# OFFERING MEMORANDUM

Date: **May 1, 2023**

## The Issuer

Name: Classic Mortgage Corporation

| | | |
|---|---|---|
| Head Office: | Address: | **100 – 586 Leon Avenue, Kelowna, British Columbia V1Y 6J6** |
| | Phone: | **250-869-4912** |
| | E-mail: | **admin@canterra.net** |
| | Website: | **www.classicmortgage.ca** |

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

## The Offering

| | |
|---|---|
| Securities offered: | **Voting Common Shares with a par value of $1.00 each.** |
| Price per Security: | **$1.00** |
| Minimum offering: | **There is no minimum. You may be the only purchaser.** |
| Maximum offering: | **$10,000,000 (10,000,000 Shares)** |
| Min. subscription amount: | **$10,000 (10,000 Shares) - if you are a first-time investor.**<br>**$3,000 (3,000 Shares) – if you are already an investor.** |
| Payment terms: | **Bank draft, lawyer's trust cheque or certified cheque** payable to our lawyers, "Bailey Morrison Murray LLP, In Trust", at the time of subscription. |
| Proposed closing date(s): | **This is a continuous offering.** Closings will be completed as subscriptions are received until the earlier of April 29, 2024 and the issuance of our December 31, 2023 annual financial statements. All subscriptions received are subject to rejection or acceptance in full or in part and we may terminate or extend the offering at any time without notice. |
| Income Tax consequences: | **There are important income tax consequences to these securities.**<br>See Item 8 "Income Tax Consequences and RRSP Eligibility". |

## Insufficient Funds

**Funds available under the offering may not be sufficient to accomplish the proposed objectives. See Item 2.6 "Insufficient Funds".**

## Compensation Paid to Sellers and Finders

A person has received or will receive compensation for the sale of securities under the offering. See Item 9 "Compensation Paid to Sellers and Finders".

## Resale Restrictions

You will be restricted from selling your Securities for an indefinite period. See Item 12 "Resale Restrictions".

## Working Capital Deficiency

We do not have a working capital deficiency.

## Payments to Related Party

None of your investment will be paid to a related party of ours.

## Certain Related Party Transactions

There are no transactions between us and a related party where we paid more to a related party than the related party paid for a business, asset or real property or we were paid less by a related party for a business, asset or real property than we paid for it.

## Certain Dividends or Distributions

We have not paid dividends or distributions that exceeded cash flow from operations. See Item 7 ”Certain Dividends or Distributions”.

## Conditions on Repurchases

**You will have a right to require us to repurchase the securities from you, but this right is qualified by a specified price and restrictions. As a result, you might not receive the amount of proceeds that you want. See Item 5.1 “Terms of Securities”**

## 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 a right to damages or to cancel the agreement. See Item 13 “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 10 “Risk Factors”.**

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## Item 1. USE OF AVAILABLE FUNDS

### 1.1 Funds

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

| | Description | Assuming | |
|---|---|---|---|
| | | Minimum Offering | Maximum Offering |
| A | Amount to be raised by the offering | 0 | $ 10,000,000 |
| B | Selling commissions and fees [1] | 0 | 0 |
| C | Estimated offering costs (including legal, accounting, audit, etc.) [2] | 0 | 0 |
| D | **Available funds: D = A - (B + C)** | **0** | **$ 10,000,000** |
| E | Additional sources of funding required (available) [3] | $ 7,240,422 | $ 7,240,422 |
| F | Working capital (or deficiency) [4] | 0 | 0 |
| G | **Net Proceeds: G = (D + E) - F** | **$ 7,240,422** | **$ 17,240,422** |

1. Our Manager pays a monthly fee of $3,000 plus GST to our selling agent, Fairmont Asset Management Inc. See Item 9 "Compensation Paid to Sellers and Finders".
2. Our Manager is responsible to pay all of these costs, which are not expected to exceed $59,000.
3. Maximum possible balance available under our credit facility as at the date of this Offering Memorandum. The actual amount available depends on the amount of qualifying mortgage loans we hold, therefore, the full amount under the credit facility may not be available. Furthermore, it is unlikely we will borrow the full amount available under the credit facility. See Item 2.2 "Our Business – Credit Facility".
4. We do not have and do not expect to have significant working capital (as all cash on hand is generally 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 "Net Proceeds", as follows:

| Description of Intended Use of Available Funds [1] (Listed in Order of Priority) | Assuming | |
|---|---|---|
| | Minimum Offering | Maximum Offering |
| Investment in residential, commercial, construction, and other mortgage loans on properties in British Columbia and Alberta, and in financial institutions' deposit instruments | $ 7,240,422 | $ 17,240,422 |
| **TOTALS** | **$ 7,240,422** | **$ 17,240,422** |

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 an equal or possibly larger (due to our ability to leverage funds borrowed) amount from the facility and invest it in mortgages. See Items 2.2 "Description of our Business – Credit Facility" and 4.2 "Share Capital – Long Term Debt".

### 1.3 Proceeds Transferred to Other Issuers

None of the proceeds of the offering will be invested in, loaned to, or otherwise transferred to another issuer other than as a loan to that issuer where it has granted a mortgage on real property in Canada to us as security for a loan from us in the ordinary course of our business.

## Item 2. OUR BUSINESS OF AND OTHER INFORMATION AND TRANSACTIONS

### 2.1 Structure

We were incorporated as a company under the *Company Act* (British Columbia) on December 31, 2003. On January 11, 2006, we became subject to its successor, the *Business Corporation Act* (British Columbia). We registered to carry on business as an extra-provincial corporation in Alberta on August 28, 2007.

Our authorized share capital consists of 60,000,000 Voting Common Shares with a par value of $1.00 each (“**Shares**”).

### 2.2 Business

*Overview*

We are a mortgage investment corporation (a “**MIC**”) and a licenced mortgage broker in British Columbia. Our business involves making loans secured by mortgages on residential real estate (and occasionally on other properties such as bare land, farms, and development and commercial properties) in British Columbia and Alberta. We carry on business in British Columbia and Alberta and may do so in other provinces, if warranted. We are not required to be licenced in Alberta.

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

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

*Our Manager*

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

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

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

Pursuant to a Management Agreement with us, our Manager carries out all of our mortgage brokerage activities, including:

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

In consideration of providing such services, our Manager is paid a fee equal to 21% of our total annual profit (total revenue less all operating expenses, excluding management fees and taxes), plus all applicable taxes we are required to remit. This fee is subject to a minimum of 1.4% per year and a maximum of 2.0% per year of our mortgage receivables under administration by our Manager and is paid monthly from the payments received from our mortgage portfolio. In addition to receiving such fee, our Manager is entitled to charge a mortgage broker fee to borrowers in such amount as may be negotiated between our Manager and the borrower. See Note 7 "Related party transactions and commitments" of our annual financial statements included in this Offering Memorandum for details of the Manager's remuneration.

From its fee, our Manager pays all:

- expenses related to this Offering Memorandum and the offering, including exempt market dealer, legal, accounting and filing fees and related expenses;
- costs of origination and administration of funding from, and reporting to, investors;
- expenses in respect of our day-to-day operations including, costs to acquire mortgages, auditor fees, legal fees (excluding collection costs as they are paid by the borrower upon collection), costs of courier services, photocopying, land title searches, credit bureau reports, printing, postage, telephone, advertising, promotions and insurance (other than mortgage impairment insurance), accounting fees and rent for office space;
- costs of submitting financial reports and providing other information to Shareholders (as defined in Item 2.2 Our Business – Taxation of MICs) and regulators; and
- expenses of our directors and officers.

We are responsible for all costs associated with our bank line of credit, as well as all collection costs, including legal fees, disbursements, or any foreclosure and other court proceedings, and the cost of mortgage impairment (fire) insurance in connection with our mortgage loans. Whenever possible, we attempt to recover such collection and insurance costs from the borrower.

The Management Agreement may be terminated by us if our Manager becomes insolvent or bankrupt or if our Manager fails to perform its duties and obligations or breaches any covenants or agreements under the Management Agreement. The Management Agreement may also be terminated on 12 months written notice by either party.

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

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

*Taxation of MICs*

Under Canada's *Income Tax Act* (the "**Tax Act**"), a MIC is not taxed on its annual net income and net capital gains if all of such income and one-half of such capital gains are distributed to the MIC's shareholders within 90 days of the MIC's financial year. Therefore, to qualify as a MIC and receive this favourable tax treatment, we annually distribute all of our net income and one-half of our capital gains ("**taxable capital gains**") to holders of our Shares. The annual distribution is paid, at the election of each holder of a Share ("**Shareholder**"), in cash or in further Shares within 90 days of our financial year end. **These distributions are taxed as interest income or capital gains, as applicable, and not as dividends** as described in Item 8 "Income Tax Consequences and Registered Plan Eligibility".

*Investment Guidelines*

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

(a) We will make only first and second mortgage loans secured against residential, agricultural, commercial, construction real estate (including bare land) located in Canada.

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

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

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

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

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

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

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

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

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

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

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

(b) The concentration of loans with any one borrower, or group of affiliated borrowers: Under the terms of our credit facility (described below), we are not permitted to make more than two loans totalling more than 20% of our outstanding mortgage receivables to any one borrower or group of affiliated borrowers.

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

(d) Renewals: The majority of our mortgages are made with one year terms, including renewals on existing mortgages, although we can and do offer term lengths of up to three years. Accordingly, many of our mortgages are renewed on a regular basis provided the mortgages are in good standing and we continue to have good security for such loans. For such renewals, we do not generally obtain a new or updated appraisal.

*Credit Committee*

Our Board of Directors (John Mercuri and Franca Mercuri) acts as our Credit Committee. While our Manager may independently approve all residential mortgages up to $500,000, the Committee must approve all residential mortgages in excess of $500,000 and all non-residential mortgages of any amount.

*Credit Facility*

We fund our mortgage loans through equity financings, however, we may borrow additional funds to employ leverage (the ratio of the amount of our outstanding liabilities to the amount by which the cost of our assets exceeds our liabilities), as permitted by the Tax Act and other applicable legislation, to increase our returns on investment. We only borrow to the extent that our Manager is satisfied that such borrowing and additional mortgage loans will increase our overall profitability, subject to debt-to-equity ratios required by our lenders and prescribed in the Tax Act.

Our credit facility with The Toronto-Dominion Bank allows us to borrow up to the lesser of $15,000,000 and the sum of (i) 75% of the principal amount of first and second mortgages on single (owned occupied) and multi-family residences, (ii) 65% of the principal amount of interest only first and second mortgages on single (owned occupied) family residences, and (iii) 50% of the principal amount of first mortgages on commercial and industrial properties. Among other criteria, such mortgages cannot (i) exceed 75% of appraised property value (including prior mortgages), (ii) have a term exceeding three years, or (iii) have an amortization period exceeding 30 years and the property must be located in a region with a mortgage market acceptable to the Bank. The facility provides that all mortgages on any single unit residence cannot exceed $500,000, $700,000 on any multi-unit residence and $1,000,000 on any commercial property. It further provides that no more than 10% of the credit facility can be allocated to mortgages on multi-unit residential properties, 10% to mortgages on commercial properties, 25% to second mortgages and 40% to interest only mortgages. Each borrower is limited to two mortgages. We are in compliance with the requirements of the credit facility.

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

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

*Competition*

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

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

### 2.3 Development of the Business

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

*Summary of Operations*

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

| **Description** | | **December 31, 2021** | | **December 31, 2022** | | |
|---|---|---|---|---|---|---|
| | | | | **Amount** | | **Change from 2021** |
| Gross Revenue | | $ 3,364,750 | | $ 3,547,756 | | +5.4% |
| Total Expenses | | $ 791,471 | | $ 1,109,162 | | +40.1% |
| **Net Profit (Dividends Paid)** | | **$ 2,651,821** | | **$ 2,357,459** | | **-11.1%** |
| | | | | | | |
| **Total Mortgage Receivables *** | | **$ 41,734,143** | | **$ 43,613,714** | | **+4.5%** |
| All Mortgages | British Columbia | $31,477,384 | 75.4% of total | $29,585,515 | 67.8%% of total | -6.0% |
| | Alberta | $10,256,759 | 24.6% of total | $14,028,199 | 32.2% of total | +36.8% |
| | Total | 177 | | 184 | | +4.0% |
| First Mortgages | Number | 168 | 95.9% of total | 175 | 95.1% of total | +4.2% |
| | Dollar Amount | $40,605,694 | 97.3% of total | $42,629,400 | 97.7% of total | +5.0% |
| Loan Loss Reserves | | $ 545,463 | | $ 539,007 | | -1.2% |
| Average Loan To Value | | 48% | | 45% | | -6.2% |
| Foreclosures in Progress | | 2 | | 3 | | +50.0% |
| | | | | | | |
| **Share Capital Invested** | | $ 37,614,076 | | **$ 33,587,596** | | **-11.0%** |
| Number of Shareholders | | 108 | | 106 | | -1.8% |
| | | | | | | |
| **Net Return on Investment** | | **6.71%** | | 6.43% | | -4.2% |

* Summary data is based on gross mortgage receivables. Net receivables (gross receivables less the loan loss reserves at the fiscal year ends) are set out in our annual financial statements for the last two financial years. See the financial statements under Item 14 “Financial Statements”.

