OFFERING MEMORANDUM

Date: **May 26, 2020**

The Issuer

Name:		**BAYFIELD MORTGAGE INVESTMENT CORP.**	
Head office:	Address:	**Unit 101, 19909 – 64th Avenue, Langley, British Columbia**	
	Phone:	**604-533-4478;** Toll Free: **1-888-918-3388**	Fax: **604-533-8909**
	E-mail:	**monique@bayfield.ca**	Website: **None**

Currently listed or quoted?........ **No. These securities do not trade on any exchange or market.**
Reporting issuer?....................... **No** SEDAR filer?............................ **No**

The Offering

Securities offered:	**Class A Non-Voting, Participating (redeemable*) Shares** *** See Item 5.1 "Terms of Securities – Redemption of Shares"**
Price per security:	**$1.00 per share**
Minimum offering:	**There is no minimum. You may be the only purchaser. Funds available under the offering may not be sufficient to accomplish our proposed objectives.**
Maximum offering:	**$10,000,000 (10,000,000 Class A Shares)**
Minimum subscription amount:	**$500 - if you are already an investor in our Class A Shares** **$5,000 - if you are a new investor**
Payment terms:	**The subscription price for Shares being purchased is payable in full by the applicable closing date.** See Item 5.2 "Subscription Procedure".
Proposed closing date(s):	**June 1, 2020 and the first business day of each month thereafter until the earlier of April 1, 2021 and the issuance of our 2020 annual financial statements.** If we do not require the funds, we may not have one or more of these closings.
Income tax consequences:	**There are important tax consequences to these securities. See Item 6 "Income Tax Consequences and Registered Plan Eligibility".**
Selling agent:	**Bayfield Investment Services Ltd.** * (*following completion of its registration as an Exempt Market Dealer) See Item 7 "Compensation Paid to Sellers and Finders".

Resale Restrictions

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

Purchaser's Rights

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

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

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Item 1 – USE OF AVAILABLE FUNDS

1.1 Funds

The funds that will be available to us from the offering, together with the funds estimated to be available from other sources, are set out in the following table.

	Description	Assuming Minimum Offering	Assuming Maximum Offering
A	Amount to be raised by this offering	$ 500	$ 10,000,000
B	Selling commissions and fees (1)	$ 300	$ 00,000
C	Estimated offering costs (e.g. legal, accounting, audit, etc.)	$ 40,000	$ 50,000
D	**Available funds: D = A - (B + C)**	**($ 39,800)**	**$ 9,350,000**
E	Additional sources of funding required (available) (2)	$ 17,342,900	$ 17,342,900
F	Working capital (or deficiency) (3)	0	0
G	**Total: G = (D + E) – F**	$ 17,303,100	$ 26,692,900

(1) We do not currently pay any commissions or fees to our proposed selling agent, Bayfield Investment Services Ltd., however, following its registration as an Exempt Market Dealer we will pay it a monthly fee for acting as our selling agent. We may also pay commissions or fees to other Exempt Market Dealers or registered securities dealers in respect of subscriptions originated by them. Amounts shown assume a 6% commission paid to an arm's length Exempt Market Dealer. See Item 7 "Compensation Paid to Sellers and Finders".

(2) Maximum possible balance available under our credit facility as at the end of the month preceding the date of this Offering Memorandum. The amount actually available depends on the amount of qualifying mortgage loans we hold, therefore, the full amount of the credit facility may not be available. See Item 2.2 "Description of Our Business – Credit Facility".

(3) We did not have, as at the end of the month preceding the date of this Offering Memorandum, and do not expect to have, significant working capital (as substantially all of our cash on hand is generally loaned to borrowers) or a working capital deficiency.

1.2 Use of Available Funds

We intend to use the funds available to us from the offering and from other sources, as estimated in Item 1.1 "Funds", as set out in the following table.

Description of Intended Use of Available Funds (1) (Listed in order of priority)	Assuming Minimum Offering	Assuming Maximum Offering
Investment in residential, commercial, development and bare land mortgages (2)	$ 17,303,100	$ 26,692,900
TOTALS	**$ 17,303,100**	**$ 26,692,900**

(1) Our revenue from operations has been, and we expect it to continue to be, sufficient to cover our operating costs.

(2) Full or partial repayment of our credit facility from the net proceeds of the offering will allow us to borrow additional funds under the facility and invest it in mortgages. See Item 2.2 "Description of Our Business – Credit Facility" and Item 4.2 "Current and Long Term Debt".

1.3 Reallocation

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

Item 2 – OUR BUSINESS

2.1 Structure

We were formed on December 31, 2019 by the amalgamation under the *Business Corporations Act* (British Columbia) of Upton Capital Corp., a company incorporated on April 12, 1990 under the *Company Act* (British Columbia) (which was superseded by the *Business Corporations Act*) and Versatile Mortgage Corp., a company incorporated on September 24, 1996 under the *Company Act* (British Columbia). Our share capital consists of an unlimited number of Class A Non-Voting, Participating shares with a par value of $1.00 each ("**Class A Shares**") and Class B Voting, Non-Participating shares with a par value of $1.00 ("**Class B Shares**").

2.2 Description of Our Business

Overview

We are, as were our predecessors, Upton and Versatile, a "mortgage investment corporation" (a "**MIC**"). Our business involves making loans secured by mortgages on real estate in Canada. Our borrowers are located in British Columbia, Alberta and Manitoba.

As a MIC, we make a diversified range of real estate secured loans, principally residential loans supplemented by a small number of other real estate (commercial, development and bare land) loans, all secured by first and second mortgages, and a very small number of third mortgages. We earn most of our income from the interest paid pursuant to these mortgages along with renewal fees, pre-payment penalties, performance bonuses and other fees and charges related to such mortgages. Any additional income is earned from short term rental of properties we acquire from foreclosures under mortgages held by us and any capital gains when such properties are sold.

We provide mortgage financing to borrowers whose applications do not necessarily fall within the lending and investing guidelines of conventional lenders. As a result of the additional risk, due diligence and administration associated with these mortgages, we charge a rate of interest that is higher than conventional lenders. When borrowers default under their mortgage loans, we work through the foreclosure process with the goal of minimizing any significant losses.

We are registered (licenced) as a mortgage broker in British Columbia. The Office of the Registrar of Mortgage Brokers at the British Columbia Financial Services Authority (formerly, the Financial Institutions Commission) regulates the mortgage brokering and lending activities of MICs under the *Mortgage Brokers Act* (British Columbia). The Registrar and the *Mortgage Brokers Act* do not regulate the capital raising and investment marketing activities of MICs which are subject to securities legislation and regulation.

In Alberta and Manitoba, we are exempt from registration and licencing as a mortgage broker or carry on business through registered or licenced mortgage brokers. We may change the provinces in which we make loans depending on financial results from each province.

Businesses We are Permitted to Conduct as a MIC

To qualify as a MIC we are restricted by Canada's *Income Tax Act* (the "**Tax Act**") to carrying on the following activities:

(a) our business must be passive and of an investment nature (accordingly, we cannot manage or develop residential or commercial real estate properties other than incidental management thereof – such as management of properties acquired by foreclosure); and

(b) our only business can be the investing of funds.

Furthermore, such investments are subject to the following restrictions:

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

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

(c) we cannot invest our funds in

  (i) real estate located outside Canada or in leasehold interests in such real estate,

  (ii) debts of persons not resident in Canada unless the debt is secured by a mortgage on real estate located within Canada, and

  (iii) shares of corporations not resident in Canada;

(d) our net leveraging (the ratio of the amount of our outstanding liabilities to the amount by which the cost of our assets exceeds our liabilities) cannot exceed a 3:1 ratio unless more than two-thirds of our investments are in residential mortgages and bank deposits, in which case it is entitled to be no more than a 5:1 ratio. (The terms of our credit facility, however, impose more stringent restriction on our leverage as described under "Credit Facility" below.)

Taxation of MICs

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

Investment Policy

Our investment policy is intended to enable us to qualify for the special tax treatment afforded to MICs under the Tax Act. For this reason, we loan most of our funds as residential mortgage loans and the balance is held in bank deposits. We may also lend our funds as construction, commercial and bare land mortgage loans, however, we are restricted by our lending guidelines with respect to the amount of the loan compared to the value of the property (the "**loan to value**" or "**LTV**" ratio) of this type of lending. No funds will be loaned in respect of any property in which our directors or officers have a direct or indirect interest.

We believe the types of mortgage loans which we have made, and intend to make, are consistent with the criteria for a MIC under the Tax Act. While we meet these criteria we should be accorded the "flow through" tax treatment given to MICs. That treatment results in us not being taxed on any of our net income or taxable capital gains, all of which are distributed to our Class A Shareholders effective as of the end of each financial year. **Pursuant to the Tax Act, such distributions are taxed as interest income in the hands of our Class A Shareholders and not as dividends.**

Operating Policy

Our principal operating policy is that any loans made by us are limited to a maximum of 75% of the appraised value of the mortgaged property less the amount of any prior mortgages. We may occasionally exceed a 75% LTV ratio to secure the priority of our mortgage or otherwise effect a workout of the borrower's indebtedness and, when we do, we usually obtain additional security from the borrower including security over non-real estate assets.

No single mortgage can be made that would exceed 5% of our capital and all commercial mortgages, in the aggregate, cannot exceed 10% of the value of our mortgage portfolio.

Any residential loans made by us must be secured by first or second mortgages although, in very few cases, we may accept third mortgages as security (for such third mortgage loans, both the first and second mortgages are usually held by the same financial institution and may be supplemented by security on non-real estate assets).

Commercial, development and bare land mortgages made by us must be secured by first or second mortgages only.

Appraisals by accredited appraisers are required for all mortgage loans and, in most cases, such appraisers must be independent. Commercial properties must be appraised by a member of the Accredited Appraiser Canadian Institute and accompanied by an environmental report. In very rare situations (for example, if the loan to value ratio of a residential property is very low), a provincial assessment notice or a current market analysis may be used in place of an appraisal. The loans are only made where such appraisals or valuations and all other relevant materials including, where appropriate, credit, financial and environmental reports are satisfactory to our Manager and, if required, three directors.

The maximum term of our loans can be up to three years but generally will be made for only a one year term. Our loans are renewable only on the following conditions:

(a) the mortgage is paid up and in good standing;

(b) the loan satisfies an annual review, usually made six to eight weeks prior to the expiry date of the mortgage term, of the borrower’s payment history, the value of the home and property securing the loan and the amount of equity of the borrower;

(c) if the review is favourable, an offer of renewal is sent to the borrower, who has four to six weeks to elect whether to accept the renewal terms failing which, the borrower must obtain new financing and repay the loan. Should the borrower be unable to pay off the loan, the loan is usually renewed; and

(d) the interest rates, payment amounts and penalties for any renewal fluctuate in accordance with market conditions.

Our loans are generally made to borrowers in the Lower Mainland area of British Columbia. When we make loans secured by property outside the Lower Mainland we significantly increase the requirements potential borrowers must meet to ensure protection of our capital. On that basis we have made, and will make, loans in other parts of British Columbia and in Alberta and Manitoba.

The majority of the loans we make require principal and interest payments, although occasionally we make loans on an “interest only” payment basis. All mortgages, regardless of payment type, are monitored daily. As a result, we become aware of any collection problems well in advance of default or loan maturity.

Our Manager may approve loans up to $1,000,000 if secured by a first mortgage and up to $500,000 if secured by a second or third mortgage. Three directors, acting as a Credit Committee, must approve, in writing, all other loans.

Our policy on loan impairment and bad debts is as follows:

(a) any bad debt or write-off is recorded when it occurs. For example, if a foreclosure results a loss, the loss is recorded in our financial statements at that time; and

(b) impairment provision and allowances are anticipated, calculated and applied prior to our financial year end.

We require insurance to be in place for all mortgage loans. The type of insurance depends on the property securing the loan, as follows:

(a) residential properties (including strata titled condominiums) must have “all perils” homeowner insurance;

(b) commercial properties (other than strata titled condominiums) must have “all perils” commercial insurance;

(c) development properties must have builders risk (course of construction) insurance; and

(d) bare land must have liability insurance.

Title insurance is required on all mortgages exceeding $25,000 and all taxes, levies and assessments must be fully paid on all properties.

From time to time, one or more of our directors carry out random spot checks of our files to ensure that we follow our Operating Policy in making our loans.

Credit Facility

We have arranged a revolving credit facility with Canadian Western Bank ("**CWB**"). This credit facility allows us, if our outstanding mortgage loans satisfy the terms of the facility, to borrow additional funds. We then use those funds to make further mortgage loans. By this "leveraging" of our capital base, we can increase our income with minimal risk. Our policy is to borrow no more than 100% of the total value of our current assets and eligible mortgages.

The credit facility with CWB allows us to borrow up to the lesser of $40,000,000 and the aggregate of 75% of our eligible first residential mortgages, 75% of our eligible second residential mortgages in "major cities", 65% of our eligible second residential mortgages in all other "approved areas" and 65% (up to a maximum of $6,000,000 and 25% of our mortgage receivables) of our eligible commercial mortgages. Funds borrowed are repayable on demand with interest at CWB prime rate plus 1.00% per year.

Under the credit facility, "major cities" include Vancouver and the Greater Vancouver Regional District, Victoria, Calgary, Edmonton and Winnipeg and any location within 50 kilometres of a CWB branch and "approved areas" are the Greater Vancouver Regional District and various communities in the Fraser Valley, the Greater Victoria and central Vancouver Island areas, the Whistler, Squamish and Sunshine Coast areas, the Thompson-Okanagan area, the Greater Calgary and Greater Edmonton areas and Winnipeg and Brandon.

Mortgages not eligible under the credit facility consist of:

(a) mortgages more than 60 days in arrears of any payments;

(b) mortgages without an appraisal;

(c) mortgages not renewed within 30 days of maturity;

(c) any portion of a mortgage exceeding $1,500,000 or any mortgage borrower with more than $1,500,000 in mortgages held by us;

(d) mortgages ranking third or lower;

(e) mortgages securing loans with a loan to value ratio of more than 75%;

(f) mortgages on mobile homes, pubs, gas stations, properties exceeding five acres, raw land, project developments, hotels and motels and mobile home parks;

(g) mortgages with a term exceeding five years;

(h) mortgages securing construction loans; and

(i) mortgages on properties with structures not covered by earthquake insurance in the Greater Vancouver Regional District and the Fraser Valley and on Vancouver Island.

We sometimes make loans to parties that do not qualify as eligible mortgages.

We are required to provide CWB with audited financial statements within 120 days of our financial year end and unaudited monthly financial statements, a portfolio report and a certificate of compliance within 20 days of each month end.

While we are permitted by the Tax Act to leverage our capital (our debt to tangible net worth ratio) up to a 3:1 ratio (or in certain circumstances, a 5:1 ratio), CWB restricts our borrowing such that the leveraging is not more than a 0.75:1 ratio (tested monthly). CWB further requires us to maintain our minimum tangible net worth at not less than $40,000,000 (tested monthly), an interest coverage ratio (net income plus borrowing costs and amortization divided by debt payment obligations) of 3:1 (tested annually) and a current ratio (current assets divided by current liabilities) of not less than 2:1 (tested monthly).

