ltd. (defined above as the “**Manager**”) manages the Company’s mortgage investments and provides certain management, advisory and consulting services to the Company, including certain services relating to the distribution of the Preferred Shares and certain financial and administrative services. Investment decisions are made by the Company’s Credit Committee, consisting of three members of the Board of Directors, and based on the advice of the Manager. The



Company does not have and does not expect to have any employees, and its business is carried out by the directors and officers of the Company and the directors, officers and employees of the Manager. See “3. Management of the Company”.

### **Investment Objective and Policies**

The Company’s principal investment objective is to provide holders of Preferred Shares with sustainable income while preserving capital for distribution or re-investment. We seek to achieve this by investing in mortgages and distributing our net income to shareholders as dividends. Our net income will primarily consist of interest received from the loans secured by the mortgages, less the fees paid to the Manager and our operating expenses.

The Company’s mortgage portfolio consists primarily of mortgages for owners of residential real estate. Additionally, our mortgage portfolio may also consist from time to time of residential construction financing, commercial, industrial and land development loans, as well as term mortgages made for the purpose of acquiring or re-financing income-producing property, all of which are with arm’s length parties. We may also invest in demand loans and term loans that are secured by income-producing real property, all of which are with arm’s length parties. All such investments are made in compliance with the requirements to maintain the Company’s status as a MIC.

The composition of our mortgage portfolio will vary over time depending on the assessment of the appropriate investment strategy given the overall market conditions and outlook. Accordingly, we endeavour to build a mortgage portfolio that encompasses the following general characteristics:

- (a) Property type and geographical diversification.
- (b) Short and intermediate term loans.
- (c) Payment schedules consisting primarily of interest only.
- (d) Loans in Canadian dollars on Canadian-based real estate.
- (e) The Company will invest primarily in first and second mortgages having a principal amount which, when added to the principal amount of prior mortgages, is not more than 75% of the appraised value of the real property against which they are secured.

As at the date of this Offering Memorandum, the investment policies of the Company are as follows:

- (a) The Company’s only undertaking is to invest funds in accordance with its investment objective and investment policies.
- (b) The Company invests primarily in mortgages granted as security for loans to owners of residential real estate. In addition, the Company may also invest from time to time in residential construction financing, commercial, industrial and land development loans, as well as mortgages made for the purpose of acquiring or re-financing income-producing property, and demand loans and term loans that are secured by income-producing real property, all of which are with arm’s length parties.
- (c) All mortgage investments are registered on title of the subject property in the Company’s name.
- (d) All investments are made in established or developing areas in the provinces of British Columbia, Alberta and Ontario.

- (e) Mortgage investments are generally limited to those where the Company has reviewed and evaluated an independent appraisal.
- (f) The Company generally will not invest in a mortgage or loan unless at the date the mortgage is acquired or funds are initially advanced (as the case may be) the indebtedness secured by such mortgage plus the amount of additional third party indebtedness of the borrower in priority to us, if any, does not exceed, on a property by property basis, 75% of the appraised value of the real property securing the mortgage, provided that the appraised value may be based on stated conditions including, without limitation, completion, rehabilitation or lease-up of improvements located on the real property which activities we will monitor on an ongoing basis.
- (g) If an independent appraisal reports an appraised value for the applicable real property securing the mortgage other than on an “as is basis”, the Company may only advance funds under a loan by way of progress payments upon completion of specified stages of construction or development supported by receipt of reports of professional engineers, architects or quantity surveyors, as applicable, or upon completion of other specified milestones.
- (h) The Company will not make any investment or permit an investment mix in its mortgage portfolio that would result in the Company failing to qualify as a MIC under the Income Tax Act.
- (i) Subject to paragraph (j) below, the Company will not invest in securities or guaranteed investment certificates or treasury bills unless such securities, guaranteed investment certificates or treasury bills are issued by an arm’s length party and are pledged as collateral in connection with mortgage investments or obtained by realizing on such collateral.
- (j) The Company will not (i) invest for the purposes of exercising control over management of any issuer; (ii) act as an underwriter, (iii) make short sale of securities or maintain a short position in any securities, (iv) guarantee the securities or obligations of any person, and (v) loan money to or invest in securities of the Manager, or the Manager’s affiliates.
- (k) To the extent that any funds held by the Company are not invested in mortgages or other mortgage investments, at the discretion of the Board of Directors, such funds may be deposited with a Canadian chartered bank or credit union or invested in short-term deposits, saving accounts or government guarantee income certificates to maintain a level of working capital for its ongoing operations.

The Company’s investment policies may be changed from time to time by the Company with the approval of the Board of Directors to ensure compliance with the provisions of the Income Tax Act or other applicable laws or for other reasons.

## 2.3 Development of Business

As described elsewhere, the Company has retained Antrim Investments Ltd. (defined above as the “**Manager**”) to manage the Company’s mortgage investments and provide certain financial and administrative services to the Company. For a description of the Manager, see “3. Management of the Company – 3.5 Antrim Investments Ltd.”.

### Portfolio Development

The Company has developed its mortgage investment business steadily since inception and expects that demand for private mortgage financing should remain high as “traditional” lenders such as banks, credit unions and trust companies continue to tighten up their lending practices, particularly in relation to self-employed borrowers, in response to more stringent mortgage regulations set by the federal government. As a result of policy changes to banks, there has been an increase in the amount and quality of mortgage

applications made to the Company as many borrowers are forced to seek financing from sources other than traditional lenders. Increased applications has allowed the Company to be very selective with regards to what individuals, and what properties, it lends to. The Company continues to restrict the lending area of the Company only to those areas that exhibit long term price stability/growth and liquidity.

Additionally, due to the lingering effects of the credit crisis and associated volatility in equity markets over the past several years, and the persistent low interest rate environment, many investors are seeking investments that offer stable returns from year to year with relatively high yields. The Company is well positioned in this market as it offers an investment secured by real estate, and has shown relatively low volatility in returns year over year while yielding returns similar to traditional equity investments. Although the Company is not expected to yield more than equities over the long-term, it is expected to show low volatility with regards to yield year over year.

The combination of increased mortgage applications and increased investor interest and participation has lead to solid growth in terms of new investor deposits and mortgage receivables over the past several years. The Company expects this to continue for several years into the future and thus expects steady growth in terms of new investor deposits and mortgage receivables for the Company.

### Investment Risk Level

The Manager has identified the investment risk level of the Company as an additional guide to help prospective investors decide whether the Company is right for the investor. The Manager's determination of the risk rating for the Company is guided by the methodology recommended by the Fund Risk Classification Task Force of The Investment Funds Institute of Canada (the "**Task Force**"). Although the Task Force's recommendations relate to mutual funds, the Manager has concluded that these guidelines are also appropriately applied to the Company. The Task Force concluded that the most comprehensive, easily understood form of risk in relation to a mutual fund is the historical volatility of a fund as measured by the standard deviation of its performance. The use of standard deviation as a measurement tool allows for a reliable and consistent quantitative comparison of a fund's relative volatility and related risk. Standard deviation is widely used to measure volatility of return. A fund's risk is measured using rolling one, three and five year standard deviation and comparing these values against other funds and an industry standard framework. The standard deviation represents, generally, the level of volatility in returns that a fund has historically experienced over the set measurement periods. However, prospective investors should be aware that other types of risk, both measurable and non-measurable, may exist. Additionally, just as historical performance may not be indicative of future returns, a fund's historical volatility may not be indicative of its future volatility.

In accordance with the methodology described above, the Manager has concluded that the Company would be classified as Low risk; however, the Manager has rated the Company as Medium risk.

### Portfolio Analysis

The following table provides a comparative analysis of the Company's mortgage portfolio as at the dates indicated:

	For the years ended June 30				
	2020				
Description	# of Loans	Value	As a %	Weighted Rate Interest Rate	Average Mortgage Balance
<b>Total Portfolio</b>	<b>1,629</b>	<b>\$573,213,780</b>	<b>100%</b>	<b>7.97%</b>	<b>\$354,853</b>
First mortgage	834	\$441,972,449	77.10%	7.58%	\$529,943
Second mortgage	777	\$126,215,215	22.02%	9.27%	\$162,439
Third mortgage	18	\$5,026,116	0.88%	9.48%	\$279,229

	For the years ended June 30				
	2021				
<b>Total Portfolio</b>	<b>1,780</b>	<b>\$759,943,215</b>	<b>100%</b>	<b>7.16%</b>	<b>\$426,934</b>
First mortgage	1,197	\$663,127,705	87.26%	6.86%	\$553,884
Second mortgage	568	\$93,210,281	12.27%	9.19%	\$163,732
Third mortgage	15	\$3,605,229	0.47%	9.56%	\$240,348
	For the period ended September 30				
	2021				
<b>Total Portfolio</b>	<b>1,762</b>	<b>\$769,847,151</b>	<b>100%</b>	<b>7.14%</b>	<b>\$436,916</b>
First mortgage	1,202	\$678,928,202	88.19%	6.86%	\$564,832
Second mortgage	547	\$87,685,590	11.39%	9.22%	\$160,302
Third mortgage	13	\$3,233,359	0.42%	9.58%	\$248,719

The following table provides a comparative analysis of the Company's approximate lending concentration based on the type of mortgage and the primary location as at the dates indicated:

Type of Mortgage	As at June 30						As at September 30		
	2020			2021			2021		
	# of Loans	Value	As a %	# of Loans	Value	As a %	# of Loans	Value	As a %
Residential	1,618	\$554,713,780	96.77%	1,726	\$736,916,936	96.97%	1,708	\$746,820,872	96.94%
Residential construction	-	-	-	-	-	-	-	-	-
Residential land	11	\$18,500,000	3.23%	54	\$23,026,279	3.03%	54	\$23,026,279	3.06%
Commercial	-	-	-	-	-	-	-	-	-
<b>Total</b>	<b>1,629</b>	<b>\$573,213,780</b>	<b>100%</b>	<b>1,780</b>	<b>\$759,943,215</b>	<b>100%</b>	<b>1,762</b>	<b>\$769,847,151</b>	<b>100%</b>
<b>Location of Mortgage</b>									
GVRD	1,484	\$522,197,754	91.10%	1,386	\$591,767,781	77.87%	1,332	\$582,004,446	75.60%
Vancouver Island	63	\$22,183,373	3.87%	76	\$32,449,575	4.27%	78	\$34,027,244	4.42%
Okanagan	20	\$7,050,529	1.23%	39	\$16,642,756	2.19%	32	\$14,011,218	1.82%
Calgary and surrounding area	39	\$13,699,809	2.39%	57	\$24,318,182	3.20%	66	\$28,869,268	3.75%
Edmonton and surrounding area	18	\$6,305,352	1.10%	20	\$8,511,364	1.12%	24	\$10,469,921	1.36%
Toronto and surrounding area	5	1,776,963	0.31%	202	\$86,253,554	11.35%	230	\$100,465,053	13.05%
<b>Total</b>	<b>1629</b>	<b>\$573,213,780</b>	<b>100%</b>	<b>1780</b>	<b>\$759,943,215</b>	<b>100%</b>	<b>1762</b>	<b>\$769,847,151</b>	<b>100%</b>

### Portfolio Growth Rates

The following table reflects the annual growth rate of the mortgage portfolio of the Company for the last five years as at each fiscal year end which is June 30<sup>th</sup>.

Fiscal Year	Value of Mortgage Portfolio	Annual Growth Rate
2017	\$392,642,925	22%
2018	\$477,922,986	21%

Fiscal Year	Value of Mortgage Portfolio	Annual Growth Rate
2019	\$567,016,469	18%
2020	\$573,213,780	1.1%
2021	\$759,943,215	32.6%

## Historical Returns

The table below shows the historical annual rate of return for each class of Preferred Shares since inception as at each fiscal year end which is June 30<sup>th</sup>. The annual rate of return for each fiscal year is determined based on the Company's adjusted net income for the year divided by the weighted average number of outstanding Preferred Shares for the year. The rate of return is net of all fees and expenses of the Company.

**Past performance is not indicative of future returns.**

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Class A Preferred Shares	10.12%	9.59%	8.45%	7.86%	7.04%	6.60%	6.60%	6.00%	6.15%	6.27%
Class B, Series B Preferred Shares	9.69%	9.01%	7.94%	7.37%	6.51%	6.10%	6.08%	5.50%	5.65%	5.77%
Class B, Series C Preferred Shares	-	-	-	-	7.38%	7.10%	7.13%	6.50%	6.65%	6.77%
	2018	2019	2020	2021						
	6.28%	6.51%	6.51%	5.79%						
	5.78%	6.01%	6.01%	5.29%						
	6.78%	7.01%	7.01%	6.30%						

## Credit Facilities

Under the terms of the credit agreement made as of May 6, 2019 (the "**Credit Agreement**") among the Company, as borrower, The Toronto-Dominion Bank ("**TD Bank**") and Royal Bank of Canada ("**RBC**" and, and together with TD Bank, the "**Lenders**"), as lenders, and TD Bank, as lead arranger, sole book runner and administration agent of the Lenders, the Lenders have agreed to provide to the Company certain credit facilities. As at the date of this Offering Memorandum, these credit facilities include an aggregate principal amount of \$100,000,000, consisting of (i) a revolving credit facility in the principal amount of \$85,000,000 provided by both Lenders, and (ii) a revolving credit facility in the principal amount of \$15,000,000 made available by TD Bank, on a bilateral basis, as a swing line facility (together, the "**Credit Facilities**"). The Credit Facilities were increased by an additional aggregate amount of \$25,000,000 by way of exercise of the accordion (reflected in the Fourth Amendment to the Credit Agreement effective as of July 22, 2021). To secure the payment and performance of the secured obligations under the Credit Agreement, the Company has agreed to grant TD Bank a security interest with respect to, among other things, all of the present and future property, assets and undertaking pursuant to a general security agreement dated for reference May 6, 2019 between the Company and TD Bank. As at the date of this Offering Memorandum, the maturity date for the Credit Facilities under the Credit Agreement is May 6, 2022. Pursuant to the terms of the Credit Agreement, the Company may submit a request to extend the maturity date for additional one year periods.

The Credit Facilities are made available to the Company to finance mortgage investments and other general corporate purposes. The Company intends to use the Credit Facilities to fund the purchase of mortgages where deemed appropriate by the Manager.

As at the date of September 30, 2021, \$30,000,000 was drawn down under the Credit Facilities. As at the date of this Offering Memorandum, the Company was in compliance with all required financial covenants under the Credit Facilities.

## 2.4 Long-Term Objectives

The long-term objective of the Company is to provide holders of Preferred Shares with sustainable income while preserving capital for distribution or re-investment. The Company seeks to achieve this objective by:

- (a) maintaining a diversified portfolio of first and second mortgages and other investments permitted by the Income Tax Act for a MIC;
- (b) providing a consistent and attractive rate of return for holders of Preferred Shares; and
- (c) increasing the Company's market share of the potential MIC business in British Columbia and Alberta.

## 2.5 Short-Term Objectives

The short-term objectives of the Company for the next 12 months are to:

- (a) sell a total of 12,000,000 or more Preferred Shares to investors;
- (b) invest all funds raised from the sale of Preferred Shares in permitted investments; and
- (c) provide a rate of return to holders of Preferred Shares that is consistent and that exceeds the post five-year mortgage rates offered by major banks.

The Company intends to do the following to meet these short-term objectives:

What we must do and how we will do it	Target completion date (or, if not known, number of months to complete)	Our cost to complete
Continue raising funds through the sale of Preferred Shares.	Ongoing	\$15,000 <sup>(1)</sup>
Source and invest in mortgages and other permitted investments and administer the Company's portfolio of investments through the Manager.	Ongoing as funds are raised and mortgages are retired and replaced from time to time	See note <sup>(2)</sup>

<sup>(1)</sup> Estimated costs for legal, audit and other professional services and other matters associated with the issuance of Preferred Shares.

<sup>(2)</sup> It is not possible to accurately estimate the costs of sourcing and investing in mortgages and other qualified investments. The costs of administering the Company's mortgage investments are borne by the Manager. As part of its duties, the Manager is responsible for originating mortgages and other permitted investments, and for administering the Company's portfolio of investments. As consideration for these services, the Manager receives a management fee. See "1.2 Use of Available Funds", "3. Management of the Company – 3.5 Antrim Investments Ltd.", "- 3.7 Financial Services Agreement" and "- 3.8 Management Fees and Other Expenses of the Company".

## 2.6 Insufficient Funds

The funds available as a result of this offering may not be sufficient to accomplish all of the Company's proposed objectives over the next 12 months. There are no assurances that alternative financing will be available.

## 2.7 Material Agreements

The material agreements of the Company are as follows:

1. The Amended and Restated Financial Services Agreement made as of October 24, 2019 (defined below as the "**Financial Services Agreement**") between the Company and the Manager under the terms of which the Company has retained the Manager to manage the Company's mortgage investments and to provide certain management, advisory and consulting services to the Company, including to provide certain services relating to the distribution of the Preferred Shares and certain financial and administrative services. See "3. Management of the Company – 3.7 Financial Services Agreement".

2. The Credit Agreement (as defined above) made as of May 6, 2019, as amended, among the Company, RBC and TD Bank under the terms of which the Lenders have agreed to provide the Company with the Credit Facilities in the amount of up to \$100,000,000. See “2.3 Development of Business – Credit Facilities”.

A description of the key terms of these agreements are described in this Offering Memorandum in the sections noted above. Copies of these agreements may be inspected at the business office of the Company located at 9089 Glover Road, Box 520, Langley, British Columbia V1M 2R8, during normal business hours, during the period of distribution of the securities offered hereunder.

### 3. MANAGEMENT OF THE COMPANY

The Board of Directors is responsible for managing or supervising the management of the business and affairs of the Company, subject to the provisions of the *Business Corporations Act* (British Columbia) and the regulations thereunder and the Company's articles.

The Company has retained Antrim Investments Ltd. (defined above as the “**Manager**”) to manage the Company's mortgage investments and to provide certain management, advisory and consulting services to the Company, including certain services relating to the distribution of the Preferred Shares and certain financial and administrative services. See “3.5 Antrim Investments Ltd.”.

#### 3.1 Directors, Officers, Promoters and Principal Shareholders of the Company

The names, municipalities of residence, position held and shareholdings of and certain other information relating to the directors, officers and promoters of the Company, and persons holding, directly or indirectly, more than 10% of any class of voting securities of the Company (“**principal holders**”), are as follows:

Name and municipality of principal residence	Position held / Date of obtaining position	Compensation paid by Company or related party in financial year ended June 30, 2021 / Anticipated compensation to be paid by Company or related party in financial year ended June 30, 2022	Number, type and % of securities of the Company held as at September 30, 2021	Number, type and % of securities of the Company held after the offering
William (Bill) Granleese Langley, B.C.	Director / June 6, 2007	Nil / Nil <sup>(1)</sup>	1,894,799 Class A Preferred Shares (0.89%) <sup>(2)</sup>	Unknown <sup>(3)</sup>
William (Will) R. Granleese Langley, B.C.	President & Director / August 10, 2007	Nil / Nil <sup>(1)</sup>	1 Common Share (9.09%) <sup>(2)</sup> 23,541,662 Class A Preferred Shares (11.06%) <sup>(2) (4)</sup>	Unknown <sup>(3)</sup>
Christopher (Chris) Gavin Worsnup Langley, B.C.	Director / November 28, 2014	Nil / Nil	1 Common Share (9.09%) <sup>(2)</sup> 385,757 Class A Preferred Shares (0.18%) <sup>(2)</sup>	Unknown <sup>(3)</sup>
Antrim Investments Ltd.	Manager & promoter / June 6, 2007	<sup>(5)</sup> / Unknown	Nil	Nil

<sup>(1)</sup> William Granleese, William R. Granleese and Christopher Gavin Worsnup are employed by the Manager and receive compensation from the Manager in relation to the services they provide to the Manager.

<sup>(2)</sup> Includes shares held directly or indirectly.

- (3) The directors and officers of the Company may acquire additional securities of the Company; however, the number and type of securities, if any, which may be acquired is not known.
- (4) 928,956 Class A Preferred Shares are held personally, and 22,612,706 Class A Preferred Shares are held by North Langley Ventures Corp., the voting shares of which are owned by William R. Granleese.
- (5) As consideration for the services provided by the Manager under the Financial Services Agreement (as defined below), the Company has agreed to pay the Manager a management fee. For the year ended June 30, 2021, the Company paid a management fee of \$7,605,690 to the Manager. See "3.7 Financial Services Agreement" and "3.8 Management Fees and Expenses".