As noted in the above summary and detailed in the audited financial statements, we generated total revenue of approximately $3.55 million and net profit of roughly $2.44 million in 2022. Based on these operating results, along with appropriate year-end accounting transactions for the 2022 fiscal year, a total annual dividend of just under $2.36 million was declared and **our net annual yield / return on investment to shareholders was 6.43% for the fiscal year ended December 31, 2022.**

In terms of revenue, the relevant results in fiscal 2022 were:

- Interest income totalled $3.13 million, up from $2.95 million in 2021. This reflects the larger average balance of $44.6 million we carried in our 2022 fiscal year, up from $39.8 million in fiscal 2021.
- Lender fees collected totalled roughly $334,000, slightly below our results in fiscal 2021 of $347,000. Lender fees are generated on both new and existing mortgage business where a combination of interest and fees are utilized to achieve our desired yield. Of this total, approximately $150,000 was generated from new mortgage business, with $184,000 collected from existing mortgage renewals.
- Prepayment penalties collected totalled just under $50,000, up from approximately $41,000 in 2021. These penalties are collected on mortgages that are prepaid (partially or in full) prior to their maturity date and, where the contract allows us to charge the borrower a fee for doing so, the fee usually consists of three months of interest on the amount prepaid. Over the past couple of years, virtually all new mortgages were open term, however, at maturity we convert most of these open term mortgages into closed (fixed) terms, whereby a three month interest penalty then applies on any future prepayment prior to maturity.
- Miscellaneous income increased moderately up to roughly $32,500 in 2022 compared to $28,700 in 2021. This income is generated from applicable service fees on collection accounts (such as "NSF" fees for cheques which fail to be honoured by the borrower's bank) and for non-payment of fire insurance, strata / condo fees, and property taxes as well as insurance premiums paid pursuant to our mortgage impairment insurance policy which allows us to assess home and fire insurance directly to mortgages where the borrowers do not have their own coverage and to charge for the applicable premiums.

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

- Interest and banking costs increased significantly to just over $383,000 in 2022, in step with our increased use of leverage in the past fiscal year. In 2022, our average borrowings were roughly $7 million, compared to 2021 where we carried an average cash surplus of $1.1 million with associated costs of approximately $20,000, which primarily represented the administrative costs of maintaining our $15 million bank line of credit.
- Write-offs taken in 2022 were nominal at just under $14,000, down from approximately $82,000 in 2021.
- Mortgage impairment insurance for our mortgage portfolio carried an annual premium of $16,700 in 2022. Based on our utilization of this property (fire) insurance, we collected approximately $14,000 in premiums from mortgage loans requiring this coverage, so the policy almost paid for itself in the fiscal year. This additional insurance coverage provides a further layer of protection for our portfolio against any losses incurred due to the lack of suitable insurance coverage on any of our secured properties, particularly those in default or foreclosure, and in cases where we may be unaware of an exposure with a borrower's own insurance policy.
- Management fees declined marginally by 4% from 2021, reflecting the modest reduction in our net profit on a year over year basis. Management fees are 21% of total profits, plus any applicable taxes (GST), calculated and paid on a monthly basis), with minimum and maximum annual compensation limits of 1.4% and 2.0% of the total mortgage portfolio, respectively. This formula

ensures on-going management compensation moves in step with our profitability and the rate of return received by our shareholders.

*Funding and Payout Volumes*

In our 2022 fiscal year, new business volumes remained very strong at roughly $23 million (84 loans), slightly below our record volumes in 2021 of $26 million (91 loans). Over the same period, payout activity totalled $21 million (77 loans), on par with the $21.5 million paid out in 2021 (93 loans). At the end of our 2022 fiscal year, our total mortgage portfolio stood at just over $43.6 million, an increase of roughly 5% over 2021 year-end results ($41.7 million).

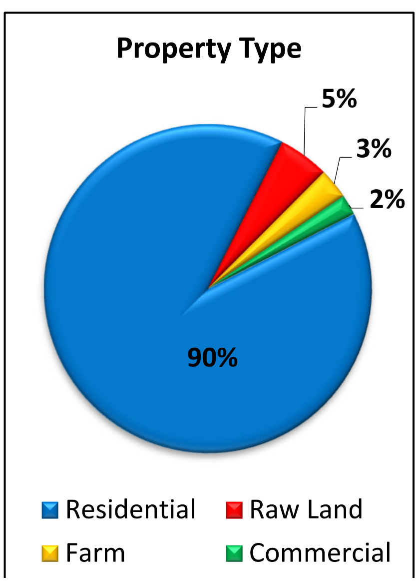
Business activities in our 2022 fiscal year varied in response to changes with both the real estate market and the overall economy. During the first half of the fiscal year, very low interest rates and a very active housing market continued to stimulate turnover in our portfolio, with both new mortgage business and payout activity. However, as interest rates increased over the latter half of 2022, both new mortgage business and payout activity decreased. Over the initial quarter of the 2023 fiscal year, we experienced lower volumes with $2.0 million in new mortgages funded (10 loans) and $2.5 million in payouts (12 loans).

Over the course of 2022, we maintained our more conservative lending strategy instituted at the onset of the novel coronavirus ("**COVID-19**") pandemic in 2019. Of the 84 mortgages funded in fiscal 2022, 68 (81%) were funded with a 65% Loan To Value ("**LTV**") or less, and only six were funded at our maximum 75% LTV. Of the 16 mortgages funded with over 65% LTV, three-quarters were mortgages to complete home purchases, and all were first mortgages in urban locations. As well, in response to rising interest rates, we have increased our yield expectations with new mortgage business, averaging a yield of 10.75% per year and 53% LTV on all new mortgages funded during the period September 2022 through February 2023, up from roughly 8.00% per year and 46% LTV during the period March 2022 through 2022.

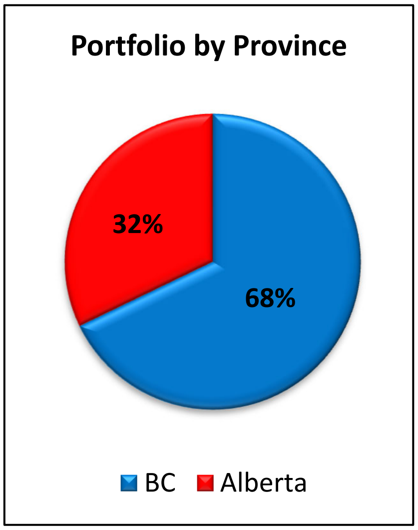
We continue to pursue all viable mortgage business as normal, but with an increased focus on maximizing yield, while still maintaining our standards for risk and security of funds. Overall, we lend up to 75% LTV on urban residential loans and up to 65% LTV on small town and rural residential loans. On non-residential properties, such as land, commercial and agricultural, our maximum loans range from 50% to 65% LTV, depending on the particulars of the loan.

*Portfolio Composition*

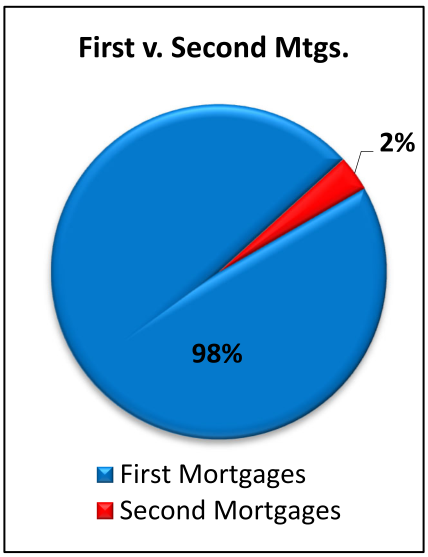
The following is a detailed analysis of the various components of our mortgage portfolio and business as at and for the financial year ended December 31, 2022.



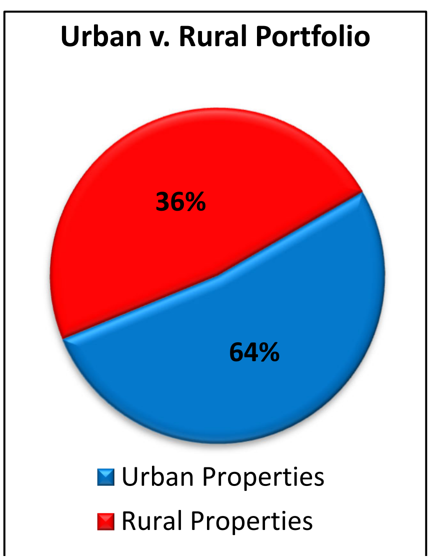

- **Residential:** $39.3 million – 165 loans.
- **Raw (bare) Land:** $2.1 million – 10 loans.
- **Farm:** $1.3 million – 4 loans.
- **Commercial:** $855,000 – 5 loans.




- **British Columbia:** $29.6 million – 121 loans.
- **Alberta:** $14.0 million – 63 loans.

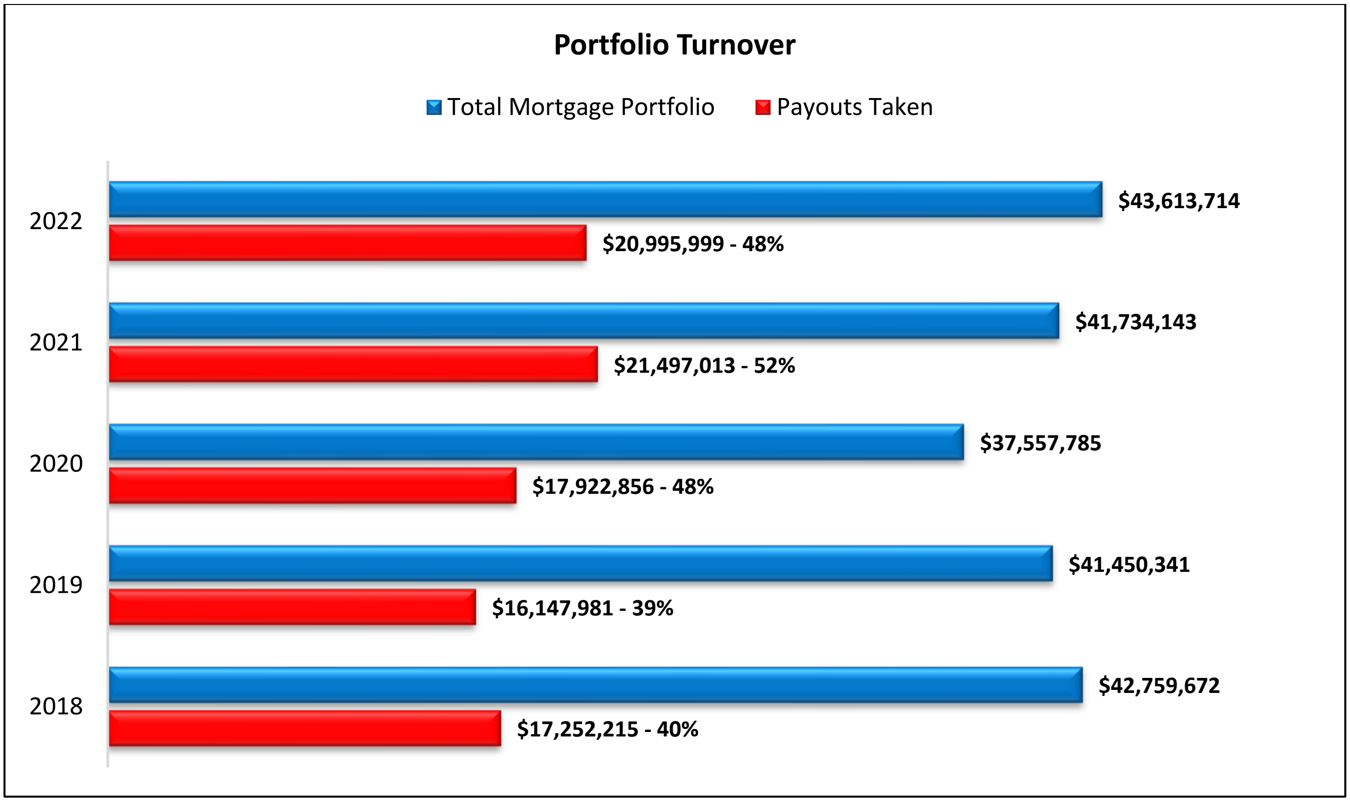



- **First Mortgages:** $42.6 million – 175 loans.
- **Second Mortgages:** $0.994 million – 9 loans.