The credit facility is secured by security agreements over all of our assets and assignments of our accounts receivable, mortgage monies due and insurance, all having first priority in favour of CWB.

Each quarter, a CWB representative audits not less than 10 of our mortgages, at least 20% of our mortgage portfolio or 100% of all new loans since the last audit, or all three.

We believe that we have complied, and are currently in compliance, with all of the requirements of our credit facility.

We pay CWB an administration fee for the facility of $3,000 per month, an annual renewal fee of $5,000 and, if our indebtedness under the credit line falls below $20,000,000, a stand-by fee of 0.25% per year in respect of the unused portion of the credit line below $20,000,000.

Competition

Our competitors are principally other MICs, but also include commercial lenders and financial institutions such as banks. Overall, the MIC lending business continues to increase in number of MICs and competitiveness of those MICs each year. There are already a significant number of MICs operating with varying levels of success and many of these MICs compete for the same borrowers. This has resulted, and could result in further, downward pressure on lending rates and the resulting rates of return to investors in MICs.

Credit Committee

When required, an *ad hoc* committee of three of our Board of Directors acts as a Credit Committee. While their backgrounds are varied, all of our directors have the necessary skills that enable them to carry out their duties, such as experience in banking, real estate and finance. Directors are not paid any fee for their services when acting as members of the Credit Committee.

Manager

We have retained Bayfield Mortgage Professionals Ltd. to manage our mortgage investments and administer our business. It is registered as a mortgage broker in British Columbia and licenced as a mortgage broker in Alberta and Manitoba, with over 70 mortgage agents in British Columbia, Alberta and Manitoba, and is owned by two of our directors, Inderjit S. Matharu and Gordon H. J. Wintrup.

Our Manager was retained pursuant to a Management Agreement which is effective as of January 1, 2020 and has a term of seven years, which automatically renews for successive seven year terms thereafter until terminated. The Agreement may be terminated on 24 months written notice by our Manager for any reason or by us if the Manager has been proven to have committed an act of fraud or of willful or criminal negligence.

Pursuant to the Management Agreement, our Manager provides mortgage investment and administration services to us, including:

(a) sourcing, processing and administering mortgage loans on our behalf within investment parameters set out in our Credit Guidelines;

(b) carrying out the day-to-day administration of our business;

(c) providing financial services, including monthly reports on our operations, to us;

(d) communicating with mortgage brokers carrying on business with us and answering their queries;

(e) preparing accounting information for, and co-ordinating with, our auditor in connection with the preparation of our annual financial statements;

(f) providing marketing and business development assistance and services to us;

(g) furnishing us with all necessary administrative services including providing office space, clerical staff and maintaining books and records, as required; and

(h) performing such assignments respecting our business as directed by our board of directors.

Our Manager is paid a monthly fee for its services equal to 0.125% (1.50% per year) of the aggregate outstanding principal amounts due under all mortgages held by us.

We are also required to reimburse our Manager for its reasonable and necessary out-of-pocket disbursements incurred in connection with administering our business. Such disbursements are only paid once approved by us.

We have agreed to indemnify our Manager from all claims incurred in respect of the origination, administration and servicing of our mortgage portfolio except those caused by our Manager's negligence, fraud or willful misconduct. Our Manager has agreed to indemnify us from all claims arising from its negligence, fraud or willful misconduct.

2.3 Development of Our Business

Since the inception of Upton's business in 1990 and Versatile's business in late 1996, their combined businesses have grown steadily as a result of prudent and conservative lending practices. We believe this growth has resulted in acceptable rates of return on Upton's and Versatile's invested capital, and will continue to result in acceptable rates of return on our invested capital, relative to alternative investment opportunities for our shareholders. When borrowers default under their mortgage loans, we will, as did Upton and Versatile, work through the foreclosure process with the goal of minimizing any significant losses. This has allowed Upton and Versatile, and should continue to allow us, to provide fairly consistent rates of return for our shareholders commensurate with market conditions.

During Upton's and Versatile's two most recently completed financial years there have not been any unusual events or conditions that have favourably, or adversely, influenced the development of their or our businesses.

As at May 1, 2020, we held 466 mortgages as security for loans totalling approximately $96.5 million with a weighted effective interest rate of 9.59% per year (for comparative amounts as at December 31, 2019 for Upton and Versatile and their previous financial year ends, see their financial statements at the end of this Offering Memorandum) as follows:

Mortgage Ranking	**Number**	**Percentage** (of Number)	**Principal Amount**	**Percentage** (of Principal)
First	179	38.41	$ 60,438,267	62.62
Second	282	60.52	$ 35,910,247	37.20
Third	5	1.07	$ 176,876	0.18
Totals	**466**	**100.00**	**$ 96,525,391**	**100.00**
Less allowance for loan impairment*			$ 761,083	
Totals			**$ 95,764,308**	
Average mortgage balance			$ 207,136	
Weighted average annual interest rate			**9.59%**	

* "Loan impairment" results when the interest and principal payments on a loan are at least 90 days in arrears and the underlying mortgage security is considered inadequate to recover all costs. The realizable amounts are the estimated fair market value of the security underlying the mortgages after deducting estimated costs of realization. The impairment is based on valuations by independent appraisers accredited by professional institutes with recent experience in the location of the property being valued and by direct sales comparisons where the fair value is based on comparisons to recent sales of properties of similar types, locations and quality.

Mortgage Type	First Mortgages	Second Mortgages	Third Mortgages	Totals
Residential	$ 54,312,739	$ 35,458,331	$ 136,329	$ 89,907,399
Residential land	$ 1,573,813	$ 451,916	0	$ 2,025,730
Mixed Use *	$ 2,120,000	0	$ 40,547	$ 2,160,547
Commercial	$ 2,431,715	0	0	$ 2,431,715
Totals	**$ 60,438,267**	**$ 35,910,247**	**$ 176,876**	**$ 96,525,391**

* Combination of commercial and residential use.

Mortgage Location	First Mortgages			Second Mortgages			Third Mortgages		
	No.	Principal	%*	No.	Principal	%*	No.	Principal	%*
British Columbia	151	$ 55,398,579	91.66	217	$ 31,243,914	87.00	3	$ 140,353	79.35
Alberta	27	$ 4,840,432	8.01	64	$ 4,567,503	12.72	2	$ 36,523	20.65
Manitoba	1	$ 199,257	0.33	1	$ 98,830	0.28	0	0	0.00
Totals	**179**	**$ 60,438,268**	**100.00**	**282**	**$ 35,910,247**	**100.00**	**5**	**$ 176,876**	**100.00**

* Percentage of Principal

The properties are distributed between large metropolitan areas (Vancouver, Victoria, Calgary, Edmonton and Winnipeg and their surrounding communities) and mid-sized and larger communities (such as Kelowna and Abbotsford, British Columbia and Red Deer and Lethbridge, Alberta). All of the loans were secured by mortgages on residential properties, although we do, from time to time, make loans secured by mortgages on commercial, development and bare land properties.

The ratio of the value of each loan to the appraised value of the property varies, but rarely exceeds 75%.

As at May 1, 2020, there were:

- 19 mortgages (4.08% of our mortgages at that time) with outstanding principal totalling $8,121,541 (8.41% of our total outstanding principal) in foreclosure; and
- 25 delinquent mortgage (5.36% of our mortgages at that time) with outstanding principal totalling $5,219,937 (5.41% of our total outstanding principal).

Mortgages classified as "delinquent" are mortgages for which interest and principal payments are at least 60 days in arrears.

The average rate of return which our shareholders receive on their investments will be determined annually by our auditor as at our December 31st financial year end. The effective annual yield on adjusted share capital achieved by Upton (for its financial years ending October 31st) and Versatile (for its financial years ending January 31st) for our shareholders for the past five financial years is set out in the following table.

MIC	2019	2018	2017	2016	2015
Upton	8.22%(1)	8.56%	9.12%	7.65%	6.35%
Versatile	7.64%(2)	8.29%	6.92%	6.02%	6.26%

(1) 14 month period ended December 31, 2019.

(2) 5.24% for the 11 months ended December 31, 2019.

All of our cash distributions for the five financial years shown were, and we expect future distributions to continue to be, funded from our operating activities and funds re-invested through our share re-investment plan, and none were funded from bank borrowings, share subscriptions from our investors or other sources.

The rates of return are averages for all of our shareholders and may not reflect the return received by any one investor. There is no guarantee that such rates of return will continue or that investors will receive similar returns in future years. The factors which affect the amount of such return is described in Item 8 "Risk Factors".

2.4 Long Term Objectives

We have two long term objectives.

Firstly, to continue the orderly and consistent development of our business and consistent growth of our earnings and assets and operations in accordance with prudent commercial lending practices while minimizing both risk to our capital base and the number of foreclosures which must be completed when borrowers default under their mortgage loans.

Secondly, to continue to achieve a return on capital on the order of 6% to 8% per year.

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

2.5 Short Term Objectives and How We Intend to Achieve Them

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

What we must do and how we will do it	**Target completion date or, if not known, number of months to complete**	**Our cost to complete**	
		Minimum Offering	Maximum Offering
Carry out the offering as described in this Offering Memorandum.	Next 12 months	$ 40,000	$ 50,000
Use the offering proceeds and other available funding to provide mortgage loans with a reasonable and manageable level of risk in accordance with our existing lending practices	Next 12 months	$ 17,303,100	$ 26,692,900

2.6 Insufficient Funds

There is no assurance that (i) any of the offering will be sold, (ii) the proceeds of the offering, if any, will be sufficient to accomplish our proposed objectives, or (iii) alternative financing will be available. If none of the offering is sold, we will continue to use our existing capital and cash flows to carry on our current business.

2.7 Material Agreements

We are currently a party to the following contracts with related parties and material contracts:

(a) Credit Facility Agreement dated December 19, 2019 and various security and other agreements, each with CWB. See Item 2.2 "Description of Our Business – Credit Facility";

(b) Management Agreement dated January 1, 2020 with Bayfield Mortgage Professionals Ltd. See Item 2.2 "Description of Our Business – Manager"; and

(c) Exempt Market Dealer Agency Agreement dated January 1, 2020 with Bayfield Investment Services Ltd. See Item 7 "Compensation Paid to Sellers and Finders".

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

3.1 Compensation and Securities Held

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

Name & Municipality of Principal Residence	**Positions Held & Date Appointed**	**Compensation Paid & Payable** Last Year (Current Year)	**Number, Type & Percentage of Our Securities held** (1) **after completion of the:**	
			Minimum Offering	**Maximum Offering**
BUTCHER, Garth Albert Bellingham, WA	President & Director December 31, 2019	N/A (0)	1,212,479 Class A (1.64%) 1 Class B (0.09%)	1,212,479 Class A (1.44%) 1 Class B (0.09%)
CARPENTER, Daryl Peter Surrey, BC	Director December 31, 2019	N/A (0)	230,141 Class A (0.31%) 1 Class B (0.09%)	230,141 Class A (0.27%) 1 Class B (0.09%)
HOOGE, Gary Anthony Langley, BC	Vice-President & Director December 31, 2019	N/A (0)	1,013,913 Class A (1.37%) 1 Class B (0.09%)	1,013,913 Class A (1.20%) 1 Class B (0.09%)
MATHARU, Inderjit Singh Surrey, BC	Secretary/Treasurer & Director December 31, 2019	N/A ($90,000) (2)	27,643 Class A (0.04%) 1 Class B (0.09%)	27,643 Class A (0.03%) 1 Class B (0.09%)
RISHEL, David James Surrey, BC	Director December 31, 2019	N/A (0)	103,022 Class A (0.14%) 1 Class B (0.09%)	103,022 Class A (0.12%) 1 Class B (0.09%)
ROE, Lynn Ann Surrey, BC	Director December 31, 2019	N/A (0)	354,345 Class A (0.48%) 1 Class B (0.09%)	354,345 Class A (0.42%) 1 Class B (0.09%)
WINTRUP, Gordon Howard James Langley, BC	Portfolio Manager & Director December 31, 2019	N/A ($90,000) (2)	724,502 Class A (0.98%) 1 Class B (0.09%)	724,502 Class A (0.86%) 1 Class B (0.09%)

(1) Shares beneficially held, directly or indirectly, or over which control or direction is exercised, by each person and does not include shares held jointly with a spouse. Amounts are subject to variation depending on the share purchases and redemptions during the term of the offering.

(2) Mr. Matharu and Mr. Wintrup receive compensation from Bayfield Mortgage Professionals Ltd. in respect of services provided through such company for us. See Item 2.2 "Description of Our Business – Manager" for a description of how the remuneration paid by us to Bayfield Mortgage Professionals Ltd. is calculated. No compensation is paid by us directly to either Mr. Matharu or Mr. Wintrup.

3.2 Management Experience

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

Name & Position	**Principal Occupation and Related Experience**
BUTCHER, Garth Albert President & Director	President of Bayfield Mortgage Investment Corp. (since December 31, 2019). Formerly, President, founder and a director of Versatile Mortgage Corp. (September 24, 1996 to December 31, 2019). Formerly, owner of Prudential Realty, a real estate company based in Langley.

Name & Position	Principal Occupation and Related Experience
CARPENTER, Daryl Peter Director	Property Manager (since 1994) and land developer (since 1997). President and owner of Metropolitan Property Management Inc., a commercial and industrial property management and leasing company (since January 2006). General Manager of Resland Development Corp., a land development company with projects in Western Canada and Arizona. Formerly, Vice-President (March 22, 2016 to December 31, 2019) and a director (March 4, 2008 to December 31, 2019) of Upton Capital Corp.
HOOGE, Gary Anthony Vice-President & Director	Vice-President of Bayfield Mortgage Investment Corp. (since December 31, 2019). Residential realtor with over 30 years of experience. Formerly, President (March 22, 2016 to December 31, 2019) and a director (March 4, 2008 to December 31, 2019) of Upton Capital Corp.
MATHARU, Inderjit Singh Secretary/Treasurer & Director	Mortgage Broker in British Columbia and Mortgage Agent in Alberta and Manitoba. Member of Mortgage Professionals Canada, Canadian Mortgage Brokers Association (British Columbia), Alberta Mortgage Brokers Association and MIC Managers Association of BC. Vice President (since 2007) and 50% owner (since June 26, 2019) of Bayfield Mortgage Professionals Ltd. Treasurer, Secretary, a director and 50% owner of Bayfield Investment Services Ltd. (since January 9, 2019). Formerly, Treasurer, Secretary and a director (March 28, 2013 to December 31, 2019) of Upton Capital Corp.
RISHEL, David James Director	Real Estate Agent and manager of RE/MAX Little Oak Realty, a real estate company with offices in Abbotsford, Mission and Surrey. Past President of Fraser Valley Real Estate Board. Formerly, a director of Versatile Mortgage Corp. (April 28, 2010 to December 31, 2019).
ROE, Lynn Ann Director	Retired Advertising Executive. Previously director of Versatile Mortgage Corp. (April 28, 2010 to December 31, 2019) and Baytree Capital Corp., a MIC.
WINTRUP, Gordon Howard James Director	Mortgage Broker in British Columbia and Mortgage Agent in Alberta and Manitoba Member of British Columbia MIC Managers Association, Mortgage Professionals Canada, Canadian Mortgage Brokers Association (British Columbia), Alberta Mortgage Brokers Association and MIC Managers Association of BC. President and owner of Bayfield Mortgage Professionals Ltd. (since 1972) President, a director and 50% owner of Bayfield Investment Services Ltd. (since July 18, 2008). Founded first MIC in 1984 and was the founder and a director of Upton Capital Corp. (February 26, 1991 to December 31, 2019) and Versatile Mortgage Corp. (September 24, 1996 to December 31, 2019) Formerly, Manager of Laurentide Financial Corporation and Credit Manager with the Bank of Montreal during the 1960s.