As at the date of this Offering Memorandum, the directors and officers of the Company, as a group and including their spouses and other related persons, own two of the Common shares of the Company ("**Common Shares**"), representing 18.18% of the 11 Common Shares issued and outstanding on such date.

As at the date of this Offering Memorandum, the directors and officers of the Company, as a group and including their spouses and other related persons, own 26,622,825 Preferred Shares, representing 3.65% of the 729,319,719 Preferred Shares issued and outstanding on such date. It is intended that other persons may be added to the group of directors and officers of the Company from time to time depending upon their expertise or financial involvement in the business and affairs of the Company.

The Company has granted an indemnity to each of its directors for any claims made against him or her as a director of the Company, provided that such claims are not the result of negligence or wilful misconduct on the part of the director.

### **3.2 Management Experience**

A description of the principal occupations of the Company's directors and executive officers over the past five years and their relevant experience is set out below.

#### **William (Bill) Granleese – Director**

Bill is a director of both the Company and the Manager and has served in those roles with the Company since its inception in 2007. A pioneer in the Canadian private mortgage market, Bill has spent over 45 years helping mortgage investors by way of private placements and MICs. The Manager is one of the oldest licensed mortgage brokerages in Canada. The Manager received its mortgage broker license in 1971. Bill has been operating MICs since 1993. Bill is a member of the Mortgage Brokers Association of British Columbia and the Mortgage Investors Association of British Columbia.

#### **William (Will) R. Granleese – President and Director**

Will is the President of the Company and has served as a director of the Company since its inception in 2007 and also serves as the Chief Executive Officer, a director and a lead portfolio manager of the Manager. Will has extensive experience in both lending and financial planning. Will has an undergraduate degree in finance from Simon Fraser University and an M.B.A. (Finance) from Dalhousie University and several professional designations through the Canadian Securities Institute, including the Financial Management Advisor, Derivatives Markets Specialist and Chartered Investment Manager designations. Prior to joining the Manager in 2005, Will worked at TD Bank for the previous five years as a financial advisor. He is a previous top 40 under 40 BC Business recipient and past President of the British Columbia Mortgage Investment Corporation Managers Association with association assets under management of over \$3 billion.

#### **Christopher (Chris) G. Worsnup – Director**

Chris has served as a director of the Company since November 20, 2014, and also serves as in-house General Counsel of the Manager. Chris grew up in England and obtained a degree in Accounting and Law at Newcastle University. After qualifying as a solicitor in England in 1999, he moved to Vancouver and was



called to the Bar in British Columbia in 2001. Chris was an associate real estate lawyer with Spagnuolo & Company for eleven years before he joined the Manager in April 2012. At the Manager, his responsibilities include mortgage underwriting, portfolio management, and in-house legal counsel, which includes dealing with outside counsel on mortgage files, securities filings, licence registrations, insurance applications, and corporate matters. Chris is a registered mortgage broker and maintains his practicing lawyer status. He also holds the Chartered Investment Manager designation through the Canadian Securities Institute.

### **3.3 Penalties, Sanctions and Bankruptcy**

There are no penalties or sanctions that have been in effect during the last 10 years, or any cease trade orders that have been in effect for a period of more than 30 consecutive days during the past 10 years against: (i) a director, executive officer or control person of the Company; or (ii) an Company of which any of the foregoing persons was a director, executive officer or control person at the relevant time.

There are no declarations of bankruptcy, voluntary assignments in bankruptcy, proposals under any bankruptcy or insolvency legislation, proceedings, arrangements or compromises with creditors or appointments of a receiver, receiver manager or trustee to hold assets, that have been in effect during the last 10 years with regard to any: (i) director, executive officer or control person of the Company; or (ii) Company of which any of the foregoing persons was a director, executive officer or control person at the relevant time.

### **3.4 Indebtedness to the Company**

As at the date of this Offering Memorandum, to the knowledge of the Company, none of the directors, management, promoters or principal holders of the Company is indebted to the Company.

### **3.5 Antrim Investments Ltd.**

As noted above, the Company has retained Antrim Investments Ltd. (defined above as the “**Manager**”) to manage the Company’s mortgage investments and to provide certain management, advisory and consulting services to the Company, including services relating to the distribution of the Preferred Shares and certain financial and administrative services. For a description of the Financial Services Agreement (defined below) setting out the terms on which the Manager provides services to the Company, see “3.7 Financial Services Agreement”.

The Manager is a private company incorporated under the *Company Act* (British Columbia) (now the *Business Corporations Act* (British Columbia)) on November 7, 1973. The principal office of the Manager (and the Company) is 9089 Glover Road, Box 520, Langley, British Columbia V1M 2R8. The Manager is licensed as a mortgage broker in British Columbia, Alberta and Ontario, and has been doing business as a licensed mortgage brokerage in British Columbia since November 1973. The Manager is currently registered as an investment fund manager and a restricted portfolio manager under applicable securities laws in British Columbia and as an exempt market dealer under applicable securities laws in Alberta, British Columbia and Ontario, and may seek registration in additional jurisdictions from time to time in the future as required to carry on its business.

Initially, the Manager was established to finance homeowner equity loans, first mortgages and second mortgages. At that time, the principals of the Manager realized the huge opportunities in homeowner equity loans. During the late 1990s, no financial institutions of any size or nature were interested in financing homeowner equity loans without the homeowner having sufficient qualifying income. With that initial focus on homeowner equity mortgages, the Manager then expanded its business into mortgage lending and brokering. Over the last 30 years, the Manager has arranged mortgage loans in the residential and commercial sectors of the real estate industry. Additionally, the Manager has been in the business of managing MICs since 1993.

Through its years in the mortgage brokerage business, the Manager has managed commercial mortgage financings in the following areas:

- (a) Apartment buildings and condominiums
- (b) Commercial strata lots (office & retail)
- (c) Land
- (d) Short-term construction loans.

The Manager is a member of the Mortgage Brokers Association of British Columbia and the Mortgage Investment Association of British Columbia.

### **Management of the Company**

All mortgage investment opportunities are reviewed by the Manager's management team to ensure that they meet or exceed the Company's investment policies. See "2.2 Our Business – Investment Objective and Policies".

When making an assessment of a mortgage investment opportunity, the Manager will evaluate such investment opportunity on its own financial and business merits and against current market conditions. Generally, an assessments of a mortgage investment opportunity will include, but is not limited to: (i) a review of a recent independent appraisal of the applicable property to be secured by the mortgage, and (ii) if applicable, on commercial and environmentally sensitive properties, an evaluation pursuant to a Phase I Environmental Audit and a general assessment of the: (1) project and financial information provided by the borrower; (2) security provided; (3) current market conditions; and (4) overall risk to the Company.

The Manager does not permit its directors and officers to make investments or co-investments in mortgages or other investments held by the Company. However, directors and officers of the Manager may invest in Preferred Shares of the Company. See "8. Risk Factors – 8.2 Manager Conflicts of Interest".

### **3.6 Directors, Officers and Principal Shareholders of the Manager**

The Manager is a private company owned by a family trust the trustees and beneficiaries of which include William (Bill) Granleese and William (Will) R. Granleese, who are also directors, officers and voting shareholders of the Company. See "3. Management of the Company – 3.1 Directors, Officers, Promoters and Principal Shareholders of the Company".

The directors and officers of the Manager are as follows:

<b>Name and municipality of principal residence</b>	<b>Office held with the Manager</b>	<b>Principal occupation and related experience</b>
William (Bill) Granleese Langley, B.C.	President and Director	Mortgage broker <sup>(1)</sup>
William (Will) R. Granleese Langley, B.C.	Chief Executive Officer, Secretary and Director	Mortgage broker <sup>(1)</sup>
Christopher (Chris) G. Worsnup Langley, B.C.	General Counsel	Mortgage broker and General Counsel <sup>(1)</sup>
Stephanie Heron, Langley, B.C.	Chief Compliance Officer	Chief Compliance Officer, Dealer Operations

<sup>(1)</sup> For further information, see above under "3.2 Management Experience".

### 3.7 Financial Services Agreement

Pursuant to a financial services agreement dated for reference June 6, 2007, as amended or amended and restated by agreements dated for reference on August 30, 2011, December 15, 2011, February 20, 2017, June 30, 2017, May 3, 2018, June 18, 2019 and October 24, 2019 (the “**Financial Services Agreement**”), between the Company and the Manager, the Company retained the Manager to manage the Company’s mortgage investments and to provide certain management, advisory and consulting services to the Company, including to provide certain services relating to the distribution of the Preferred Shares and certain financial and administrative services.

#### Services Provided

Under the terms of the Financial Services Agreement, as amended, the Company retained the Manager as the sole and exclusive manager of the Company’s mortgage portfolio and to perform the following services:

- (a) originating and administering mortgages;
- (b) providing financial services for the operations of the Company, including administering mortgages and related security agreements and other forms of security of the Company;
- (c) providing administrative services required by the Company in carrying on business as a mortgage investment corporation;
- (d) collecting or attempting to collect any amounts owing or in arrears on any of the mortgage investments, including foreclosure or other court proceedings and the resultant costs, legal fees and disbursements on behalf of the Company;
- (e) taking such actions as may be necessary or desirable in its discretion to administer the mortgage loans. In the administration of any mortgage loan, the Manager may, but shall not be obligated to obtain solicitors counsel and other experts and appraisers and advance such funds as it considers reasonable or necessary in order to preserve, protect, defend or improve the Company’s interest in any mortgage loan or any real property. The Manager shall endeavor to collect the amount of all costs incurred or advances made from the borrower;
- (f) charging brokers’ fees, lenders’ fees, commitment fees, extension fees, renewal fees, NSF fees, administration fees and similar fees to borrowers with respect to any mortgage loan on behalf of the Company;
- (g) supplying the Company with mortgage investment opportunities;
- (h) providing sales and support services to the Company through such designated representatives as the parties may elect from time to time; and
- (i) marketing and distributing Preferred Shares of the Company in compliance with applicable laws and industry standards.

#### Standard of Care and Liability

Pursuant to the Financial Services Agreement, the Manager must carry out its duties fairly, honestly and in the best interests of the Company and must exercise the degree of care, diligence and skill that a reasonably prudent person experienced in the business of mortgage administration and management and the distribution of securities would exercise in comparable circumstances. The Company has agreed to indemnify the Manager and its officers, employees, agents, representatives and affiliates from and against any and all losses, claims, damages and liabilities, jointly or severally, whatsoever at law, or any claim

made by any third party, or otherwise, to the extent they relate to or arise out of the performance of the services under the Financial Services Agreement or the engagement of the Manager pursuant to the Financial Services Agreement.

### **Term and Termination**

The term of the Financial Services Agreement, as amended, will continue in force unless terminated earlier by either party in accordance with the terms therein. See “8.2 Risk Factors – Company Risk”. In addition, the Financial Services Agreement may be terminated by either party in the following events:

- (a) a bankruptcy, receivership or liquidation order is issued against the other party;
- (b) the other party makes an assignment for the benefit of its creditors or commits any act of bankruptcy within the meaning of the *Bankruptcy and Insolvency Act* (Canada);
- (c) the other party assigns the Financial Services Agreement or the rights or obligations there under to any person (in the case of the Manager a person that is not affiliated) without the prior written consent of the other party;
- (d) the other party commits a breach or default under the Financial Services Agreement not related to the payment of any money to be paid by one party to the other and the same is not cured within 120 days of the party receiving written notice thereof; or
- (e) the other party commits a breach or default under the Financial Services Agreement related to the payment of any money to be paid by one party to the other and the same is not cured within 30 days of the party receiving written notice thereof.

The Financial Services Agreement may also be terminated by mutual consent in writing of the Company and the Manager.

### **Compensation**

As consideration for the services provided by the Manager, the Company has agreed to pay the Manager the Management Fee described below under “3.8 Management Fees and Other Expenses of the Company”. In addition, the Manager is entitled to reimbursement of out of pocket expenses in connection with the services contemplated under the Financial Services Agreement.

#### **3.8 Management Fees and Other Expenses of the Company**

As consideration for the services provided by the Manager under the Financial Services Agreement, the Company has agreed to pay the Manager a fee equal to 1.5% per annum of the principal amount of the mortgage portfolio as determined on the last day of each month (the “**Management Fee**”). The Management Fee is calculated and payable monthly on the first day of each month.

In addition to the Management Fee, the Company also pays the Manager's reasonable out of pocket expenses in connection with the services provided by the Manager under the Financial Services Agreement. These out of pocket expenses include: (i) fees and disbursements of any independent professionals and organizations, including independent auditors, outside legal counsel, consultants, appraisers, surveyors, and other advisors; (ii) costs of any outside services or independent contractors such as financial printers, couriers, business publications or similar services; (iii) transportation, per diem, telephone calls, word processing expenses or any similar expense not associated with its ordinary operations, and (iv) the amount of the expenses incurred by the Manager each month to allow it to provide the distribution services contemplated or otherwise incurred in connection with the distribution of securities of the Company.

The Manager bears the cost of administration of the mortgages in the Company's mortgage portfolio, and certain administration and marketing costs.

In addition to the Management Fee and the other expenses described above, the Company pays the other expenses associated with carrying on its business and the distribution of its securities.

## 4. CAPITAL STRUCTURE

### 4.1 Share Capital

The table below sets out the authorized and issued share capital of the Company as at the date of this Offering Memorandum.

Description of security		Number authorized to be issued	Price per security	Number outstanding as at September 30, 2021	Number outstanding after minimum offering <sup>(1)</sup>	Number outstanding after maximum offering <sup>(1)</sup>
Common Shares		100	n/a <sup>(2)</sup>	11	n/a <sup>(2)</sup>	n/a <sup>(2)</sup>
Class A Preferred Shares		Unlimited	\$1.00	212,919,805	n/a	n/a
Class B, Series B Preferred Shares		Unlimited	\$1.00	145,257,777	n/a	n/a
Class B, Series C Preferred Shares		Unlimited	\$1.00	371,142,125	n/a	n/a

<sup>(1)</sup> There is no minimum or maximum offering.

<sup>(2)</sup> Common Shares are not offered for sale under this Offering Memorandum.

### 4.2 Long-Term Debt

As at the date of this Offering Memorandum, the Company has no long-term debt.

See "2.3 Development of Business – Demand Credit Facilities" for a description of the Credit Facilities obtained by the Company.

### 4.3 Prior Sales and Redemptions

The table below discloses information regarding the Preferred Shares of the Company issued and redeemed during the past two years ended June 30, 2021 and the subsequent period ending September 30, 2021, other than Preferred Shares issued on the reinvestment of dividends. All Preferred Shares were issued and redeemed at a price of \$1.00 per share.

Date of Issuance	Type of Security	Number of Securities Issued	Dollar Value of Securities Issued	Number of Securities Redeemed	Dollar Value of Securities Redeemed	Net Funds Received
July 2019	Class A Preferred Shares	3,890,806	\$3,890,806.00	1,774,244.92	\$1,774,244.92	<b>\$2,116,561.08</b>
	Class B, Series B Preferred Shares	1,547,812	\$1,547,812.00	1,934,531.26	\$1,934,531.26	<b>-\$386,719.26</b>
	Class B, Series C Preferred Shares	1,797,559	\$1,797,559.00	4,715,089.42	\$4,715,089.42	<b>-\$2,917,530.42</b>
August 2019	Class A Preferred Shares	2,132,042	\$2,132,042.00	422,233.05	\$422,233.05	<b>\$1,709,808.95</b>
	Class B, Series B Preferred Shares	4,641,297	\$4,641,297.00	534,623.90	\$534,623.90	<b>\$4,106,673.10</b>
	Class B, Series C Preferred Shares	1,830,444	\$1,830,444.00	1,086,985.95	\$1,086,985.95	<b>\$743,458.05</b>

<b>Date of Issuance</b>	<b>Type of Security</b>	<b>Number of Securities Issued</b>	<b>Dollar Value of Securities Issued</b>	<b>Number of Securities Redeemed</b>	<b>Dollar Value of Securities Redeemed</b>	<b>Net Funds Received</b>
September 2019	Class A Preferred Shares	2,798,627	\$2,798,627.00	557,384.95	\$557,384.95	<b>\$2,241,242.05</b>
	Class B, Series B Preferred Shares	2,211,526	\$2,211,526.00	2,595,997.00	\$2,595,997.00	<b>-\$384,471.00</b>
	Class B, Series C Preferred Shares	1,445,550	\$1,445,550.00	2,516,779.00	\$2,516,779.00	<b>\$1,071,229.00</b>
October 2019	Class A Preferred Shares	2,414,335	\$2,414,335.00	938,372.38	\$938,372.38	<b>\$1,475,962.62</b>
	Class B, Series B Preferred Shares	1,746,106	\$1,746,106.00	1,142,950.00	\$1,142,950.00	<b>\$603,156.00</b>
	Class B, Series C Preferred Shares	13,608,046	\$13,608,046.00	6,171,828.00	\$6,171,828.00	<b>\$7,436,218.00</b>
November 2019	Class A Preferred Shares	254,132	\$254,132.00	1,221,796.97	\$1,221,796.97	<b>-\$967,664.97</b>
	Class B, Series B Preferred Shares	1,800,670	\$1,800,670.00	189,132.00	\$189,132.00	<b>\$1,611,538.00</b>
	Class B, Series C Preferred Shares	13,251,315	\$13,251,315.00	1,346,357.00	\$1,346,357.00	<b>\$11,904,958.00</b>
December 2019	Class A Preferred Shares	118,178	\$118,178.00	941,418.49	\$941,418.49	<b>-\$823,240.49</b>
	Class B, Series B Preferred Shares	763,683	\$763,683.00	1,773,672.00	\$1,773,672.00	<b>-\$1,009,989.00</b>
	Class B, Series C Preferred Shares	1,734,542	\$1,734,542.00	1,355,016.00	\$1,355,016.00	<b>\$379,526.00</b>
January 2020	Class A Preferred Shares	5,022,894	\$5,022,894.00	2,496,811.81	\$2,496,811.81	<b>\$2,526,082.19</b>
	Class B, Series B Preferred Shares	1,774,337	\$1,774,337.00	418,718.00	\$418,718.00	<b>\$1,355,619.00</b>
	Class B, Series C Preferred Shares	2,747,319	\$2,747,319.00	6,126,367.00	\$6,126,367.00	<b>-\$3,379,048.00</b>
February 2020	Class A Preferred Shares	1,103,302	\$1,103,302.00	57,072.00	\$57,072.00	<b>\$1,046,230.00</b>
	Class B, Series B Preferred Shares	1,188,177	\$1,188,177.00	343,416.00	\$343,416.00	<b>\$844,761.00</b>
	Class B, Series C Preferred Shares	6,666,149	\$6,666,149.00	11,164,533.00	\$11,164,533.00	<b>-\$4,498,384.00</b>
March 2020	Class A Preferred Shares	317,206	\$317,206.00	4,796,575.08	\$4,796,575.08	<b>-\$4,479,369.08</b>
	Class B, Series B Preferred Shares	707,038	\$707,038.00	6,790,720.00	\$6,790,720.00	<b>-\$6,083,682.00</b>
	Class B, Series C Preferred Shares	4,670,647	\$4,670,647.00	18,633,013.00	\$18,633,013.00	<b>-\$13,962,366.00</b>
April 2020	Class A Preferred Shares	155,468	\$155,468.00	3,332,050.43	\$3,332,050.43	<b>-\$3,176,582.43</b>
	Class B, Series B Preferred Shares	1,407,487	\$1,407,487.00	4,367,557.00	\$4,367,557.00	<b>-\$2,960,070.00</b>
	Class B, Series C Preferred Shares	1,320,195	\$1,320,195.00	5,871,202.00	\$5,871,202.00	<b>-\$4,551,007.00</b>
May 2020	Class A Preferred Shares	1,255,500	\$1,255,500.00	97,859.00	\$97,859.00	<b>\$1,157,641.00</b>
	Class B, Series B Preferred Shares	3,775,860	\$3,775,860.00	1,469,144.00	\$1,469,144.00	<b>\$2,306,716.00</b>
	Class B, Series C Preferred Shares	6,455,734	\$6,455,734.00	2,188,883.00	\$2,188,883.00	<b>\$4,266,851.00</b>
June 2020	Class A Preferred Shares	1,033,289	\$1,033,289.00	376,187.00	\$376,187.00	<b>\$657,102.00</b>
	Class B, Series B Preferred Shares	1,689,706	\$1,689,706.79	788,823.00	\$788,823.00	<b>\$900,883.79</b>
	Class B, Series C Preferred Shares	4,694,879	\$4,694,879.00	1,626,394.33	\$1,626,394.33	<b>\$3,068,484.67</b>
July 2020	Class A Preferred Shares	460,900	\$460,900.00	1,456,571.81	\$1,456,571.81	<b>-\$995,671.81</b>
	Class B, Series B Preferred Shares	2,807,454	\$2,807,454.00	1,462,752.00	\$1,462,752.00	<b>\$1,344,702.00</b>
	Class B, Series C Preferred Shares	3,413,338	\$3,413,338.00	1,997,726.00	\$1,997,726.00	<b>\$1,415,612.00</b>