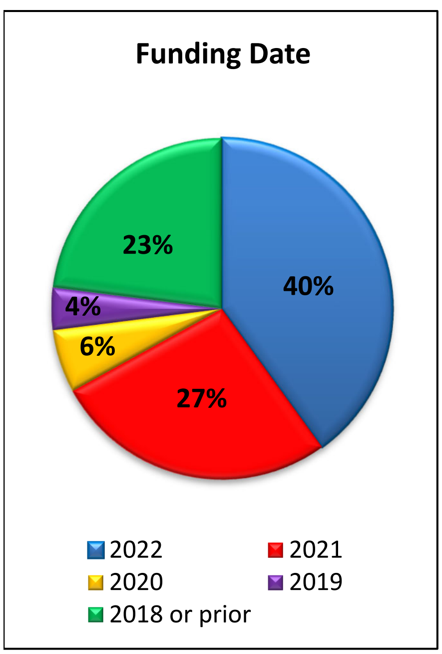



- **Urban Properties:** $27.8 million – 108 loans.
- **Rural Properties:** $15.8 million – 76 mortgages.

Urban properties are those located in, or within commuting distance to communities with a population of 10,000 or greater.

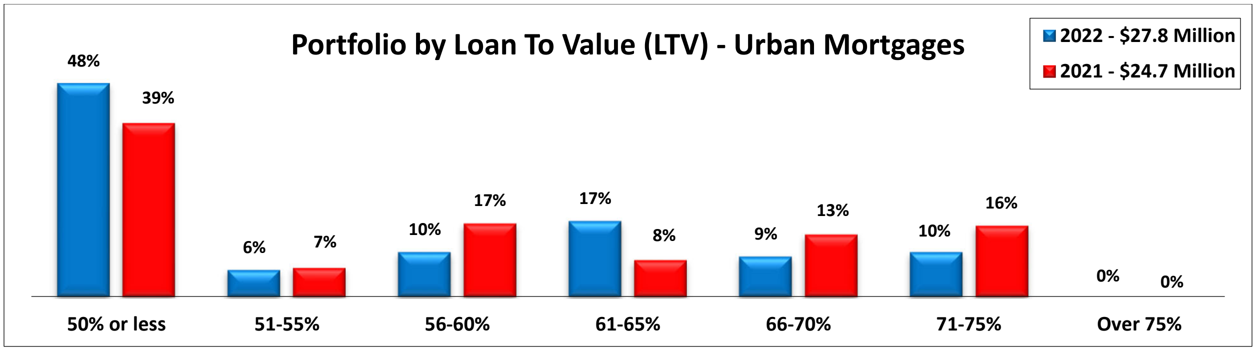


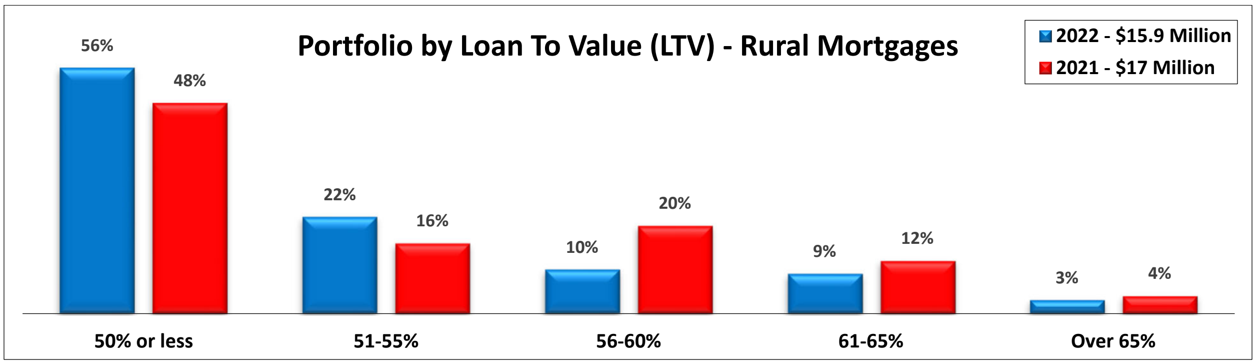

As noted above, turnover in our portfolio in fiscal 2022 was particularly high, with 48% of our mortgages (in dollars) paying out. Over the past five fiscal years, on average, 45% of our portfolio has paid out annually. Although greater turnover does present some challenges to portfolio growth, it does reflect the improving quality of our mortgage investments over the past few years as most of our borrowers are able to sell their properties or move to conventional financing in a shorter timeframe. Nevertheless, with higher pricing for bank financing, payout activity is expected to lessen.




- **As illustrated, 40% of our current mortgage investments were funded during the past fiscal year, and just over 70% over the three fiscal years.**

- Approximately 98% of all mortgages were written on a one-year term. Our maximum term is two years, and most mortgages are amortized over 30 years or less, although we will offer interest only payments on a selective basis (usually at lower loan to value ratios).



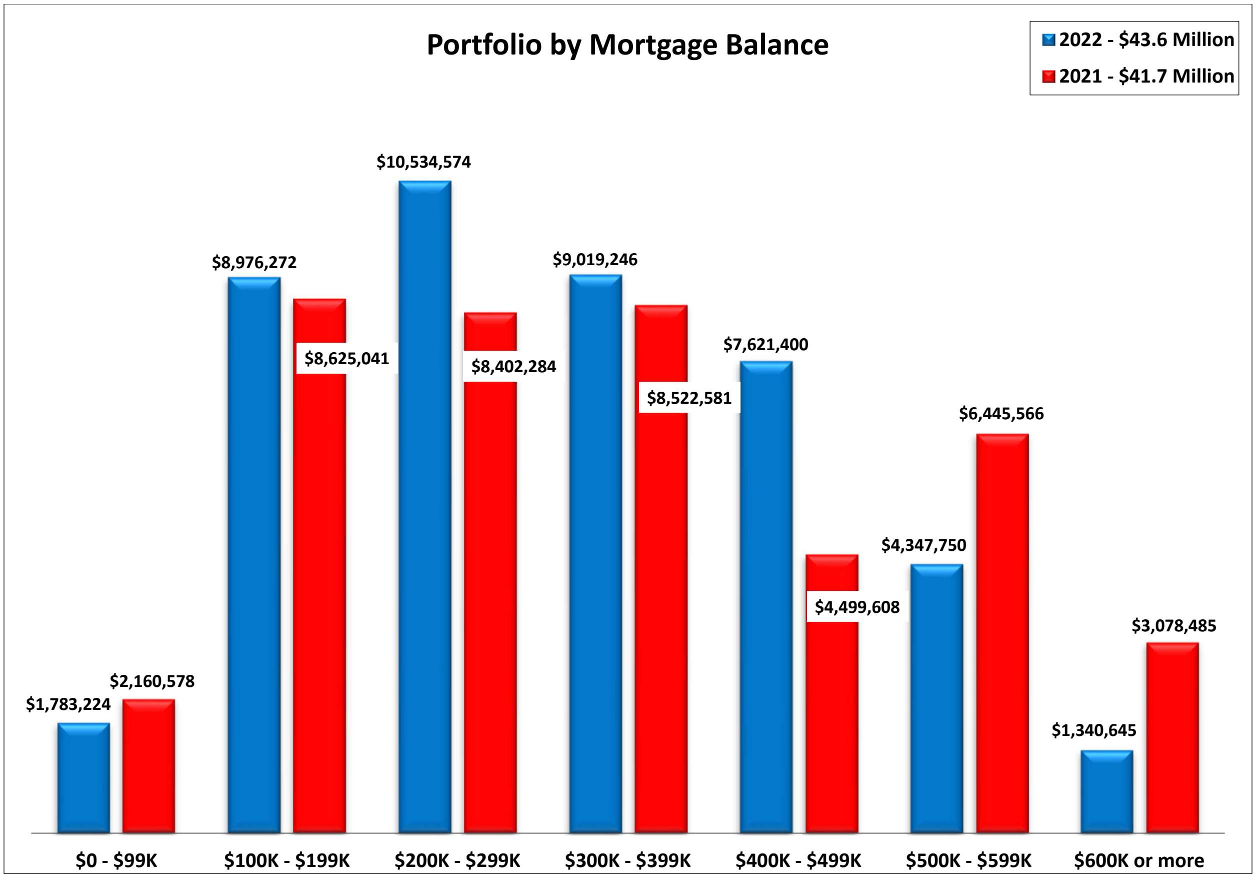

**At the end of 2022, the overall LTV ratio for our mortgage portfolio was 45%.** As illustrated above, a further break down of our mortgage investments as at December 31, 2022, based on our most recent property appraisals or market evaluations, was as follows:

- **Urban Mortgages** – 90% of our portfolio was invested at 70% or less (2021 – 84%).
- **Rural Mortgages** – 88% of our portfolio was invested at 60% or less (2021 – 84%).

Over the 2022 fiscal year, our portfolio shifted modestly to a lower overall LTV profile, especially with our urban portfolio where a larger percentage of our mortgages (81% of total) were 65% LTV or less. This trend reflected our more conservative lending focus during the COVID-19 pandemic, which we will continue considering the transitioning post-pandemic real estate market. While this provides added comfort from an equity standpoint, mortgage yields available with these more conservative investments are lower, which has influenced yield results over the past two fiscal years.

As at December 31, 2022, we held a small number of mortgages where the loan to value exceeded our usual maximums of 75% on urban properties and 65% on small town and rural properties. These mortgages fell into one of the two following categories:

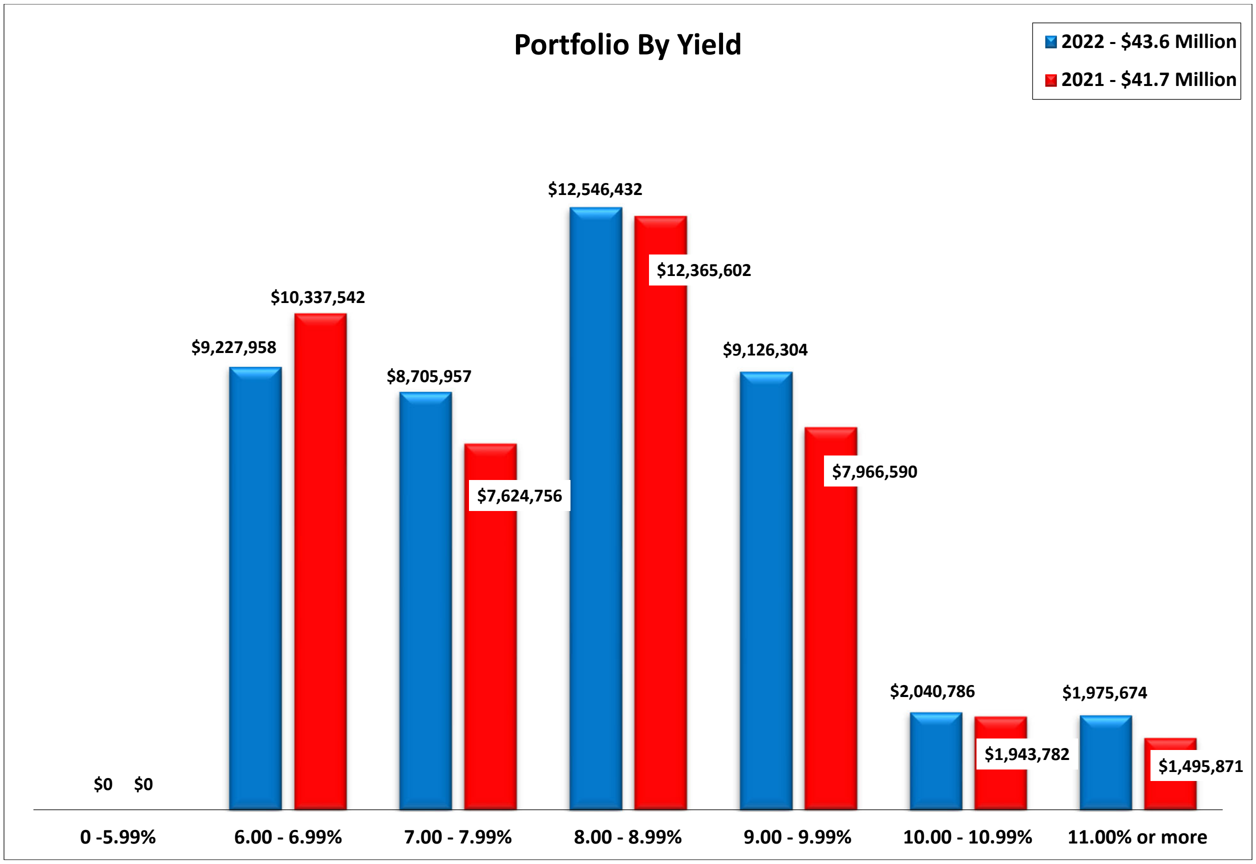
- The first consisted of mortgages under foreclosure where the LTV had increased due to updated "forced sale" appraisals usually resulting in a lower market value and a higher loan to value. As at December 31, 2022, we had no rural or urban mortgages in this category.
- The second consisted of mortgage renewals, where we capitalized lender and renewal fees upon maturity, rather than requiring the borrower to pay these costs up front (in cash), and thereby increased the LTV beyond our usual maximums of 75% and 65%. This practice allows us to retain a greater number of mortgages at maturity, and to generate additional income on renewals. As at December 31, 2022, we had two rural mortgages and no urban mortgages in this category.