3.3 Penalties, Sanctions and Bankruptcy

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

(a) subject to any penalty or sanction;

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

(c) the subject of any declaration of bankruptcy, voluntary assignment in bankruptcy, proposal under any bankruptcy or insolvency legislation, proceedings, arrangement or compromise with creditors or appointment of a receiver, receiver manager or trustee to hold assets.

3.4 Loans

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

Item 4 – CAPITAL STRUCTURE

4.1 Share Capital

Our share capital is set out in the following table.

Description of Security (1)	Number Authorized to be Issued	Price per Security	Number outstanding		
			as at the date of this Offering Memorandum	after the Minimum Offering	after the Maximum Offering
Class A Non-Voting, Participating Shares	unlimited	$1.00	74,153,073	74,153,573	84,153,073
Class B Voting, Non-Participating Shares	unlimited	$1.00	11	11	11

(1) There are not any options, warrants or other securities convertible into Class A Shares or Class B Shares.

4.2 Current and Long Term Debt

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

Description of Debt & Whether Secured (1)	Interest Rate (annual)	Repayment Terms	Amount Outstanding as at the end of the month preceding the date of this Offering Memorandum
Current			
Demand Loan	CWB Prime + 1.00%	Interest payable monthly & Principal repayable on demand	$ 21,154,683
Accounts Payable	–	–	$ 177,900
Long Term			
Term Loans	–	–	–

(1) All loans are secured as described in Item 2.2 “Description of Our Business – Credit Facility”.

4.3 Prior Sales

Within the past 12 months, we issued the following Class A Shares and Class B Shares (and no securities convertible into or exchangeable for Class A Shares or Class B Shares) as set out in the following table.

	Class A Shares			Class B Shares		
Date of Issuance	Number of Securities Issued	Price per Security	Total Funds Received	Number of Securities Issued	Price per Security	Total Funds Received
December 31, 2019 (1)	72,585,972	$1.00	0	11	$1.00	11
Totals	**72,585,972**	**$1.00**	**0**	**11**	**$1.00**	**$ 11**

(1) Issued pursuant to the amalgamation of Upton and Versatile to the former shareholders of such MICs.

Within the past 12 months, Upton and Versatile collectively issued the following Class A Shares and Class B Shares (and no securities convertible into or exchangeable for Class A Shares or Class B Shares) as set out in the following table.

	Class A Shares			Class B Shares		
Month	Number of Securities Issued	Price per Security	Total Funds Received	Number of Securities Issued	Price per Security	Total Funds Received
May 2019	777,051	$1.00	$ 777,051	3	$1.00	$ 3
June 2019	5,193	$1.00	$ 5,193	0	$1.00	0
July 2019	372,387	$1.00	$ 372,387	0	$1.00	0
August 2019	341,907	$1.00	$ 341,907	1	$1.00	$ 1
September 2019	1,243,530	$1.00	$ 1,243,530	6	$1.00	$ 6
October 2019	264,700	$1.00	$ $264,700	4	$1.00	$ 4
November 2019	0	$1.00	0	0	$1.00	0
December 2019	132,784	$1.00	$ 132,784	2	$1.00	$ 2
December 31, 2019 (1)	2,462,178	$1.00	$ 2,462,178	0	$1.00	0
December 31, 2019 (2)	1,365,487	$1.00	$ 1,365,487	0	$1.00	0
Jan. 1 – May 26, 2020 (3)	0	$1.00	0	0	$1.00	0
Totals	**6,965,217**	**$1.00**	**$ 6,965,217**	**16**	**$1.00**	**$ 16**

(1) Issued in lieu of cash payment for the balance of Upton's cash distribution of net profits and taxable capital gains for its 14 month financial period ending December 31, 2019. The election whether to receive Class A Shares or a cash payment was made by its investors.

(2) Issued in lieu of cash payment for the balance of Versatile's cash distribution of net profits and taxable capital gains for its 11 month financial period ending December 31, 2019. The election whether to receive Class A Shares or a cash payment was made by its investors.

(3) No shares were issued by either Upton or Versatile after December 31, 2019 since both ceased to exist as individual companies following their amalgamation to form us.

4.4 Redemption History

During the last two calendar years Upton and Versatile redeemed and subsequent period to the date of this Offering Memorandum, we redeemed the following Class A Shares and Class B Shares as set out in the following table.

Financial Year	Redemptions							
	Outstanding at Calendar Year Start		Received during Calendar Year		Paid Out during Calendar Year		Outstanding at Calendar Year End	
	Number of Requests	Amount to be Redeemed	Number of Requests	Amount Redeemed	Number of Requests	Amount Redeemed	Number of Requests	Amount to be Redeemed
Class A Shares								
2018	0	0	69	$ 5,354,542	69	5,354,542	0	0
2019	0	0	93	$ 5,379,977	93	5,379,977	0	0
2020 (1)	0	0	38	$ 796,393	8	796,393	0	0
Class B Shares								
2018	0	0	9	$ 9	9	$ 9	0	0
2019	0	0	10	$10	10	$10	0	0
2020 (1)	0	0	0	0	0	0	0	0

(1) Financial period from January 1, 2020 to the date of this Offering Memorandum.

Upton and Versatile paid (and we expect to continue to pay) all redemption requests in full using cash on hand and, if necessary, funds available from our credit facility. We expect redemptions to continue approximately as they have for the last two years and do not expect that such redemptions will cause any adverse effect on our operations or payment of income distributions.

Item 5 – SECURITIES OFFERED

By this Offering Memorandum, we are offering for sale our Class A Shares to qualified investors in British Columbia and Alberta.

5.1 Terms of Securities

Voting

Our Class A Shares do not have any right to vote except in respect of any amendment to their special rights and privileges.

Each Class B Share has one vote at every meeting of shareholders.

Distribution of Profits

Within 60 days after the end of each financial year, we distribute, effective as of the financial year end, all of our net profits and taxable capital gains for that financial year to our Class A Shareholders. The distributions may be paid by the issuance of further Class A Shares or by way of cash, or a combination of both, as elected by the shareholder.

Our Class B Shares are not entitled to receive any distributions of our net profits or taxable capital gains.

Restrictions on Ownership

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

Redemption of Shares

You can require us to redeem some or all of your Class A Shares by sending us a written notice of retraction at least 30 days before the start of our next financial quarter. Your shares will be redeemed for their net worth (generally $1.00 per share), plus any unpaid cash distributions, on the first day of the next financial quarter and payment for your shares will be made within 90 days as follows:

Retraction Notice must be received by us before	Redemption will be effective on the first day of the next Financial Quarter, being	Payment of Redemption Amount will be made before
March 1st	1st Quarter – April 1st	June 30th
May 30th	2nd Quarter – July 1st	September 29th
August 31st	3rd Quarter – October 1st	December 30th
December 1st	4th Quarter – January 1st	April 1st

Each redemption of our shares is subject to fees of $75, payable to us by the shareholder.

If a shareholder dies without a surviving spouse, all Class A Shares held by that shareholder will be redeemed within 90 days after the financial year in which the shareholder died.

We can redeem, in our sole discretion, any or all Class A Shares held by any shareholder without the consent of, or receiving a notice of retraction from, that shareholder.

If a planned redemption would result in us not meeting the requirements for a MIC under the Tax Act or the solvency requirements of the *Business Corporations Act* (British Columbia), we will only redeem such number of shares as may be necessary for us to continue to meet such requirements.

Transferability

Our Class A Shares are subject to restrictions on transfer:

(a) contained in our Articles (our corporate charter); and

(b) imposed by applicable securities legislation (see Item 10 "Resale Restrictions").

Our Articles provide that a shareholder cannot transfer any of their Class A Shares without the consent of our Board of Directors. These restriction do not apply to a transfer of Class A Shares to the shareholder's Registered Retirement Savings Plan (RRSP), Registered Retirement Income Fund (RRIF), Deferred Profit Share Plan (DPSP), Registered Pension Plan (RPP), Registered Education Savings Plan (RESP), Tax Free Savings Account (TFSA), independent savings plan or other savings plan created by a province or the Canadian government (collectively, "**Registered Plans**") or a Registered Plan owned by the shareholder's spouse.

The Tax Act requires MICs to have no fewer than 20 shareholders and no one shareholder (including the shareholder's spouse and children under 18, and companies controlled by any of them and the shareholder) to hold more than 25% of its issued shares. Accordingly, our Articles also prohibit any transfer of shares or any other action which would result in us not qualifying as a MIC under the Tax Act.

Each transfer of our shares is subject to fees of $75, payable by the shareholder.

Conversion

Neither our Class A Shares nor our Class B Shares are convertible into any other form of share or security.

Liquidation Entitlement

If we are liquidated, dissolved or wound-up, the remaining proceeds after payment of all expenses and outstanding indebtedness will be paid to our Class A Shareholders and Class B Shareholders in proportion to the number of our shares held. Since we pay out all of our net profits and taxable capital gains each year, it is possible that on liquidation, dissolution or winding-up our shareholders may not be paid the full amount paid for their shares.

Amendment of Terms

The terms of our Class A Shares may only be amended with the approval of not less than two-thirds of the votes cast by our Class A Shareholders, each Class A Shareholder having one vote for each Class A Share held.

The terms of our Class B Shares may only be amended with the approval of not less than two-thirds of the votes cast by our Class B Shareholders.

Assessment

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

5.2 Subscription Procedure

If you wish to subscribe for our Class A Shares, please complete and sign a Subscription Agreement, and all applicable schedules thereto, in the form accompanying this Offering Memorandum and **return the agreement to us.**

For share subscriptions through Registered Plans, funds are transferred from your trustee. For all other subscriptions, **also deliver to our selling agent a certified cheque, bank draft or money order payable to us,** for the number of Class A Shares you wish to purchase.

If you are resident in Alberta, please note that the dollar amount of your subscription, together with all your other subscriptions in the preceding 12 months pursuant to offerings carried out by offering memoranda, is limited to:

- $10,000 (as that term is used in Schedules 1 and 2 of Schedule I of the Subscription Agreement), if you are not an “eligible investor”;
- $30,000 if you are an “eligible investor”; and
- $100,000 if you are an “eligible investor” and have received advice from a portfolio manager, investment dealer or exempt market dealer that the investment is suitable,

unless you are an accredited investor or a family, close personal friend or close business associate investor (as those terms are used in Schedules 1 and 2 of Schedule I of the Subscription Agreement) in which event those restrictions do not apply.

All subscription funds will be held (as required by law) for at least two business days after receipt. Closing will occur effective on or about the date(s) set out on the cover of this Offering Memorandum. No share certificates will be issued unless you subscribe for your shares through a Registered Plan, in which case the original share certificates are sent to the financial institution administering your Registered Plan. If requested, we will provide you with a copy of your share certificate for your records.

There are no conditions that must be met by us before any closing occurs, however, we may, in our sole discretion, establish minimum and maximum subscription amounts by investors or accept or reject any subscription. Furthermore, if we do not require additional funds at any time, we may elect not to have a closing on one or more of the dates set out on the cover of this Offering Memorandum. If a subscription is not accepted, in whole or in part, we will return all or part of your subscription funds, without interest or deduction, as applicable.

Item 6 – INCOME TAX CONSEQUENCES AND REGISTERED PLAN ELIGIBILITY

6.1 Caution

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

6.2 Description of Income Tax Consequences

Tax Payable by Us

In general, a MIC does not pay income tax as long as it distributes its net income and any taxable capital gains to its shareholders within 90 days after each financial year end. **When our net income and any taxable capital gains are distributed to you, tax on the net income component of that distribution is payable by you as if you had received interest income and the tax on the capital gain component is payable in accordance with the usual capital gains tax rules**.

Tax Payable by You

The distributions you receive on your Class A Shares, whether you take such distributions in cash or as new Class A Shares, may result in you having to pay tax. The result depends on how your Class A Shares are held.

Class A Shares held in a Registered Plan

Any distributions paid to a Registered Plan will be received on a tax-deferred basis so tax is not paid by you on such distribution until it is withdrawn from the Registered Plan. Furthermore, until withdrawn, any income earned on such distributions (for example, interest) within a Registered Plan is earned tax-free.

Class A Shares held outside of Registered Plans

If you are an individual and hold your Class A Shares outside of a Registered Plan you must declare distributions paid to you by us as taxable interest and if the distribution includes a capital gain component, the tax payable on that component is subject to the usual capital gains tax. This is the case whether the distributions were paid to you in cash or through additional Class A Shares. The amount of the distribution you receive is based on the number of Class A Shares you own. The nature of the distribution (that is, whether it is taxed as interest or as a capital gain) depends on how we initially received the funds – as interest or a capital gain. After the end of each calendar year, we will issue a T5 reporting slip to you indicating how much of your distributions are income and how much are capital gains.

Redeeming Shares

If you redeem your Class A Shares you will generally receive $1.00 per share redeemed. If, however, we do not have sufficient funds to pay such amount you may receive less than $1.00 per share in which case you will realize a capital loss. Since we must annually distribute all of our net profits and taxable capital gains, it is unlikely you will receive more than $1.00 per Class A Share redeemed.

In general, the capital loss will be equal to the difference between the amount you receive on the redemption (less any costs of the redemption) and the adjusted cost base ("**ACB**") of the shares (which is calculated in accordance with the requirements set out in the Tax Act). Capital losses may be applied (depending on your circumstances) to capital gains to reduce your overall tax payable. We will provide you with details on the proceeds from your redemption of our shares. However, in order to calculate your capital loss, you need to know the ACB of your shares before the redemption.

6.3 Eligibility for RRSPs and Other Registered Plans

Our Class A Shares, if issued on the date hereof and the investor, together with the investor's related parties, owns less than 10% of our shares, would be qualified investments under the Tax Act and the regulations thereunder for Registered Plans. In addition, the Class A Shares, if issued on the date hereof, would not constitute "foreign property" for the purpose of the tax imposed under Part XI of the Tax Act on the Registered Plans, registered investments and certain other tax exempt entities, including most RPPs and registered pension funds. RRSPs, RESPs and TFSAs are not subject to the foreign property rules.