<b>Date of Issuance</b>	<b>Type of Security</b>	<b>Number of Securities Issued</b>	<b>Dollar Value of Securities Issued</b>	<b>Number of Securities Redeemed</b>	<b>Dollar Value of Securities Redeemed</b>	<b>Net Funds Received</b>
August 2020	Class A Preferred Shares	794,747	\$794,747.00	121,510.00	\$121,510.00	<b>\$673,237.00</b>
	Class B, Series B Preferred Shares	3,520,875	\$3,520,875.00	906,975.00	\$906,975.00	<b>\$2,613,900.00</b>
	Class B, Series C Preferred Shares	7,619,279	\$7,619,279.00	1,394,075.00	\$1,394,075.00	<b>\$6,225,204.00</b>
September 2020	Class A Preferred Shares	1,140,352	\$1,140,352.00	1,283,703.00	\$1,283,703.00	<b>-\$143,351.00</b>
	Class B, Series B Preferred Shares	2,981,517	\$2,981,517.00	550,309.00	\$550,309.00	<b>\$2,431,208.00</b>
	Class B, Series C Preferred Shares	3,574,096	\$3,574,096.00	3,235,426.00	\$3,235,426.00	<b>\$338,670.00</b>
October 2020	Class A Preferred Shares	809,863	\$809,863.00	688,847.14	\$688,847.14	<b>\$121,015.86</b>
	Class B, Series B Preferred Shares	7,463,665	\$7,463,665.00	1,277,151.25	\$1,277,151.25	<b>\$6,186,513.75</b>
	Class B, Series C Preferred Shares	9,445,164	\$9,445,164.00	25,013,742.00	\$25,013,742.00	<b>-\$15,568,578.00</b>
November 2020	Class A Preferred Shares	1,365,319.22	\$1,365,319.22	3,385,731.06	\$3,385,731.06	<b>-\$2,020,411.84</b>
	Class B, Series B Preferred Shares	4,403,083	\$4,403,083.00	2,044,068.18	\$2,044,068.18	<b>\$2,359,014.82</b>
	Class B, Series C Preferred Shares	31,585,958	\$31,585,958.00	1,257,549.00	\$1,257,549.00	<b>\$30,328,409.00</b>
December 2020	Class A Preferred Shares	510,933	\$510,933.00	591,372.15	\$591,372.15	<b>-\$80,439.15</b>
	Class B, Series B Preferred Shares	4,526,681	\$4,526,681.00	1,384,932.00	\$1,384,932.00	<b>\$3,141,749.00</b>
	Class B, Series C Preferred Shares	19,564,235	\$19,564,235.00	5,185,313.00	\$5,185,313.00	<b>\$14,378,922.00</b>
January 2021	Class A Preferred Shares	1,712,156	\$1,712,156.00	8,047,434.00	\$8,047,434.00	<b>-\$6,335,278.00</b>
	Class B, Series B Preferred Shares	3,399,843	\$3,399,843.00	2,164,737.49	\$2,164,737.49	<b>\$1,235,105.51</b>
	Class B, Series C Preferred Shares	8,047,434	\$8,047,434.00	6,517,350.12	\$6,517,350.12	<b>\$1,530,083.88</b>
February 2021	Class A Preferred Shares	587,130	\$587,130.00	492,522.56	\$492,522.56	<b>\$94,607.44</b>
	Class B, Series B Preferred Shares	2,688,480	\$2,688,480.00	4,256,942.29	\$4,256,942.29	<b>-\$1,568,462.29</b>
	Class B, Series C Preferred Shares	15,433,927	\$15,433,927.00	2,277,342.00	\$2,277,342.00	<b>\$13,156,585.00</b>
March 2021	Class A Preferred Shares	347,457	\$347,457.00	838,090.49	\$838,090.49	<b>-\$490,633.49</b>
	Class B, Series B Preferred Shares	1,640,349	\$1,640,349.00	1,593,960.00	\$1,593,960.00	<b>\$46,389.00</b>
	Class B, Series C Preferred Shares	7,205,169	\$7,205,169.00	2,528,031.00	\$2,528,031.00	<b>\$4,677,138.00</b>
April 2021	Class A Preferred Shares	4,991,405	\$4,991,405.00	2,227,856.52	\$2,227,856.52	<b>\$2,763,548.48</b>
	Class B, Series B Preferred Shares	3,840,163.81	\$3,840,163.81	4,222,987.39	\$4,222,987.39	<b>-\$382,823.58</b>
	Class B, Series C Preferred Shares	6,300,310	\$6,300,310.00	4,419,801.00	\$4,419,801.00	<b>\$1,880,509.00</b>
May 2021	Class A Preferred Shares	6,129,898	\$6,129,898.00	1,730,558.57	\$1,730,558.57	<b>\$4,399,339.43</b>
	Class B, Series B Preferred Shares	969,962	\$969,962.00	1,517,424.00	\$1,517,424.00	<b>-\$547,462.00</b>
	Class B, Series C Preferred Shares	7,881,040	\$7,881,040.00	4,108,208.10	\$4,108,208.10	<b>\$3,772,831.90</b>
June 2021	Class A Preferred Shares	4,371,521	\$4,371,521.00	482,764.47	\$482,764.47	<b>\$3,888,756.53</b>
	Class B, Series B Preferred Shares	4,849,896	\$4,849,896.00	3,325,824.93	\$3,325,824.93	<b>\$1,524,071.07</b>
	Class B, Series C Preferred Shares	19,773,511	\$19,773,511.00	1,842,448.00	\$1,842,448.00	<b>\$17,931,063.00</b>

<b>Date of Issuance</b>	<b>Type of Security</b>	<b>Number of Securities Issued</b>	<b>Dollar Value of Securities Issued</b>	<b>Number of Securities Redeemed</b>	<b>Dollar Value of Securities Redeemed</b>	<b>Net Funds Received</b>
July 2021	Class A Preferred Shares	2,230,865	\$2,230,865.00	1,014,156.14	\$1,014,156.14	<b>\$1,216,708.86</b>
	Class B, Series B Preferred Shares	3,431,387	\$3,431,387.00	1,852,807.60	\$1,852,807.60	<b>\$1,578,579.40</b>
	Class B, Series C Preferred Shares	13,780,288	\$13,780,288.00	3,947,244.20	\$3,947,244.20	<b>\$9,833,043.80</b>
August 2021	Class A Preferred Shares	863,264	\$863,264.00	2,314,485.60	\$2,314,485.60	<b>-\$1,451,221.60</b>
	Class B, Series B Preferred Shares	7,725,391	\$7,725,391.00	1,664,525.32	\$1,664,525.32	<b>\$6,060,865.68</b>
	Class B, Series C Preferred Shares	10,569,376	\$10,569,376.00	3,271,461.00	\$3,271,461.00	<b>\$7,297,915.00</b>
September 2021	Class A Preferred Shares	2,486,584	\$2,486,584.00	218,025.55	\$218,025.55	<b>\$2,268,558.45</b>
	Class B, Series B Preferred Shares	4,401,352	\$4,401,352.00	2,041,404.00	\$2,041,404.00	<b>\$2,359,948.00</b>
	Class B, Series C Preferred Shares	7,609,393	\$7,609,393.00	5,002,574.00	\$5,002,574.00	<b>\$2,606,819.00</b>

Redemptions are funded from monies received from the payouts of existing mortgages, monies received from mortgage payments, funds received from the issuance of Preferred Shares to Subscribers and/or the utilization of the Credit Facilities.

During the two years ended June 30, 2021 and the subsequent period ending September 30, 2021, the Company honoured all redemption requests received. As at the date of this Offering Memorandum, no redemption requests were outstanding.

#### **4.4 Principal Holders of Securities of the Company**

See the section called “3. Management of the Company – 3.1 Directors, Officers, Promoters and Principal Shareholders of the Company” for a description of the persons that, to the knowledge of the Company as at the date of this Offering Memorandum, hold, directly or indirectly, more than 10% of any class of voting securities of the Company.

### **5. SECURITIES OFFERED**

#### **5.1 Terms of Securities**

The Company offers an unlimited number of Class A Preferred Shares, Class B, Series B Preferred Shares and Class B, Series C Preferred Shares for sale at a price of \$1.00 per Preferred Share. The rights and restrictions attached to the Preferred Shares are described below.

#### **Voting Rights**

The holders of the Common Shares are entitled to receive notice of and to attend and vote at general meetings of the shareholders of the Company.

The holders of Preferred Shares are not entitled to receive notice of, attend or vote at any general meetings of the shareholders of the Company. However, the Company may in its discretion invite the holders of the Preferred Shares to attend the general meetings of shareholders of the Company, which invitation and attendance will not confer upon such holders of Preferred Shares any voting rights.



## **Dividend Entitlement**

The Company intends to payout all of its net income and net realized capital gains as dividends within the time periods specified in the Income Tax Act and as such does not anticipate paying any income tax. Holders of Preferred Shares may elect to receive their dividends in cash or additional Preferred Shares. Subject to the discretion of the Board of Directors, the Company intends to declare and pay dividends annually within 90 days of its fiscal year end, being June 30<sup>th</sup> of each year.

Holders of Preferred Shares may elect to receive their dividends either in cash or in additional Preferred Shares of each class of Preferred Shares held, as applicable, by providing written notice of their election to the Company at least 30 days before the date the election is to take effect. If no election is made, dividends will be paid in cash.

Dividends received by shareholders (other than capital gains dividends) on Preferred Shares will generally be treated as interest income for the purposes of the Income Tax Act.

For further information, see “6. Certain Canadian Federal Income Tax Considerations”.

## **Redemption Rights – Company**

The Company may, upon giving notice as provided in the articles of the Company, and subject to the provisions of the *Business Corporations Act* (British Columbia), redeem the whole or any part of any class of Preferred Shares on payment of the redemption price. The redemption price for each Preferred Share will be the net book value of the redeemed Preferred Share plus the pro rata share of any accrued but unpaid dividends on such redeemed Preferred Share, determined and subject to adjustment in accordance with the articles of the Company.

Written notice of the Company's intention to redeem Preferred Shares will be provided to each registered holder of shares to be redeemed at least 21 days before the proposed redemption date. The notice will set out the redemption price and date on which redemption is to take place and the number of shares to be redeemed. On or after the date specified for redemption, the Company will pay to the registered holders of the shares to be redeemed, the redemption price, provided any certificates representing such shares have been surrendered at the head office of the Company (or any other place designated in the notice). If the shares to be redeemed are represented by a certificate and only part of the shares represented by the certificates are redeemed, a new certificate for the balance will be issued.

From and after the date specified in such notice, the Preferred Shares called for redemption will cease to be entitled to dividends and the holders thereof will not be entitled to exercise any of the rights of shareholders unless payment of the redemption price is not made as required, in which case, the rights of the holders will remain unaffected.

## **Redemption Practices and Rights – Holder**

**Redemption practices** – In addition to the annual redemption right under the articles of the Company as described below, in accordance with the historical practices of the Company a holder of Preferred Shares may request that the Company redeem all or any portion of their fully paid Preferred Shares upon providing the Company with at least two business days advance written notice. The redemption price for each Preferred Share will be the net book value of the redeemed Preferred Share plus the pro rata share of any accrued but unpaid dividends on such redeemed Preferred Share. The redemption price is paid in two steps – the amount representing the net book value of the redeemed shares is generally paid within 10 business days of the redemption date, and the amount representing the pro rata share of accrued but unpaid dividends is generally paid within 10 business days of the end of the quarter following the redemption date.

The redemption entitlement described above is provided at the discretion of the Board of Directors and is not reflected in the articles of the Company, and is subject to the provisions of the *Business Corporations Act* (British Columbia) and applicable securities laws. Although the Board of Directors has the right to suspend this redemption entitlement at any time, it does not anticipate doing so other than in exceptional circumstances.

**Redemption rights** – In accordance with the articles of the Company and subject to the provisions of the *Business Corporations Act* (British Columbia) and applicable securities laws, holders of Preferred Shares have the right to require the Company to redeem all or any portion of their fully paid Preferred Shares upon providing the Company with written notice 90 days before its fiscal year end (currently June 30<sup>th</sup>). Upon receipt of a redemption notice, the Company will within 90 days after the redemption date, purchase the Preferred Shares by paying the holder of the Preferred Shares an amount equal to the Redemption Amount (as defined below) for each Preferred Share owned by that holder multiplied by the number of Preferred Shares being redeemed. The “**Redemption Amount**” for a Preferred Share is the net book value of the redeemed Preferred Share plus the pro rata share of any accrued but unpaid dividends on such redeemed Preferred Share, determined and subject to adjustment in accordance with the articles of the Company.

Upon payment of the Redemption Amount by the Company, the Preferred Shares specified in the redemption notice will be redeemed and any certificates representing such Preferred Shares will be cancelled. If a part only of the Preferred Shares represented by any certificate is being redeemed, a new certificate for the balance will be issued at the expense of the holder. From and after the date of delivery of the redemption notice, the holder of the Preferred Shares specified in the redemption notice will continue to be entitled to dividends and will continue to be entitled to any other right in respect to such Preferred Shares until payment in full of such Redemption Amount, at which time the holder of such Preferred Shares will cease to have any rights with respect to such Preferred Shares tendered for redemption.

Unless otherwise approved by the Board of Directors in its sole discretion, the Company will not redeem Preferred Shares for which redemption notices are given, if: (i) redemption of the aggregate number of Preferred Shares subject to the redemption notices would result in the Company having redeemed a number of Preferred Shares during the period of time since the start of the most recent fiscal year which is greater than 35% of the Preferred Shares issued and outstanding (as at the beginning of the fiscal year during which the last of such redemption notices are given); or (ii) redemption of the aggregate number of Preferred Shares subject to the redemption notices given in a calendar month would result in the Company having redeemed a number of Preferred Shares on the corresponding redemption date which is greater than 5% of the Preferred Shares issued and outstanding (as at the beginning of the fiscal year during which such redemption notices are given).

### **Conversion Rights**

The Preferred Shares do not have conversion rights.

### **Entitlement on Liquidation, Dissolution or Winding Up**

In the event of the liquidation, dissolution or winding up of the Company or other distribution of property or asset of the Company among its members for the purpose of winding up its affairs:

- (a) The holders of the Preferred Shares will be entitled to receive rateably on a *pro rata* basis an amount equal to the aggregate amount paid up on the shares held by them. After the holders of the Preferred Shares have received the aggregate amount paid up on the shares held by them, the holders of the Common Shares will be entitled to receive rateably on a *pro rata* basis an amount equal to the aggregate amount paid up on the shares held by them.
- (b) After the Company has made the distributions contemplated by paragraph (a) above, the holders of the Preferred Shares will be entitled to receive a share of the remaining amount available for distribution together with the holders of the Common Shares. The aggregate

amount distributable to all holders of such classes of shares will be distributed on a *pro rata* basis amongst the holders of such classes of shares according the number of shares held by each holder.

- (c) Any amount to be distributed to holders of any class of shares pursuant to paragraphs (a) and (b) above will be distributed *pari passu* among all holders of shares of each class.

### Constraints on Transferability

Under section 130.1(6)(d) of the Income Tax Act, a MIC is not permitted to have fewer than 20 shareholders and no shareholder may be a “specified shareholder” as described below under “6. Certain Canadian Federal Income Tax Considerations”. For these purposes, a trust governed by a registered pension plan or a deferred profit sharing plan is counted as four shareholders for the purpose of determining the number of shareholders and one shareholder for the purpose of determining if a shareholder is a specified shareholder. Further, a trust governed by a registered retirement savings plan, deferred profit sharing plan, registered retirement income fund or tax-free savings account is generally counted as one shareholder for the purpose of determining the number of shareholders and for determining if a shareholder is a specified shareholder. **Subscribers for Preferred Shares are required to confirm their knowledge of these restrictions at the time they subscribe for Preferred Shares.**

The directors of the Company intend to refuse registration of an allotment or any transfer of shares which would result in the Company ceasing to meet the qualifications of a MIC.

See also “10. Resale Restrictions” for a description of further restrictions on the transferability of the Company’s Preferred Shares.

### 5.2 Subscription Procedure

The Company hereby offers Preferred Shares having a par value of \$1.00 each at a price of \$1.00 per Preferred Share in reliance on exemptions from the prospectus requirements under applicable securities laws. Sales will be made through the directors, officers and employees of the Company and registered dealers.

A person wishing to subscribe for Preferred Shares must deliver the following to the Company at the address shown in the Subscription Agreement:

- (a) an executed Subscription Agreement in the form provided by the Company or the Manager;
- (b) if the person is purchasing Preferred Shares in reliance on the “offering memorandum” prospectus exemption under National Instrument 45-106 *Prospectus Exemptions* (“**National Instrument 45-106**”), a completed and executed Form 45-106F4 *Risk Acknowledgment* in the form attached to the Subscription Agreement or as otherwise provided by the Company or the Manager (one copy of which is to be retained by subscribers for their records);
- (c) if the person is an “accredited investor” within the meaning of National Instrument 45-106 and is purchasing Preferred Shares in reliance on the “accredited investor” prospectus exemption under National Instrument 45-106, a completed and executed accredited investor certificate in the form provide by the Company and, if the person is an individual, a completed and executed Form 45-106F9 *Form of Individual Accredited Investors* (one copy of which is to be retained by subscribers for their records);
- (d) payment of the full subscription price for the Preferred Shares by way of electronic funds transfer or other means acceptable to us; and
- (e) any other information or documents requested by the Company or the Manager.

In accordance with the requirements of National Instrument 45-106, the Manager will hold the subscription monies advanced by each investor in trust for the investor until midnight on the second business day after the Subscription Agreement is signed by the investor.

**The minimum amount to be invested by each investor is generally \$1,000.** However, a higher amount may be required depending on the jurisdiction where you live and for certain jurisdictions, whether you qualify as an “accredited investor” within the meaning of applicable securities laws. In addition, the Manager has the discretion to waive or change the minimum amount from time to time.

The offering is not subject to any minimum subscription level, and therefore any funds received from a purchaser are available to the Company and need not be refunded to the purchaser.

The Company is also not obligated to accept any subscription or to accept subscriptions in the order they are received by the Company. Subscriptions may be accepted, in whole or in part, by the Company, subject to the terms and conditions of the Subscription Agreement. The Company reserves the right to accept or reject subscriptions from any investor. The Company also reserves the right to close the subscription books at any time, without notice.

Interest will not be payable to an investor for monies received pursuant to the offering prior to acceptance of his subscription. If a subscription is rejected, monies received by the Company will be returned forthwith to the investor without interest or deduction.

Generally, the Company does not issue physical share certificates to represent an investor’s Preferred Shares. Instead of receiving a physical share certificate, the Preferred Shares are registered in an investor’s name and recorded electronically in the Company’s books and records. However, shareholders may request a physical share certificate representing any or all of their Preferred Shares.

### **5.3 Statutory Exemptions Relied Upon by the Company**

The Preferred Shares are being offered on a continuous basis in reliance on exemptions from the prospectus requirements under applicable securities laws. In particular, as at the date of this Offering Memorandum, the Preferred Shares are being offered to investors resident in British Columbia who receive this Offering Memorandum and provide the required risk acknowledgement in reliance on the “offering memorandum” prospectus exemption in section 2.9 of National Instrument 45-106. Preferred Shares may also be offered to investors resident in other Canadian jurisdictions in reliance on the “offering memorandum” prospectus exemption in section 2.9 of National Instrument 45-106 and to other investors where permitted under applicable securities laws.

Subscriptions for Preferred Shares are subject to acceptance by the Company, and the Company reserves the right to accept or reject subscriptions from any investor for any reason, including on the basis that it is impossible or impractical to comply with applicable securities or other laws in relation to a proposed investment in Preferred Shares.