Our average mortgage balance in 2022 was just over $237,000, on par with our 2021 average. As at our December 31, 2022 fiscal year-end:

- Our first mortgage portfolio had an average balance of just under $243,600 (175 loans, 47% average LTV).
- Our second mortgage portfolio had an average balance of approximately $110,400 (nine-loans, 51% average LTV).
- Of our 184 loans, 158 (85% of total) had a balance under $400,000, while only 26 were in excess of $400,000 and two greater than $600,000.
- The number of mortgages with balances over $500,000 declined to $5.7 million (all being quality first mortgages with an average LTV ratio of 54%) as at December 31, 2022 from $9.5 million as at December 31 2021.
- The largest mortgage held was just under $715,000, a first mortgage on a very good quality residential property in Vernon, BC.

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




We began our 2022 fiscal year with record low interest rates, increased competition, and significant turnover (payouts), all of which contributed to our lower overall yield profile. However, with interest rates increasing over the latter half of 2022, we have adjusted our pricing with both new and existing mortgage investments, so we are starting to see improvement which will increase substantially as we progress through 2023.

As at December 31, 2022, our urban first mortgage portfolio was generating a yield of 10.25% to just under 12.0%, with our rural first mortgage portfolio yielding from 10.75% to 12.0%. Yields on new second mortgages are usually 2.5% higher than new first mortgages.

Key points regarding our portfolio are:

- 77% of mortgages yielding 7.0% or less (approximately $5.3 million) will be maturing before the end of June 2023. Although some of these mortgages will pay out at maturity, those that renew will do so at a higher yield, with most at 9.25% or higher.

- By July 2023, just over $16.2 million of our existing mortgages (37% of our total) will also mature. Once renewed, other than a few exceptions, this entire portion of our portfolio will be yielding somewhere in the 9.25 – 11.00% range, which will further improve our overall yield.

- As virtually all our mortgages are written on one-year terms, this process will take the next year or so to fully review and reprice all existing mortgages within our portfolio.

Actual pricing continues to be based on property type, location, purpose of funds, required LTV ratio, and competitive influences. These factors are always considered with each mortgage loan to ensure we are best positioned to be competitive within the current marketplace, while maintaining our criteria relative to pricing, risk, and security of funds.

*Mortgage Portfolio*

As at the date of this Offering Memorandum, our mortgages held are as follows:

| | | | |
|---|---|---|---|
| **Total Mortgage Receivables** | | **$ 43,021,227** | |
| Loan Loss Reserves | | $ 539,006 | |
| Location of Mortgages | British Columbia | 119 | 65.7% of total |
| | | $ 29,370,754 | 68.3% of total |
| | Alberta | 62 | 34.2% of total |
| | | $ 13,650,473 | 31.7% of total |
| | Total | 181 | |
| First Mortgages | Number | 173 | 95.6% of total |
| | Principal Amount | $ 42,125,771 | 97.9% of total |
| | Average Loan To Value (principal weighted) | 50.8% | |
| | Average Interest Rate (principal weighted) | 7.8% | |
| | Average Term (principal weighted) | 12.5 | |
| Second Mortgages | Number | 8 | 4.4% of total |
| | Principal Amount | $ 895,456 | 2.1% of total |
| | Average Loan To Value (principal weighted) | 48.2% | |
| | Average Interest Rate (principal weighted) | 9.2% | |
| | Average Term (principal weighted) | 12.7 | |
| Type of Property | Residential | $ 38,784,622 | 90.1% of total |
| | Agricultural / Farm | $ 1,297,875 | 3.0% of total |
| | Bare Land | $ 2,086,153 | 4.8% of total |
| | Commercial | $ 852,577 | 2.0% of total |

Of our mortgages held as at the date of this Offering Memorandum, none comprised 10% or more of the total principal amount of all our mortgages.

The average credit score of our borrowers, weighted by the principal amount of their mortgages is 676. A credit score represents how likely one of the two Canadian credit bureaus thinks someone is to pay their bills on time. The score can range from 300 to 900 with a credit score of more than 760 considered to be excellent and less than 560 considered to be bad.

*Delinquencies and Foreclosures*

Once we determine that a loss of principal or interest owing upon liquidation is likely, we stop collecting interest on these mortgages and begin foreclosure proceedings. Once the foreclosure property is sold, we aim to collect all principal and interest owing to us, with the goal of not remaining in a loss position once all sale proceeds are collected.

Over the past two fiscal years, our delinquency and foreclosure levels have been stable and minimal with only three foreclosures in progress at the fiscal 2022 year-end.

During the 2022 fiscal year, we incurred losses of just under $14,000 (2021 – $82,000) consisting mostly of non-recoverable legal and collection costs, of which approximately $6,500 (2021 – $54,500) were offset by recoveries from existing loan loss reserves of $545,000 (2021 – $600,000). As a result, our net write-offs did not have a significant impact on net profitability or our rate of return for 2022.

As at the date of this Offering Memorandum, of our mortgage portfolio of 181 mortgages with principal amount totalling $43,021,227, there were:

- no mortgages with payments more than 90 days overdue;
- no mortgages which have an impaired value. Mortgages become "impaired" when the underlying security is considered to be of insufficient value to cover all costs including, principal, interest, penalty and estimated costs of realization;
- no mortgages which are not impaired or in default, but for which we have made material accommodations to respond to financial difficulties of the borrower; and
- four mortgages with principal amount totalling $779,794 (1.8% of the total principal amount of all of our mortgages) which are in foreclosure and which have underlying security value totalling $1,458,500 and an average LTV Ratio of 57%.

For our 2023 fiscal year, we will be retaining our remaining loss reserves of approximately $539,000 to address any future write-offs we may incur. As is our usual practice we will, along with our auditors and in compliance with appropriate audit parameters, reassess this allowance at the end of our 2023 fiscal year and adjust our reserves as deemed appropriate at that time.

*Shareholder Capital*

As at December 31, 2022, we had 106 (2021 – 108) Shareholders with approximately $33.6 million (2021 – $37.6 million) invested in our Shares. Of these funds, $9.7 million (48 investors) were held in registered investments (RRSP, RRIF and TFSA) and $23.9 million (58 investors) in non-registered investments (personal and corporate).

For our 2022 fiscal year, we accepted $2.8 million in new share capital, including reinvested dividends from our 2021 fiscal year. Over the same period, we completed $7.3 million in redemptions, however, most of this activity applied to two family groups addressing necessary financial and estate planning matters. Both groups remain two of our largest shareholder groups.

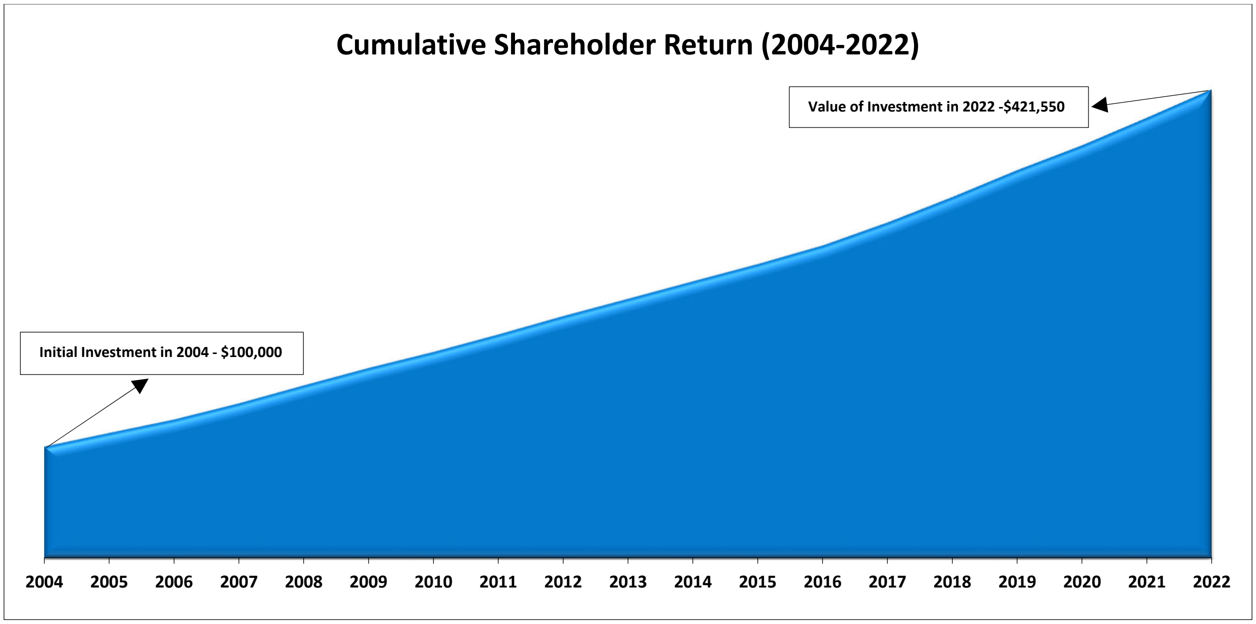
*Portfolio Performance*

The average annual rate of return which our shareholders receive on their investments is determined annually by our auditor as at our December 31st financial year end. The effective annual yield on adjusted share capital for our shareholders for the past 10 financial years is set out in the following table.

| 2022 | 2021 | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 | 2013 |
|---|---|---|---|---|---|---|---|---|---|
| 6.43% | 6.71% | 6.36% | 7.39% | 7.62% | 7.54% | 7.41% | 6.29% | 6.28% | 6.70% |

All of our cash distributions for the 10 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.

Since inception, we have provided a positive, consistent return every year. As illustrated below, a $100,000 investment made at our inception in 2004 would have increased over four times the original amount invested as of our 2022 fiscal year end. This example assumes all dividends were reinvested annually and does not take into consideration any tax implications that would apply to an individual investment.




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

*Bank Line of Credit*

Notwithstanding the costs associated with maintaining a bank line of credit, having access to lower cost, borrowed funds as needed not only improves our profitability, but also provides much more flexibility with liquidity and our cash-flow management, including determining when taking on additional share capital is appropriate. Business volumes and the availability of additional investment from Shareholders varies on an on-going basis, sometimes quite substantially, so this flexibility is vital to our business activities. The use of leverage in this manner will continue to be a key business plan component for us going forward, and if volumes permit, we will look to increase our borrowing capacity in a responsible and prudent manner.

During our 2022 fiscal year, we utilized our bank line of credit to a much greater degree than in 2021, with average monthly borrowings of just over $7.0 million. However, our use of leverage did vary substantially, from $1.2 million in January 2022, up to a high of $10.1 million in September 2022, and down to $7.8 million at the end of our 2022 fiscal year. These variances illustrate the fluctuations that any mortgage portfolio can encounter in the normal course of business, particularly during the past couple of years. These circumstances further demonstrate the benefit of using a bank credit line versus taking in additional share investments to address our shifting capital requirements, which can be temporary in nature and better serviced by such a credit facility on an as needed basis.

While working to increase our use of leverage has been an on-going component in our business plan, rising borrowing costs over the latter half of 2022 has diminished much of the benefit we obtain from using our credit line in the short term. We hope that, over 2023, this will be alleviated by the higher yields generated on new mortgage investments, and through the renewal process as we reprice existing mortgages up (or closer) to market yields.

To further assist in this process, we will begin exchanging $4 million of our borrowings for short term Banker's Acceptance Notes ("**BA notes**") which evidence indebtedness, like promissory notes, and are issued and sold by TD Bank through the financial markets to third parties, in respect of funds borrowed by us. By utilizing these short term (30 day) notes, we intend to secure a slightly lower cost of borrowing, roughly 0.25% below our bank prescribed interest rate, on these funds. Using BA notes, we believe our interest costs will be reduced by roughly $10,000 per year.

*Real Estate Markets*

The market statistics for residential properties in our primary markets for 2021, 2022 and the first four months of 2023 are set out below:

| Location | Average Price | | | Number of Sales | | |
|---|---|---|---|---|---|---|
| | 2021 | 2022 | 2023 (4 months) | 2021 | 2022 | 2023 (4 months) |
| **British Columbia** | | | | | | |
| Okanagan & Interior | $ 701,933 | $ 788,968 | $ 737,648 | 14,176 | 9,498 | 2,403 |
| Greater Vancouver | $ 1,188,693 | $ 1,272,096 | $ 1,253,990 | 44,884 | 29,261 | 8,130 |
| **Total British Columbia** | **$ 927,877** | **$ 996,878** | **$ 954,984** | **124,854** | **80,874** | **22,417** |
| **Alberta** | | | | | | |
| Calgary | $ 451,567 | $ 516,865 | $ 530,111 | 27,686 | 29,672 | 8,054 |
| Edmonton | $ 381,868 | $ 394,057 | $ 365,370 | 24,652 | 17,303 | 4,352 |
| **Total Alberta** | **$ 428,171** | **$ 447,454** | **$ 443,552** | **84,481** | **84,050** | **21,575** |

As detailed above, all our primary markets recorded increases in average market values in 2022, although sale numbers in British Columbia declined considerably. For the first four months of 2023, both values and sale numbers have corrected further, although these results are somewhat skewed as property values and sale totals in 2021 were at close to record levels, and ultimately peaked during the first part of 2022.