Item 7 – COMPENSATION PAID TO SELLERS AND FINDERS

We intend to sell our Class A Shares through Bayfield Investment Services Ltd., which has applied to the British Columbia Securities Commission to become an Exempt Market Dealer. Its President, 50% shareholder, Ultimate Designated Person and one of its two directors is Gordon H. J. Wintrup (he is our Portfolio Manager and one of our directors) and its Treasurer, Secretary, Chief Compliance Officer, 50% shareholder and the second of its two directors is Inderjit S. Matharu (he is our Treasurer, Secretary and one of our directors).

Once Bayfield Investment Services Ltd. is registered as an Exempt Market Dealer, we intend to pay it a monthly fee to for acting as our selling agent equal to 0.1% of our gross mortgage loans calculated on the last business day of each month. It may also charge us a fee of 1.5% of the purchase price of any Class A Shares sold to its clients. Our agreement with Bayfield Investment Services Ltd. may be terminated by either party on six months written notice.

We may also pay commissions and referral fees to other Exempt Market Dealers and registered securities dealers in consideration of their referral of qualified investors who purchase our Class A Shares through the offering. Such commissions and referral fees will be negotiated on a case-by-case basis and may involve up-front cash commissions, "trailing" fees (paid over time while the investor continues to hold our Class A Shares), the amounts of which will not exceed commissions and fees normally paid in the securities industry. Such commissions and fees would be deducted, for fixed fees and commissions, from the subscription funds provided by an investor and, for trailing fees, from income distributions paid to such investor.

Item 8 – RISK FACTORS

Nature of a Mortgage Investment Corporation

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

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

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

How risk is related to return

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

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

What are the risks of investing in MICs?

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

Your Investment is Not Guaranteed

Unlike bank deposits and guaranteed investment certificates (GICs) or money you have deposited in a bank account, your investment in a MIC is not guaranteed by the Canada Deposit Insurance Corporation, by any other government insurer or by us.

The Security for Our Loans will Fluctuate in Value

The value of a MIC's investments (that is, the loans it has made) and the value of the security for those investments (that is, the properties against which the mortgages securing the loans are registered) will change from time to time due to events beyond our control. While we endeavour to minimize our exposure to such fluctuations (and the resulting risk to our investors) by restricting our loans to 75% (or less) of the value of the security for such loans, there is a risk that the value of such security can significantly decrease in a falling real estate market. If the value of such security decreases to less than the outstanding amount due under the corresponding loan, the value of the loan would be adversely affected or impaired, which could reduce the value of your shares upon a redemption or the amount of income distributed to you.

There are a myriad of factors that can affect the value of real estate and a MIC's loans, including:

- current economic conditions, in particular, the value of real estate;
- changes in interest rates;
- changes in governmental regulation;
- events in financial markets;
- world events such as the COVID-19 pandemic; and
- financial conditions of the borrowers to which the MIC has advanced funds.

Your Investment could Decrease in Value

As a result of the changing value of the loans and corresponding mortgages, the value of your investment in a MIC could decrease over time, and there is no guarantee that when we redeem your shares they will be worth the price you paid for them.

Your Investment is Subject to Changes in Interest Rates

MICs are subject to interest rate risk. Our mortgage investments earn a fixed rate of interest. When interest rates rise, existing investments in mortgages become less valuable because new mortgages will pay the new, higher rate of interest. Conversely, if interest rates fall, the value of an existing mortgage with a higher rate of interest will rise.

Our Borrowers are or could become a Bad Credit

Our borrowers often have incomes that are seasonal or fluctuate or they may have been refused credit from banks and other traditional financial institutions. Accordingly, our borrowers may be considered to be higher risk and, as a result, there is a risk they may not be able to, or may refuse to, pay back their loans when due. We believe our lending policy is conservative and anticipate that minimal losses will be incurred. Furthermore, if a loss does occur, it will be spread over all of our capital. Nevertheless, such losses could amount to a reduction in anticipated return on your investment or, in the worst circumstances, result in you losing your entire investment.

We might be Unable to Redeem Your Shares

Under exceptional circumstances, we may suspend your right to redeem your Class A Shares for example, if the redemption would render us insolvent or if it would cause us not to meet the requirements for a MIC under the Tax Act.

COVID-19 Pandemic and Possible Similar Future Outbreaks

From time to time, different regions of the world have experienced outbreaks of various viruses, such as the Middle East Respiratory Syndrome (MERS), Severe Acute Respiratory Syndrome (SARS), H1N1 influenza virus (swine flu) and avian flu.

The 2019 novel coronavirus ("COVID-19") pandemic has resulted in many countries imposing restrictions, such as quarantines, closures, cancellations and travel restrictions. While these effects are expected to be temporary, the duration of the business disruptions internationally and related financial impact cannot be reasonably estimated at this time.

The COVID-19 pandemic (or any other local, regional, national or international outbreak of any contagious disease, including MERS, SARS, H1N1 influenza virus or avian flu) could result in a significant decline in economic activity in Canada, a reduction in home purchases and financings, a decrease in the willingness of homeowners to borrow and staff shortages for our Manager. The COVID-19 pandemic may affect our borrowers' businesses and income, and thereby their ability to meet their payment obligations to us. All of these occurrences may have a material adverse effect on our business, financial condition and results of operation.

To date, the COVID-19 pandemic has not had a material adverse impact on our operations, however, the future impact of the COVID-19 pandemic is highly uncertain and cannot be predicted. There is no assurance that the pandemic will not have an adverse impact on our future financial performance and the returns paid to you.

Class A Shareholders have Restricted Voting Rights

Shareholders who own only Class A Shares are not able to vote at annual general meetings of our shareholders in respect of the election of directors and the appointment of an auditor. Only Class B Shareholders are entitled to vote on such matters. However, matters specifically affecting the rights of Class A Shareholders are subject to approval by a vote of the Class A Shareholders.

The Loss of our Manager could Adversely Affect Our Business

We rely solely on our Manager to administer investments for us as. The loss of our Manager would require us to retain another manager, possibly at a higher cost and on a less successful basis than our Manager. This would have a material adverse effect on the rate of return obtained on our capital and, therefore, on the value of your investment in our Class A Shares.

A Change in Tax Legislation could Adversely Affect Our Business

We have been created to comply with the MIC requirements of the Tax Act. Our Class A Shares are intended to appeal to individuals having Registered Plans such as RRSPs, RRIFs, TFSAs and RESPs. While it is not anticipated the provisions of the Tax Act respecting such Registered Plans will change, there is always the possibility that it could be altered so that our Class A Shares would no longer be eligible investments for Registered Plans. Such changes could have an adverse effect on your investment.

We intend our business to be operated so that it complies at all times with the requirements for MICs under the Tax Act. Failure to meet such requirements could have a material adverse effect on our financial performance.

The provisions of the Tax Act could be changed so that our net income and taxable capital gains could be taxable in our, rather than your, hands. This could affect the value of your investment, especially if you own our Class A Shares in a Registered Plan.

Risk of Dealing with Trustees

We will deal with the trustees of Registered Plans as necessary but we will not undertake any responsibility for the administration of any self-directed Registered Plans by such trustees. The trust company of your Registered Plan may impose conditions upon us with which we are unable or unwilling to comply. As a result, your trustee may refuse to allow our Class A Shares to be an eligible investment for your Registered Plan.

Our Shares are Subject to Restrictions on Resale

Our Class A Shares are not traded on any stock exchange and may not be resold to third parties, therefore, you cannot liquidate your investment through selling your Class A Shares. See Item 10 "Resale Restrictions".

Item 9 – REPORTING OBLIGATIONS

9.1 Continuous Disclosure

We are not required to send to you any documents on an annual or ongoing basis. We are not a "reporting issuer" under Canadian securities legislation, nor will we become a reporting issuer following the completion of the offering. Since we are not, and will not become, subject to the continuous disclosure requirements of Canadian securities legislation, we are not required to issue press releases or to send to you our interim and annual financial statements, management's discussion and analysis respecting such statements or annual reports.

The *Business Corporations Act* (British Columbia) requires us to hold a general meeting of our Class B Shareholders in each calendar year and, at the meeting, to provide them with audited financial statements for the previous financial year. Instead of providing our annual financial statements at the meeting, we mail them to our Class B Shareholders and also our Class A Shareholders together with the notice for our annual general meeting of Class B Shareholders held in the fall of each year. At the same time, we send a letter to all shareholders reporting on our previous year's business.

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

9.2 Access to Corporate and Securities Information about Us

Since we are not a reporting issuer and our Class A Shares are not publicly traded, no corporate or securities information about us is available from a government, regulatory authority, stock exchange or quotation and trade reporting system unless, if we have investors resident in Alberta, we will file our audited annual financial statements with the Alberta Securities Commission within 120 days of our financial year end. Such financial statements will be available from us, on our website or on SEDAR at www.sedar.com. Further, some securities information about this and previous offerings is available from the British Columbia Securities Commission at www.bcsc.bc.ca.

Further information about us is available from us, or once it is registered as an Exempt Market Dealer, Bayfield Investment Services Ltd., by phone at 604-533-4478 or e-mail at manpreet@bayfield.ca.

Item 10 – RESALE RESTRICTIONS

10.1 Overview

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

10.2 Description of Restricted Period

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

We are not a reporting issuer in any Canadian province or territory, we will not become a reporting issuer upon completion of the offering and we do not anticipate becoming a reporting issuer. Accordingly, the resale restriction on the Class A Shares you acquire under this Offering Memorandum may never expire.

Item 11 – PURCHASERS' RIGHTS

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

11.1 Two Day Cancellation Right

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

11.2 Statutory Rights of Action in the Event of a Misrepresentation

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

(a) us to cancel your agreement to buy these securities; or

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

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

If you intend to rely on the rights described in (a) or (b) above, you must do so within strict time limitations.

You must commence your action to cancel the agreement within 180 days after you signed the agreement to purchase the securities. You must commence your action for damages within the earlier of 180 days after learning of the misrepresentation and three years after you signed the agreement to purchase the securities.

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

11.3 Contractual Rights of Action in the Event of a Misrepresentation

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

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

(b) for damages.

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

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

Item 12 – FINANCIAL STATEMENTS

Following are audited financial statements for Upton's and Versatile's last two completed financial years and audited financial statements for Upton and Versatile as at December 31, 2019.

A.R.T.
Tax and Audit

Financial Statements

Upton Capital Corp.

For the 14 months ended, December 31, 2019

Contents

A.R.T. Tax and Audit Ltd.
#101-5830 176A St
Surrey, BC
V3S 4H5

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Upton Capital Corp.

Opinion
I have audited the financial statements of Upton Capital Corp. (the "Company"), which comprise the statements of financial position as at December 31, 2019, and the statements of loss and comprehensive loss, cash flows and changes to shareholders' equity for the fourteen (14) months ended December 31, 2019, and a summary of significant accounting policies and other explanatory information.

In my opinion, these financial statements, present fairly, in all material respects, the financial position of the Company as at December 31, 2019 and its financial performance and its cash flows for the fourteen (14) months ended December 31, 2019 in accordance with International Financial Reporting Standards.

Basis for Opinion
I conducted my audit in accordance with Canadian generally accepted auditing standards. My responsibilities under those standards are further described in the Auditor's Responsibilities for the audit of the Financial Statements section of my report. I am independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained in my audit is sufficient and appropriate to provide a basis for my 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 relates 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
My objective is 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 my opinion. Reasonable assurance is a high level of assurance, but it 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 aggregate, they could reasonably be expected to influence the economic decision of users take on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I 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 my 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 controls.
- 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 of the effectiveness of the Company's internal controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of managements 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 I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My 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.

I 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 I identify during my audit.

I also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonable be thought to bear on my independence, and where applicable, related safeguards.

Other Matter

The financial statements of Upton Capital Corp. as at and for the year ended October 31, 2018 and 2017 were audited by another accountant who expressed an unmodified opinion on those statements on March 6, 2019.

A.R.T. Tax and Audit
Chartered Professional Accountant

Surrey, British Columbia
May 21, 2020

Upton Capital Corp.
Statement of Financial Position

	December 31, 2019	October 31, 2018
ASSETS		
Cash	**$ 19,985**	$ 88,632
Cash held in trust (Note 6)	**237,772**	-
Accounts receivable (Note 8)	**-**	1,282,973
Interest receivable	**281,609**	257,075
Property acquired through foreclosure (Note 5)	**-**	150,500
Mortgage receivable (Note 4)	**48,859,956**	45,086,539
Prepaid expenses	**20,729**	2,244
	$ 49,420,051	$ 46,867,963
LIABILITIES AND SHAREHOLDERS' DEFICIENCY		
Bank indebtedness (Note 6)	**$ 7,720,239**	$ 8,466,504
Accounts payable (Note 9)	**78,622**	63,712
Dividends payable (Note 7)	**1,307,787**	2,684,532
Share redemption proceeds payable (Note 7)	**106,151**	-
Preferred shares (Note 8)	**40,594,330**	35,659,222
	49,807,129	46,873,970
SHAREHOLDERS' DEFICIENCY		
Share capital (Note 8)	**209**	197
Deficit	**(387,287)**	(6,204)
	(387,078)	(6,007)
	$ 49,420,051	$ 46,867,963

Related party transactions (Note 9)
Weighted average shares and rate of return (Note 14)
Subsequent events (Note 15)

On behalf of the board

/s/"Gary Hooge" — Director

/s/"Gordon Wintrup" — Director

See accompanying notes to the financial statements

Upton Capital Corp.
Statements of Income and Comprehensive Income

	14 month period ended, December 31, 2019	12 month period ended, October 31, 2018
REVENUE		
Interest income	$ 5,477,254	$ 4,261,300
Fees	162,629	124,850
Gain on property acquired through foreclosure	19,463	-
	5,659,346	4,386,150
EXPENSES		
Management fees (Note 9)	873,072	730,964
Bank charges and interest	468,762	613,705
Mortgage losses (Note 4)	990,924	246,154
Property maintenance	18,381	30,232
Insurance	28,540	28,000
Professional fees	55,428	26,870
Line of credit charges (Note 6)	56,555	20,500
Office	6,581	3,965
Marketing expenses	500	1,228
	2,498,743	1,701,618
Income before other item	3,160,603	2,684,532
OTHER ITEM		
Dividend expense	(3,160,603)	(2,684,532)
NET INCOME AND COMPREHENSIVE INCOME	$ -	$ -

See accompanying notes to the financial statements.