## **6. CERTAIN CANADIAN FEDERAL INCOME TAX CONSIDERATIONS**

Counsel to the Company has prepared the following which is, as of the date hereof, a fair and accurate summary of the principal Canadian federal income tax considerations generally applicable to the acquisition, holding and disposition of Preferred Shares by certain shareholders who acquire Preferred Shares pursuant to this Offering Memorandum. This summary is generally applicable to a shareholder who, for the purposes of the Income Tax Act and at all relevant times (a) is resident in Canada, (b) deals at arm’s length with and is not affiliated with the Company, and (c) holds Preferred Shares as capital property. Generally, the Preferred Shares will be considered to be capital property to a shareholder provided that the shareholder does not hold such Preferred Shares in the course of carrying on a business or as part of an adventure or concern in the nature of trade. A shareholder whose Preferred Shares might not otherwise qualify as capital property may be entitled to make an irrevocable election provided by subsection 39(4) of

the Income Tax Act to have the Preferred Shares (and all other “Canadian securities”, as defined in the Income Tax Act) owned by such shareholder deemed to be capital property. Shareholders should consult their own tax advisors regarding whether an election under subsection 39(4) of the Income Tax Act is available and/or advisable in their particular circumstances.

This summary does not apply to a shareholder (a) that is a “financial institution” for the purposes of the “mark-to-market” rules contained in the Income Tax Act, (b) that is a “specified financial institution” (within the meaning of the Income Tax Act), (c) that reports its “Canadian tax results” (within the meaning of the Income Tax Act) in a currency other than Canadian currency, (d) an interest in which is, or for whom a Preferred Share would be, a “tax shelter investment” within the meaning of the Income Tax Act, or (e) that enters into a “derivative forward agreement” or “synthetic disposition arrangement” (within the meaning of the Income Tax Act) in respect of Preferred Shares.

This summary is based on the current provisions of the Income Tax Act, counsel’s understanding of the current administrative policies and assessing practices of the CRA published by it prior to the date hereof and all specific proposals to amend the Income Tax Act publicly announced by or on behalf of the Minister of Finance (Canada) prior to the date hereof (the “**Tax Proposals**”). This summary does not otherwise take into account or anticipate any changes in law, whether by legislative, governmental or judicial action, nor does it take into account other federal or any provincial, territorial or foreign tax legislation or considerations. There can be no assurance that the Tax Proposals will be enacted in the form publicly announced or at all.

**This summary is not exhaustive of all possible Canadian federal income tax considerations applicable to an investment in Preferred Shares and does not describe the income tax considerations relating to the deductibility of interest on money borrowed to acquire Preferred Shares. Moreover, the income and other tax consequences of acquiring, holding or disposing of Preferred Shares will vary depending on a shareholder’s particular circumstances, including the province or territory in which the shareholder resides or carries on business. Accordingly, this summary is of a general nature only and is not intended to be legal or tax advice to any particular shareholder. You should consult your own professional advisors to obtain advice on the income tax consequences that apply to you.**

## **The Company**

The following summary is based on the assumption that the Company meets certain conditions which are imposed by the Income Tax Act in order for the Company to qualify as a “mortgage investment corporation” thereunder. If the Company does not qualify as a mortgage investment corporation, the tax considerations would be materially different from those described in this summary. Counsel expresses no opinion as to the status of the Company as a mortgage investment corporation.

For the purposes of subsection 130.1(6) of the Income Tax Act, a corporation is a mortgage investment corporation throughout a taxation year if, throughout the year, it satisfies the following conditions:

- (a) it was a “Canadian corporation” within the meaning of the Income Tax Act, which generally means a corporation incorporated and resident in Canada;
- (b) its only undertaking was the investing of funds of the corporation and it did not manage or develop any real or immovable property;
- (c) none of the property of the corporation consisted of
  - (i) debts owing to the corporation that were secured on real or immovable property situated outside Canada,
  - (ii) debts owing to the corporation by non-resident persons, except any such debts that were secured on real or immovable property situated in Canada,

- (iii) shares of the capital stock of corporations not resident in Canada, or
- (iv) real or immovable property situated outside Canada, or any leasehold interest in such property;
- (d) there were 20 or more shareholders of the corporation and no person was a specified shareholder (as defined below) of the corporation for the purposes of paragraph 130.1(6)(d) of the Income Tax Act;
- (e) any holders of preferred shares (as defined in the Income Tax Act) of the corporation had a right, after payment to them of their preferred dividends, and payment of dividends in a like amount per share to the holders of the common shares (as defined in the Income Tax Act) of the corporation, to participate *pari passu* with the holders of the common shares in any further payment of dividends;
- (f) the cost amount (as defined in the Income Tax Act) to the corporation of such of its property as consisted of
  - (i) debts owing to the corporation that were secured, whether by mortgages, hypothecs or in any other manner, on houses (as defined in section 2 of the *National Housing Act* (Canada)) or on property included within a housing project (as defined in that section as it read on June 16, 1999),<sup>1</sup> and
  - (ii) amounts of any deposits standing to the corporation's credit in the records of
    - (A) a bank (as defined in the Income Tax Act) or other corporation any of whose deposits are insured by the Canada Deposit Insurance Corporation or the Régie de l'assurance-dépôts du Québec, or
    - (B) a credit union (as defined in the Income Tax Act),
 plus the amount of any money of the corporation was at least 50% of the cost amount to it of all of its property;
- (g) the cost amount (as defined in the Income Tax Act) to the corporation of all real or immovable property of the corporation, including leasehold interests in such property, (except real or immovable property acquired by the corporation by foreclosure or otherwise after default made on a mortgage, hypothec or agreement of sale of real or immovable property) did not exceed 25% of the cost amount to it of all of its property;
- (h) its liabilities (as defined in subsection 130.1(9) of the Income Tax Act) did not exceed three times the amount by which the cost amount to it of all of its property exceeded its liabilities, where at any time in the year the cost amount to it of such of its property as consisted of property described in subparagraphs 130.1(6)(f)(i) and (ii) plus the amount of any money of the corporation was less than 2/3 of the cost amount to it of all of its property; and
- (i) its liabilities (as defined in subsection 130.1(9) of the Income Tax Act) did not exceed five times the amount by which the cost amount to it of all its property exceeded its liabilities, where paragraph 130.1(6)(h) is not applicable.

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<sup>1</sup> For these purposes, a "house" generally means a building or movable structure intended for human habitation that contains not more than two family housing units and a "housing project" generally includes any building or movable structure intended for human habitation and any property intended to be improved, converted or developed to provide housing accommodation along with property associated with housing accommodation such as recreational, commercial, institutional and parking facilities.

For the purpose of paragraph (d) above, a “**specified shareholder**” of a corporation for the purposes of paragraph 130.1(6)(d) of the Income Tax Act means a person who would be a “specified shareholder” of the corporation if

1. the definition of “specified shareholder” in subsection 248(1) of the Income Tax Act was modified to read as follows:

‘specified shareholder’ of a corporation at any time means a taxpayer who owns, directly or indirectly, at that time, more than 25% of the issued shares of any class of the capital stock of the corporation and, for the purposes of this definition,

- (a) a taxpayer is deemed to own each share of the capital stock of a corporation owned at that time by a person related to the taxpayer,
- (b) each beneficiary of a trust shall be deemed to own that proportion of all such shares owned by the trust at that time that the fair market value at that time of the beneficial interest of the beneficiary in the trust is of the fair market value at that time of all beneficial interests in the trust,
- (c) each member of a partnership shall be deemed to own that proportion of all the shares of any class of the capital stock of a corporation that are property of the partnership at that time that the fair market value at that time of the member’s interest in the partnership is of the fair market value at that time of the interests of all members in the partnership, and
- (d) notwithstanding paragraph (b), where a beneficiary’s share of the income or capital of the trust depends on the exercise by any person of, or the failure by any person to exercise, any discretionary power, the beneficiary shall be deemed to own each share of the capital stock of a corporation owned at that time by the trust; and

2. paragraph 251(2)(a) of the Income Tax Act was modified to read as follows:

- (a) an individual and
  - (i) the individual’s child (as defined in subsection 70(10) of the Income Tax Act) who is under 18 years of age, or
  - (ii) the individual’s spouse or common-law partner.

Generally, a person will be a specified shareholder of a corporation if the person, alone or together with any person related (as defined in section 251 of the Income Tax Act and as modified in the preceding paragraph) to the person, owns directly or indirectly, more than 25% of the issued shares of any class of the capital stock of the corporation. The rules in the Income Tax Act defining “specified shareholders” and “related persons” are complex, and shareholders should consult with their own tax advisors in this regard.

If the Company qualifies as a mortgage investment corporation throughout a taxation year, the Company will be deemed to be a “public corporation” for the purposes of the Income Tax Act, however the Company will generally be treated as a conduit for most purposes under the Income Tax Act: a mortgage investment corporation is entitled to deduct (a) the total amount of all taxable dividends (as defined in the Income Tax Act), other than capital gains dividends, which it pays during the year or within 90 days after the end of the year to the extent that such dividends were not deductible by the mortgage investment corporation in computing its income for the preceding year; and (b) provided the relevant election is made in the prescribed manner, one half of all “capital gains dividends” (as defined in the Income Tax Act) paid by the corporation

during the period commencing 91 days after the commencement of the year and ending within 90 days after the end of the year.

The Company intends to declare and pay dividends in amounts sufficient to result in no tax being payable by the Company each year. To the extent the Company does not do so, any taxable income will be subject to tax at the highest corporate rates and not eligible for the general rate reduction. A mortgage investment corporation is not eligible for the refundable tax provisions under the Income Tax Act. A mortgage investment corporation is not entitled to deduct taxable dividends received from other Canadian corporations in computing its taxable income for a taxation year.

## Shareholders

Dividends, other than “capital gains dividends” (as defined in the Income Tax Act), paid by the Company on the Preferred Shares will be included in shareholders’ incomes as interest, and not as dividends. Capital gains dividends will be treated as realized capital gains of shareholders, and will be subject to the general rules relating to the taxation of capital gains described below. **Dividends paid by the Company to an individual on a Preferred Share will not be subject to the ordinary gross-up and dividend tax-credit rules, and dividends paid by the Company to a corporation on a Preferred Share will not be eligible for the inter-corporate dividend deduction.** Similarly, the provisions of Part IV of the Income Tax Act will not be applicable to dividends paid by the Company to a corporation on a Preferred Share.

A disposition or a deemed disposition of Preferred Shares that are capital property to a person other than the Company will give rise to a capital gain (or capital loss) to the extent that the proceeds of disposition of the Preferred Shares exceed (or are exceeded by) the adjusted cost base of the Preferred Shares and reasonable disposition costs.

The adjusted cost base of a Preferred Share to a shareholder will generally be equal to the cost to the shareholder for the Preferred Share, subject to certain adjustments. For the purposes of determining the adjusted cost base of Preferred Shares to a shareholder who has previously acquired Preferred Shares, the cost of the newly acquired Preferred Shares will be averaged with the adjusted cost base of all Preferred Shares owned by the shareholder as capital property immediately before the acquisition. Where a shareholder chooses to reinvest a dividend received from the Company in additional Preferred Shares, the aggregate cost to the shareholder of the Preferred Shares will be equal to the amount of the dividend and such cost will be subject to the same averaging rule.

Generally, if the Company redeems or acquires Preferred Shares held by a shareholder, the shareholder will be deemed to receive a dividend equal to the amount, if any, by which the amount paid by the Company to the shareholder on the redemption or acquisition exceeds the “paid-up capital” (as defined in the Income Tax Act) of the Preferred Shares so redeemed or acquired. Any such dividend deemed to be paid to a shareholder will be subject to the rules discussed above and its treatment will depend on whether the Company elects that the entire dividend be a capital gains dividend (to the extent the Company has realized sufficient capital gains, net of any applicable capital losses, in the year). The balance of the amount paid by the Company will be proceeds of disposition for the Preferred Shares for the purposes of calculating a capital gain (or capital loss).

Generally, one-half of the amount of any capital gain (a “**taxable capital gain**”) realized in the year is required to be included in computing the shareholder’s income for a taxation year. Subject to and in accordance with the provisions of the Income Tax Act, a shareholder is required to deduct one-half of the amount of any capital loss (an “**allowable capital loss**”) realized in a taxation year from taxable capital gains realized in the year by such shareholder. Allowable capital losses in excess of taxable capital gains may be carried back and deducted in any of the three preceding years or carried forward and deducted in any following taxation year against taxable capital gains realized in such year to the extent and under the circumstances described in the Income Tax Act.

Capital gains realized and capital gains dividends received by a shareholder that is an individual or a trust, other than certain specified trusts, may give rise to alternative minimum tax under the Income Tax Act and



any such shareholders should consult their own tax advisors with respect to the application of alternative minimum tax.

Shareholders of Preferred Shares that are “Canadian-controlled private corporations” (“**CCPCs**”, and as defined in the Income Tax Act) may be subject to an additional refundable tax on certain investment income, including amounts received in respect of interest and taxable capital gains. CCPCs acquiring or holding Preferred Shares should consult their tax advisors with respect to the implications of the refundable tax as it relates to the acquisition, holding and disposition of Preferred Shares.

### **Eligibility for Investment by Deferred Income Plans**

The Preferred Shares will be a qualified investment for trusts governed by a registered retirement savings plan, deferred profit sharing plan, registered disability savings plan, registered education savings plan, registered retirement income fund or tax-free savings account (each one a “**Deferred Income Plan**”) at a particular time provided (a) the Company qualifies as a mortgage investment corporation under the Income Tax Act at that time, and (b) the Company does not hold as part of its property at any time during a calendar year in which the particular time occurs any indebtedness, whether by way of mortgage or otherwise, of a person who is an annuitant, beneficiary, employer, or subscriber under, or a holder of (as applicable), the Deferred Income Plan or of any other person who does not deal at arm’s length (within the meaning of the Income Tax Act) with that person.

Notwithstanding the foregoing, if the Preferred Shares held by a Deferred Income Plan that is a registered retirement income fund, registered retirement savings plan, registered education savings plan, registered disability savings plan, or tax-free savings account (a “**Registered Plan**”) are a “prohibited investment” for the Registered Plan under the Income Tax Act, the annuitant, subscriber or holder of the Registered Plan (as applicable) will be subject to a penalty tax as set out in the Income Tax Act. The Preferred Shares will generally be a “prohibited investment” if the annuitant, subscriber or holder of the Registered Plan (as applicable) (a) does not deal at arm’s length with the Company for the purposes of the Income Tax Act, or (b) has a “significant interest” (within the meaning of the Income Tax Act) in the Company. Generally, the annuitant, subscriber or holder of a Registered Plan (as applicable) will not have a “significant interest” in the Company unless the annuitant, subscriber or holder owns 10% or more of the shares of any class of the Company, either alone or together with persons and partnerships with which the annuitant, subscriber or holder is related or does not deal at arm’s length for the purposes of the Income Tax Act. In addition, the Preferred Shares will not be a “prohibited investment” if the Preferred Shares are “excluded property” (as defined in the Income Tax Act) for the Deferred Income Plan.

**Potential investors who intend to hold Preferred Shares in a Deferred Income Plan should obtain independent professional advice regarding the income tax consequences of investing in Preferred Shares of the Company. Not all securities are suitable for investment through a Deferred Income Plan.**

## **7. COMPENSATION PAID TO SELLERS AND FINDERS**

Preferred Shares are sold to investors through registered dealers, including the Manager. No sales commission or other similar fee is payable to the Manager or directors, officers or employees in connection with the sale of Preferred Shares. However, your dealer may charge you an upfront fee when you purchase Preferred Shares. This fee is negotiated between you and your dealer.

The Company and the Manager may pay a fee to registered dealers whose clients purchase Preferred Shares as an ongoing service fee known as a “trailing commission”. These fees differ for each series of Preferred Share. Specifically, in relation to Class A Preferred Shares, the Manager pays a trailing commission of up to 0.5% of the net book value of Class A Preferred Shares held by each dealer’s clients, and in relation to Class B, Series B Preferred Shares, the Company and the Manager pay a trailing commission of up to 1.0% of the net book value of Class B, Series B Preferred Shares held by each dealer’s clients (with 0.5% paid by the Company and 0.5% paid by the Manager). Neither the Company nor the

Manager pay a trailing commission or any other similar compensation in relation to Class B, Series C Preferred Shares.

## 8. RISK FACTORS

### 8.1 Risk Factors

The purchase of Preferred Shares involves a number of significant risks. You could lose all the money you invest. Only investors who can reasonably afford the risk of loss of their entire investment should consider the purchase of Preferred Shares. Certain risks associated with the purchase of Preferred Shares are described below. Investors should speak to a qualified advisor before making an investment. Investors in Preferred Shares should carefully consider the following risks relating to the Company:

#### Investment Risk

- (a) **As no market for Preferred Shares exists or will exist after this offering, it may be difficult or even impossible for a purchaser to sell them. Prospective investors should consult with their legal advisors in order to obtain further particulars on the restrictions on the resale of Preferred Shares purchased pursuant to this Offering Memorandum. See “5. Securities Offered – 5.1 Terms of Securities – Redemption Practices and Rights – Holder.”**
- (b) An investment in Preferred Shares may be considered speculative and is not intended as a complete investment program. A subscription for securities should be considered only by persons financially able to maintain their investment and who can bear the risk of loss associated with an investment in the Preferred Shares.
- (c) There is no guarantee that the Company will be able to achieve its objective, or that the Company will earn a positive return. The Company may incur losses in respect of its investments. The funds available for distribution to holders of Preferred Shares will vary according to, among other things, the interest and principal payments received in respect of the loans comprising the Company's mortgage portfolio. This offering is not suitable for investors who cannot afford to assume significant risks in connection with their investments.
- (d) Because the Preferred Shares are not generally transferable, an investment in the Company is a relatively illiquid investment and involves a high degree of risk. The securities are issued pursuant to exemptions from the prospectus requirements under applicable securities laws, and any disposition of securities will require compliance with those laws. You may be able to dispose of your securities only through redemption, and you must bear the risk of any decline in the value of the securities during the period from the date a notice of redemption is given by you until the redemption date. In addition, the transfer of Preferred Shares may result in adverse tax consequences to you. See “6. Certain Canadian Federal Income Tax Considerations”. You should only purchase Preferred Shares if you are able to maintain your investment and can afford the risk of loss associated with an investment in the Company.
- (e) In order to pay the redemption price for shareholders who redeem their Preferred Shares, the Company may be required to liquidate investments earlier than it might otherwise choose. These liquidations may cause the Company to incur losses and could substantially reduce the net book value of the Company if numerous or large redemptions are made at the same time. Substantial redemptions by investors within a short period of time could have a material adverse effect on the Company. Such asset liquidation may also trigger tax consequences, such as the characterization of certain profits as ordinary income or losses rather than as capital gains or capital losses.
- (f) The Preferred Shares being sold under this offering do not carry voting rights, and consequently an investor's investment in Preferred Shares does not carry with it any right to take part in the

control or management of the Company's business, including the election of directors. In assessing the risks and rewards of an investment in Preferred Shares, potential investors should appreciate that they are relying solely on the good faith, judgment and ability of the directors, officers and employees of the Company and the Manager to make appropriate decisions with respect to the management of the Company, and that they will be bound by the decisions of the Company's and the Manager's directors, officers and employees.

- (g) The Company is not a member institution of the Canada Deposit Insurance Corporation and the Preferred Shares offered pursuant to this Offering Memorandum are not insured against loss through the Canada Deposit Insurance Corporation.

## **Issuer Risk**

- (a) The Company's articles and investment policies require it to conduct its operations so as to qualify as a MIC for the Income Tax Act. If for any reason the Company fails to maintain its MIC status in a particular year, the dividends paid by the Company on the Preferred Shares for that particular year would cease to be deductible from the income of the Company for that year and the dividends it pays on the Preferred Shares would be subject to the ordinary dividend rules under the Income Tax Act (including the gross up and dividend tax credit rules applicable to individuals, and Part IV tax applicable to corporations). In addition, the Preferred Shares would generally cease to be qualified investments for Deferred Income Plans potentially resulting in adverse consequences in accordance with the Income Tax Act. See the discussion under "6. Certain Canadian Federal Income Tax Considerations".
- (b) The ability of the Company to achieve income is dependent in part upon the Manager being able to identify and assemble an adequate supply of mortgages. There are no assurances that the Company will be able to locate an adequate ongoing supply of investments. The Company will compete with individuals, partnerships, companies, trusts and institutions for the investment in the financing of real properties. Many of these competitors have greater financial resources than the Company or operate with greater flexibility. An increase in the availability of investment funds and an increase in interest in such investments may increase competition for those investments, thereby potentially reducing the yield on the investments. Further, the operations of the Company and the Manager are highly dependent upon the continued support and participation of their key personnel. The loss of their services may materially affect the timing or the ability of the Company to implement its business plan.
- (c) Investments in mortgages are relatively illiquid. Such illiquidity will tend to limit the Company's ability to change its portfolio promptly in response to changing economic or investment conditions. Additionally, it will be difficult for the Company to dispose of investments rapidly at favourable prices, in connection with redemption requests, adverse market developments or other factors. The sale of such investments may also be subject to delays and additional costs and may only be possible at substantial discounts.
- (d) There are potential conflicts of interest to which the directors and officers of the Company may be subject in connection with the operations of the Company. These conflicts arise primarily out of the contractual relationship between the Company and the Manager, which is obligated to manage the Company to a certain standard. For further information, see below under "8.2 Manager Conflicts of Interest".
- (e) The Company may leverage its investment positions by borrowing funds. Leverage increases both the possibility for profit and the risk of loss on any investment position. The Company may borrow funds pursuant to the terms of the Credit Facilities or otherwise. The maturity date of such Credit Facilities is for a period of one year, subject to further extension. As of the date of this Offering Memorandum, the maturity date for the Credit Facilities is May 6, 2022. If the Company is unable to extend the maturity date for an additional year, the Company will be required to repay any borrowed funds pursuant to the terms of the Credit Agreement, which

may materially affect the possibility for profit and increase the risk of loss on any investment position. For further information, see below under “2. Business of the Company – 2.3 Development of Business – Credit Facilities”.