The latest statistics indicate the national real estate market has begun to moderate in 2023 and show some improvement in listing to sale ratios, with fewer new listings and property values starting to level off. As a result, many industry analysts are now speculating the national real estate market may become much more active into the summer months. As well, the modest decline in long-term bank mortgage rates and the Bank of Canada’s pause on further interest rate hikes may stimulate more potential buyers that have been holding off to enter the real estate market.

The significant variances experienced over 2021 and 2022 reflect the disruption caused by the COVID-19 pandemic, resulting in record low interest rates and a surging real estate market. With higher interest rates and transitioning economic conditions over 2022 and into 2023, the national real estate market has cooled as illustrated above. However, if one takes a longer view of market activity, and compare these most recent statistics to the pre-pandemic real estate market (2019), current property values remain well above 2019 results. This is a positive as while the last two years have been extraordinary, the long-term trend of improving property values and real estate sales activity continues to prevail.

With respect to our lending activities, we continue our disciplined underwriting approach and consider all viable mortgage applications in both British Columbia and Alberta, although we remain more selective with higher loan to value mortgages (except for purchases). We continue to monitor real estate market activity closely and, as needed, we adjust our business activities and lending practices to best address prevailing real estate market conditions.

*Business Conditions*

In April 2020, the Bank of Canada (“**BoC**”) benchmark rate reached a record low of 0.25% to counter the economic impact of the COVID-19 pandemic. Since March 2022, the BoC has been very aggressive with interest rate hikes to counter rising inflation, starting with an increase in the rate to 0.50% in March 2022 and finally, after multiple rate increases, reaching 4.5% in January 2023 at which time the BoC stated it would not impose any further rate increases pending how both inflationary and economic indicators reacted. Thus far, monthly inflation results have declined consistently on a month over month basis, supporting the BoC's current stance to hold firm on interest rates.

In step with the BoC rate announcements, the prime rate of major banks has also increased to 6.70%. These increases have impacted consumer borrowing activities, in particular credit lines and variable rate mortgages. Fixed bank mortgage rates, although not directly tied to changes in the bank prime rate, have also increased steadily.

As a result, all of our competitors have increased their pricing, in varying degrees, to reflect these recent trends. We have increased our pricing incrementally, and at present, our required yields on new, urban residential first mortgage business now range from roughly 10.25% (50% LTV or less) to just under 12.0% (at 75% LTV), with additional premiums applying to small town and rural first mortgages and all second mortgages wherever located. Also, it is important to note that most of our underwriting continues to be focused on first mortgages funded at 65% LTV or less, with selective lending up to 70% LTV. At present, we are limiting our lending up to 75% LTV (excluding purchases) until we have greater comfort the market has adequately stabilized.

With respect to our existing mortgage portfolio, there remains an unavoidable lag between our ability to reprice these mortgages and the pace at which interest rates have increased since March 2022. As pricing on existing mortgages can only be adjusted annually, at the time of renewal, it will take a year or longer before a mortgage can be repriced at (or closer to) market yields. Increasing interest rates on existing mortgages will result in higher monthly payments for our borrowers, so our efforts will be measured to ensure we increase yield as much as we can without creating, or at a minimum limiting, additional delinquency within our portfolio.

*Competition*
With less overall volume and slower real estate activity, we and most of our competitors have become more aggressive in pursuing more risk adverse, lower LTV residential first mortgages. As a result, while there is less pressure relative to pricing, competition for better quality, risk appropriate business remains high, so maintaining funding volumes has been more challenging in the short term. Nevertheless, payout activity with our existing mortgages has also tapered off, so we anticipate our retention of these existing accounts at maturity will increase, which should mitigate any decline in new business volumes we encounter. However, with higher interest rates and more stringent bank qualification requirements remaining in place, it is possible we could see an influx of new business opportunities over time as more borrowers that would normally qualify for bank and other conventional financing no longer qualify and seek out private mortgage options to secure required funding.

### 2.4 Long Term Objectives

Our long term objectives are to:

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

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

There cannot be any assurance, however, that we will meet either objective. See Item 10 "Risk Factors".

### 2.5 Short Term Objectives

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

| Actions to be taken | Target completion date or, if not known, number of months to complete | Our cost to complete | |
|---|---|---|---|
| | | Minimum Offering | Maximum Offering |
| Carry out offering as described in this Offering Memorandum*. | Next 12 months | 0 | 0 |
| Invest the capital raised in the offering and available under our credit facility by making loans in accordance with our ongoing lending program and business plan and as market circumstances permit. | Next 12 months | $ 7,240,422 | $ 17,240,422 |

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

### 2.6 Insufficient Funds

The funds available from the offering may not be sufficient to accomplish all of our proposed objectives and, if so, we will continue to use our credit facility, existing capital and cash flows to carry on our current business. See Item 2.2 "Our Business – Credit Facility" for details of our alternative financing.

### 2.7 Material Contracts

The following summarizes the material contracts to which we are currently a party:

1. Management Agreement dated December 31, 2003 and amended January 1, 2005, March 27, 2013 and April 14, 2016 with our Manager. See Item 2.2 "Our Business – Our Manager";
2. Demand Operating Facility Agreement dated October 11, 2017, as amended April 20, 2018 and May 19, 2022, and General Security Agreement dated February 7, 2013 with The Toronto-Dominion Bank. See Item 2.2 "Our Business – Credit Facility"; and
3. Service Agreement dated July 9, 2019 with our selling agent and Manager. See Item 7 "Compensation Paid to Sellers and Finders".

## Item 3. COMPENSATION AND SECURITY HOLDINGS OF CERTAIN PARTIES

### 3.1 Compensation and Securities Held

The following table discloses the compensation paid to, and securities held or controlled by, each of our directors, officers and promoters, each person who has beneficial ownership of or direct or indirect control over (or a combination thereof) 10% or more of any class of our voting securities and each related party other than the foregoing that received compensation in our most recently completed financial year or who we expect to receive compensation in our current financial year.

| Full Legal Name & Place of Residence | Positions Held & Date Appointed | Compensation Paid & Payable [1] Last Fiscal Year (Current Fiscal Year) | Number, type and percentage of our Securities held [2] after completion of | |
|---|---|---|---|---|
| | | | Minimum Offering | Maximum Offering [3] |
| Giovanni (John) Mercuri [4]<br>Kelowna, BC | President (March 2013)<br>Director (October 2012) | $ 0<br>($ 0) | 3,412,869 Shares [5]<br>(9.86%) | 3,412,869 Shares [5]<br>(7.65%) |
| Elia Franca Mercuri [4]<br>Kelowna, BC | Sec'y-Treas. (March 2014)<br>Director (March 2021) | $ 0<br>($ 0) | 3,412,869 Shares [5]<br>(9.86%) | 3,412,869 Shares [5]<br>(7.65%) |

1. Our directors and officers do not receive any direct compensation from us and are remunerated by our Manager. See Item 2.2 “Our Business – Our Manager” for details of the remuneration of our Manager.
2. Shares beneficially held, directly or indirectly, or over which control or direction is exercised, by each person. Amounts are subject to variation depending on the Share purchases and repurchases during the term of the offering.
3. Assuming the offering is fully sold and the person does not purchase any Shares under the offering.
4. Member of the Credit Committee.
5. These 3,412,869 Shares are owned by Mercuri Holdings Ltd., a private company equally owned by John and Franca Mercuri.

### 3.2 Management Experience

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

| Full Legal Name | Principal occupations and description of experience related to occupation |
|---|---|
| Giovanni (John) Mercuri | President of Classic Mortgage Corporation since March 2013 and director since October 2012.<br>President and director of the Manager since its acquisition in October 2012.<br><br>Mr. Mercuri oversees and directs all business activities for both Classic and the Manager.<br><br>Mr. Mercuri also controls and directs the activities of Premiere Home Mortgage Ltd. (d.b.a. Premiere Mortgage), a mortgage brokerage which administers Premiere MIC. Mr. Mercuri acts as President (since December 2011) and director (since February 2007) for both companies. Mr. Mercuri was previously Vice President of Premiere MIC from February 2005 to 2011.<br><br>Mr. Mercuri has been a licensed mortgage broker in British Columba since 2000 with over 30 years of experience with alternate mortgage and loan lending and administration. He previously held several management positions with Beneficial Canada Inc., a major consumer finance company specializing in secondary mortgage financing. |
| Elia Franca Mercuri | Extensive experience in MIC management and administration through her involvement with Classic Mortgage Corporation and Premiere MIC.<br><br>Secretary-Treasurer of Classic Mortgage Corporation since March 2014, and director since March 2021, she oversees all administrative, accounting and banking activities for both Classic and our Manager. Ms. Mercuri also acts as Controller and Corporate Secretary (since May 2011) and director (since May 2021) of Premiere MIC.<br><br>Licensed mortgage broker in British Columbia since 2004.<br><br>Ms. Mercuri previously spent 15 years with the Bank of Montreal holding both lending and investment administrative positions through British Columbia. |

### 3.3 Penalties, Sanctions, Bankruptcy, Insolvency and Criminal or Quasi-Criminal Matters

None of our directors or executive officers or issuers of which they were a director, executive officer or control person (a shareholder that controls, individually or with others, more than 20% of the voting shares of an issuer) at the time, has been any time during the last 10 years:

(a) subject to any penalty or other sanction imposed by a court or regulatory body relating to a contravention of securities legislation;

(b) subject to any order restricting trading in securities for 30 or more consecutive days; or

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

Neither we nor any of our directors or executive officers has ever pled guilty to or been found guilty of any of the following:

(a) a summary conviction or indictable offence under the *Criminal Code* (Canada);

(b) a quasi-criminal offence (which includes offences under tax, immigration or money laundering legislation) in any jurisdiction of Canada or a foreign jurisdiction;

(c) a misdemeanour or felony under the criminal legislation of the United States of America, or any state or territory of the United States of America;

(d) an offence under the criminal legislation of any other foreign jurisdiction.

### 3.4 Certain Loans

We are not indebted to any of our directors, officers, promoters, or other related parties, nor are any of them indebted to us, for any loans, debentures, or bonds.

## Item 4. CAPITAL STRUCTURE

### 4.1 Securities Except for Debt Securities

Our share capital is set out in the following table:

| Description of Security * | Number authorized to be issued | Price per Security | Number outstanding | | |
|---|---|---|---|---|---|
| | | | as at the date of this Offering Memorandum | after Minimum Offering | after Maximum Offering |
| Voting Common Shares | 60,000,000 | $1.00 | 34,602,614 | 34,602,614 | 44,602,614 |

*There are not any issued or outstanding options, warrants or other securities convertible into Shares. The Shares are voting, participate (in profits and capital gains), and may be repurchased. See Item 5.1 “Terms of Securities” for details.

### 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 * | Interest Rate (annual) | Repayment Terms | Amount Outstanding as at the date of this Offering Memorandum |
|---|---|---|---|
| **Current** | | | |
| Demand Loan | Prime + 0.85% | Interest payable monthly & Principal repayable on demand | $ 7,759,577 |
| Banker’s Acceptances | N/A | Repayable in 30 days | $ 0 |
| **Long Term** | | | |
| Term Loans | N/A | – | $ 0 |

*All loans are secured as described in Item 2.2 “Our Business – Credit Facility” and are not convertible into Shares.

### 4.3 Prior Sales

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

| Date of Issuance | Type of Security Issued | Number of Securities Issued | Price per Security | Total funds Received |
|---|---|---|---|---|
| May 2022 | Voting Common Shares | 0 | $1.00 | $ 0 |
| June 2022 | Voting Common Shares | 0 | $1.00 | $ 0 |
| July 2022 | Voting Common Shares | 0 | $1.00 | $ 0 |
| August 2022 | Voting Common Shares | 425,922 | $1.00 | $ 425,922 |
| September 2022 | Voting Common Shares | 278,878 | $1.00 | $ 278,878 |
| October 2022 | Voting Common Shares | 0 | $1.00 | $ 0 |
| November 2022 | Voting Common Shares | 595,000 | $1.00 | $ 595,000 |
| December 2022 | Voting Common Shares | 49,333 | $1.00 | $ 49,333 |
| January 2023 | Voting Common Shares | 106,500 | $1.00 | $ 106,500 |
| February 2023 | Voting Common Shares | 30,000 | $1.00 | $ 30,000 |
| March 2023 | Voting Common Shares | 0 | $1.00 | $ 0 |
| April 2023 | Voting Common Shares | 0 | $1.00 | $ 0 |
| **Totals** | **-** | **1,485,633** | **$1.00** | **$ 1,485,633** |

## Item 5. SECURITIES OFFERED

By this Offering Memorandum, we are offering our Shares for sale on a private placement basis to qualified investors ("**Subscribers**") in British Columbia, Alberta, Saskatchewan, Manitoba and Ontario on a best efforts basis by our selling agent, Fairmont Asset Management Inc., and registered securities and exempt market dealers (if any).