Upton Capital Corp.
Statement of Changes in Equity

	Share Capital $	Deficit $	Total $
Balance as at October 31, 2017	181	(6,204)	(6,023)
Net income and comprehensive income	-	-	-
Proceeds from the issuance of shares	21	-	21
Redemption of shares	(5)	-	(5)
Balance as at October 31, 2018	197	(6,204)	(6,007)
Net income and comprehensive income	-	-	-
Opening retained earnings adjustment - IFRS 9 implementation (Note 3)	-	(381,083)	(381,083)
Proceeds from the issuance of shares	14	-	14
Redemption of shares	**(2)**	**-**	**(2)**
Balance as at December 31, 2019	**209**	**(387,287)**	**(387,078)**

See accompanying notes to the financial statements.

Upton Capital Corp.
Statement of Cash Flows

		14 month period ended, December 31, 2019	12 month period ended, October 31, 2018
Net income and comprehensive income	$	**-**	-
Interest income		**(5,477,254)**	(4,261,300)
Dividends		**3,160,603**	2,684,532
Mortgage losses		**990,924**	246,154
Interest expense		**468,762**	613,705
		(856,965)	(716,909)
Changes in non-cash operating working capital			
Accounts receivable		**-**	(1,280,000)
Prepaid		**(10,426)**	-
Deposits		**-**	(130,000)
Accounts payable		**14,910**	(14,466)
		4,484	(1,424,466)
Cash flows related to interest			
Interest received		**5,477,254**	4,287,858
Interest paid		**(468,762)**	(613,705)
Dividend paid		**(843,508)**	(450,763)
		4,164,984	3,223,390
Net cash used in operating activities		**3,312,503**	1,082,015
Cash flows from financing activities			
Common shares issued		**14**	21
Common shares redeemed		**(2)**	(5)
Preferred shares issued		**3,797,322**	9,052,021
Net proceeds (repayment of) from bank debt		**(3,589,254)**	(7,643,429)
Preferred shares redeemed		**(2,556,054)**	(2,424,453)
Cash generated from financing activities		**(2,347,974)**	(1,015,845)
Cash flows from investing activities			
New mortgages funded		**(17,646,789)**	(16,693,302)
Mortgages repaid		**16,577,234**	16,822,194
Investment property acquired by foreclosure		**-**	(150,500)
Proceeds on sale of property		**258,238**	-
Cash generated from investing activities		**(811,317)**	(21,608)
Net increase in cash		**153,212**	44,562
Cash - Beginning of year		**104,545**	44,070
Cash - end of year	$	**257,757**	88,632

1. Nature of operations

Upton Capital Corp., (the "Company") is a mortgage investment corporation pursuant to Section 130.1 of the Income Tax Act. It was incorporated under the British Columbia Companies Act in 1990 and is also registered in Alberta and Manitoba. The primary mandate of the Company is to invest its pooled funds into residential first, second and third mortgages and to provide a return to its shareholders (by way of dividends from preferred shares) that will exceed the prime lending rate by 2% - 4% per annum.

The address of the Company's registered office is Suite 101 19909 64 Avenue, Langley, BC V2Y 1G9.

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 May 1, 2020. The Company is presenting a fourteen (14) month period ended in relation to the amalgamation referred to in notes 12 and 15 which took place on January 1, 2020.

Basis of measurement
These financial statements are prepared on the historical cost basis, except for financial instruments classified as fair value through profit or loss that have been measured at fair value.

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

Use of estimates and judgments
The preparation of financial statements in accordance with IFRS requires management to make estimates, assumptions and judgments 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, provisions for impaired loans and properties held for sales.

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.

Cash
Cash includes cash on hand and cash at banks.

Cash held in trust
Cash held in trust includes cash held with the Company’s legal counsel awaiting funding for mortgages and cash held with Bayfield Mortgage Professionals Ltd., a related party, for share subscriptions received.

3. Summary of significant accounting policies

Mortgages receivable

Mortgages receivable are classified as loans and receivables and are recorded at amortized cost, less allowances for loan impairment.

Specific allowances are established for individual mortgages identified as impaired, whereby the Company reduces the carrying value of these mortgages to their estimated net realizable value. Mortgages classified as impaired include mortgages for which interest and principal payments are 90 days in arrears and the underlying security is considered inadequate to recover all costs. Estimated realizable amounts are determined by the estimated net fair market value of the security underlying the mortgages after deducting costs of realization.

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.

Revenue recognition

Interest income on mortgages is recorded using the effective interest rate method over the term of the mortgage. Interest income on impaired loans is recorded on a cash basis.

Discounts and fees collected on mortgage advances are amortized on a monthly basis until the maturity date. Fees collected due to mortgage term violations are recognized when they are charged.

Interest penalties received as a result of loan prepayments are recognized as income in the year in which the prepayment is made.

In foreclosure situations, the Company will carefully review the situation with these mortgages and recognize any impairment when it arises.

On January 1, 2018, the Company adopted IFRS 15, Revenue from Contracts with Customers that established a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects in exchange for transferring goods or services to a customer. The standard does not apply to revenue associated with financial instruments under IFRS 9, therefore it did not impact the majority of the Company's revenue. The adoption of IFRS 15 has had no material impact on the Company's financial statements.

Property acquired through foreclosure

Real estate acquired through foreclosure is classified as investment property when, at the year end, there are circumstances preventing management from making an active plan to sell within a twelve month period. Once these circumstances are resolved, an active plan to sell will be initiated and the property will be classed as held for sale.

The valuation of other property is measured at the lower of its carrying amount and its fair value less cost to sell. All costs to hold the property prior to sale are included in the carrying amount. Impairment losses and subsequent reversals are recognized in net and comprehensive income in the period in which they occur. Investment property is not depreciated.

...Continued (Note 3. Summary of significant accounting policies)

Income taxes
No provision for income taxes has been made in these financial statements, as the Company is a Mortgage Investment Corporation in accordance with Section 130.1 of the Income Tax Act. No tax is payable providing all income earned is paid out as dividends within 90 days of the fiscal year end.

Dividends

Dividends on new shares are calculated on a pro-rated monthly basis.

Financial instruments

Effective November 1, 2018, the Company has applied IFRS 9 Financial Instruments. Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except for comparative periods, which have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRA 9 are recognized in retained earnings as at November 1, 2018. Accordingly, the information presented for 2018 does not reflect the requirements for IFRS 9 and therefore not comparable to the information presented for 2019 under IFRS 9.

As a result of implementing IFRS 9, the Company has applied a $381,083 opening retained earnings adjustment related to expected credit losses on mortgages.

The adoption of IFRS 9 has resulted in changes to the Company's accounting policies for recognition, classification and measurement of financial assets and liabilities and impairment of financial assets. IFRS 9 also amends IFRS 7, Financial Instruments: Disclosures, which the Company also adopted as of November 1, 2018, to introduce expanded qualitative and quantitative disclosures related to IFRS 9.

The following table shows the original classification under IAS 39 and the new classification under IFRS 9:

Financial asset	Original classification IAS 39	New classification IFRS 9
Cash	Loans and receivables - amortized cost	Amortized cost
Accounts receivable	Loans and receivables - amortized cost	Amortized cost
Interest receivable	Loans and receivables - amortized cost	Amortized cost
Mortgage receivable	Loans and receivables - amortized cost	Amortized cost

Financial liability	Original classification IAS 39	New classification IFRS 9
Bank indebtedness	Other financial liabilities - amortized cost	Financial liabilities - amortized cost
Accounts payable	Other financial liabilities - amortized cost	Financial liabilities - amortized cost
Dividends payable	Other financial liabilities - amortized cost	Financial liabilities - amortized cost
Preferred shares	Other financial liabilities - amortized cost	Financial liabilities - amortized cost

There has been no change in the carrying value of the Company's financial instruments resulting from the changes to the measurement categories in the table noted above.

Classification and measurement
All financial instruments are measured initially at their fair value plus directly attributable transaction costs. To determine their classification and measurement category, IFRS 9 requires all financial assets to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics.

...Continued (Note 3. Summary of significant accounting policies)

All financial assets and liabilities are initially recognized on the trade date, which is the date that the Company becomes a party to the contractual provisions of the instrument.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. Transaction costs are capitalized and amortized over the expected life of the instrument using the effective interest rate method ("EIM"), except for transaction costs which are related to financial assets or financial liabilities at fair value through profit and loss ("FVPL"), which are expensed.

a) Debt instruments at amortized cost

The Company only measures debt instruments at amortized cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows.
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding

<u>Business model assessment</u>
The Company determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective. The business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed;
- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected); and
- The expected frequency, value and timing of sales are also important aspects of the Company's assessment.

<u>The SPPI test</u>
As a second step of its classification process, the Company assesses the contractual terms of financial instruments to identify whether they meet the SPPI test.

"Principal" for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortization of the premium/discount).

In contrast, contractual terms that introduce a more than a minimal exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are SPPI on the amount outstanding. In such cases, the financial asset is required to be measured at FVPL. The Company has no financial assets currently measured at FVPL.

...Continued (Note 3. Summary of significant accounting policies)

b) Financial liabilities

The accounting for financial liabilities remains largely the same as it was under IAS 39. After initial recognition, interest bearing financial liabilities are subsequently measured at amortized cost using the EIM. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs using the EIM. The amortization is included in the related line in the

statements of income. Unamortized premiums and discounts are recognized in the statements of income upon extinguishment of the liability.

Impairment
The adoption of IFRS 9 has fundamentally changed the Company's accounting for impairment by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss ("ECL") approach. IFRS 9 requires the Company to record an allowance for ECLs for all mortgages and other debt financial assets not held at FVPL, together with mortgage commitments and financial guarantee contracts not measured at FVPL.

Overview of ECL principles
The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss), unless there has been no significant increase in credit risk ("SICR") since origination, in which case the allowance is based on the 12 months' expected credit loss.

The Company groups its financial assets into Stage 1, Stage 2 and Stage 3, as described below:

- Stage 1: When mortgages are first recognized, the Company recognizes an allowance based on 12-month ECLs, which represent lifetime ECLs related to default events that are expected to occur within 12 months after the reporting date. Stage 1 mortgages also include facilities where the credit risk has subsequently improved such that the increase in credit risk since initial recognition is no longer significant and the mortgages have been reclassified from Stage 2.

- Stage 2: When a mortgage has shown a SICR since origination, the Company records an allowance for the lifetime ECLs. Stage 2 mortgages also include facilities where the credit risk has improved, and the mortgage has been reclassified from Stage 3.

- Stage 3: The Company records an allowance for the lifetime ECLs for mortgages considered to be credit-impaired (as outlined below in "Definition of default and cure").

Both lifetime ECLs and 12-month ECLs are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

Significant increase in credit risk
The Company has established a policy to assess, at the end of each reporting period, whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. The primary indicators of SICR are relative changes in credit scores for single family mortgages. The Company also applies a secondary qualitative method for identifying a SICR, such as changes in macroeconomic circumstances or the application of management's judgment. In certain cases, the Company may also consider that certain events are a SICR as opposed to a default. For a definition of default and cure, refer to the "Definition of default and cure" sub-section of this note. IFRS 9 provides a rebuttable presumption that a SICR has occurred if contractual payments are more than 30 days past due. The Company has not rebutted this presumption.

...Continued (Note 3. Summary of significant accounting policies)

Calculation of ECLs
The Company calculates ECLs based on three probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the EIR. The cash shortfall is the difference between the cash flows that are due to the Company in accordance with the contract and the cash flows that the Company expects to receive.

The mechanics of the ECL calculations are outlined below and the key elements are as follows:

- PD: The Probability of Default ("PD") is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognized and is still in the portfolio.

- EAD: The Exposure at Default ("EAD") is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.

- LGD: The Loss Given Default ("LGD") is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realization of any collateral. It is usually expressed as a percentage of the EAD.

The ECLs are calculated through three probability-weighted forward-looking scenarios (base, favorable, and unfavorable). Each of these is associated with different PDs, EADs and LGDs. When relevant, the assessment of multiple scenarios also incorporates how defaulted mortgages are expected to be recovered, including the probability that the mortgages will cure and the value of collateral or the amount that might be received from selling the asset.

The maximum period for which the credit losses are determined is the contractual life of a financial instrument unless the Company has the legal right to call the instrument earlier.

Definition of default and cure
The Company considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) for ECL calculations in all cases when the borrower becomes 90 days past due on its contractual payments. In certain other cases, where qualitative thresholds indicate unlikeliness to pay as a result of a credit event, the Company carefully considers whether the event should result in an assessment at Stage 2 or 3 for ECL calculations.

The combined impact of several events may cause financial assets to become defaulted as opposed to one discrete event. It is the Company's policy to consider a financial instrument as "cured" and therefore re-classified out of Stage 3 when none of the default criteria have been present for at least twelve consecutive months. The decision whether to classify an asset as Stage 2 or Stage 1 once cured depends on the assessment of whether the SICR will reverse. The Company has also set probation periods for an asset to return to Stage 1.

...Continued (Note 3. Summary of significant accounting policies)

Write-offs
The Company's accounting policy under IFRS 9 remains the same as it was under IAS 39. Financial assets are written off either partially or in their entirety only when the Company believes that there are no reasonable expected future recoveries. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to provisions for losses.

Standards adopted during the year

IFRS 16, Leases ("IFRS 16")
IFRS 16, Leases sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e., the customer ("lessee") and the supplier ("lessor"). IFRS 16 is effective for annual periods beginning on or after January 1, 2019. All leases result in a company (the lessee) obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17, Leases and, instead, introduces a single lessee accounting model. Applying that model, a lessee is required to recognize: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the statements of income.

The adoption of this standard did not have a material impact on the financial statements.

4. Mortgages receivable

The portfolio consists of the following:

	No.	**%**		**December 31, 2019**	No.	%		October 31, 2018
First mortgages	**108**	**64.06**	**$**	**31,540,970**	102	62.30	$	28,175,789
Second Mortgages	**138**	**35.69**		**17,575,840**	131	36.09		16,323,235
Third Mortgages	**3**	**0.25**		**123,146**	4	1.61		728,722
			$	**49,239,956**			$	45,227,746
Less allowance for loan impairment			**$**	**(380,000)**			$	(141,207)
			$	**48,859,956**			$	45,086,539

The average mortgage balance is $196,225 at December 31, 2019 (October 31, 2018: $190,239).

The weighted average interest rate for the fourteen months ended December 31, 2019 is 9.46% (twelve months ended October 31, 2018: 8.92%).

...Continued (Note 4. Mortgages receivable)

At December 31, 2019 there were five mortgages in foreclosure totaling $2,002,699 (October 31, 2018 – six mortgages in foreclosure totaling $1,582,768) and ten delinquent mortgages totaling $1,482,481 (2018- six delinquent mortgages totaling $1,437,575).

Management anticipates some losses will occur, therefore a loan impairment provision for $210,000 has been recorded for the current 14 month period ended December 31, 2019 (12 months ended, October 31, 2018 - $141,207).

The impairment is based on valuations by independent appraisers accredited by professional institutes with recent experience in the location of the property being valued and by direct sales comparisons where the fair value is based on comparisons to recent sales of properties of similar types, locations and quality.

The majority of the mortgages are residential mortgages registered against properties in the major urban centres of British Columbia, Alberta and Manitoba.