- (f) The normal gross-up and dividend tax credit rules do not apply to dividends paid on Preferred Shares. See “6. Certain Canadian Federal Income Tax Considerations”.

## Industry Risk

- (a) There are certain risks inherent in mortgage lending which investors should carefully consider before investing in the Preferred Shares. These risks include the risk of default and arrears, abnormal and significant fluctuations in interest rates, the general state of the economy, concentration of mortgages on properties which are in one geographic location, local real estate markets, and falling real estate values. To the extent that any of these conditions change or occur, they are likely to affect the demand for mortgages and the interest rate, which could cause a decrease in the interest revenue to the Company.
- (b) The composition of the Company's mortgage portfolio may vary widely from time to time and may be concentrated by type of security, industry or geography, resulting in the mortgage portfolio being less diversified than anticipated. A lack of diversification may result in the Company being exposed to economic downturns or other events that have an adverse and disproportionate effect on particular types of security, industry or geography.
- (c) The profitability of the Company will be dependent on both general and local economic conditions and will be affected by fluctuations in the rate of economic growth, the rate of expansion of real estate markets in the target areas, migration levels and unexpected local, regional or global events, such as the outbreak of infectious illnesses or other public health issues.
- (d) The Company's business is to provide loans to borrowers, some of which may not qualify for financing from conventional lenders. Accordingly, the risk of default on these loans may be high. The Company's income and funds available for distribution to shareholders would be adversely affected if a significant number of borrowers were unable to pay their obligation to the Company or if the Company was unable to invest its funds in mortgages on economically favourable terms. On default by a borrower or borrowers, the Company may experience delays in enforcing its rights as a lender and may incur substantial costs in protecting its investment.
- (e) The Office of the Registrar of Mortgage Brokers at the British Columbia Financial Services Authority regulates the mortgage brokering and lending activities of MICs under the *Mortgage Brokers Act* (British Columbia). The Registrar and the *Mortgage Brokers Act* (British Columbia) do not regulate the capital raising and investment marketing activities of MICs, which are subject to securities legislation and regulation.
- (f) There can be no assurance that income tax laws and government incentive programs relating to the real estate industry will not be changed in a manner which adversely affects the Company or distributions received by its security holders.
- (g) Environmental and ecological legislation and policies have become increasingly important in recent years. Under various laws, as the owner of real estate properties (if foreclosure proceedings are commenced and completed), the Company could become liable for the costs of removal or remediation of certain hazardous or toxic substances released on, from or in one or more of the properties. The failure to remove or remediate such substances, if any, may adversely affect the Company's ability to sell such a property or to borrow using a property as collateral.

## **8.2 Manager Conflicts of Interest**

Canadian securities laws require the Manager to take reasonable steps to identify and respond to existing and reasonably foreseeable material conflicts of interest in a client's best interest and tell clients about them, including how the conflicts might impact clients and how the Manager addresses them in a client's best interest.

This section describes the material conflicts of interest that arise or may arise between the Manager and the Company, between the Manager's registered representatives and the Company, or between the Company and other funds managed by the Manager or other clients of the Manager. This section describes the material conflicts of interest that arise or may arise in the Manager's capacity as investment fund manager and restricted portfolio manager of the Company. For material conflicts of interest associated with the Manager's activities as exempt market dealer, please see the Manager's Relationship Disclosure Information document under the heading "Conflicts of Interest".

### **What is a Conflict of Interest?**

A conflict of interest may arise where (a) the interests the Manager or those of its representatives and those of a client may be inconsistent or different, (b) the Manager or its representatives may be influenced to put the Manager or the representative's interests ahead of those of a client, or (c) monetary or non-monetary benefits available to the Manager, or potential negative consequences for the Manager, may affect the trust a client has in the Manager.

### **How does the Manager address Conflicts of Interest?**

The Manager and its representatives always seek to resolve all material conflicts of interest in a client's best interest. Where it is determined that the Manager cannot address a material conflict of interest in a client's best interest, the Manager and its representatives will avoid that conflict.

The Manager has adopted policies and procedures to assist it in identifying and controlling any conflicts of interest that the Manager and its representatives may face.

### **Material Conflicts of Interest**

A description of the material conflicts of interest that the Manager has identified in relation its role as investment fund manager and restricted portfolio manager of the Company, the potential impact and risk that each conflict of interest could pose, and how each conflict of interest has been or will be addressed, is set out below.

### ***Relationship with other issuers***

The Company is a "connected issuer" and a "related issuer", within the meaning of applicable securities legislation, of the Manager given the relationship between the Company and the Manager, and in particular, that the Company and the Manager share certain common directors and officers, and certain of the directors and officers of the Company serve as trustees and are beneficiaries of a family trust that holds all of the voting shares in the Manager, and that the Manager is responsible for managing the Company's mortgage investments and providing certain management, advisory, and consulting services to the Company, including certain services relating to the distribution of the Preferred Shares and certain financial and administrative services. The Manager receives fees from the Company pursuant to the Financial Services Agreement. See "2. Business of the Company – 2.2 Our Business – General" and "3. Management of the Company".

The Manager manages this conflict by complying with its obligations to the Company pursuant to the Financial Services Agreement. The Manager must carry out its duties as manager of the Company fairly, honestly and in the best interests of the Company.

### **Error correction**

The Manager makes reasonable efforts to keep trade errors to a minimum and ensure fairness to clients, including the Company, with respect to protection from trade errors. A trade error is an inadvertent error in the placement, execution or settlement of a transaction. A trade error is not an intentional or reckless act of misconduct or an error in judgment. When an error occurs, a client will keep any resulting gain or the Manager will reimburse the client for any material loss. Clients may not be reimbursed for errors when the impact is not material, which has currently defined to be less than \$100. Where more than one transaction is involved in an error, the gain will be determined net of any associated loss. Although errors or issues are an inevitable by-product of the operational process, the Manager strives to establish controls and processes that are designed to reduce the possibility of their occurrence.

### **Outside activities**

At times, individuals acting on behalf of the Manager may participate in activities outside of their employment with the Manager, such as serving on a board of directors, participating in community events or pursuing personal outside business interests, whether paid or unpaid. A potential conflict can arise from such an individual engaging in such activities as a result of compensation received, the time commitment required or the position held by the representative in respect of these outside activities. The potential impact and risk to you are that these outside activities may call into question the representative's ability to carry out their responsibilities to you or properly service you, there may be confusion which entity(ies) the representative is acting for when providing you with services and/or if the outside activity places the representative in a position of power or influence over you.

The Manager addresses this conflict by requiring individuals acting on behalf of the Manager to disclose any proposed outside activities to the Manager prior to engaging in such activities, and such activities must be approved by the Manager before an individual can engage in such activities. The Manager will not allow an individual acting on behalf of the Manager to proceed with the outside activity if it is determined that the outside activity will give rise to material conflicts of interest that cannot be addressed in our clients' best interest.

### **Valuation of assets**

Because the Manager earns fees based on the principal amount of the mortgage portfolio of the Company, there is a potential conflict in valuing the assets held in the Company's portfolio because a higher value results in a higher fee paid to the Manager. Overstating the value of the assets can also create improved performance.

While this conflict exists, the Manager believes that it is adequately addressed given the nature of the Company's portfolio and steps taken to confirm and support the valuation of the Company's mortgage portfolio. The Company's portfolio is comprised principally of cash and mortgage loans. All of the loans are made up to certain loan-to-value based on independent appraisals. The Company's lenders of the Credit Facilities conduct certain periodic diligence on the Company's mortgage loans to ensure that the mortgages have been actually registered properly and in the correct priority against the title of the property.

### **Gifts and entertainment**

The receipt of gifts and/or entertainment from business partners may result in a perceived conflict as it gives rise to the perception that our representatives will favour such business partners when making investment decisions. To manage this perceived conflict of interest, the Manager has adopted a gifts and entertainment policy, which prohibits its representatives from accepting gifts or entertainment beyond what the Manager considers consistent with reasonable business practice and applicable laws. The Manager sets maximum thresholds for such permitted gifts and entertainment so that there cannot be a perception that the gifts or entertainment will influence decision-making.

## **Referral arrangements**

The Manager may enter into referral arrangements from time to time whereby it pays or provides a fee or other benefit for the referral of a client to the Manager or to the Company, or whereby it receives a fee or other benefit for the referral of a client to another entity. Referral arrangements may be entered into both with other registrants and with non registrants.

In all cases, the referral arrangement will be set out in a written agreement which will be entered into in advance of any referrals being made. Details of how the referral fee is calculated and paid and to whom it is paid and other required information regarding each referral arrangement will be provided to affected clients as required.

The Manager also has policies and procedures that are designed to ensure that fees and other benefits received or paid or provided, as applicable, in connection with referral arrangements are appropriate and do not provide inappropriate incentives, and that any referral by the Manager is in the client's best interest. The Manager undertakes periodic reviews of referral arrangements. Clients do not pay any additional charges and fees in connection with referrals, and are not obligated to purchase any product or service in connection with a referral.

As at the date of this Offering Memorandum, the Manager does not currently have any referral arrangements in place.

## **9. REPORTING OBLIGATIONS**

The Company is not a reporting company under the *Securities Act* (British Columbia) or applicable securities legislation in any other jurisdiction, and is not subject to continuous disclosure obligations under such legislation. Financial statements of the Company will be reported on by its auditors on an annual basis and will be made available to shareholders of the Company in accordance with the provisions of the *Business Corporations Act* (British Columbia) and other applicable laws as they may apply from time to time. The audited financial statements of the Company as at June 30, 2021 are included below under the heading "12. Financial Statements". Additionally, holders of Preferred Shares may receive a notice of meeting to attend the Company's annual general meeting of holders of Common Shares held each year in Langley, British Columbia. However, such invitation and attendance will not confer upon such holders of Preferred Shares any voting rights.

**The Office of the Registrar of Mortgage Brokers at the British Columbia Financial Services Authority regulates the mortgage brokering and lending activities of mortgage investment corporations (previously defined as "MICs") under the *Mortgage Brokers Act* (British Columbia). The Registrar and the *Mortgage Brokers Act* (British Columbia) do not regulate the capital raising and investment marketing activities of MICs, which are subject to securities legislation and regulation.**

### **Availability of Information**

Certain corporate and securities information about the Company is available at the British Columbia Securities Commission website at [www.bcsc.bc.ca](http://www.bcsc.bc.ca) and on SEDAR at [www.sedar.com](http://www.sedar.com).

### **Auditors**

The auditors of the Company are Grant Thornton LLP, Chartered Professional Accountants, Suite 1600, Grant Thornton Place 333 Seymour Street, Vancouver, British Columbia V6B 0A4.

## **10. RESALE RESTRICTIONS**

The Preferred Shares will be subject to a number of resale restrictions, including a restriction on trading. As the Company does not intend to become a reporting Company, investors will not be able to trade the

securities unless they comply with an exemption from the prospectus and registration requirements under securities legislation. However, we note that securities legislation in Canada does contain exemptions that will permit you to redeem your Preferred Shares in accordance with their terms. See “5. Securities of the Company – 5.1 Terms of Securities – Redemption Practices and Rights – Holder”.

Unless permitted under securities legislation, you cannot trade the securities before the date that is four months and a day after the date the Company becomes a reporting Company in any province or territory of Canada. For trades in Manitoba, unless permitted under securities legislation, you must not trade in the Preferred Shares without the prior written consent of the regulator in Manitoba unless: (a) the Company has filed a prospectus with the regulator in Manitoba with respect to the securities you have purchased and the regulator in Manitoba has issued a receipt for that prospectus, or (b) you have held the securities for at least 12 months. The regulator in Manitoba will consent to your trade if the regulator is of the opinion that to do so is not prejudicial to the public interest. Again, we note that securities legislation in Canada will permit you to redeem your Preferred Shares in accordance with their terms. See “5. Securities of the Company – 5.1 Terms of Securities – Redemption Practices and Rights – Holder”.

## **11. PURCHASERS’ RIGHTS**

If you purchase Preferred Shares, you will have certain rights, some of which are described below. For information about your rights, you should consult a lawyer. The following summaries of investors’ legal rights are subject to the express provisions of the securities laws of the applicable province or territory in which they are resident and reference is made thereto for the complete text of such provisions. The rights of action described below are in addition to and without derogation from any right or remedy available at law to the investor and are intended to correspond to the provisions of the relevant securities legislation and are subject to the defences contained therein.

### **Two Day Cancellation Right**

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

### **Statutory Rights of Action**

For purposes of the following summaries, “**misrepresentation**” means an untrue statement of a material fact or an omission to state a material fact that is necessary in order to make a statement not misleading in light of the circumstances in which it was made.

#### ***British Columbia***

Section 132.1 of the *Securities Act* (British Columbia) provides that if an offering memorandum, such as this Offering Memorandum, together with any amendment hereto, is delivered to a purchaser resident in British Columbia who purchases Preferred Shares in reliance on the “offering memorandum” prospectus exemption set out in section 2.9 of National Instrument 45-106 and contains a misrepresentation and it was a misrepresentation at the time of purchase, the purchaser will be deemed to have relied upon the misrepresentation and will have a right of action against the Company, every director of the Company at the date of the offering memorandum, the Manager, every person whose consent to the disclosure of information in the offering memorandum was filed with the British Columbia Securities Commission and every person who signed the offering memorandum for damages or, alternatively, while still the owner of the Preferred Shares, for rescission against the Company, provided that:

- (a) no action may be commenced to enforce a right of action:
  - (i) for rescission more than 180 days after the date of the purchase; or
  - (ii) for damages more than the earlier of (i) 180 days after the purchaser first had knowledge of the facts giving rise to the cause of action, or (ii) three years after the date of purchase;



- (b) a person or company whose consent to the disclosure of information in the offering memorandum was filed with the British Columbia Securities Commission is liable only with respect to a misrepresentation contained in a report, opinion or statement made by the person or company;
- (c) no person or company will be liable if the person or company proves that the purchaser purchased the Preferred Shares with knowledge of the misrepresentation;
- (d) no person or company (but excluding the Company) will be liable if the person or company proves that (i) the offering memorandum was delivered to the purchaser without the person's or company's knowledge or consent and that, on becoming aware of its delivery, the person or company gave written notice to the Company that it was delivered without the person's or company's knowledge or consent, (ii) on becoming aware of any misrepresentation in the offering memorandum, the person or company withdrew the person's or company's consent to the offering memorandum and gave written notice to the Company of the withdrawal and the reason for it, or (iii) with respect to any part of the offering memorandum purporting to be made on the authority of an expert or to be a copy of, or an extract from, a report, an opinion or a statement of an expert, that contained a misrepresentation attributable to a failure to fairly represent the person's report, opinion or statement as an expert, the person or company had, after reasonable investigation, reasonable grounds to believe and did believe that the relevant part of the offering memorandum fairly represented the report, opinion or statement of the expert, or on becoming aware that the relevant part of the offering memorandum did not fairly represent the report, opinion or statement as an expert, the person or company, as soon as practicable, advised the British Columbia Securities Commission and the Company that (A) the person's or company's report, opinion or statement was not fairly represented, and (B) the person or company would not be responsible for that part of the offering memorandum;
- (e) no person or company will be liable if the person or company proves that, with respect to any part of the offering memorandum purporting (i) to be made on the person's or company's own authority as an expert, or (ii) to be a copy of, or an extract from the person's or company's own report, opinion or statement as an expert, the person or company had, after reasonable investigation, reasonable grounds to believe and did believe that there had been no misrepresentation;
- (f) no person or company (but excluding the Company) will be liable if the person or company proves that, with respect to any part of the offering memorandum not purporting to be made on the authority of an expert, or to be a copy of, or an extract from, a report, opinion or statement of an expert, the person or company had, after reasonable investigation, reasonable grounds to believe and did believe that there had been no misrepresentation;
- (g) no person is liable for a misrepresentation in forward-looking information if the person or company proves that
  - (i) the offering memorandum containing the forward-looking information contained, proximate to that information, reasonable cautionary language identifying the forward-looking information as such, and identifying material factors that could cause actual results to differ materially from a conclusion, forecast or projection in the forward-looking information, and a statement of the material factors or assumptions that were applied in drawing a conclusion or making a forecast or projection set out in the forward-looking information, and
  - (ii) the person or company had a reasonable basis for drawing the conclusions or making the forecasts and projections set out in the forward-looking information;
- (h) in an action for damages, the defendant will not be liable for all or any portion of the damages that the defendant proves does not represent the depreciation in value of the Preferred Shares as a result of the misrepresentation; and
- (i) in no case will the amount recoverable exceed the price at which the Preferred Shares were sold to the purchaser.

## **Alberta**

Section 204 of the *Securities Act* (Alberta) provides that where an offering memorandum, such as this Offering Memorandum, together with any amendment to it, is delivered to a purchaser resident in Alberta, in connection with the distribution of securities in reliance on the “offering memorandum” prospectus exemption set out in section 2.9 of National Instrument 45-106 or the “minimum amount investment” or “\$150,000 investment” prospectus exemption in section 2.10 of National Instrument 45-106, and contains a misrepresentation, the purchaser has, without regard to whether the purchaser relied on the misrepresentation, a right of action against the Company, every director of the Company at the date of the offering memorandum, the Manager and every person who signed the offering memorandum for damages or, alternatively, for rescission against the Company, provided that:

- (a) no action may be commenced to enforce a right of action:
  - (i) for rescission more than 180 days after the date of the purchase; or
  - (ii) for damages more than the earlier of (A) 180 days after the purchaser first had knowledge of the facts giving rise to the cause of action, or (B) three years from the date of purchase;
- (b) no person or company will be liable if the person or company proves that the purchaser purchased the securities with knowledge of the misrepresentation;
- (c) no person or company (but excluding the Company) will be liable if the person or company proves that (i) the offering memorandum was delivered to the purchaser without the person’s or company’s knowledge or consent and that, on becoming aware of its delivery, the person or company gave reasonable notice to the Executive Director of the Alberta Securities Commission and the Company that it was delivered without the person’s or company’s knowledge or consent, (ii) after the sending of the offering memorandum and before the purchase of the Preferred Shares, on becoming aware of any misrepresentation in the offering memorandum, the person or company withdrew the person’s or company’s consent to the offering memorandum and gave reasonable notice to the Executive Director of the Alberta Securities Commission and the Company of the withdrawal and the reason for it, or (iii) with respect to any part of the offering memorandum purporting to be made on the authority of an expert or to be a copy of, or an extract from, a report, an opinion or a statement of an expert, the person or company had no reasonable grounds to believe and did not believe that there had been a misrepresentation, or the relevant part of the offering memorandum did not fairly represent the report, opinion or statement of the expert, or was not a fair copy of, or an extract from, the report, opinion or statement of the expert;
- (d) no person or company (but excluding the Company) will be liable with respect to any part of the offering memorandum not purporting to be made on the authority of an expert, or to be a copy of, or an extract from, a report, opinion or statement of expert unless the person or company failed to conduct an investigation to provide reasonable grounds for a belief that there had been no misrepresentation, and believed that there had been a misrepresentation;
- (e) in an action for damages, the defendant will not be liable for all or any portion of the damages that the defendant proves does not represent the depreciation in value of the securities as a result of the misrepresentation; and
- (f) in no case will the amount recoverable exceed the price at which the securities were sold to the purchaser.

Under Section 205.1, a person or company is not liable in an action under section 204 for a misrepresentation in forward-looking information if the person or company proves:

- (a) the offering memorandum containing the forward-looking information contained, proximate to that information, reasonable cautionary language identifying the forward-looking information as such, and identifying material factors that could cause actual results to differ materially from a conclusion, forecast or projection in the forward-looking information, and a statement of the material factors or

assumptions that were applied in drawing a conclusion or making a forecast or projection set out in the forward-looking information; and

- (b) the person or company had a reasonable basis for drawing the conclusions or making the forecasts and projections set out in the forward-looking information.