### 5.1 Terms of Securities

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

*Voting Rights*

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

*Distribution of Profits*

Each Shareholder is entitled to their respective share of all of our profits in each financial year in proportion to the number of Shares held on our financial year ended December 31st. When subscribing for Shares, you may elect in your Subscription Agreement whether you wish to receive your annual distributions in cash or to reinvest it in additional Shares. You may change your election by written notice to us. Notwithstanding such election, we may determine that such payment be paid only in cash if such form of payment is in the best interests of our business and our shareholders as a group.

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

*Restrictions on Ownership*

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

*Repurchase (Redemption and Retraction) Rights*

We may, at any time and for any reason deemed good and reasonable by our directors, repurchase any or all of our Shares held by one or more Shareholders (but not all of our Shares held by all Shareholders) without notice to such Shareholders and will pay the repurchase amount within two months thereof. Conversely, Shareholders may, by giving written notice to us on or before December 31st of each year, request that we repurchase all or any part of the Shares held by them and, on February 28th of the year following, we will repurchase the number of Shares specified in the notice subject to certain restrictions set forth in the *Business Corporation Act* (British Columbia) respecting our solvency. The repurchase price for each Share will be our per Share net worth (where net worth is the difference between the fair market value of our assets and our liabilities) which is generally $1.00. Thus, if a Shareholder provides proper notice respecting the repurchase of their 100 Shares, that Shareholder will receive a cheque from us for $100 on or about the next February 28th. We may waive the requirement that the notice of repurchase be provided by instrument in writing.

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

The current policy of our directors is to accept repurchase requests from Shareholders on a monthly basis and to repurchase Shares in the month following the request. However, the deadline for submitting repurchase requests in any given year is December 31st and the directors may resolve, at any time up to December 31st in any year, to decline to repurchase Shares in order to determine whether the total Shares requested for repurchase exceed 10% of the Shares at that date. In the event of such a resolution, the repurchases will be made on February 28th of the year following. If more than 10% of the Shares outstanding are requested for repurchase, the directors may make such repurchases to a maximum of 10% *pro rata* among those submitting written requisitions for repurchase. Any Shares not repurchased pursuant to a repurchase request before February 28th in the second year following the year in which the request is received will be repurchased the following year in priority to Shares requested for repurchase in that following year, and so on from year to year, as necessary.

*Entitlement on Liquidation, Dissolution or Winding Up*

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

*Restrictions on Transferability*

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

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

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

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

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

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

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

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

Part 22 of our Articles also contains certain restrictions on sale of any Shares by Shareholders. These restrictions apply unless the offering Shareholder obtains the consent of the Shareholders of at least two-thirds of the issued Shares. The restrictions require any Shareholder wishing to sell their Shares to give notice to us, and in turn must offer such Shares to all other Shareholders for a period of 60 days. If, after such period, acceptances from existing Shareholders are not sufficient to take up all Shares offered, the offering Shareholder may offer to sell the Shares to third parties for a period of 90 days at the same price, provided they are able to rely on an exemption from the prospectus and registration requirements and otherwise comply with resale restrictions imposed by the *Securities Act* and the Rules thereunder (see Item 12 "Resale Restrictions").

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

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

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

*Conversion Rights*

The Shares are not convertible into any other form of share or security.

### 5.2 Subscription Procedure

You may subscribe for Shares by delivering to our selling agent, Fairmont Asset Management Inc. at 100 – 586 Leon Avenue, Kelowna, British Columbia V1Y 6J6:

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

(b) a cheque, certified cheque or bank draft in the amount of your investment payable to our lawyers, "Bailey Morrison Murray LLP, In Trust". For share subscriptions made by Registered Plans, the funds must be transferred from your Registered Plan by your trustee.

Our lawyers will hold your subscription funds in trust until after the second business day after the day on which we received your signed subscription agreement. Your subscription will be subject to our selling agent confirming the suitability of the investment for you.

**If you are resident in Alberta, Saskatchewan or Ontario,** your subscription, together with all your other subscriptions in the preceding 12 months pursuant to offerings carried out by offering memoranda, is limited to an aggregate of:

- $10,000 if you are not an "eligible investor" (as that term is used in Schedules 1 and 2 of Schedule I of the Subscription Agreement);
- $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.

The foregoing restrictions may not apply if 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 you may be required to provide further documentation to confirm your status to invest.

**If you are resident in Manitoba,** your subscription cannot exceed $10,000 unless you are an "eligible investor" (as that term is used in Schedules 1 and 2 of Schedule I of the Subscription Agreement).

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

Once the subscription price has been paid in full and a subscription for Shares has been accepted, we will issue the Shares and provide confirmation thereof to you. No share certificates will be delivered unless you subscribe for your Shares through a registered plan, such as a Registered Retirement Savings Plan (RRSP) or a Tax Free Savings Account (TFSA), in which case the original share certificates are sent to the financial institution administering your registered plan.

Any "OM marketing materials" (as that term is defined in National Instrument 45-106 *Prospectus Exemptions* of the Canadian Securities Administrators and generally being a written communication other than a term sheet intended for prospective Subscribers under this Offering Memorandum that contains material facts relating to us, our Shares and the offering) related to each distribution under this Offering Memorandum and delivered or made reasonably available to a prospective Subscriber before the termination of the distribution is, and is deemed to be, incorporated by reference into this Offering Memorandum. Notwithstanding the foregoing, OM marketing materials incorporated by reference as described above are no longer incorporated by reference, and no longer form part of this Offering Memorandum, to the extent to which such materials have been superseded by a statement or statements contained in (i) an amendment to the Offering Memorandum, or an amended and restated Offering

Memorandum, or (ii) subsequent OM marketing materials delivered to or made reasonably available to a prospective Subscriber.

## Item 6. REPURCHASE REQUESTS

During our last two financial years and subsequent period to the date of this Offering Memorandum, we repurchased the following Shares at a price of $1.00 per Share using our net income or funds from our credit facility (and not any subscription funds):

| Financial Year ended December 31, | Number of Shares | | | |
|---|---|---|---|---|
| | subject to Repurchase Requests Outstanding as at January 1st | requested to be Repurchased during Financial Year / Period | repurchased during Financial Year / Period | subject to Repurchase Requests Outstanding as at December 31st |
| 2021 | 0 | 3,201,034 | 3,201,034 | 0 |
| 2022 | 0 | 7,441,332 | 7,441,332 | 0 |
| 2023* | 0 | 513,461 | 513,461 | 0 |

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

## Item 7. CERTAIN DIVIDENDS OR DISTRIBUTIONS

We have not, during our last two financial years, or any subsequent interim period, paid dividends or distributions that exceeded our cash flow from operations.

## Item 8. INCOME TAX CONSEQUENCES AND RRSP ELIGIBILITY

### 8.1 Caution

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

### 8.2 Income Tax Consequences

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

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

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

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

***Tax Payable by Us***

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

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

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

***Tax Payable by Subscribers***

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

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

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

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

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

### 8.3 Eligibility for Registered Investments

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

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

## Item 9. COMPENSATION PAID TO SELLERS AND FINDERS

Fairmont Asset Management Inc. ("**Fairmont**"), an exempt market dealer since February 14, 2020, has been authorized by a Service Agreement dated July 9, 2019 to sell our Shares in British Columbia, Alberta, Saskatchewan, Manitoba and Ontario. Fairmont did not require, suggest or consent to the offering of our Shares nor did it have any involvement in our decisions to offer our Shares for sale or respecting the terms of the offering.

We do not pay Fairmont anything for its exempt market services. Instead, our Manager pays it a monthly fee of $3,000 for such services and another related company, Premiere Mortgage, which manages Premiere MIC, pays it a monthly fee of $6,000 for providing similar exempt market dealer services to Premiere MIC. The offering of our Shares will not have any effect on Fairmont and no proceeds from the offering will be applied, directly or indirectly, for Fairmont's benefit other than to the extent of Fairmont's monthly fee.

Our President, Giovanni (John) Mercuri, is also Fairmont's President and he and our Secretary-Treasurer, Franca Mercuri (his wife), are both our and Fairmont's two directors. Fairmont is wholly owned by Holdings which, in turn, is wholly owned by John Mercuri and Franca Mercuri. As a result, we are a "connected issuer" of Fairmont under Canadian securities laws. Holdings also owns our Manager and Premiere Mortgage. Premiere MIC's President is also John Mercuri and its Controller and Secretary is Franca Mercuri (and they comprise Premiere MIC's board of directors).

Although we don't currently intend to, we may 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 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 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. If you purchase Shares with the assistance of a dealer, you may be requested by the dealer to pay a commission in addition to the subscription price.

## Item 10. 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's investment manager.

As a result, when you buy shares of a MIC you are indirectly buying these underlying mortgages. The value of your investment is determined by the performance of these underlying mortgages so you and the other 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 repurchase your shares) in order to take your money out of the MIC. When you sell you shares back to the MIC, the value of your original investment may have increased or decreased.

**How risk is related to return**

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

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

**What are the risks of investing in MICs?**

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

(a) **Investment Risk**

- The subscription price for Shares has been arbitrarily selected by our directors as the same price as that at which Shares have been sold in the past.
- While you can require us to repurchase your Shares, you may never be able to sell your Shares and recover any part of your investment from a third party since no market for Shares exists or will exist after the offering.
- We have the right pursuant to our Articles to limit repurchases of Shares to 10% of the Shares outstanding in each year. Repurchases are also subject to restrictions pursuant to the *Business Corporations Act* (British Columbia). Accordingly, Shareholders have no assurance of their ability to repurchase any or all of their Shares and receive the repurchase amount in any given year (see Item 5.1 "Repurchase (Redemption and Retraction) Rights").
- An investment in the Shares is high risk. You should buy them only if you are able to bear the risk of the entire loss of your investment and have no immediate need for liquidity in your investment. An investment in the Shares should not constitute a major portion of your portfolio.
- We are not a member institution of the Canada Deposit Insurance Corporation ("**CDIC**") and the Shares are not insured against loss through CDIC.

(b) **Issuer Risk**

- When assessing the risks and rewards of an investment in Shares, you are relying on our Manager to make appropriate decisions with respect to the management of our business. You will not have any right to take part in our management and we may be bound by the decisions of our Manager.
- If our Manager makes any improper distributions of dividends (distributions of our net income and taxable capital gains), you might be deemed to be holding such distributions in trust for creditors who could recover the amount of such distributions from you. You should also know that if we default on secured indebtedness, the lender will be entitled to exercise available legal and equitable remedies against us which could result in the loss of our property secured by such creditors.
- Under the Management Agreement, our Manager has agreed to ensure that our operations are conducted so as to retain our qualification as a MIC under the Tax Act. If for any reason we fail to maintain our qualification as a MIC under the Tax Act, the dividends (distributions of our net income

and taxable capital gains) paid by us on the Shares offered will cease to be deductible from our income. See Item 8 “Income Tax Consequences and RRSP Eligibility”.

- We and our Shareholders are dependent in large part upon the experience, expertise and good faith of our Manager. Our Manager is not restricted from acting in a similar capacity for other MICs and those MICs may have different investment policies to ours. Our Manager is contractually obligated pursuant to the terms of the Management Agreement to manage our affairs in a proper, prudent and adequate fashion. Our Manager regularly engages in mortgage brokering activities on behalf of financial institutions and borrowers.
- There are certain risks inherent in mortgage lending over which neither us nor our Manager has any control. These risks include abnormal fluctuations in interest rates, the general state of the economy, concentration of mortgages on properties which are in one geographic location and falling real estate values.
- There are potential conflicts of interest to which our directors and officers may be subject in connection with our operations. These conflicts arise primarily out of the contractual relationship between us and our Manager, which is obligated to manage us to a certain standard (see Item 2.2 “Our Business – Our Manager”). In addition, a conflict may occur at the time we renegotiate the terms of the Management Agreement.
- The normal gross-up and dividend tax credit rules do not apply to the annual distributions paid on our Shares. Instead, such distributions are taxed as ordinary income.
- While Shares are qualified investments for any Registered Plan, that will not be the case if we hold at any time in a calendar year, any indebtedness of a person who is a connected person under the governing plan of the trust constituting the Registered Plan. This is a matter beyond the control of our Shareholders and such Shareholders will not know whether we conducted our affairs so as to ensure that Shares will be qualified investments for the Plan. See Item 8 “Income Tax Consequences and RRSP Eligibility”.
- Although we usually obtain an evaluation of commercial properties to be subject to the mortgage, in the form of a Phase I Environmental Audit, environmental legislation and policies have become an increasingly important feature of property ownership and management in recent years. Under various laws, we could become liable for the cost of effecting remedial work necessitated by the release, deposit or presence of certain materials, including hazardous or toxic substances and wastes at or from a property, or disposed of at another location. The failure to affect remedial work may adversely affect an owner’s ability to sell real estate or to borrow using the real estate as collateral and could result in claims against the owner.
- We follow the environmental program of our Manager, which includes policies and procedures to review and monitor environmental matters associated with its properties. Our Manager’s environmental policy usually includes a Phase I Environmental Audit on commercial or industrial properties when warranted, conducted by an independent and experienced environmental consultant, before advancing a loan or acquiring a mortgage on commercial properties.
- There is a risk relating to use of a mortgaged property which is used for illegal purposes, such as growing marijuana. The value of such a building may decline substantially or totally. No insurance is available for these situations.
- While we utilize title insurance, there is still a substantial risk that losses could occur due to fraud.
- Fire insurance on the mortgaged properties may be inadequate to cover the mortgage amount or may be cancelled and unavailable in the event of a claim being made.