At December 31, 2019 the significant mortgage represents 2.20% (October 31, 2018 - 2.20%) of the mortgage portfolio. All other mortgages have a value below 2% of the portfolio balance.

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

Following the analysis of the mortgage's receivable showing the diversification of the mortgages by the type of property the mortgage has been advanced upon and the location of the mortgage. Also included is an analysis of the delinquent mortgages, allowance for loan impairment and losses expended during the year.

On the basis of the foregoing, the loss allowance as at December 31, 2019 was determined as follows:

	Stage 1	Stage 2	Stage 3	**2019 Total**
Balance, November 1, 2018	$ 381,083	$ -	141,207	**$ 522,290**
Transfer to Stage 1	-	-	-	**-**
Transfer to Stage 2	-	-	-	**-**
Transfer to Stage 3	(210,000)	-	210,000	**-**
Derecognition	(169,225)	-	(183,065)	**(352,290)**
Loan origination	210,000	-	-	**210,000**
Balance, December 31, 2019	$ 211,858	$ -	$ 168,142	**$ 380,000**

...Continued (Note 4. Mortgages receivable)

Type of Mortgage	First mortgages	Second mortgages	Third mortgages	**December 31, 2019**	October 31, 2018
Residential	$ 28,350,289	$ 17,103,214	$ 123,146	**$ 45,576,649**	$ 41,520,529
Residential Land	748,749	226,929	-	**975,678**	1,672,730
Mixed Use	1,487,917	-	-	**1,487,917**	869,894
Commercial	954,015	245,697	-	**1,199,712**	1,164,593
	$ 31,540,970	$ 17,575,840	$ 123,146	**$ 49,239,956**	$ 45,227,746

Location Analysis	First mortgages	Second mortgages	Third mortgages	**2019**	2018
British Columbia	$ 28,564,066	$ 15,885,570	$ 65,175	**$ 44,514,811**	$ 39,130,771
Alberta	2,776,522	1,690,270	57,971	**4,524,763**	5,894,895
Manitoba	200,382	-	-	**200,382**	202,080
	$ 31,540,970	$ 17,575,840	$ 123,146	**$ 49,239,956**	$ 45,227,746

Delinquent Mortgages	First mortgages	Second mortgages	Third mortgages	**2019**	2018
Foreclosure	$ 3,272,398	$ -	$ -	**$ 3,272,398**	$ 1,582,768
90+ days arrears	211,688	166,195	39,989	**417,872**	1,437,575
	$ 3,484,086	$ 166,195	$ 39,989	**$ 3,690,270**	$ 3,020,343

Impairment Allowance	**14 months ended, December 31, 2019**	12 months ended, 'October 31, 2018
Balance, beginning of the year	**$ 522,290**	$ 209,415
Current year impairment allowances	**210,000**	115,000
Allowances applied to losses	**(352,290)**	(33,208)
Allowance transferred to investment property	**-**	(150,000)
	$ 380,000	$ 141,207

...Continued (Note 4. Mortgages receivable)

Mortgage losses

	14 months ended, December 31, 2019	12 months ended, 'October 31, 2018
Increase in impairment allowance	**$ 210,000**	$ 115,000
Loss of foreclosure and other	**527,230**	60,000
Unrecoverable costs	**253,694**	89,840
Recovery of prior year losses	**-**	(18,686)
	$ 990,924	$ 246,154

Principal payments based on contractual maturity dates are as follows:

	14 months ended, December 31, 2019	12 months ended, October 31, 2018
Mortgage contracts expiring within 12 months	**$ 45,844,610**	$ 41,654,150
Mortgage contracts expiring over 12 months	**3,015,346**	3,432,389
	$ 48,859,956	$ 45,086,539

5. Property acquired through foreclosure

In the prior year, the investment property was acquired through foreclosure and was carried at the lower of the carrying amount and fair value less the estimated cost to sell. The property was classified and disclosed net of allowance for losses. During the current year, the Company wrote this property down to $Nil as it was deemed impaired.

	December 31, 2019	October 31, 2018
Cold Lake, AB	**$ -**	$ 150,500

Allowance for losses

	14 months ended, December 31, 2019	12 months ended, October 31, 2018
Balance, beginning of the year	**$ 210,000**	$ -
Allowance transferred from mortgage receivable	**-**	150,000
Increase (decrease) in impairment allowance	**(210,000)**	60,000
Balance, end of the year	**$ -**	$ 210,000

...Continued (Note 5. Property acquired through foreclosure)

Property (losses) gains

	14 months ended, December 31, 2019	12 months ended, October 31, 2018
Investment properties - gain on sale of property	**$ 19,463**	$ -
Investment properties - loss on sale of property		-
	$ 19,463	$ -

6. Cash and Bank indebtedness

Cash held in trust at December 31, 2019 is $237,772 (October 31, 2018: $Nil), and consists of $207,000 in Bayfield Investment Services Ltd., a related party, for share subscriptions received, and $30,772 of general funds with Bayfield Mortgage Professionals, a related party.

The Company has a credit facility with Canadian Western Bank for a demand operating loan to a maximum of $20,000,000. Interest is charged at the bank's prime lending rate plus 1.00% per annum. The maximum amount of the loan shall not exceed the aggregate of 75% of eligible residential first mortgages and residential second mortgages in major cities, and 65% of other eligible mortgages. The credit facility is secured by a commercial security agreement covering all eligible mortgages in the portfolio.

At December 31, 2019, $4,972,383 had been drawn (2018 - $8,466,504 was drawn).

Line of credit charges in the amount of $56,555 for the 14 month period ended, December 31, 2019 (12 month year ended, October 31, 2018: $20,500) include a monthly administration fee and a stand-by-fee of 0.25% per annum on any unused portion of the facility which falls below $10,000,000.

7. Dividends payable

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 ended October 31, 2019 and will be paid at $0.0822 per share for the 14 month period ended December 31, 2019 (12 month year ended December 31, 2018 - paid at $0.0856 per share).

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

	14 months ended, December 31, 2019	12 months ended, October 31, 2018
Dividends payable, beginning of the period	**$ 2,684,532**	$ 2,386,142
Dividends paid in cash	**(843,508)**	(450,763)
Dividends paid in shares	**(1,841,024)**	(1,935,379)
Dividends declared during the period	**3,160,603**	2,684,532
	$ 3,160,603	$ 2,684,532

...Continued (Note 7. Dividends payable)

As at December 31, 2019, there was $106,151 (October 31, 2018: $Nil) in redemptions that related to Registered Retirement Income Fund accounts.

8. Share capital

Authorized

Unlimited Common voting shares with a par value of $1.00 each.
Unlimited Class A redeemable, non-voting preferred shares with a par value of $1.00 each.

Common shares	14 months ended, December 31, 2019		12 months ended, October 31, 2018	
	Shares	Amount	Shares	Amount
Shares outstanding, beginning of period	**197**	**$ 197**	181	$ 181
Issued	**14**	**14**	21	21
Repurchased	**(2)**	**(2)**	(5)	(5)
Shares outstanding, end of period	**209**	**$ 209**	197	$ 197

Preferred shares	14 months ended, December 31, 2019		12 months ended, October 31, 2018	
	Shares	Amount	Shares	Amount
Shares outstanding, beginning of period	**35,659,222**	**$ 35,659,222**	27,096,275	$27,096,275
Issued	**3,797,322**	**3,797,322**	9,052,021	9,052,021
Redeemed	**(2,556,054)**	**(2,556,054)**	(2,424,453)	(2,424,453)
Dividends issued as shares	**3,693,840**	**3,693,840**	1,935,379	1,935,379
Shares outstanding, end of period	**40,594,330**	**$ 40,594,330**	35,659,222	$35,659,222

All preferred shares are equally eligible to receive dividends and the repayment of capital. Each common share represents one vote at the shareholders' meeting.

The Company follows the IFRS recommendations for accounting for financial instruments, therefore issued share capital which is redeemable at the request of the shareholder and has the attributes of a financial liability is presented as such.

Included in accounts receivable are funds receivable from the lawyer's trust account for the issuance of $Nil (October 31, 2018: $1,280,000) preferred shares.

9. Related party transactions

These transactions are in the normal course of operations and are measured at the fair value amount of consideration established and agreed to by the related parties.

The Company has contracted Bayfield Mortgage Professionals Ltd. to manage the mortgage portfolio for a fee which is calculated at 1/12 of 1.5% of the mortgage portfolio per month plus GST. Bayfield Mortgage Professionals Ltd. is owned by common directors and shareholders of the Company.

Management fees for the fiscal year total $873,072 (12-month year ended October 31, 2018 - $730,964) and an amount of $64,996 (October 31, 2018 - $63,712) was unpaid at December 31, 2019. Unpaid amounts are in the normal course of business, non-interest bearing and were paid within 30 days of the year end.

Directors, officers and related family members who have investments in the Company received $191,001 (12-month year ended December 31, 2018 - $179,462) in dividend income for the 14-month period ending December 31, 2019. 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.

At December 31, 2019 and October 31, 2018, each director owned one voting common share and an aggregate total of 4.84% (October 31, 2018 – 4.91%) of the non-voting preferred shares.

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 December 31, 2019 and October 31, 2018, there are no financial instruments carried at fair value and consequently, no financial instruments categorized into Levels 1, 2 or 3 or transfers between Level 1 and 2 for the year then ended.

11. Financial instruments

The Company's financial instruments consist of cash, interest receivable, accounts receivables, mortgages receivable, bank indebtedness, accounts payable, dividends payable, and preferred shares. 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 December 31, 2019.

Credit risk
Credit risk arises from the potential that a counter party 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:

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

An allowance for doubtful mortgages is established based upon factors surrounding the delinquency of specific accounts other information. The Company has a significant number of mortgages which minimizes concentration of credit risk.

Specific credit risk information on concentration of credit risk in various geographical locations, economic activities and delinquent mortgages is detailed in Note 4.

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:

a. Continuously monitoring actual daily cash flows and longer-term forecasted cashflows;
b. Maintaining adequate liquidity support facilities, such as lines of credit and bankers acceptances; and,
c. 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 and other related sources share purchases and redemptions, and accounts payable.

An analysis of mortgage due dates is provided in Note 4; all other sources of funds have terms of less than 12 months.

...Continued (Note 11. Financial instruments)

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: interest rate risk, fair value risk and other price risk. The Company is mainly exposed to interest rate risk and other price 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 point higher (lower) during the fourteen-month period ended December 31, 2019, earnings would have been reduced (increased) by approximately $145,632 (12 month year ended 2018 -$137,264) during the period.

Fair value risk
Fair value risk is the potential for loss from an adverse movement in the value of a financial instrument. The Company incurs fair value risk on its mortgage's receivable held. The Company does not hedge its 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. The Company does not hold financial instruments traded in the active 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.

12. Amalgamation

On October 24, 2019, the Company signed an amalgamation agreement with Versatile Mortgage Corp (a related Company). The newly formed amalgamating Company shall be Bayfield Mortgage Investment Corp.

All shares of the Company will be exchanged for one fully paid and non-assessable share of Bayfield Mortgage Investment Corp. The new fiscal year end is December 31.

On November 24, 2019, the shareholders approved the amalgamation.

13. 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 Plan, 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 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 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 a quarterly debt to tangible net worth requirement.

At December 31, 2019, the Company is in compliance with all financial covenants.

14. Weighted average shares and rate of return

The weighted average share capital for the 2019 fiscal year was 38,026,678 (2018 – 31,364,120).

The effective annual yield on adjusted share capital for the 2019 fiscal year is 8.22% (2018 – 8.56%).

15. Subsequent events

On January 1, 2020, Bayfield Mortgage Investment Corp was formed by the amalgamation of Upton Capital Corp. and Versatile Mortgage Corp.

On March 11, 2020 the World Health Organization declared coronavirus COVID-19 a global pandemic. This contagious disease outbreak, which has continued to spread, and any related adverse public health developments, has adversely affected workforces, economies, and financial markets globally, potentially leading to an economic downturn. It is not possible for the Company to predict the duration or magnitude of the adverse results of the outbreak and its effects on the Company's business or results of operations at this time.

A.R.T.
Tax and Audit

Financial Statements

Versatile Mortgage Corp.

For the 11 months ended, December 31, 2019

Contents

A.R.T. Tax and Audit Ltd.
#101-5830 176A St
Surrey, BC
V3S 4H5

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Versatile Mortgage Corp.

Opinion
I have audited the financial statements of Versatile Mortgage Corp. (the "Company"), which comprise the statements of financial position as at December 31, 2019, and the statements of loss and comprehensive loss, cash flows and changes to shareholders' equity for the eleven (11) month period ended, and a summary of significant accounting policies and other explanatory information.

In my opinion, these financial statements, present fairly, in all material respects, the financial position of the Company as at December 31, 2019 and its financial performance and its cash flows for the eleven (11) month period ended in accordance with International Financial Reporting Standards.

Basis for Opinion
I conducted my audit in accordance with Canadian generally accepted auditing standards. My responsibilities under those standards are further described in the Auditor's Responsibilities for the audit of the Financial Statements section of my report. I am independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained in my audit is sufficient and appropriate to provide a basis for my 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 relates 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
My objective is 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 my opinion. Reasonable assurance is a high level of assurance, but it 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 aggregate, they could reasonably be expected to influence the economic decision of users take on the basis of these financial statements.

A.R.T.
Tax and Audit

As part of an audit in accordance with Canadian generally accepted auditing standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I 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 my 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 controls.
- 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 of the effectiveness of the Company's internal controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of managements 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 I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My 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.

I 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 I identify during my audit.

I also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonable be thought to bear on my independence, and where applicable, related safeguards.

Other Matter

The financial statements of Versatile Mortgage Corp. as at and for the year ended January 31, 2019 and 2018 were audited by another accountant who expressed an unmodified opinion on those statements on March 7, 2019.