### **Saskatchewan**

Section 138 of *The Securities Act, 1988* (Saskatchewan), as amended (the “**Saskatchewan Act**”) provides that where an offering memorandum, such as this Offering Memorandum, or any amendment to it is sent or delivered to a purchaser and it contains a misrepresentation, a purchaser who purchases a security covered by the offering memorandum or any amendment to it has, without regard to whether the purchaser relied on the misrepresentation, a right of action for rescission against the Company on whose behalf the distribution is made or has a right of action for damages against:

- (a) the Company;
- (b) every promoter and director of the Company or the selling security holder, as the case may be, at the time the offering memorandum or any amendment to it was sent or delivered;
- (c) every person or company whose consent has been filed respecting the offering, but only with respect to reports, opinions or statements that have been made by them;
- (d) every person or company that, in addition to the persons or companies mentioned in (a) to (c) above, signed the offering memorandum or the amendment to the offering memorandum, including the Manager; and
- (e) every person or company that sells securities on behalf of the Company or selling security holder under the offering memorandum or amendment to the offering memorandum.

Such rights of rescission and damages are subject to certain limitations including the following:

- (a) if the purchaser elects to exercise its right of rescission against the Company or selling security holder, it will have no right of action for damages against that party;
- (b) in an action for damages, a defendant will not be liable for all or any portion of the damages that he, she or it proves do not represent the depreciation in value of the securities resulting from the misrepresentation relied on;
- (c) no person or company, other than the Company or a selling security holder, will be liable for any part of the offering memorandum or any amendment to it not purporting to be made on the authority of an expert and not purporting to be a copy of, or an extract from, a report, opinion or statement of an expert, unless the person or company failed to conduct a reasonable investigation sufficient to provide reasonable grounds for a belief that there had been no misrepresentation or believed that there had been a misrepresentation;
- (d) in no case will the amount recoverable exceed the price at which the securities were offered; and
- (e) no person or company is liable in an action for rescission or damages if that person or company proves that the purchaser purchased the securities with knowledge of the misrepresentation.

In addition, no person or company, other than the Company, will be liable if the person or company proves that:

- (a) the offering memorandum or any amendment to it was sent or delivered without the person's or company's knowledge or consent and that, on becoming aware of it being sent or delivered, that person or company gave reasonable general notice that it was so sent or delivered;
- (b) after the filing of the offering memorandum or any amendment to the offering memorandum and before the purchase of the securities by the purchaser, on becoming aware of any misrepresentation, the person or company withdrew the person's or company's consent to the

memorandum and gave reasonable general notice to the Company of the withdrawal and the reason for it; or

- (c) with respect to any part of the offering memorandum or any amendment to it purporting to be made on the authority of an expert, or purporting to be a copy of, or an extract from, a report, an opinion or a statement of an expert, that person or company had no reasonable grounds to believe and did not believe that there had been a misrepresentation, the part of the offering memorandum or any amendment to it did not fairly represent the report, opinion or statement of the expert, or was not a fair copy of, or an extract from, the report, opinion or statement of the expert.

Under section 139.1, no person or company is liable in an action under section 138 for a misrepresentation in forward-looking information if the person or company proves:

- (a) with respect to the document containing the forward-looking information, proximate to that information there is contained, reasonable cautionary language identifying the forward-looking information as such, identifying material factors that could cause actual results to differ materially from a conclusion, forecast or projection in the forward-looking information, and a statement of the material factors or assumptions that were applied in drawing a conclusion or making a forecast or projection set out in the forward-looking information; and
- (b) the person or company had a reasonable basis for drawing the conclusions or making the forecasts and projections set out in the forward-looking information.

Not all defences upon which we or others may rely are described herein. Please refer to the full text of the Saskatchewan Act for a complete listing.

Similar rights of action for damages and rescission are provided in section 138.1 of the Saskatchewan Act in respect of a misrepresentation in advertising and sales literature disseminated in connection with an offering of securities.

Section 138.2 of the Saskatchewan Act also provides that where an individual makes a verbal statement to a prospective purchaser that contains a misrepresentation relating to the security purchased and the verbal statement is made either before or contemporaneously with the purchase of the security, the purchaser has, without regard to whether the purchaser relied on the misrepresentation, a right of action for damages against the individual who made the verbal statement.

Section 141(1) of the Saskatchewan Act provides a purchaser with the right to void the agreement to purchase Preferred Shares and to recover all money and other consideration paid by the purchaser for the securities if the securities are sold in contravention of the Saskatchewan Act, the regulations to the Saskatchewan Act or a decision of the Saskatchewan Financial Services Commission.

Section 141(2) of the Saskatchewan Act also provides a right of action for rescission or damages to a purchaser of securities to whom an offering memorandum or any amendment to it was not sent or delivered prior to or at the same time as the purchaser enters into an agreement to purchase the securities, as required by the Saskatchewan Act or its regulations.

The rights of action for damages or rescission under the Saskatchewan Act are in addition to and do not derogate from any other right which a purchaser may have at law.

Section 147 of the Saskatchewan Act provides that no action will be commenced to enforce any of the foregoing rights more than:

- (a) in the case of an action for rescission, 180 days after the date 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, the earlier of:
  - (i) one year after the plaintiff first had knowledge of the facts giving rise to the cause of action; or
  - (ii) six years after the date of the transaction that gave rise to the cause of action.

The Saskatchewan Act also provides a purchaser who has received an amended offering memorandum delivered in accordance with subsection 80.1(4) of the Saskatchewan Act has a right to withdraw from the agreement to purchase the securities by delivering a notice to the person who or company that is selling the securities, indicating the purchaser's intention not to be bound by the agreement to purchase Preferred Shares, provided such notice is delivered by the purchaser within two business days of receiving the amended offering memorandum.

### **Manitoba**

Section 141.1 of the *Securities Act* (Manitoba) provides that if an offering memorandum, such as this Offering Memorandum, contains a misrepresentation a purchaser resident in Manitoba is deemed to have relied on the misrepresentation if it was a misrepresentation at the time of purchase and has a right of action against the applicable Company, every director of the Company at the date of the offering memorandum, the Manager and every person or company who signed the memorandum for damages, or alternatively, for rescission against the Company, provided that:

- (a) no action may be commenced to enforce a right of action:
  - (i) for rescission, more than 180 days after the date of the purchase; or
  - (ii) for damages, more than the earlier of (A) 180 days after the purchaser first had knowledge of the facts giving rise to the cause of action, or (B) two years after the date of the purchase;
- (b) no person or company will be liable if the person or company proves that the purchaser purchased the securities with knowledge of the misrepresentation;
- (c) no person or company (excluding the Company) will be liable if the person or company proves that
  - (i) the offering memorandum was sent to the purchaser without the person's or company's knowledge or consent, and that, after becoming aware that it was sent, the person or company promptly gave reasonable notice to the Company that it was sent without the person's or company's knowledge and consent, (ii) on becoming aware of the misrepresentation, the person or company withdrew their respective consent to the offering memorandum and gave reasonable notice to the Company of the withdrawal and the reason for it, or (iii) with respect to any part of the memorandum purporting to be made on the authority of an expert or to be a copy of, or an extract from, an expert's report, opinion or statement, the person or company proves that they had no reasonable grounds to believe and did not believe that there had been a misrepresentation, or the relevant part of the memorandum did not fairly represent the expert's report, opinion or statement, or was not a fair copy of, or an extract from, the expert's report or statement;
- (d) no person or company (excluding the Company) will be liable with respect to any part of the memorandum not purporting to be made on the authority of an expert and not purporting to be a copy of, or an extract from, an expert's report, opinion or statement, unless the person or company

- did not conduct an investigation sufficient to provide reasonable grounds for a belief that there had been no misrepresentation, or believed that there had been a misrepresentation;
- (e) in action for damages, a defendant will not be liable for any portion of the damages that the defendant proves do not represent the depreciation in value of the security as a result of the misrepresentation; and
  - (f) in no case will the amount recoverable exceed the price at which the securities were sold to the purchaser.

Under section 141.1.2, a person or company is not liable in an action under section 141.1 for a misrepresentation in forward-looking information if the person or company proves that:

- (a) the document containing the forward-looking information contained, proximate to that information, reasonable cautionary language identifying the forward-looking information as such, and identifying material factors that could cause actual results to differ materially from a conclusion, forecast or projection in the forward-looking information, and a statement of the material factors or assumptions that were applied in drawing the conclusion or making the forecast or projection; and
- (b) the person or company had a reasonable basis for drawing the conclusions or making the forecasts or projections set out in the forward-looking information.

## **Ontario**

Section 130.1 of the *Securities Act* (Ontario) provides that where an offering memorandum, such as this Offering Memorandum, together with any amendment hereto, delivered to a purchaser of securities resident in Ontario contains a misrepresentation and it was a misrepresentation at the time of purchase of securities by such purchaser, the purchaser will have, without regard to whether the purchaser relied on such misrepresentation, a right of action against the Company for damages or, while still the owner of the securities of the Company purchased by that purchaser, for rescission, in which case, if the purchaser elects to exercise the right of rescission, the purchaser will have no right of action for damages against the Company, provided that:

- (a) the right of action for rescission or damages will be exercisable only if the purchaser commences an action to enforce such right, not later than:
  - (i) in the case of an action for rescission, 180 days after the date of purchase; or
  - (ii) in the case of an action for damages, the earlier of (A) 180 days after the date the purchaser first had knowledge of the misrepresentation, and (B) three years after the date of purchase;
- (b) the Company will not be liable if it proves that the purchaser purchased the securities with knowledge of the misrepresentation;
- (c) in the case of an action for damages, the Company will not be liable for all or any portion of the damages that it proves does not represent the depreciation in value of the securities as a result of the misrepresentation relied upon;
- (d) the Company will not be liable for a misrepresentation in forward-looking information if the Company proves:
  - (i) that the offering memorandum contains, proximate to that information, reasonable cautionary language identifying the forward-looking information as such, and identifying material factors that could cause actual results to differ materially from a conclusion, forecast or projection in the forward-looking information, and a statement of material factors

or assumptions that were applied in drawing a conclusion or making a forecast or projection set out in the forward-looking information;

- (ii) the reasonable cautionary language and disclosure of material factors appear proximate to the forward-looking information; and
  - (iii) the Company has a reasonable basis for drawing the conclusion or making the forecasts and projections set out in the forward-looking information; and
- (e) in no case will the amount recoverable in any action exceed the price at which the securities were offered.

The foregoing rights do not apply if the purchaser is:

- (a) a Canadian financial institution (as defined in National Instrument 45-106) or a Schedule III bank;
- (b) the Business Development Bank of Canada incorporated under the Business Development Bank of Canada Act (Canada); or
- (c) a subsidiary of any person referred to in paragraphs (a) and (b), if the person owns all of the voting securities of the subsidiary, except the voting securities required by law to be owned by directors of that subsidiary.

### ***New Brunswick***

Section 150 of the *Securities Act* (New Brunswick) provides that if an offering memorandum, such as this Offering Memorandum, together with any amendment to it, delivered to a purchaser resident in New Brunswick contains a misrepresentation that was a misrepresentation at the time of purchase, the purchaser will be deemed to have relied on the misrepresentation and will have a right of action for damages against the Company, every person who was a director of the Company at the date of the offering memorandum, the Manager and every person who signed the offering memorandum or, alternatively, while still the owner of the Preferred Shares, for rescission, provided that:

- (a) no action may be commenced to enforce a right of action:
  - (i) for rescission more than 180 days after the date of the purchase; or
  - (ii) for damages more than the earlier of (i) one year after the purchaser first had knowledge of the facts giving rise to the cause of action, and (ii) six years after the date of purchase;
- (b) the Company will not be liable if it proves that the purchaser purchased the Preferred Shares with knowledge of the misrepresentation;
- (c) in an action for damages, the Company will not be liable for all or any portion of the damages that it proves do not represent the depreciation in value of the Preferred Shares as a result of the misrepresentation relied upon; and
- (d) in no case will the amount recoverable exceed the price at which the Preferred Shares were sold to the investor.

Under section 154.1, a person is not liable under section 150 for a misrepresentation in forward-looking information if the person proves:

- (a) that the offering memorandum containing the forward-looking information contained, proximate to that information, reasonable cautionary language identifying the forward-looking information as

such, and identifying material factors that could cause actual results to differ materially from a conclusion, forecast or projection in the forward-looking information, and a statement of the material factors or assumptions that were applied in drawing a conclusion or making a forecast or projection set out in the forward-looking information; and

- (b) that the person had a reasonable basis for drawing the conclusions or making the forecasts and projections set out in the forward-looking information.

### **Nova Scotia**

Section 138 of the *Securities Act* (Nova Scotia) provides that, where an offering memorandum, such as this Offering Memorandum, together with any amendment to it or any advertising or sales literature (as defined in the *Securities Act* (Nova Scotia)), contains a misrepresentation and it was a misrepresentation at the time of purchase, the purchaser resident in Nova Scotia will be deemed to have relied upon the misrepresentation and will have a right of action against the Company, every director of the Company at the date of the offering memorandum, the Manager and every person who signed the offering memorandum (if applicable), for damages or, alternatively, while still the owner of the Preferred Shares, for rescission against the Company, provided that:

- (a) no action may be commenced to enforce a right of action more than 120 days:
  - (i) after the date on which payment was made for the Preferred Shares; or
  - (ii) after the date on which the initial payment was made;
- (b) no person or company will be liable if the person or company proves that the investor purchased the Preferred Shares with knowledge of the misrepresentation;
- (c) no person or company (other than the Company) will be liable if the person or company proves that (i) the offering memorandum was sent or delivered to the purchaser without the person's or company's knowledge or consent and that, on becoming aware of its delivery, the person or company gave reasonable general notice that it was delivered without the person's or company's knowledge or consent, (ii) after delivery of the offering memorandum and before the purchase of the Preferred Shares by the purchaser, on becoming aware of any misrepresentation in the offering memorandum, the person or company withdrew the person's or company's consent to the offering memorandum and gave reasonable general notice of the withdrawal and the reason for it, or (iii) with respect to any part of the offering memorandum purporting to be made on the authority of an expert or to be a copy of, or an extract from, a report, an opinion or a statement of an expert, the person or company had no reasonable grounds to believe and did not believe that there had been a misrepresentation, or the relevant part of the offering memorandum did not fairly represent the report, opinion or statement of the expert, or was not a fair copy of, or an extract from, the report, opinion or statement of the expert;
- (d) no person or company (other than the Company) will be liable with respect to any part of the offering memorandum not purporting to be made on the authority of an expert, or to be a copy, or an extract from, a report, opinion or statement of expert unless the person or company (i) failed to conduct a reasonable investigation to provide reasonable grounds for a belief that there had been no misrepresentation, or (ii) believed that there had been a misrepresentation;
- (e) in an action for damages, the defendant will not be liable for all or any portion of the damages that the defendant proves does not represent the depreciation in value of the Preferred Shares as a result of the misrepresentation relied upon; and
- (f) in no case will the amount recoverable in any action exceed the price at which the Preferred Shares were sold to the investor.



Under section 139A of the *Securities Act* (Nova Scotia), no person or company is liable under section 138 of the Act for a misrepresentation in forward-looking information if the person or company proves:

- (a) the document containing the forward-looking information contained, proximate to that information, reasonable cautionary language identifying the forward-looking information as such, and identifying material factors that could cause actual results to differ materially from a conclusion, forecast or projection in the forward-looking information, and a statement of the material factors or assumptions that were applied in drawing a conclusion or making a forecast or projection set out in the forward-looking information; and
- (b) the person or company had a reasonable basis for drawing the conclusions or making the forecasts and projections set out in the forward-looking information.

### **Prince Edward Island**

Section 112 of the *Securities Act* (Prince Edward Island) provides that, where an offering memorandum, such as this Offering Memorandum, together with any amendment to it, are delivered to a purchaser resident in Prince Edward Island contains a misrepresentation and it was a misrepresentation at the time of purchase, the purchaser has, without regard to whether the purchaser relied on the misrepresentation, a right of action against the Company, every director of the Company at the date of the offering memorandum, the Manager and every person who signed the offering memorandum (if applicable), for damages or, alternatively, while still the owner of the purchased Preferred Shares, for rescission against the Company, provided that:

- (a) no action will be commenced to enforce the foregoing rights:
  - (i) in the case of an action for rescission, more than 180 days after the date of the transaction that gave rise to the cause of action; or
  - (ii) in the case of any action, other than an action for rescission, the earlier of (i) 180 days after the purchaser first had knowledge of the facts giving rise to the cause of the action, or (ii) three years after the date of the transaction that gave rise to the cause of the action;
- (b) no person or company will be liable if the person or company proves that the purchaser purchased the Preferred Shares with knowledge of the misrepresentation;
- (c) no person or company (other than the Company) will be liable if it proves that (i) the offering memorandum was sent to the purchaser without the person's or company's knowledge or consent and that, on becoming aware that it was sent, the person or company promptly gave reasonable notice to the issuer that it was sent without the person's or company's knowledge and consent, (ii) on becoming aware of the misrepresentation in the offering memorandum, the person or company withdrew the person's or company's consent to the offering memorandum and gave reasonable notice to the issuer of the withdrawal and the reason for it, or (iii) with respect to any part of the offering memorandum purporting to be made on the authority of an expert or to be a copy of, or an extract from, a report, an opinion or a statement of an expert, the person or company had no reasonable grounds to believe and did not believe that there had been a misrepresentation, or the relevant part of the offering memorandum did not fairly represent the report, opinion or statement of the expert, or was not a fair copy of, or an extract from, the report, opinion or statement of the expert;
- (d) no person or company (other than the Company) will be liable with respect to any part of the offering memorandum not purporting to be made on the authority of an expert or to be a copy of, or an extract from, a report, an opinion or a statement of an expert unless the person or company (i)

- failed to conduct a reasonable investigation to provide reasonable grounds for a belief that there had been no misrepresentation or (ii) believed that there had been a misrepresentation;
- (e) no person is liable for a misrepresentation in forward-looking information if:
- (i) the offering memorandum containing the forward-looking information also contains, proximate to the forward-looking information, reasonable cautionary language identifying the forward-looking information as such and identifying material factors that could cause actual results to differ materially from a conclusion, forecast or projection in the forward-looking information, and a statement of the material factors or assumptions that were applied in drawing a conclusion or making a forecast or projection set out in the forward-looking information; and
  - (ii) the person had a reasonable basis for drawing the conclusions or making the forecasts or projections set out in the forward-looking information;
- (f) in an action for damages, the defendant will not be liable for all or any portion of the damages that it proves do not represent the depreciation in value of the Preferred Shares as a result of the misrepresentation relied upon; and
- (g) in no case will the amount recoverable exceed the price at which the Preferred Shares were sold to the investor.

### ***Newfoundland and Labrador***

Section 130.1 of the *Securities Act* (Newfoundland and Labrador) provides that if an offering memorandum, such as this Offering Memorandum, together with any amendment to it or any record incorporated by reference in, or considered to be incorporated into an offering memorandum contains a misrepresentation and it was a misrepresentation at the time of purchase, a purchaser in the Province of Newfoundland and Labrador has, in addition to any other right that the purchaser may have under law and without regard to whether the purchaser relied on the misrepresentation, a right of action for damages against the Company, every director of the Company at the date of the offering memorandum, the Manager and every person or company who signed the offering memorandum (if applicable), for damages or, alternatively, while still the owner of the purchased Preferred Shares, for rescission against the Company (in which case the purchaser will cease to have a right of action for damages), provided that:

- (a) no action will be commenced to enforce the foregoing rights:
- (i) in the case of an action for rescission, more than 180 days after the date of the transaction that gave rise to the cause of action; or
  - (ii) in the case of any action, other than an action for rescission, the earlier of: (i) 180 days after the purchaser first had knowledge of the facts giving rise to the cause of the action; or (ii) three years after the date of the transaction that gave rise to the cause of the action;
- (b) no person or company will be liable if the person or company proves that the purchaser purchased the Preferred Shares with knowledge of the misrepresentation;
- (c) no person or company (other than the Company) will be liable if:
- (i) the person or company proves that the offering memorandum was sent to the purchaser without the person's or company's knowledge or consent and that, on becoming aware of its being sent, the person or company promptly gave reasonable notice to the Company that it was sent without the knowledge and consent of the person or company;

- (ii) the person or company proves that the person or company, on becoming aware of any misrepresentation in the offering memorandum, withdrew the person's or company's consent to the offering memorandum and gave reasonable notice of the withdrawal to the Company and the reason for it;
- (iii) with respect to any part of the offering memorandum purporting to be made on the authority of an expert or to be a copy of, or an extract from, a report, an opinion or statement of an expert, the person or company proves that they did not have any reasonable grounds to believe and did not believe that: (i) there had been a misrepresentation; or (ii) the relevant part of the offering memorandum did not fairly represent the report, opinion or statement of the expert, or was not a fair copy of, or an extract from, the report, opinion or statement of the expert; and
- (iv) with respect to any part of the offering memorandum not purporting to be made on the authority of an expert and not purporting to be a copy of, or an extract from, a report, opinion or statement of an expert, unless the person or company (i) failed to conduct a reasonable investigation to provide reasonable grounds for a belief that there had been no misrepresentation; or (ii) believed that there had been a misrepresentation;
- (d) in an action for damages, the defendant will not be liable for all or any part of the damages that it proves do not represent the depreciation in value of the Preferred Shares as a result of the misrepresentation; and
- (e) in no case will the amount recoverable exceed the price at which the Preferred Shares were offered to the investor under the offering memorandum.