(c) **Industry Risk**

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

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

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

- There are certain risks inherent in mortgage lending over which neither we nor our Manager has any control. These risks include abnormal fluctuations in interest rates, the general state of the economy, concentration of mortgages on properties that are in one geographic location and falling real estate values.
- Our business is to provide loans to borrowers who may not qualify for financing from conventional lenders. Accordingly, the risk of late payment or default of these loans may be high. Our income and funds available for distribution to Shareholders would be adversely affected if a significant number of borrowers were unable to pay their obligations, or repay their indebtedness, to us. On default by a borrower, we may experience delays in enforcing its rights as lender and incur substantial costs in protecting our investment.
- It is important that we match our mortgage investments with our debt obligations. Notwithstanding our best efforts to match, our net investment income may be affected by fluctuations in interest rates and by repayment rights and policies applicable to mortgages.
- Investment funds not advanced as loans are placed in interest bearing deposits with our bank and will earn lower rates of return than mortgage loans.
- We will be competing for mortgage loans with lenders seeking mortgage loan investments similar to those desired by us. Many of these investors will have greater financial resources than us, or operate without the investment or operating restrictions on, us or according to more flexible conditions. An increase in the availability of, investment funds, and an increase in interest in mortgage investments, may increase competition for real property investments, thereby increasing purchase prices and reducing the yield on investments.
- There can be no assurance that income tax laws and government incentive programs relating to the real estate industry will not be changed in a manner which adversely affects us or distributions received by its security holders.

(d) **COVID-19 Pandemic and Similar Risks**

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.

COVID-19 appeared in Wuhan, China in December 2019. The World Health Organization declared a global emergency regarding COVID-19 on January 30, 2020 and then characterized the outbreak as a pandemic on March 11, 2020. The 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 the Manager. The COVID-19 pandemic may affect the businesses and income of our borrowers, 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 a significant material adverse impact on the Company's future financial performance and the returns paid to investors.

## Item 11. REPORTING OBLIGATIONS

### 11.1 Corporate Requirements

The *Business Corporations Act* (British Columbia) requires us to provide our Shareholders with audited financial statements for each financial year within 120 days of the end of the financial year. The statements must be sent to our Shareholders in connection with our annual general meeting of Shareholders. At the same time, we send a letter to Shareholders reporting on our previous year's business including our distributions of profit and net capital gains, and the rate of net return to the Shareholders for the year stated as an effective annualized yield.

We also make available to our Shareholders with a monthly unaudited financial summary on our website. Unaudited monthly financial statements are available on request. 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.

### 11.2 Corporate and Securities Information

We are not a reporting issuer in British Columbia or any other province in Canada and our Shares are not publicly traded. Accordingly, no corporate or securities information about us is available from a securities regulatory authority, stock exchange or quotation and trade reporting system. Furthermore, you will not receive interim financial statements prepared in accordance with International Financial Reporting Standards nor will you receive Management's Discussion and Analysis of our audited financial statements, both as required for reporting issuers under the *Securities Act* (British Columbia) or the securities legislation of any other province.

## Item 12. RESALE RESTRICTIONS

The Shares offered by this Offering Memorandum 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 [Shares] unless you comply with an exemption from the prospectus and registration requirements under securities legislation. For information about these restrictions, you should consult a lawyer.

### 12.1 Restricted Period

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

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

### 12.2 Manitoba Resale Restrictions

Unless permitted under securities legislation, you must not trade the securities [Shares] without the prior written consent of the regulator in Manitoba unless:

(a) we have filed a prospectus with the regulator in Manitoba with respect to the securities [Shares] you have purchased and the regulator in Manitoba has issued a receipt for that prospectus; or

(b) you have held the securities [Shares] for at least 12 months.

The regulator in Manitoba will consent to your trade if the regulator is of the opinion that to do so is not prejudicial to the public interest.

## Item 13. PURCHASER'S RIGHTS

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

### 13.1 Two Day Cancellation Right

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

### 13.2 Statutory Rights of Action in the Event of a Misrepresentation

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

(a) us to cancel your agreement to buy the securities [Shares]; or

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

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

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

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

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

### 13.3 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 the securities [Shares]; 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 [Shares] resulting from the misrepresentation. We have a defence if we prove that you knew of the misrepresentation when you purchased the securities [Shares].

If you intend to rely on the rights described in (a) or (b) above, you must do so within strict time limitations. You must commence your action to cancel the agreement within 180 days after you signed the agreement to purchase the securities [Shares]. 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 [Shares].

**Item 14. FINANCIAL STATEMENTS**

Our financial statements begin on the following page.

# Classic Mortgage Corporation
## Financial Statements
*December 31, 2022*

# Contents

## Management's Responsibility

To the Shareholders of Classic Mortgage Corporation:

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

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

The Board is responsible for overseeing the financial reporting process, and for approving the financial information included in the annual report. The Board fulfils these responsibilities by reviewing the financial information and discussing relevant matters with relevant employees and the external auditors. The Board is also responsible for recommending the appointment of the Company's external auditors.

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

January 26, 2023

e-Signed by John Mercuri
2023-01-26 14:53:09:09 PST

President

# Independent Auditor's Report

To the Shareholders of Classic Mortgage Corporation:

**Opinion**

We have audited the financial statements of Classic Mortgage Corporation (the "Company"), which comprise the statement of financial position as at December 31, 2022, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2022, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

**Basis for Opinion**

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

**Responsibilities of Management and Those Charged with Governance for the Financial Statements**

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

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

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

**Auditor's Responsibilities for the Audit of the Financial Statements**

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Kelowna, British Columbia

MNP LLP

January 26, 2023

Chartered Professional Accountants

## Classic Mortgage Corporation
### Statement of Financial Position
*As at December 31, 2022*

| | **2022** | *2021* |
|---|---|---|
| **Assets** | | |
| Accrued interest receivable | **279,309** | 273,258 |
| Mortgages receivable *(Note 9)* | **43,074,707** | 41,188,680 |
| Deferred income taxes *(Note 5)* | **117,092** | 139,809 |
| Intangible assets | **1,508** | 1,508 |
| | **43,472,616** | 41,603,255 |
| **Liabilities** | | |
| Bank line of credit *(Note 6)* | **7,825,153** | 1,689,895 |
| Dividends payable | **2,357,459** | 2,651,821 |
| Management fees payable *(Note 7)* | **-** | 3,473 |
| | **10,182,612** | 4,345,189 |
| **Commitments** *(Note 7), (Note 9)* | | |
| **Shareholders' Equity** | | |
| Share capital *(Note 8)* | **33,587,596** | 37,614,076 |
| Deficit | **(297,592)** | (356,010) |
| | **33,290,004** | 37,258,066 |
| | **43,472,616** | 41,603,255 |

**Approved on behalf of the Board**

e-Signed by John Mercuri
2023-01-26 14:53:05:05 PST

**Director**

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

# Classic Mortgage Corporation
## Statement of Comprehensive Income
*For the year ended December 31, 2022*

| | **2022** | 2021 |
|---|---|---|
| **Revenue** | | |
| Interest | **3,131,179** | 2,948,166 |
| Lender fees | **334,137** | 346,890 |
| Prepayment penalties | **49,910** | 40,968 |
| Miscellaneous income | **32,530** | 28,726 |
| | **3,547,756** | 3,364,750 |
| **Expenses** | | |
| Management fees *(Note 7)* | **702,026** | 728,290 |
| Interest and bank charges | **383,079** | 19,870 |
| Insurance | **16,701** | 15,996 |
| Bad debts | **13,812** | 81,852 |
| Recovery of loan impairment *(Note 9)* | **(6,456)** | (54,537) |
| | **1,109,162** | 791,471 |
| **Net income from operations, before income taxes** | **2,438,594** | 2,573,279 |
| **Income taxes** *(Note 5)* | | |
| Deferred tax | **22,717** | (21,991) |
| **Total comprehensive income** | **2,415,877** | 2,595,270 |

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

# Classic Mortgage Corporation
## Statement of Changes in Equity
*For the year ended December 31, 2022*

| | *Share capital* | *Deficit* | *Total equity* |
|---|---|---|---|
| **Balance January 1, 2021** | **40,878,769** | **(299,459)** | **40,579,310** |
| Comprehensive income for the year | **-** | **2,595,270** | **2,595,270** |
| Issuance of share capital | **116,841** | **-** | **116,841** |
| Redemption of share capital | **(3,381,534)** | **-** | **(3,381,534)** |
| Dividends | **-** | **(2,651,821)** | **(2,651,821)** |
| **Balance December 31, 2021** | **37,614,076** | **(356,010)** | **37,258,066** |
| Comprehensive income for the year | **-** | **2,415,877** | **2,415,877** |
| Issuance of share capital | **3,414,853** | **-** | **3,414,853** |
| Redemption of share capital | **(7,441,333)** | **-** | **(7,441,333)** |
| Dividends | **-** | **(2,357,459)** | **(2,357,459)** |
| **Balance December 31, 2022** | **33,587,596** | **(297,592)** | **33,290,004** |

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

# Classic Mortgage Corporation
## Statement of Cash Flows
*For the year ended December 31, 2022*

| | ***2022*** | *2021* |
|---|---|---|
| **Cash provided by (used for) the following activities** | | |
| **Operating activities** | | |
| Cash received from customers (non-interest revenues) | **410,121** | 451,297 |
| Cash paid to suppliers | **(729,557)** | (768,128) |
| Interest received | **3,125,128** | 3,076,615 |
| Interest paid | **(383,079)** | (19,870) |
| | **2,422,613** | 2,739,914 |
| **Financing activities** | | |
| Proceeds from issuance of common shares | **1,455,846** | 116,841 |
| Payments for redemption of common shares | **(7,441,333)** | (3,381,534) |
| Dividends | **(692,814)** | (2,633,320) |
| | **(6,678,301)** | (5,898,013) |
| **Investing activities** | | |
| Advances of mortgages receivable, net | **(1,879,570)** | (4,176,358) |
| **Decrease in cash resources** | **(6,135,258)** | (7,334,457) |
| **Cash resources (deficiency), beginning of year** | **(1,689,895)** | 5,644,562 |
| **Cash resources (deficiency), end of year** | **(7,825,153)** | (1,689,895) |

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

## 1. Reporting entity

***Entity information***

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

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

*Impact on operations of COVID-19 (coronavirus)*

In early March 2020 the impact of the global outbreak of COVID-19 began to have a significant impact on businesses through the restrictions put in place by the Canadian, provincial and municipal governments regarding travel, business operations and isolation/quarantine orders.

The Company's operations were most significantly impacted by COVID-19 due to the sustained decrease in the prime lending rate by the Bank of Canada from March 2020 to March 2022. The sustained decreased prime lending rate had decreased the rate at which banks and other primarily lenders lend mortgages, as quoted based on prime rates, increasing the ability for individuals to obtain financing at these sources through improved debt-servicing ratios, etc. As more individuals were obtaining financing at banks at lower rates, the Company had noticed an increase in competition in the Mortgage Investment Corporation industry, which required the Company to adjust its lending rates and terms to remain competitive.

At this time, it is unknown the extent of the impact the COVID-19 outbreak may have on the Company as this will depend on future developments that are highly uncertain and that cannot be predicted with confidence. These uncertainties arise from the inability to predict the ultimate geographic spread and the duration of the outbreak, including the duration of travel restrictions, business closures or disruptions, and quarantine/isolation measures that are currently, or may be put, in place by Canada and other countries to fight the virus. While the extent of the impact is unknown, we anticipate this outbreak may cause staff shortages and increased government regulations, as well as increasing mortgage payment deferrals, delinquencies and credit risk, all of which may negatively impact the Company’s business and financial condition.