A.R.T. Tax and Audit
Chartered Professional Accountant

Surrey, British Columbia
May 25, 2020

Versatile Mortgage Corp.
Statement of Financial Position

	December 31, 2019	January 31, 2019
ASSETS		
Cash (Note 4)	**$ 741,653**	$ 51,175
Interest receivable	**187,604**	238,830
Due from related party (Note 12)	**-**	173,500
Mortgage receivable (Note 5)	**41,107,812**	42,154,133
Property acquired through foreclosure (Note 6)	**133,228**	133,228
Prepaid expenses	**17,689**	13,839
	$ 42,187,986	$ 42,764,705
LIABILITIES AND SHAREHOLDERS' DEFICIENCY		
Bank indebtedness (Note 7)	**$ 8,855,805**	$ 8,801,173
Accounts payable (Note 11)	**67,984**	58,352
Deposits (Note 8)	**-**	174,200
Dividends payable (Note 9)	**1,658,762**	2,299,575
Preferred shares (Note 10)	**31,991,330**	31,817,298
	42,573,881	43,150,598
SHAREHOLDERS' DEFICIENCY		
Common shares (Note 10)	**103**	105
Deficit	**(385,998)**	(385,998)
	(385,895)	(385,893)
	$ 42,187,986	$ 42,764,705

Subsequent events (Note 17)

On behalf of the board

"/s/"Garth Butcher"	*"/s/"Gordon Wintrup"*
Director	Director

Versatile Mortgage Corp.
Statements of Income and Comprehensive Income

	11 month period ended, December 31, 2019	12 months ended, January 31, 2019
REVENUE		
Interest income	$ **3,985,353**	$ 4,226,147
Fees	**115,891**	122,772
Property loss	**-**	(27,921)
	4,101,244	4,320,998
EXPENSES		
Management fees (Note 11)	**607,410**	668,316
Mortgage losses (Note 5)	**1,285,915**	709,906
Interest expense	**419,685**	530,746
Professional fees	**54,009**	40,801
Bank charges	**39,195**	32,942
Repairs and maintenance	**621**	7,499
Insurance	**29,549**	27,375
Advertising and promotion	**814**	911
Office	**5,284**	2,927
	2,442,482	2,021,423
Income before other item	**1,658,762**	2,299,575
OTHER ITEM		
Dividend expense (Note 11)	**(1,658,762)**	(2,299,575)
NET INCOME AND COMPREHENSIVE INCOME	$ **-**	$ -

See accompanying notes to the financial statements.

Versatile Mortgage Corp.
Statement of Changes in Equity

	Share Capital	Deficit	Total
	$	$	$
Balance as at January 31, 2018	95	(4,915)	(4,820)
Opening retained earnings adjustment - IFRS 9 implementation (Note 3)		(381,083)	(381,083)
Net income and comprehensive income	-	-	-
Proceeds from the issuance of shares	14	-	14
Redemption of shares	(4)	-	(4)
Balance as at January 31, 2019	105	(385,998)	(385,893)
Net income and comprehensive income	-	-	-
Proceeds from the issuance of shares	6	-	6
Redemption of shares	**(8)**	**-**	**(8)**
Balance as at December 31, 2019	**103**	**(385,998)**	**(385,895)**

Versatile Mortgage Corp.
Statement of Cash Flows

	11 month period ended, December 31, 2019	12 months ended, January 31, 2019
Net income and comprehensive income	$ -	$ -
Interest income	**(3,985,353)**	(4,226,147)
Dividends declared	**1,658,762**	2,299,575
Mortgage losses	**1,285,915**	709,906
Interest expense	**419,685**	530,746
Property losses	**-**	27,921
	(620,991)	(657,999)
Changes in non-cash operating working capital		
Deposits	**(174,200)**	(291,500)
Accounts payable	**9,632**	765
	(164,568)	(290,735)
Cash flows related to interest		
Interest received	**3,985,353**	4,236,601
Interest paid	**(419,685)**	(530,746)
Dividends paid	**(704,579)**	(438,660)
	2,861,089	3,267,195
Net cash used in operating activities	**2,075,530**	2,318,461
Cash flows from financing activities		
Common shares issued	**6**	14
Common shares redeemed	**(8)**	(4)
Due from related party	**173,500**	251,500
Preferred shares issued	**1,515,162**	4,165,987
Net proceeds (repayment of) from bank debt	**54,632**	(4,585,276)
Preferred shares redeemed	**(2,896,934)**	(1,708,719)
Cash generated from financing activities	**(1,153,642)**	(1,876,498)
Cash flows from investing activities		
New mortgages funded	**(6,753,274)**	(14,958,924)
Mortgages repaid	**6,521,864**	13,912,266
Investment property acquired by foreclosure	**-**	(92,102)
Proceeds on sale of property	**-**	591,334
Write-down on property held for sale	**-**	96,000
Cash generated from investing activities	**(231,410)**	(451,426)
Net increase in cash	**690,478**	(9,463)
Cash - Beginning of year	**51,175**	60,638
Cash - end of year	**$ 741,653**	$ 51,175
Cash consists of the following:		
Cash held in banks	**$ 55,653**	$ 51,175
Cash held in legal trust account	**686,000**	-
	$ 741,653	$ 51,175

See accompanying notes to the financial statements.

1. Nature of operations

Versatile Mortgage Corp. (the "Company") is a mortgage investment corporation pursuant to Section 130.1 of the Income Tax Act. It was incorporated under the British Columbia Companies Act in 1996 and is also registered in Alberta and Manitoba. The primary mandate of the Company is to invest its pooled funds into residential first, second and third mortgages and to provide a return to its shareholders that will exceed the bank's prime lending rate by 2% - 4% per annum.

The address of the Company's registered office is Suite 101 19909 64 Avenue, Langley, BC V2Y 1G9.

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 May 25, 2020. The Company is presenting a fourteen (11) month period ended in relation to the amalgamation referred to in notes 15 and 18 which took place on January 1, 2020.

Basis of measurement
These financial statements are prepared on the historical cost basis, except for financial instruments classified as fair value through profit or loss that have been measured at fair value.

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

Use of estimates and judgments
The preparation of financial statements in accordance with IFRS requires management to make estimates, assumptions and judgments 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, provisions for impaired loans and properties held for sales.

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.

3. Summary of significant accounting policies

Mortgages receivable

Mortgages receivable are classified as loans and receivables and are recorded at amortized cost, less allowances for loan impairment.

Specific allowances are established for individual mortgages identified as impaired, whereby the Company reduces the carrying value of these mortgages to their estimated net realizable value. Mortgages classified as impaired include mortgages for which interest and principal payments are 90 days in arrears and the underlying security is considered inadequate to recover all costs. Estimated realizable amounts are determined by the estimated net fair market value of the security underlying the mortgages after deducting costs of realization.

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.

Revenue recognition

Interest income on mortgages is recorded using the effective interest rate method over the term of the mortgage. The majority of the mortgages receivable are for a one year term and, therefore, loan fees and expenses are recognized in the year received or incurred. As discounts on mortgages are deferred at the time of acquisition. The discounts on mortgages purchased below face value are amortized to income over the mortgage term and recognized as revenue on a monthly basis until the earlier of the maturity date or pay out date.

Discounts and fees collected on mortgage advances are amortized on a monthly basis until the maturity date. Fees collected due to mortgage term violations are recognized when they are charged.

Interest penalties received as a result of loan prepayments are recognized as income in the year in which the prepayment is made.

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.

The Company has adopted IFRS 15 Revenue from Contracts with Customers and the related Clarifications to IFRS 15 Revenue from Contracts with Customers (“IFRS 15”) as of February 1, 2018. IFRS 15 replaces IAS 18 Revenue (“IAS 18”) and IAS 11 Construction Contracts (“IAS 11”). The new Standard has been applied retrospectively without restatement, with the cumulative effect of initial application recognized as an adjustment to the opening balance of retained earnings at February 1, 2018. In accordance with the transition guidance, IFRS 15 has only been applied to contracts that are incomplete as at February 1, 2018. The adoption of IFRS 15 did not have a significant impact on the timing or amount of revenue recognized by the Company in any year.

...Continued (Note 3. Summary of significant accounting policies)

Property acquired through foreclosure

Real estate acquired through foreclosure is classified as investment property when, at the year end, there are circumstances preventing management from making an active plan to sell within a twelve month period. Once these circumstances are resolved, an active plan to sell will be initiated and the property will be classed as held for sale.

The valuation of other property is measured at the lower of its carrying amount and its fair value less cost to sell. All costs to hold the property prior to sale are included in the carrying amount. Impairment losses and subsequent reversals are recognized in net and comprehensive income in the period in which they occur. Investment property is not depreciated.

Properties held for sale

Real estate acquired through foreclosure is classified as property held for sale when its carrying amount will be recovered principally through a sales transaction rather than through continuing use. The criteria for "held for sale" includes management's commitment to a plan to sell the asset and the expectation that such a sale will be completed within a twelve-month period. Events or circumstances beyond the Company's control may extend the period to complete the sale beyond one year. Such assets continue to be classified as "held for sale" as management remains committed to its plan to sell the assets.

Property held for sale is measured at the lower of its carrying amount and its fair value less cost to sell. All cost to hold the property prior to sale are included in the carrying amount. Impairment losses and subsequent reversals are recognized in net and comprehensive income in the period in which they occur. Property held for sale is not depreciated.

There are currently no properties held for sale as at December 31, 2019 and January 31, 2019.

Income taxes

No provision for income taxes has been made in these financial statements, as the Company is a Mortgage Investment Corporation in accordance with Section 130.1 of the Income Tax Act. No tax is payable providing all income earned is paid out as dividends within 90 days of the fiscal year end.

Dividends

Dividends on new shares are calculated on a pro-rated monthly basis.

...Continued (Note 3. Summary of significant accounting policies)

Financial instruments

Effective November 1, 2018, the Company has applied IFRS 9 Financial Instruments. Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except for comparative periods, which have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRA 9 are recognized in retained earnings as at November 1, 2018. Accordingly, the information presented for 2018 does not reflect the requirements for IFRS 9 and therefore not comparable to the information presented for 2019 under IFRS 9.

As a result of implementing IFRS 9, the Company has applied a $381,083 opening retained earnings adjustment related to expected credit losses on mortgages.

The adoption of IFRS 9 has resulted in changes to the Company's accounting policies for recognition, classification and measurement of financial assets and liabilities and impairment of financial assets. IFRS 9 also amends IFRS 7, Financial Instruments: Disclosures, which the Company also adopted as of November 1, 2018, to introduce expanded qualitative and quantitative disclosures related to IFRS 9.

The following table shows the original classification under IAS 39 and the new classification under IFRS 9:

Financial asset	**Original classification IAS 39**	**New classification IFRS 9**
Cash	Loans and receivables - amortized cost	Amortized cost
Interest receivable	Loans and receivables - amortized cost	Amortized cost
Due from related party	Loans and receivables - amortized cost	Amortized cost
Mortgage receivable	Loans and receivables - amortized cost	Amortized cost

Financial liability	**Original classification IAS 39**	**New classification IFRS 9**
Bank indebtedness	Other financial liabilities - amortized cost	Financial liabilities - amortized cost
Accounts payable	Other financial liabilities - amortized cost	Financial liabilities - amortized cost
Dividends payable	Other financial liabilities - amortized cost	Financial liabilities - amortized cost
Preferred shares	Other financial liabilities - amortized cost	Financial liabilities - amortized cost

There has been no change in the carrying value of the Company's financial instruments resulting from the changes to the measurement categories in the table noted above.

<u>Classification and measurement</u>
All financial instruments are measured initially at their fair value plus directly attributable transaction costs. To determine their classification and measurement category, IFRS 9 requires all financial assets to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics.

All financial assets and liabilities are initially recognized on the trade date, which is the date that the Company becomes a party to the contractual provisions of the instrument.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. Transaction costs are capitalized and amortized over the expected life of the instrument using the effective interest rate method ("EIM"), except for transaction costs which are related to financial assets or financial liabilities at fair value through profit and loss ("FVPL"), which are expensed.

...Continued (Note 3. Summary of significant accounting policies)

a) Debt instruments at amortized cost

The Company only measures debt instruments at amortized cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows.
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding

Business model assessment
The Company determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective. The business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed;
- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected); and
- The expected frequency, value and timing of sales are also important aspects of the Company's assessment.

The SPPI test
As a second step of its classification process, the Company assesses the contractual terms of financial instruments to identify whether they meet the SPPI test.

"Principal" for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortization of the premium/discount).

In contrast, contractual terms that introduce a more than a minimal exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are SPPI on the amount outstanding. In such cases, the financial asset is required to be measured at FVPL. The Company has no financial assets currently measured at FVPL.

...Continued (Note 3. Summary of significant accounting policies)

b) Financial liabilities

The accounting for financial liabilities remains largely the same as it was under IAS 39. After initial recognition, interest bearing financial liabilities are subsequently measured at amortized cost using the EIM. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs using the EIM. The amortization is included in the related line in the

statements of income. Unamortized premiums and discounts are recognized in the statements of income upon extinguishment of the liability.

Impairment
The adoption of IFRS 9 has fundamentally changed the Company's accounting for impairment by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss ("ECL") approach. IFRS 9 requires the Company to record an allowance for ECLs for all mortgages and other debt financial assets not held at FVPL, together with mortgage commitments and financial guarantee contracts not measured at FVPL.

Overview of ECL principles
The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss), unless there has been no significant increase in credit risk ("SICR") since origination, in which case the allowance is based on the 12 months' expected credit loss.

The Company groups its financial assets into Stage 1, Stage 2 and Stage 3, as described below:

- Stage 1: When mortgages are first recognized, the Company recognizes an allowance based on 12-month ECLs, which represent lifetime ECLs related to default events that are expected to occur within 12 months after the reporting date. Stage 1 mortgages also include facilities where the credit risk has subsequently improved such that the increase in credit risk since initial recognition is no longer significant and the mortgages have been reclassified from Stage 2.

- Stage 2: When a mortgage has shown a SICR since origination, the Company records an allowance for the lifetime ECLs. Stage 2 mortgages also include facilities where the credit risk has improved, and the mortgage has been reclassified from Stage 3.

- Stage 3: The Company records an allowance for the lifetime ECLs for mortgages considered to be credit-impaired (as outlined below in "Definition of default and cure").

Both lifetime ECLs and 12-month ECLs are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

Significant increase in credit risk
The Company has established a policy to assess, at the end of each reporting period, whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. The primary indicators of SICR are relative changes in credit scores for single family mortgages. The Company also applies a secondary qualitative method for identifying a SICR, such as changes in macroeconomic circumstances or the application of management's judgment. In certain cases, the Company may also consider that certain events are a SICR as opposed to a default. For a definition of default and cure, refer to the "Definition of default and cure" sub-section of this note. IFRS 9 provides a rebuttable presumption that a SICR has occurred if contractual payments are more than 30 days past due. The Company has not rebutted this presumption.

...Continued (Note 3. Summary of significant accounting policies)

Calculation of ECLs
The Company calculates ECLs based on three probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the EIR. The cash shortfall is the difference between the cash flows that are due to the Company in accordance with the contract and the cash flows that the Company expects to receive.

The mechanics of the ECL calculations are outlined below and the key elements are as follows:

- PD: The Probability of Default ("PD") is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognized and is still in the portfolio.

- EAD: The Exposure at Default ("EAD") is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.

- LGD: The Loss Given Default ("LGD") is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realization of any collateral. It is usually expressed as a percentage of the EAD.

The ECLs are calculated through three probability-weighted forward-looking scenarios (base, favorable, and unfavorable). Each of these is associated with different PDs, EADs and LGDs. When relevant, the assessment of multiple scenarios also incorporates how defaulted mortgages are expected to be recovered, including the probability that the mortgages will cure and the value of collateral or the amount that might be received from selling the asset.

The maximum period for which the credit losses are determined is the contractual life of a financial instrument unless the Company has the legal right to call the instrument earlier.