### **Yukon**

Section 112 of the *Securities Act* (Yukon) provides that if an offering memorandum, such as this Offering Memorandum, together with any amendment to this it, contains a misrepresentation, a purchaser has, without regard to whether the purchaser relied on the misrepresentation, a right of action for damages against the Company, every director of the Company at the date of the offering memorandum, the Manager and every person who signed the offering memorandum (if applicable), or alternatively, while still the owner of the purchased Preferred Shares, a right of rescission against the Company, provided that:

- (a) no action may be commenced to enforce a right of action:
  - (i) for rescission more than 180 days after the date of the purchase; or
  - (ii) for damages, the earlier of (i) 180 days after the purchaser first had knowledge of the facts giving rise to the cause of action, or (ii) three years after the date of the purchase;
- (b) no person or company will be liable if the person or company proves that the purchaser purchased the Preferred Shares with knowledge of the misrepresentation;
- (c) no person or company (other than the Company) will be liable if the person or company proves that
  - (i) the offering memorandum was sent to the purchaser without the person's or company's consent, and that, after becoming aware of its delivery, the person or company promptly gave reasonable notice to the Company that it was sent without the person's or company's knowledge or consent,
  - (ii) on becoming aware of the misrepresentation, the person or company withdrew their respective consent to the offering memorandum and gave reasonable notice to the Company of the withdrawal and the reason for it, or (iii) with respect to any part of the offering memorandum purporting to be made on the authority of an expert or to be a copy of, or an extract from, an expert's report, opinion or statement, the person or company proves that they had no reasonable grounds to believe and did not believe that there had been a misrepresentation, or the relevant part of the offering

memorandum did not fairly represent the expert's report, opinion or statement, or was not a fair copy of, or an extract from, the expert's report or statement;

- (d) no person or company (other than the Company) will be liable with respect to any part of the offering memorandum not purporting to be made on the authority of an expert and not purporting to be a copy of, or an extract from, an expert's report, opinion or statement, unless the person or company (i) did not conduct a reasonable investigation sufficient to provide reasonable grounds for a belief that there had been no misrepresentation or (ii) believed that there had been a misrepresentation;
- (e) the Company will not be liable for a misrepresentation in forward-looking information if the Company proves that:
  - (i) the offering memorandum contains, proximate to the forward-looking information, reasonable cautionary language identifying the forward-looking information as such, and identifying material factors that could cause actual results to differ materially from a conclusion, forecast or projection in the forward-looking information, and a statement of material factors or assumptions that were applied in drawing a conclusion or making a forecast or projection set out in the forward-looking information; and
  - (ii) the Company had a reasonable basis for drawing the conclusions or making the forecasts and projections set out in the forward-looking information;
- (f) in an action for damages, the defendant will not be liable for all or any portion of the damages that it proves do not represent the depreciation in value of the Preferred Shares as a result of the misrepresentation relied upon; and
- (g) in no case will the amount recoverable exceed the price at which the Preferred Shares were sold to the purchaser.

### **Northwest Territories**

Section 112 of the *Securities Act* (Northwest Territories) provides that, if an offering memorandum, such as this Offering Memorandum, together with any amendment to it, contains a misrepresentation, a purchaser has, without regard to whether the purchaser relied on the misrepresentation, a right of action for damages against the Company, every director of the Company at the date of the offering memorandum, the Manager and every person who signed the offering memorandum (if applicable), or alternatively, while still the owner of the purchased Preferred Shares, a right of rescission against the Company, provided that:

- (a) no action may be commenced to enforce a right of action:
  - (i) for rescission more than 180 days after the date of the purchase; or
  - (ii) for damages, the earlier of (i) 180 days after the purchaser first had knowledge of the facts giving rise to the cause of action, or (ii) three years after the date of the purchase;
- (b) no person or company will be liable if the person or company proves that the purchaser purchased the Preferred Shares with knowledge of the misrepresentation;
- (c) no person or company (other than the Company) will be liable if the person or company proves that (i) the offering memorandum was sent to the purchaser without the person's or company's consent, and that, after becoming aware of its delivery, the person or company promptly gave reasonable notice to the Company that it was sent without the person's or company's knowledge or consent, (ii) on becoming aware of the misrepresentation, the person or company withdrew their respective consent to the offering memorandum and gave reasonable notice to the Company of the withdrawal and the reason for it, or (iii) with respect to any part of the offering memorandum purporting to be

made on the authority of an expert or to be a copy of, or an extract from, an expert's report, opinion or statement, the person or company proves that they had no reasonable grounds to believe and did not believe that there had been a misrepresentation, or the relevant part of the offering memorandum did not fairly represent the expert's report, opinion or statement, or was not a fair copy of, or an extract from, the expert's report or statement;

- (d) no person or company (other than the Company) will be liable with respect to any part of the offering memorandum not purporting to be made on the authority of an expert and not purporting to be a copy of, or an extract from, an expert's report, opinion or statement, unless the person or company (i) did not conduct a reasonable investigation to provide reasonable grounds for a belief that there had been no misrepresentation or (ii) believed that there had been a misrepresentation;
- (e) the Company will not be liable for a misrepresentation in forward-looking information if the Company proves that:
  - (i) the offering memorandum contains, proximate to the forward-looking information, reasonable cautionary language identifying the forward-looking information as such, and identifying material factors that could cause actual results to differ materially from a conclusion, forecast or projection in the forward-looking information, and a statement of material factors or assumptions that were applied in drawing a conclusion or making a forecast or projection set out in the forward-looking information; and
  - (ii) the Company had a reasonable basis for drawing the conclusions or making the forecasts and projections set out in the forward-looking information;
- (f) in an action for damages, the defendant will not be liable for all or any portion of the damages that it proves do not represent the depreciation in value of the Preferred Shares as a result of the misrepresentation relied upon; and
- (g) in no case will the amount recoverable exceed the price at which the Preferred Shares were sold to the purchaser.

### **Nunavut**

Section 112 of the *Securities Act* (Nunavut) provides that if an offering memorandum, such as this Offering Memorandum, together with any amendment to this Offering Memorandum, contains a misrepresentation, a purchaser has, without regard to whether the purchaser relied on the misrepresentation, a right of action for damages against the Company, the Manager and every person who signed the offering memorandum (if applicable), or alternatively, while still the owner of the purchased Preferred Shares, a right of rescission against the Company, provided that:

- (a) no action may be commenced to enforce a right of action:
  - (i) for rescission more than 180 days after the date of the purchase; or
  - (ii) for damages, the earlier of (i) 180 days after the purchaser first had knowledge of the facts giving rise to the cause of action, or (ii) three years after the date of the purchase;
- (b) no person or company will be liable if the person or company proves that the purchaser purchased the Preferred Shares with knowledge of the misrepresentation;
- (c) no person or company (other than the Company) will be liable if the person or company proves that (i) the offering memorandum was sent to the purchaser without the person's or company's consent, and that, after becoming aware of its delivery, the person or company promptly gave reasonable notice to the Company that it was sent without the person's or company's knowledge or consent,

- (ii) on becoming aware of the misrepresentation, the person or company withdrew their respective consent to the offering memorandum and gave reasonable notice to the Company of the withdrawal and the reason for it, or (iii) with respect to any part of the offering memorandum purporting to be made on the authority of an expert or to be a copy of, or an extract from, an expert's report, opinion or statement, the person or company proves that they had no reasonable grounds to believe and did not believe that there had been a misrepresentation, or the relevant part of the offering memorandum did not fairly represent the expert's report, opinion or statement, or was not a fair copy of, or an extract from, the expert's report or statement;
- (d) no person or company (other than the Company) will be liable with respect to any part of the offering memorandum not purporting to be made on the authority of an expert and not purporting to be a copy of, or an extract from, an expert's report, opinion or statement, unless the person or company (i) did not conduct a reasonable investigation sufficient to provide reasonable grounds for a belief that there had been no misrepresentation or (ii) believed that there had been a misrepresentation;
- (e) the Company will not be liable for a misrepresentation in forward-looking information if the Company proves that:
  - (i) the offering memorandum contains, proximate to the forward-looking information, reasonable cautionary language identifying the forward-looking information as such, and identifying material factors that could cause actual results to differ materially from a conclusion, forecast or projection in the forward-looking information, and a statement of material factors or assumptions that were applied in drawing a conclusion or making a forecast or projection set out in the forward-looking information; and
  - (ii) the Company had a reasonable basis for drawing the conclusions or making the forecasts and projections set out in the forward-looking information;
- (f) in an action for damages, the defendant will not be liable for all or any portion of the damages that it proves do not represent the depreciation in value of the Preferred Shares as a result of the misrepresentation relied upon; and
- (g) in no case will the amount recoverable exceed the price at which the Preferred Shares were sold to the purchaser.

## **Contractual Rights of Action**

### ***Rights for Investors in Québec***

Notwithstanding that the securities legislation in Québec does not provide or require the Company to provide to purchasers resident in Québec any rights of action in circumstances where this Offering Memorandum or any amendment to this Offering Memorandum contains a misrepresentation, the Company grants to such purchasers the same rights of action for damages or rescission as those afforded to residents of British Columbia who purchase Preferred Shares in reliance on the offering memorandum prospectus exemption set out in National Instrument 45-106, as described above under "Statutory Rights of Action".

### ***Rights for Investors in British Columbia Purchasing under "Accredited Investor" or "Minimum Amount Investment" Exemptions***

Investors resident in British Columbia who purchase Preferred Shares in reliance on the "accredited investor" or "minimum amount investment" prospectus exemptions set out in sections 2.3 and 2.10 of National Instrument 45-106, respectively, will be entitled to the same rights of action for damages or rescission as those afforded to residents of British Columbia who purchase Preferred Shares in reliance on the offering memorandum prospectus exemption set out in National Instrument 45-106, as described above under "Statutory Rights of Action".

***Rights for Investors in Alberta Purchasing under “Accredited Investors” Exemption***

Investors resident in Alberta who purchase Preferred Shares in reliance on the “accredited investor” prospectus exemption set out in section 2.3 in National Instrument 45-106 will be entitled to the same rights of action for damages or rescission as those afforded to residents of British Columbia who purchase Preferred Shares in reliance on the offering memorandum prospectus exemption set out in National Instrument 45-106, as described above under “Statutory Rights of Action”.

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**12. FINANCIAL STATEMENTS**

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# Financial Statements

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**ANTRIM  
BALANCED MORTGAGE FUND**

[antriminvestments.com](http://antriminvestments.com)



Financial Statements

Antrim Balanced Mortgage Fund Ltd.

June 30, 2021

# Contents

	<b>Page</b>
Independent Auditor's Report	1 - 2
Statement of Financial Position	3
Statements of Income and Comprehensive Income	4
Statement of Changes in Equity	5
Statement of Cash Flows	6
Notes to the Financial Statements	7 - 18

# Independent Auditor's Report

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Grant Thornton LLP  
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333 Seymour Street  
Vancouver, BC  
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To the Directors of  
**Antrim Balanced Mortgage Fund Ltd.**

## Opinion

We have audited the financial statements of Antrim Balanced Mortgage Fund Ltd., ("the Company"), which comprise the statement of financial position as at June 30, 2021, and the statements of income and comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly in all material respects, the financial position of the Company as at June 30, 2021, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

## Basis for opinion

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

## Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with 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.

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

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

### Auditor's responsibilities for the audit of the financial statements

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

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

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

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



Vancouver, Canada  
September 9, 2021

Chartered Professional Accountants

# Antrim Balanced Mortgage Fund Ltd.

## Statement of Financial Position

June 30	2021	2020
<b>Assets</b>		
Cash	\$ -	\$ 9,992,731
Accounts receivable (Note 4)	94,959	109,463
Accrued interest receivable	3,497,325	3,007,521
Mortgage receivable (Note 5)	759,043,215	572,513,780
Prepaid expenses and other assets	172,192	220,960
Software and hardware	175,671	107,602
<b>Total assets</b>	<b>\$ 762,983,362</b>	<b>\$ 585,952,057</b>
<b>Liabilities</b>		
Bank indebtedness (Note 6)	\$ 58,129,011	\$ 10,000,000
Accounts payable (Note 9)	1,349,519	985,664
Dividends payable (Note 7)	5,609,146	7,265,513
<b>Total liabilities</b>	<b>65,087,676</b>	<b>18,251,177</b>
<b>Shareholders' equity</b>		
Common shares (Note 8)	11	11
Preferred shares - Class A (Note 8)	208,525,471	192,186,727
Preferred shares - Class B Series B (Note 8)	132,841,999	110,533,135
Preferred shares - Class B Series C (Note 8)	356,828,986	265,281,788
Deficit	(300,781)	(300,781)
<b>Total shareholders' equity</b>	<b>697,895,686</b>	<b>567,700,880</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 762,983,362</b>	<b>\$ 585,952,057</b>

Management fees and related party transactions (Note 9)  
Rate of return (Note 13)  
Post-reporting date events (Note 14)

### On behalf of the Board

(signed) Christopher G. Worsnup  
Christopher G. Worsnup  
Director

(signed) William R. Granleese  
William R. Granleese  
Director

# **Antrim Balanced Mortgage Fund Ltd.**

## **Statements of Income and Comprehensive Income**

Year ended June 30

2021

2020

Financial income		
Interest income	\$ 47,282,153	\$ 46,859,007
Fees	133,617	198,688
	<u>47,415,770</u>	<u>47,057,695</u>
Total financial income		
Expenses		
Management and dealer fees (Note 9)	8,818,637	7,831,330
Professional fees	702,489	704,403
Interest and bank charges	606,373	622,549
Provision for mortgage losses (Note 5)	200,000	200,000
Insurance	124,769	94,949
Promotion expense	68,492	97,025
Office	33,794	28,112
	<u>10,554,554</u>	<u>9,578,368</u>
Total expenses		
Income before other item and income taxes	36,861,216	37,479,327
Other item		
Dividend expense (Note 7)	(36,853,472)	(37,467,756)
	<u>7,744</u>	<u>11,571</u>
Income before income taxes		
Provision for income taxes	7,744	11,571
	<u>7,744</u>	<u>11,571</u>
Net income and comprehensive income	\$ -	\$ -

# Antrim Balanced Mortgage Fund Ltd.

## Statement of Changes in Equity

Year ended June 30

	Common shares	Preferred shares - Class A	Preferred shares - Class B Series B	Preferred shares - Class B Series C	Deficit	Total
Balance, June 30, 2019	\$ 10	\$ 182,530,770	\$ 108,237,001	\$ 263,880,551	\$ (300,781)	\$ 554,347,551
Proceeds from issuance of shares (Note 8)	1	21,452,625	24,211,014	61,200,013	-	106,863,653
Redemption of shares (Note 8)	-	(19,842,429)	(22,950,339)	(69,800,118)	-	(112,592,886)
Dividends issued as shares (Note 8)	-	7,840,030	4,871,806	6,370,726	-	19,082,562
Transferred to another share class (Note 8)	-	205,731	(3,836,347)	3,630,616	-	-
Balance, June 30, 2020	11	192,186,727	110,533,135	265,281,788	(300,781)	567,700,880
Proceeds from issuance of shares (Note 8)	-	25,838,528	45,215,146	140,076,555	-	211,130,229
Redemption of shares (Note 8)	-	(16,191,965)	(25,450,544)	(60,229,937)	-	(101,872,446)
Dividends issued as shares (Note 8)	-	8,630,938	4,777,546	7,528,539	-	20,937,023
Transferred to another share class (Note 8)	-	(1,938,757)	(2,233,284)	4,172,041	-	-
Balance, June 30, 2021	<u>\$ 11</u>	<u>\$ 208,525,471</u>	<u>\$ 132,841,999</u>	<u>\$ 356,828,986</u>	<u>\$ (300,781)</u>	<u>\$ 697,895,686</u>

See accompanying notes to the financial statements.



# Antrim Balanced Mortgage Fund Ltd.

## Statement of Cash Flows

Year ended June 30

2021

2020

Cash derived from (applied to)

### Operating activities

Net income and comprehensive income	\$ -	\$ -
Adjustments for		
Dividends	36,853,472	37,467,756
Provision for mortgage losses	200,000	200,000
Interest income	(47,282,153)	(46,859,007)
Interest expense	167,594	176,160
	<u>(10,061,087)</u>	<u>(9,015,091)</u>
Changes in non-cash items		
Accounts receivable	14,504	520,143
Prepaid expenses and other assets	48,768	20,558
Accounts payable	363,855	(49,165)
	<u>427,127</u>	<u>491,536</u>
Cash flows relating to interest and dividends		
Interest received	46,792,349	46,824,509
Interest paid	(167,594)	(176,160)
Dividends paid	(17,572,816)	(18,656,456)
	<u>29,051,939</u>	<u>27,991,893</u>
Cash flow from operating activities	<u>19,417,979</u>	<u>19,468,338</u>

### Financing activities

Common shares issued	-	1
Preferred shares - Class A, net	7,707,806	1,815,927
Preferred shares - Class B Series B, net	17,531,318	(2,575,672)
Preferred shares - Class B Series C, net	84,018,659	(4,969,489)
Proceeds from bank financing	64,129,011	33,000,000
Repayment of bank debt	(16,000,000)	(32,974,625)
Cash flow from (used in) financing activities	<u>157,386,794</u>	<u>(5,703,858)</u>

### Investing activities

New mortgages funded	(512,856,106)	(269,029,403)
Mortgages repaid	326,126,671	263,332,093
Purchase of software	(68,069)	(63,047)
Cash flow applied to investing activities	<u>(186,797,504)</u>	<u>(5,760,357)</u>

(Decrease) increase in cash (9,992,731) 8,004,123

Cash

Beginning of year	<u>9,992,731</u>	1,988,608
End of year	<u>\$ -</u>	<u>\$ 9,992,731</u>

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# **Antrim Balanced Mortgage Fund Ltd.**

## **Notes to the Financial Statements**

June 30, 2021

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### **1. Nature of operations**

Antrim Balanced Mortgage Fund Ltd. (the "Company") is a mortgage investment corporation pursuant to Section 130.1 of the Income Tax Act. It was incorporated under the British Columbia Business Corporations Act on June 6, 2007 and in Alberta on August 29, 2012. The primary mandate of the Company is to invest its pooled funds into residential first, second and third mortgages that will provide an above average rate of return to its shareholders.

The address of the Company's registered office is 9089 Glover Road, Fort Langley, BC, V1M 2R8.

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### **2. Basis of presentation**

The financial statements were prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

These annual financial statements were authorized for issuance by the Board of Directors on September 9, 2021.

#### *Basis of measurement*

These financial statements are prepared on the historical cost basis, except for assets held for sale that are measured at the lower of its carrying amount and fair value less cost to sell.

#### *Functional and presentation currency*

The Company's functional and presentation currency is the Canadian dollar.

#### *Use of estimates and judgements*

The preparation of financial statements in accordance with IFRS requires management to make estimates, assumptions and judgements that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the reporting date and the reported amounts of revenue and expenses during the reporting period. Significant areas requiring the use of management estimates relate to the valuation of mortgages and the provisions for impaired loans.

Management believes that its estimates are appropriate, however, actual results could differ from the amounts estimated. Estimates and underlying assumptions are reviewed annually and revisions to accounting estimates are recognized in the period in which the estimate is revised and any future periods affected.

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### **3. Summary of significant accounting policies**

#### **Mortgages receivable**

Mortgages receivable are classified as amortized cost, less allowances for loan impairment.

The Company capitalizes all maintenance and foreclosure costs with the intention of recovering these costs upon subsequent payout of the mortgage, providing that sufficient equity is estimated to exist in the underlying security.

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# Antrim Balanced Mortgage Fund Ltd.

## Notes to the Financial Statements

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June 30, 2021

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### 3. Summary of significant accounting policies (continued)

#### Financial instruments

##### *Recognition and de-recognition*

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the financial instrument.

Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all the risks and rewards are transferred. A financial liability is derecognized when it is extinguished, discharged, cancelled or expires.

##### *Classification upon recognition and initial measurement of financial assets*

All financial assets are initially measured at fair value. Financial assets, other than those designated and effective as hedging instruments, are classified into the following categories:

- amortized cost;
- fair value through other comprehensive income ("FVOCI"); or
- fair value through profit or loss ("FVTPL").

In the periods presented, the Company does not have any financial assets categorized as FVOCI or FVTPL.

The classification is determined by both:

- the entity's business model for managing the financial asset; and
- the contractual cash flow characteristics of the financial asset.

##### *Subsequent measurement of financial assets*

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After initial recognition, these are measured at amortized cost using the effective interest method.

The Company's financial assets are all categorized as amortized cost.

##### *Impairment of financial assets*

Impairment of financial assets is determined using forward-looking information to recognize expected credit losses – the 'expected credit loss (ECL) model'.

The Company considers a broad range of information when assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.

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# **Antrim Balanced Mortgage Fund Ltd.**

## **Notes to the Financial Statements**

June 30, 2021

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### **3. Summary of significant accounting policies (continued)**

#### **Financial instruments (continued)**

##### *Impairment of financial assets (continued)*

In applying the forward-looking approach, a distinction is made between:

- financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk ("Stage 1"); and
- financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low ("Stage 2").

'Stage 3' would cover financial assets that have objective evidence of impairment at the reporting date.

'12-month expected credit losses' are recognized for the first category while 'lifetime expected credit losses' are recognized for the second category.

Measurement of the expected credit losses is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

The Company's financial liabilities include bank indebtedness, accounts payable and dividends payable.

Financial liabilities are initially measured at fair value, and where applicable, adjusted for transaction costs unless the Company designated a financial liability at fair value through profit or loss.

Subsequently, the Company's financial liabilities are measured at amortized cost using the effective interest method.

#### **Revenue recognition**

Interest income on mortgages is recorded using the accrual method. The majority of the mortgages receivable are for a one year term, therefore loan fees and expenses are recognized in the year received.

Interest income on impaired loans is recognized on a cash basis, but only after any specific provisions for impairments or partial write off has been recovered and provided there is no further doubt as to the collectability of the principle amount

In foreclosure situations, the Company will continue to accrue interest until management believes there will be no recovery of the mortgage and successful completion of the foreclosure action is inevitable. The Company will carefully review the situation with these mortgages and recognize any impairment when it arises.

# Antrim Balanced Mortgage Fund Ltd.

## Notes to the Financial Statements

June 30, 2021

### 3. Summary of significant accounting policies (continued)

#### Dividends

Dividends on new shares and redemptions are calculated on a pro-rated daily basis. As of July 1, 2009, the Company commenced making a quarterly distribution to its shareholders based on invested capital on September 30, December 31, March 31 and June 30. The remainder of the annual distribution is paid out upon completion of the year end financial statements.

### 4. Accounts receivable

	2021	2020
Antrim Investments Ltd. - refund on management fees	\$ 94,959	\$ 99,639
Other receivable	-	9,824
	<u>\$ 94,959</u>	<u>\$ 109,463</u>

### 5. Mortgage receivable

	No.	%	2021	No.	%	2020
First mortgages	1,197	87.26%	\$ 663,127,705	834	77.10%	\$ 441,972,449
Second mortgages	568	12.27%	93,210,281	777	22.02%	126,215,215
Third mortgages	15	0.47%	3,605,229	18	0.88%	5,026,116
	1,780	100.00%	759,943,215	1,629	100.00%	573,213,780
Less allowance for credit losses			900,000			700,000
			\$ 759,043,215			\$ 572,513,780
					2021	2020
Average mortgage balance			\$ 426,934		\$ 351,881	
Weighted average interest rate			7.16%		7.97%	

As of June 30, 2021, there are 14 mortgages in foreclosure totaling \$6,060,953 and no mortgages that are delinquent (2020 – 25 mortgages in foreclosure totaling \$15,694,567 and no mortgages that are delinquent). Management estimates that there is sufficient equity in all the non-performing loans. Subsequent to June 30, 2021, 2 of the 14 mortgages in foreclosure were paid out for a total of \$1,068,508.

As at June 30, 2021, all individual mortgages have a value below 1% of the total mortgages receivable balance (2020 - 1%).

# Antrim Balanced Mortgage Fund Ltd.

## Notes to the Financial Statements

June 30, 2021

### 5. Mortgage receivable (continued)

As at June 30, 2021, there are 1,726 residential mortgages, which is 96.97% of the total number of mortgages (2020 - 1,618; 99.32%). The remaining 54 mortgages include residential land and commercial mortgages (2020 - 11). 1,386 mortgages are located in the Greater Vancouver Regional District, which equals to 77.87% of total mortgages (2020 - 1,484; 91.10%), 115 (6.46%) mortgages are located in the remaining areas of British Columbia (2020 - 83; 5.10%), 77 (4.33%) mortgages are located in Alberta (2020 - 57; 3.50%) and 202 (11.34%) mortgages are located in Ontario (2020 - 5; 0.30%).

The mortgages bear interest at fixed rates, which are within the Company's guidelines and are consistent with the equity-based lending market. All mortgage contracts expire within 12 months.

The Company applies the IFRS 9 general approach in measuring ECL wherein 12-month and lifetime expected loss allowance for all mortgages receivable are recognized based on the performance and credit risk characteristic, with reference to days the receivable are past due.

The Company uses a valuation model to predict default rates on mortgage portfolios, which provides management with further insight as to when loan losses on the portfolio are likely to occur and the size of those losses. Macroeconomic variables, such as unemployment rate, GDP growth, interest rates and the housing price index, are considered. In addition, portfolio specific variables, such as portfolio growth rate, value of real estate in the portfolio, the value of delinquent loans and loans in foreclosure have been utilized by the Company.

The loss allowance was determined as follows:

	2021			
	Stage 1	Stage 2	Stage 3	Total
Balance beginning of year	\$ 700,000	\$ -	\$ -	\$ 700,000
Transfer from (to) Stage 1	-	-	-	-
Transfer from (to) Stage 2	-	-	-	-
Transfer from (to) Stage 3	-	-	-	-
Additions during the year	200,000	-	-	200,000
Balance end of year	\$ 900,000	\$ -	\$ -	\$ 900,000
	2020			
	Stage 1	Stage 2	Stage 3	Total
Balance beginning of year	\$ 480,000	\$ -	\$ 20,000	\$ 500,000
Transfer from (to) Stage 1	-	-	(20,000)	(20,000)
Transfer from (to) Stage 2	-	-	-	-
Transfer from (to) Stage 3	20,000	-	-	20,000
Additions during the year	200,000	-	-	200,000
Balance end of year	\$ 700,000	\$ -	\$ -	\$ 700,000

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# Antrim Balanced Mortgage Fund Ltd.

## Notes to the Financial Statements

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June 30, 2021

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### 6. Bank indebtedness

	<u>2021</u>	<u>2020</u>
Line of credit	\$ 55,000,000	\$ 10,000,000
Bank overdraft	<u>3,129,011</u>	<u>-</u>
	<u>\$ 58,129,011</u>	<u>\$ 10,000,000</u>

The Company has a syndicated credit facility agreement with TD Canada Trust and Royal Bank of Canada to an amount of \$75,000,000 or 75% of eligible amortizing mortgages plus 65% of eligible interest only mortgages to a maximum of 40% of the borrowing base. As of June 30, 2021, the Company has utilized \$55,000,000 of the available funds (2020 – \$10,000,000).

Interest is charged at the bank's prime lending rate plus 0.75% per annum and/or bankers acceptances with a stamping fee of 2.05% plus varying discount rates.

Eligible mortgages are determined by criteria set by the bank. The credit facility is secured by a general security agreement covering all eligible mortgages in the portfolio.

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### 7. Dividends

The Company follows a dividend policy in accordance with the provisions of the Income Tax Act related to Mortgage Investment Corporations. Dividends are paid on an annual basis after the year end and will be paid at \$0.0579 per Class A share, \$0.0529 per Series B share and \$0.0630 per Series C share (2020 – \$0.0651 per Class A share, \$0.0601 per Series B share and \$0.0701 per Series C share).

Dividends previously declared on the preferred shares of the Company were distributed as follows:

	<u>2021</u>	<u>2020</u>
Dividends payable, beginning of year	\$ 7,265,513	\$ 7,536,775
Dividends paid in cash	(17,572,816)	(18,656,456)
Dividends issued as shares	(20,937,023)	(19,082,562)
Dividends declared during the year	<u>36,853,472</u>	<u>37,467,756</u>
Dividends payable, end of year	<u>\$ 5,609,146</u>	<u>\$ 7,265,513</u>

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# Antrim Balanced Mortgage Fund Ltd.

## Notes to the Financial Statements

June 30, 2021

### 8. Share capital

#### Authorized

- 200 Common voting shares without par value
- Unlimited Class A non-voting, redeemable preferred shares without par value
- Unlimited Class B Series A non-voting, redeemable preferred shares without par value
- Unlimited Class B Series B non-voting, redeemable preferred shares without par value
- Unlimited Class B Series C non-voting, redeemable preferred shares without par value

Preferred shares				2021
	Preferred shares - Class A	Preferred shares - Class B Series B	Preferred shares - Class B Series C	Total
Shares ourstanding, beginning of year	\$ 192,186,727	\$ 110,533,135	\$ 265,281,788	\$ 568,001,650
Issued	25,838,528	45,215,146	140,076,555	211,130,229
Redeemed	(16,191,965)	(25,450,544)	(60,229,937)	(101,872,446)
Dividends issued as shares	8,630,938	4,777,546	7,528,539	20,937,023
Transferred to another share class	(1,938,757)	(2,233,284)	4,172,041	-
Shares outstanding, end of year	<u>\$ 208,525,471</u>	<u>\$ 132,841,999</u>	<u>\$ 356,828,986</u>	<u>\$ 698,196,456</u>
				2020
	Preferred shares - Class A	Preferred shares - Class B Series B	Preferred shares - Class B Series C	Total
Shares ourstanding, beginning of year	\$ 182,530,770	\$ 108,237,001	\$ 263,880,551	\$ 554,648,322
Issued	21,452,625	24,211,014	61,200,013	106,863,652
Redeemed	(19,842,429)	(22,950,339)	(69,800,118)	(112,592,886)
Dividends issued as shares	7,840,030	4,871,806	6,370,726	19,082,562
Transferred to another share class	205,731	(3,836,347)	3,630,616	-
Shares outstanding, end of year	<u>\$ 192,186,727</u>	<u>\$ 110,533,135</u>	<u>\$ 265,281,788</u>	<u>\$ 568,001,650</u>



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# Antrim Balanced Mortgage Fund Ltd.

## Notes to the Financial Statements

June 30, 2021

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### 8. Share capital (continued)

	<u>2021</u>	<u>2020</u>
<b>Common shares</b>		
Shares outstanding, beginning of the year	\$ 11	\$ 10
Issued	<u>-</u>	<u>1</u>
Shares outstanding, end of the year	<u>\$ 11</u>	<u>\$ 11</u>

Each dollar represents one share of each class.

All common shares are not eligible to receive dividends or repayment of capital. Each common share represents one vote at the shareholders meeting.

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### 9. Management fees and related party transactions

The Company has contracted with Antrim Investments Ltd. (the “management company”) to manage the mortgage portfolio for a fee which is calculated at one twelfth of 1.5% of the mortgage portfolio per month.

On a monthly basis the management company remits a portion of its fee to referral agents (Note 4).

The management company is controlled by Mr. William R. Granleese and his immediate family members. Mr. Granleese is one of the three directors of the Antrim Balanced Mortgage Fund Ltd. The other directors are William Granleese and Chris Worsnup.

Management and dealer fees for the period total \$8,818,637 (2020 - \$7,831,330) and an amount of \$1,002,930 (2020 - \$756,291) was unpaid at June 30, 2021. Other payables, included in accounts payable, to the management company totalled \$100,249 (2020 - \$76,882). Unpaid and receivable amounts are in the normal course of business, non-interest bearing and were paid/received within 30 days of the year end.

Directors, officers and related family members who have investments in the Company received \$1,176,394 (2020 - \$1,209,995) in dividend income. Employees who also have investments in the Company received \$22,222 (2020 - \$22,347) in dividend income. In all cases, the dividends received were based on the same criteria as all other investors holding the same class of shares in the Company.

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

As at June 30, 2021, two (2020 – two) of the Directors owned one voting common share each. The Directors also hold or control through personal holding companies an aggregate total of 11.30% of the non-voting Class A preferred shares which is 3.38% of the total preferred shares (June 30, 2020 – 14.21%; 4.81%)

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# Antrim Balanced Mortgage Fund Ltd.

## Notes to the Financial Statements

June 30, 2021

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### 10. Fair value of financial instruments

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

Level 1 – quoted prices in active markets for identical investments

Level 2 – inputs other than quoted prices included in Level 1 that are observable for the investment, either directly (i.e. as prices) or indirectly (i.e. derived from prices)

Level 3 – inputs for the investments that are not based on observable market data

The level in the fair value hierarchy within which the financial asset or financial liability is categorized is determined on the basis of the lowest level of input that is significant to the fair value measurement. Financial assets and financial liabilities are classified in their entirety into only one of three levels.

As at June 30, 2021, there are no financial instruments carried at fair value and consequently, no financial instruments categorized into Levels 1, 2 or 3 or transfers between levels for the year then ended.

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### 11. Financial instruments

The Company's financial instruments consist of cash, accounts receivable, accrued interest receivable, mortgage receivable, bank indebtedness, accounts payable and dividends payable. The Company is exposed to various risks through its financial instruments and has a comprehensive risk management framework to monitor, evaluate and manage these risks. The following analysis provides information about the Company's risk exposure and concentration as of June 30, 2021.

#### *Credit risk*

Credit risk arises from the potential that a counterparty will fail to perform its obligations. The Company is exposed to credit risk in that the mortgagor will fail to discharge the obligation causing the Company to incur a financial loss. In order to reduce its credit risk, the Company ensures 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. Credit risks policies include the following:

- General mortgage policy statements including approval of lending policies, eligibility for loans, exceptions to policy, policy violations, liquidity and loan administration;
- Mortgage lending limits and criteria set by the Board of Directors;
- Review of mortgages by the Credit Committee; and
- Mortgage delinquency controls regarding procedures followed for loans in arrears.

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# Antrim Balanced Mortgage Fund Ltd.

## Notes to the Financial Statements

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June 30, 2021

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### 11. Financial instruments (continued)

#### *Liquidity risk*

Liquidity risk is the risk that the Company cannot meet a demand for cash or fund its obligations as they come due. The Company's management oversees the liquidity risk to ensure the Company has access to enough readily available funds to cover its financial obligations as they come due. The assessment of the Company's liquidity position reflects management's estimates, assumptions and judgments pertaining to current and prospective firm specific and market conditions.

The Company manages liquidity risk by:

- Continuously monitoring actual daily cash flows and longer-term forecasted cash flows;
- Maintaining adequate liquidity support facilities, such as lines of credit and bankers acceptances; and
- Monitoring the maturity profiles of financial assets.

The Company is exposed to this risk mainly in respect of its receipt of funds from its mortgages, share purchases and redemptions and accounts payable.

An analysis of mortgage due dates is provided in Note 5; all other sources of funds have terms of less than twelve months.

#### *Market risk*

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises four types of risk: currency risk, interest rate risk, fair value risk and other price risk.

#### *Currency risk*

Currency risk is the risk to the Company's earnings that arise from fluctuations of foreign exchange rates and the degree of volatility of these rates. As at June 30, 2021, the Company does not hold any financial instruments in foreign currency, therefore it is not exposed to foreign currency risk.

#### *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. The mortgages receivable are advanced for mainly one year terms, with the rate of interest fixed for that term. Interest rates on mortgages receivable reflect credit risk and prime interest rates. Upon renewal of the mortgage, the Company has the option of adjusting the interest rate to respond to changes in credit risk or the prime interest rate.

In seeking to minimize the risks from interest rate fluctuations, the Company manages exposure through its normal operating and financing activities. The Company is also exposed to interest rate risk through its floating interest rate bank indebtedness and credit facilities.

If interest rates on debt had been one percent higher (lower) during the year ended June 30, 2021, earnings would have been reduced (increased) by approximately \$53,372 during the year (2020 - \$80,946), assuming that no changes had been made to the interest rates at which new mortgage loans were entered into.

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# Antrim Balanced Mortgage Fund Ltd.

## Notes to the Financial Statements

June 30, 2021

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### 11. Financial instruments (continued)

#### *Fair value risk*

Fair value risk is the potential for loss from an adverse movement in the value of a financial instrument. The Company incurs fair value risk on a property held for resale. The Company does not hedge its fair value risk. As at June 30, 2021, the Company does not hold any property held for resale, therefore it is not exposed to fair value risk.

#### *Other price risk*

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. As at June 30, 2021, the Company does not hold any financial instruments that are traded in the market.

Included in other price risk is the real estate property that provides the underlying security for mortgages receivable. The Company aims to minimize other price risk through maintaining sufficient loan to value ratios on the advance of mortgages.

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### 12. Capital management

The Company's objective when managing capital is to continue operations as a going concern so that it can provide its shareholders with a safe, superior-yielding and liquid investment that also qualifies as an eligible investment for Registered Retirement Savings Plans, Registered Retirement Income Funds and Tax-Free Savings Accounts.

The Company defines capital as being the funds raised through bank indebtedness and the issuance of common shares and preferred shares of the Company. The overall objective of capital management is to ensure that the Company has sufficient capital to maintain its operations based on current activities and expected business developments in the future and to provide a return to the shareholders commensurate with the risk of the business and comparable to other similar companies.

The Company intends on expanding its capital raising through an increasing number of investment dealers. Management will work to increase distribution through more dealers via the FundSERV network. FundSERV is an electronic settlement system that allows investment dealers to purchase and redeem shares of the Company far more efficiently than dealing in physical certificates. Additional costs will be associated with FundSERV, but management feels the advantages of a diversified dealer network outweigh the additional costs associated with this form of distribution.

The Company is required to comply with Section 130.1(6) of the Income Tax Act which defines the requirements for Mortgage Investment Corporations. These guidelines give specific externally imposed capital requirements. During the year the Company complied with these requirements.

Under the Company's bank credit facilities, the Company is required to comply with certain financial covenants including a borrowing base condition and an annual debt to tangible net worth requirement. As at June 30, 2021, the Company is in compliance with all financial covenants.

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# Antrim Balanced Mortgage Fund Ltd.

## Notes to the Financial Statements

June 30, 2021

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### 13. Rate of return

All share classes for the 2021 fiscal year earned 5.79% (2020 - 6.51%).

Shares held with investment dealers may be subject to additional fees that are in part collected by the Company as an agent according to the Financial Services Agreement and/or Fee Schedule for that Dealer.

The net rate of return by share class after dealer fees is as follows:

	<u>2021</u>	<u>2020</u>
Class A	<b>5.79%</b>	6.51%
Class B Series B	<b>5.29%</b>	6.01%
Class B Series C	<b>6.30%</b>	7.01%

The weighted average number of shares for 2021 fiscal year was:

Class A - \$195,155,092 (2020 - \$189,618,820)

Class B Series B - \$125,268,167 (2020 - \$112,741,631)

Class B Series C - \$302,951,158 (2020 - \$267,614,852)

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### 14. Post-reporting date events

On July 22, 2021, the Company executed an amendment to increase its syndicated credit facility agreement with TD Canada and Royal Bank of Canada from an amount of \$75,000,000 to \$100,000,000.

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**13. CERTIFICATE**

This Offering Memorandum does not contain a misrepresentation.

**DATED** this 20<sup>th</sup> day of October, 2021

**Antrim Balanced Mortgage Fund Ltd.**

(signed) William Granleese

William Granleese  
Director

(signed) William R. Granleese

William R. Granleese  
President and Director

(signed) Christopher G. Worsnup

Christopher G. Worsnup  
Director

**Antrim Investments Ltd. (in its capacity as promoter)**

(signed) William Granleese

William Granleese  
President and Director

(signed) William R. Granleese

William R. Granleese  
Chief Executive Officer and Director

## **ANTRIM BALANCED MORTGAGE FUND LTD.**

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