Definition of default and cure
The Company considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) for ECL calculations in all cases when the borrower becomes 90 days past due on its contractual payments. In certain other cases, where qualitative thresholds indicate unlikeliness to pay as a result of a credit event, the Company carefully considers whether the event should result in an assessment at Stage 2 or 3 for ECL calculations.

The combined impact of several events may cause financial assets to become defaulted as opposed to one discrete event. It is the Company's policy to consider a financial instrument as "cured" and therefore re-classified out of Stage 3 when none of the default criteria have been present for at least twelve consecutive months. The decision whether to classify an asset as Stage 2 or Stage 1 once cured depends on the assessment of whether the SICR will reverse. The Company has also set probation periods for an asset to return to Stage 1.

...Continued (Note 3. Summary of significant accounting policies)

Write-offs
The Company's accounting policy under IFRS 9 remains the same as it was under IAS 39. Financial assets are written off either partially or in their entirety only when the Company believes that there are no reasonable expected future recoveries. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to provisions for losses.

4. Cash

Cash consists of $55,563 (January 31, 2019 - $51,175) held in financial institutions and $686,000 (January 31, 2019: $Nil) held in a lawyer's trust account awaiting funding.

5. Mortgages receivable

The portfolio consists of the following:

	No.	**%**		**December 31, 2019**	No.	%		January 31, 2019
First mortgages	**82**	**55.51**	**$**	**23,232,694**	83	47.98	$	20,569,209
Second Mortgages	**148**	**44.26**		**18,526,314**	152	51.58		22,095,572
Third Mortgages	**2**	**0.23**		**95,887**	3	0.44		190,435
			$	**41,854,895**			$	42,855,216
Less allowance for loan impairment			**$**	**(747,083)**			$	(701,083)
			$	**41,107,812**			$	42,154,133

The average mortgage balance is $177,189 (January 31, 2019: $180,010).

The weighted average interest rate is 9.74% (January 31, 2019: 9.26%).

At December 31, 2019 there were twelve mortgages in foreclosure totaling $4,443,872 (January 31, 2019 – seven (7) mortgages in foreclosure totaling $2,970,469) and seven (7) delinquent mortgages totaling $1,607,383 (January 31, 2019- thirteen (13) delinquent mortgages totaling $3,406,465).

Management anticipates some losses will occur, therefore a loan impairment provision for $386,000 has been recorded for the current year (January 31, 2019 - $320,000).

The impairment is based on valuations by independent appraisers accredited by professional institutes with recent experience in the location of the property being valued and by direct sales comparisons where the fair value is based on comparisons to recent sales of properties of similar types, locations and quality.

The majority of the mortgages are residential mortgages registered against properties in the major urban centres of British Columbia, Alberta and Manitoba.

...Continued (Note 5. Mortgages receivable)

At December 31, 2019 the significant mortgages represent 4.57% (January 31, 2019 – 3.89%) of the mortgage portfolio. All other mortgages have a value below 2% of the portfolio balance.

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

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

The expected loss rates are based on the payment profiles of the mortgages over a period of 3 years and the corresponding historical credit losses experienced within such period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the mortgagers to settle the receivables. The Company has identified the demand and supply of real estate properties affecting prices and the economic activity in the region and property locations, among others, to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors.

On the basis of the foregoing, the loss allowance as at January 31, 2019 was determined as follows:

	Stage 1	Stage 2	Stage 3	**2019 Total**
Balance, February 1, 2018	$ 381,083	$ -	$ 13,000	**$ 394,083**
Transfer to Stage 1	-	-	-	**-**
Transfer to Stage 2	-	-	-	**-**
Transfer to Stage 3	(320,000)	-	320,000	**-**
Derecognition	-	-	(13,000)	**(13,000)**
Loan origination	320,000	-	-	**320,000**
Balance, January 31, 2019	$ 381,083	$ -	$ 320,000	**$ 701,083**

On the basis of the foregoing, the loss allowance as at December 31, 2019 was determined as follows:

	Stage 1	Stage 2	Stage 3	**2019 Total**
Balance, January 31, 2019	$ 381,083	$ -	$ 320,000	**$ 701,083**
Transfer to Stage 1	-	-	-	**-**
Transfer to Stage 2	-	-	-	**-**
Transfer to Stage 3	(366,000)	-	366,000	**-**
Derecognition	-	-	(320,000)	**(320,000)**
Loan origination	366,000	-	-	**366,000**
Balance, December 31, 2019	$ 381,083	$ -	$ 366,000	**$ 747,083**

...Continued (Note 5. Mortgages receivable)

Type of Mortgage	First mortgages	Second mortgages	Third mortgages	**December 31, 2019**	January 31, 2019
Residential	$ 20,394,689	$ 18,300,429	$ 95,887	**$ 38,791,005**	$ 38,848,033
Residential Land	1,132,986	225,885	-	**1,358,871**	1,207,025
Mixed Use	1,259,513	-	-	**1,259,513**	2,292,522
Commercial	445,506	-	-	**445,506**	494,876
	$ 23,232,694	$ 18,526,314	$ 95,887	**$ 41,854,895**	$ 42,842,456

Location Analysis	First mortgages	Second mortgages	Third mortgages	**December 31, 2019**	January 31, 2019
British Columbia	$ 21,119,246	$ 15,347,526	$ 75,343	**$ 36,542,115**	$ 37,571,892
Alberta	2,113,448	3,079,574	20,544	**5,213,566**	5,171,323
Manitoba	-	99,214	-	**99,214**	99,241
	$ 23,232,694	$ 18,526,314	$ 95,887	**$ 41,854,895**	$ 42,842,456

Delinquent Mortgages	First mortgages	Second mortgages	Third mortgages	**December 31, 2019**	January 31, 2019
Foreclosure	$ 3,617,293	$ 1,486,296	$ -	**$ 5,103,589**	$ 2,970,469
90+ days arrears	217,685	293,006	-	**510,691**	3,406,465
	$ 3,834,978	$ 1,779,302	$ -	**$ 5,614,280**	$ 6,376,934

Impairment Allowance	**11 months ended, December 31, 2019**	12 months ended, January 31, 2019
Balance, beginning of the period	**$ 701,083**	$ 394,083
Current year impairment allowances	**366,000**	320,000
Allowances applied to losses	**(320,000)**	(13,000)
Balance, end of the period	**$ 747,083**	$ 701,083

...Continued (Note 5. Mortgages receivable)

Mortgage losses

	11 months ended, December 31, 2019	12 months ended, January 31, 2019
Increase in impairment allowance	**$ 366,000**	$ 320,000
Loss of foreclosure	**485,609**	44,232
Application of allowance from prior years	**-**	(13,000)
Unrecoverable costs	**1,261**	34,962
Interest on foreclosure assets	**433,045**	323,712
	$ 1,285,915	$ 709,906

Principal payments based on contractual maturity dates are as follows:

	December 31, 2019	January 31, 2019
Mortgage contracts expiring within 12 months	**$ 39,777,138**	$ 41,059,609
Mortgage contracts expiring over 12 months	**2,077,757**	1,795,607
	$ 41,854,895	$ 42,855,216

6. Property acquired through foreclosure

The investment property was acquired through foreclosure and is carried at the lower of the carrying amount and fair value less the estimated costs to sell. The property is expected to be listed and sold in fiscal year 2020.

	December 31, 2019	January 31, 2019
Fort McMurray, AB	**$ 133,228**	$ 133,228

Allowance for losses

	December 31, 2019	January 31, 2019
Balance, beginning of the year	**$ -**	$ 96,000
Allowance applied to property owned	**-**	(96,000)
Balance, end of the year	**$ -**	$ -

7. Bank indebtedness

The Company has a credit facility with Canadian Western Bank for a demand operating loan to a maximum of $20,000,000. Interest is charged at the bank's prime lending rate plus 1.00% per annum. The maximum amount of the loan shall not exceed the aggregate of 75% of eligible residential first mortgages and residential second mortgages in major cities, and 65% of other eligible mortgages. The credit facility is secured by a commercial security agreement covering all eligible mortgages in the portfolio.

At December 31, 2019, the Company was in compliance with all bank covenants and had drawn $8,855,805 (January 31, 2019 - $8,801,173).

Line of credit charges in the amount of $36,370 (2018: $29,862) include a monthly administration fee and a stand-by-fee of 0.25% per annum on any unused portion of the facility which falls below $10,000,000.

8. Deposits

	December 31, 2019	January 31, 2019
Preferred share purchase	**$ -**	$ 173,500
Security deposit	**-**	700
	$ -	$ 174,200

Preferred share purchase deposit consists of monies received for preferred shares issued on February 1, 2019.

9. Dividends payable

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 period end and will be paid at $0.0524 per share for the 11 months ended December 31, 2019 (12 months period ended, January 31, 2019 - paid at $0.0759 per share).

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

	11 months ended, December 31, 2019	12 months ended, January 31, 2019
Dividends payable, beginning of the year	**$ 2,299,575**	$ 2,208,993
Dividends paid in cash	**(704,579)**	(438,660)
Dividends paid in shares	**(1,594,996)**	(1,770,333)
Dividends declared during the year	**1,658,762**	2,299,575
	$ 1,658,762	$ 2,299,575

10. Share capital

Authorized

Unlimited Common voting shares with a par value of $1.00 each.
Unlimited Class A redeemable, non-voting preferred shares with a par value of $1.00 each.

All preferred shares are equally eligible to receive dividends and the repayment of capital. Each common share represents one vote at the shareholders' meeting.

The Company follows the IFRS recommendations for accounting for financial instruments, therefore issued share capital which is redeemable at the request of the shareholder and has the attributes of a financial liability is presented as such.

Common shares	**11 months ended, December 31, 2019**		12 months ended, January 31, 2019	
	Shares	Amount	Shares	Amount
Shares outstanding, beginning of period	**105**	**$ 105**	95	$ 95
Issued	**6**	**6**	14	14
Repurchased	**(8)**	**(8)**	(4)	(4)
Shares outstanding, end of period	**103**	**$ 103**	105	$ 105

Preferred shares	**11 months ended, 2019**		12 months ended, 2019	
	Shares	Amount	Shares	Amount
Shares outstanding, beginning of period	**31,817,298**	**$31,817,298**	27,589,697	$27,589,697
Issued	**1,515,162**	**1,515,162**	4,165,987	4,165,987
Redeemed	**(2,896,934)**	**(2,896,934)**	(1,708,719)	(1,708,719)
Dividends issued as shares	**1,555,804**	**1,555,804**	1,770,333	1,770,333
Shares outstanding, end of period	**31,991,330**	**$31,991,330**	31,817,298	$31,817,298

11. Related party transactions

These transactions are in the normal course of operations and are measured at the fair value amount of consideration established and agreed to by the related parties.

The Company has contracted Bayfield Mortgage Professionals Ltd. to manage the mortgage portfolio for a fee which is calculated at 1/12 of 1.5% of the mortgage portfolio per month plus GST. Bayfield Mortgage Professionals Ltd. is owned by common directors and shareholders of the Company.

Management fees for the 11 months ended December 31, 2019 total $607,410 (January 31, 2019 - $668,316) and an amount of $55101 at December 31, 2019 (January 31, 2019 - $56,437) was unpaid at the year end. Unpaid amounts are in the normal course of business, non-interest bearing and were paid within 30 days of the year end.

Directors, officers and related family members who have investments in the Company received $185,764 for the 11 months ended December 31, 2019 (12 months ended January 31, 2019 - $306,830) 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.

At December 31, 2019 and January 31, 2019, each director owned one voting common share and an aggregate total of 6.58% (January 31, 2019 – 7.07%) of the non-voting preferred shares.

12. 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 December 31, 2019 and January 31, 2019, there are no financial instruments carried at fair value and consequently, no financial instruments categorized into Levels 1, 2 or 3 or transfers between Level 1 and 2 for the year then ended.

13. Financial instruments

The Company's financial instruments consist of cash, interest receivable, accounts receivables, mortgages receivable, bank indebtedness, accounts payable, dividends payable, and preferred shares. 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 December 31, 2019.

Credit risk

Credit risk arises from the potential that a counter party 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:

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

An allowance for doubtful mortgages is established based upon factors surrounding the delinquency of specific accounts other information. The Company has a significant number of mortgages which minimizes concentration of credit risk.

Specific credit risk information on concentration of credit risk in various geographical locations, economic activities and delinquent mortgages is detailed in Note 4.

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:

a. Continuously monitoring actual daily cash flows and longer-term forecasted cashflows;
b. Maintaining adequate liquidity support facilities, such as lines of credit and bankers acceptances; and,
c. 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 and other related sources share purchases and redemptions, and accounts payable.

An analysis of mortgage due dates is provided in Note 4; all other sources of funds have terms of less than 12 months.

...Continued (Note 14. Financial instruments)

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: interest rate risk, fair value risk and other price risk. The Company is mainly exposed to interest rate risk and other price 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 point higher (lower) during the year ended December 31, 2019, earnings would have been reduced (increased) by approximately $137,608 (January 31, 2019 -$145,632) during the year.

Fair value risk
Fair value risk is the potential for loss from an adverse movement in the value of a financial instrument. The Company incurs fair value risk on its mortgages receivable held. The Company does not hedge its 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. The Company does not hold financial instruments traded in the active 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.

14. Amalgamation

On October 24, 2019, the Company signed an amalgamation agreement with Upton Capital Corp (a related Company). The newly formed amalgamating Company shall be Bayfield Mortgage Investment Corp.

All shares of the Company will be exchanged for one fully paid and non-assessable share of Bayfield Mortgage Investment Corp. The new fiscal year end is December 31.

On November 24, 2019, the shareholders approved the amalgamation.

15. 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 Plan, 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 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 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 a quarterly debt to tangible net worth requirement.

16. Weighted average shares

The weighted average preferred shares for the eleven (11) months ended December 31, 2019 fiscal year was 31,642,466 (January 31, 2019 – 30,113,536).

The effective annual yield on adjusted share capital for the eleven (11) months ended December 31, 2019 period is 5.24% (twelve (12) months ended January 31, 2019 – 7.64%).

17. Subsequent events

On January 1, 2020, Bayfield Mortgage Investment Corp was formed by the amalgamation of Upton Capital Corp. and Versatile Mortgage Corp.

On March 11, 2020 the World Health Organization declared coronavirus COVID-19 a global pandemic. This contagious disease outbreak, which has continued to spread, and any related adverse public health developments, has adversely affected workforces, economies, and financial markets globally, potentially leading to an economic downturn. It is not possible for the Company to predict the duration or magnitude of the adverse results of the outbreak and its effects on the Company’s business or results of operations at this time.

Item 13 – DATE AND CERTIFICATE

Dated: May 26, **2020**

This Offering Memorandum does not contain a misrepresentation.

The Issuer

(signed) GARTH A. BUTCHER President (chief executive officer)	(signed) INDERJIT S. MATHARU Treasurer (chief financial officer)

On Behalf of the Directors

(signed) GORDON H. J. WINTRUP Director	(signed) GARY A. HOOGE Director