Subsequent to March, 2022 due to the impact of inflation on the Canadian economy, the Bank of Canada significantly increased the prime lending rate numerous times with a cumulative increase of 4% at year-end. The impact of these significant increases is still being assessed and is expected to positively impact the revenues of the Company.

## 2. Statement of compliance

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

These financial statements for the year ended December 31, 2022 were approved and authorized for issue by the Board of Directors on January 25, 2023.

## 3. Basis of preparation

***Basis of measurement***

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

***Functional and presentation currency***

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

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

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

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

During the current year, the global COVID-19 pandemic and it's related economic impacts have resulted in heightened measurement uncertainty, primarily related to the judgments, estimates and assumptions used in the measurement of the allowance for expected credit losses. For the year ended December 31, 2022, the Company has included all information available to the date of these financial statements in these estimates. The situation remains fluid and certain impacts continue to remain unknown and may reasonably require adjustment within the next twelve months.

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

- Note 9 – Financial instruments

***Allowance for expected credit losses***

At each reporting period, financial assets are assessed to determine whether their credit risk has increased significantly since initial recognition. In determining whether credit risk has significantly increased, management develops a number of assumptions about the following factors which impact the borrowers' ability to meet debt obligations:

- Expected significant increase in unemployment rates or interest rates
- Declining revenues, working capital deficiencies, increases in balance sheet leverage, and liquidity
- Expected or actual changes in internal credit ratings of the borrowers or external credit ratings of the instrument
- The correlation between credit risk on all lending facilities of the same borrower
- Changes in the value of the collateral supporting the obligation or in the quality of third-party guarantees or credit enhancements

Significant judgments, estimates and assumptions are required when calculating the expected credit losses of financial assets. In measuring the 12-month and lifetime expected credit losses, management makes assumptions about prepayments, the timing and extent of missed payments or default events. In addition, management makes assumptions and estimates about the impact that future events may have on the historical data used to measure expected credit losses.

In estimating expected credit losses, the Company develops a number of assumptions as follows:

- The period over which the Company is exposed to credit risk, considering for example, prepayments, extension options, demand features
- The probability-weighted outcome, including identification of scenarios that specify the amount and timing of the cash flows for particular outcomes and the estimated probability of those outcomes
- The risk of default occurring on loans during their expected lives and during the next 12 months after the reporting date
- Expected cash short falls including, recoveries, costs to recover and the effects of any collateral or other credit enhancements
- Estimates of effective interest rates used in incorporating the time value of money

The assumptions listed are based on historical information and adjusted for current conditions and forecasts of future economic conditions. The Company determines adjustments needed to its historical assumptions by monitoring the correlation of the probability of default and loss rates with the following economic variables:

- Interest rates
- Unemployment rates
- Gross domestic product
- Inflation
- Loan to Value ratios

The estimate of expected credit losses reflects an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes that are neither best-case nor worse-case scenarios. The Company uses judgment to weight these scenarios.

*Impact of the COVID-19 pandemic:*

As a result of COVID-19, there is a higher degree of uncertainty in determining reasonable and supportable forward-looking information used in assessing significant increase in credit risk and measuring expected credit losses. The impact of the pandemic on the long-term outlook remains fluid and uncertain, and forward looking information has been updated to the best of the Company's knowledge based on external economic data.

The current environment is subject to rapid change and to the extent that certain effects of COVID-19 are not fully incorporated into the model calculations, increased temporary quantitative and qualitative adjustments have been considered and applied where necessary. This includes borrower credit scores, industry and geography specific COVID-19 impacts, payment support initiatives introduced by the Company, the governments, and the persistence of the economic shutdown, the effects of which are not yet fully reflected in the quantitative models. The Company has performed certain additional qualitative portfolio and loan level assessment if significant changes in credit risk were identified.

*Impact of current and expected interest rate and inflationary environment*

With the significant increase in interest rates and inflation in 2022, there is an elevation of credit risk associated with the Company’s mortgage receivables. As loans become due, the borrowers will have to renew at much higher interest rate, which could make it more difficult for them to qualify for the level of financing they require, as well as be able to manage the increased payment that will result form the higher interest rate. The Company has performed certain additional qualitative portfolio and loan level assessment where significant changes in credit risk were identified or anticipated.

***Classification of financial assets***

Classification of financial assets requires management to make judgments regarding the business model under which the Company’s financial assets are held and whether contractual cash flows consist solely of payments of principal and interest. Management has determined that the penalty to exercise prepayment features embedded in certain loans made to retail customers do not result in payments that are not solely payments of principal and interest because they represent reasonable additional compensation for early termination of the contract.

***Income tax***

The Company periodically assesses its liabilities and contingencies related to income taxes for all years open to audit based on the latest information available. For matters where it is probable that an adjustment will be made, the Company records its best estimate of the tax asset or liability including the related interest and penalties in the current tax provision. Management believes they have adequately provided for the probable outcome of these matters; however, the final outcome may result in a materially different outcome than the amount included in the tax assets or liabilities.

## 4. Summary of significant accounting policies

The principle accounting policies adopted in the preparation of the financial statements are set out below. The policies have been consistently applied to all the years presented, unless otherwise stated.

***Cash and cash equivalents***

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

***Mortgages receivable and accrued interest receivable***

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

***Accounts payable***

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

***Income taxes***

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

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

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

***Financial instruments***

***Financial assets***

**Recognition and initial measurement**

The Company recognizes financial assets when it becomes party to the contractual provisions of the instrument. Financial assets are measured initially at their fair value plus, in the case of financial assets not subsequently measured at fair value through profit or loss, transaction costs that are directly attributable to their acquisition. Transaction costs attributable to the acquisition of financial assets subsequently measured at fair value through profit or loss are expensed in profit or loss when incurred.

**Classification and subsequent measurement**

On initial recognition, financial assets are classified as subsequently measured at amortized cost, fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVTPL). The Company determines the classification of its financial assets, together with any embedded derivatives, based on the business model for managing the financial assets and their contractual cash flow characteristics.

Debt instruments are classified as follows:

- Amortized cost - Assets that are held for collection of contractual cash flows where those cash flows are solely payments of principal and interest are measured at amortized cost. Interest revenue is calculated using the effective interest method and gains or losses arising from impairment, foreign exchange and derecognition are recognized in profit or loss. Financial assets measured at amortized cost are comprised of accounts receivable, accrued interest receivable and mortgages receivable.

- Fair value through other comprehensive income - Assets that are held for collection of contractual cash flows and for selling the financial assets, and for which the contractual cash flows are solely payments of principal and interest, are measured at fair value through other comprehensive income. Interest income calculated using the effective interest method and gains or losses arising from impairment and foreign exchange are recognized in profit or loss. All other changes in the carrying amount of the financial assets are recognized in other comprehensive income. Upon derecognition, the cumulative gain or loss previously recognized in other comprehensive income is reclassified to profit or loss. The Company does not hold any financial assets measured at fair value through other comprehensive income.

- Mandatorily at fair value through profit or loss - Assets that do not meet the criteria to be measured at amortized cost, or fair value through other comprehensive income, are measured at fair value through profit or loss. All interest income and changes in the financial assets' carrying amount are recognized in profit or loss. Financial assets mandatorily measured at fair value through profit or loss are comprised of cash.

- Designated at fair value through profit or loss – On initial recognition, the Company may irrevocably designate a financial asset to be measured at fair value through profit or loss in order to eliminate or significantly reduce an accounting mismatch that would otherwise arise from measuring assets or liabilities, or recognizing the gains and losses on them, on different bases. All interest income and changes in the financial assets' carrying amount are recognized in profit or loss. The Company does not hold any financial assets designated to be measured at fair value through profit or loss.

The Company measures all equity investments at fair value. Changes in fair value are recorded in profit or loss. The entity does not hold any equity investments.

Refer to Note 9 for more information about financial instruments held by the Company, their measurement basis, and their carrying amount.

*Business model assessment*

The Company assesses the objective of its business model for holding a financial asset at a level of aggregation which best reflects the way the business is managed and information is provided to management. Information considered in this assessment includes stated policies and objectives, how performance of the portfolio is evaluated, risks affecting the performance of the business model, how managers of the business are compensated, and the significance and frequency of sales in prior periods.

*Contractual cash flow assessment*

The cash flows of financial assets are assessed as to whether they are solely payments of principal and interest on the basis of their contractual terms. For this purpose, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money, the credit risk associated with the principal amount outstanding, and other basic lending risks and costs. In performing this assessment, the Company considers factors that would alter the timing and amount of cash flows such as prepayment and extension features, terms that might limit the Company's claim to cash flows, and any features that modify consideration for the time value of money.

**Reclassifications**

The Company reclassifies debt instruments only when its business model for managing those financial assets has changed. Reclassifications are applied prospectively from the reclassification date and any previously recognized gains, losses or interest are not restated.

**Impairment**

The Company recognizes a loss allowance for the expected credit losses associated with its financial assets, other than debt instruments measured at fair value through profit or loss and equity investments. Expected credit losses are measured to reflect a probability-weighted amount, the time value of money, and reasonable and supportable information regarding past events, current conditions and forecasts of future economic conditions.

Except for purchased or originated credit-impaired financial assets, the Company assesses whether a financial asset is credit-impaired at the reporting date. Regular indicators that a financial instrument is credit-impaired include a significant increase the number of days a payment is outstanding. For financial assets assessed as credit-impaired at the reporting date, the Company continues to recognize a loss allowance equal to lifetime expected credit losses.

Loss allowances for expected credit losses are presented in the statement of financial position as follows:

- For financial assets measured at amortized cost, as a deduction from the gross carrying amount of the financial asset

Financial assets are written off when the Company has no reasonable expectations of recovering all or any portion thereof.

Refer to Note 9 for additional information about the Company's credit risk management process, credit risk exposure and the amounts arising from expected credit losses.

**Derecognition of financial assets**

The Company derecognizes a financial asset when its contractual rights to the cash flows from the financial asset expire.

***Financial liabilities***

**Recognition and initial measurement**

The Company recognizes a financial liability when it becomes party to the contractual provisions of the instrument. At initial recognition, the Company measures financial liabilities at their fair value plus transaction costs that are directly attributable to their issuance, with the exception of financial liabilities subsequently measured at fair value through profit or loss for which transaction costs are immediately recorded in profit or loss.

Where an instrument contains both a liability and equity component, these components are recognized separately based on the substance of the instrument, with the liability component measured initially at fair value and the equity component assigned the residual amount. Transaction costs of equity transactions are treated as a deduction from equity.

**Classification and subsequent measurement**

Subsequent to initial recognition, financial liabilities are measured at amortized cost or fair value through profit or loss.

When the transfer of a financial asset does not qualify for derecognition because the Company has retained substantially all of the risks and rewards of ownership, a liability is recognized for the consideration received. Subsequently, any expense incurred on the financial liability is recognized in profit or loss.

All other financial liabilities are measured at amortized cost using the effective interest method. Financial liabilities measured at amortized include accounts payable and accruals and dividends payable.

The classification of a financial instrument or component as a financial liability or equity instrument determines where gains or losses are recognized. Interest, dividends, gains and losses relating to financial liabilities are recognized in profit or loss while distributions to holders of instruments classified as equity are recognized in equity.

Financial liabilities are not reclassified subsequent to initial recognition.

**Derecognition of financial liabilities**

The Company derecognizes a financial liability only when its contractual obligations are discharged, cancelled or expire.

***Revenue recognition***

The following describes the Company's principal activities from which it generates revenue.

**Lender fees**

The Company generates revenue from lender fees charged on origination of new mortgages and on renewals, which are offered as an off-setting alternative to higher interest rates while keeping overall yield constant

The Company does not have an enforceable right to payment until mortgage funds transfer to the customer; therefore, revenue is recognized at the point in time when mortgage funds are disbursed.

Consideration is typically due when mortgage funds are disbursed. The transaction price is negotiated between the Company and the customer and is determined in the mortgage agreement.

**Prepayment penalties**

The Company generates revenue from penalties applied to customers who prepay on their loans, excluding open loans which have no prepayment penalties. Revenue is recognized when the prepayment is applied against the balance of the loan.

At year-end, open loans accounted for 47% (2021 - 57%) of the total loans outstanding.

The customer obtains the benefit of having the Company apply the prepayment against the outstanding loan balance. This occurs immediately when the prepayment is made; therefore, revenue is recognized at that point in time.

Consideration is typically due when the prepayment is made. The transaction price is variable, depending on the interest rate negotiated in the mortgage agreement. The transaction price is calculated as up to three months' interest using the interest rate applied to the loan.

**Interest**

Interest income and expense are recognized in profit or loss using the effective interest method.

The ‘effective interest rate’ is the rate that exactly discounts estimated future cash payments over the expected life of the financial instrument to the gross carrying amount of the financial asset or the amortized cost of the financial liability. The effective interest rate is calculated considering all contractual terms of the financial instruments, except for the expected credit losses of financial assets.

The ‘amortized cost’ of a financial asset or financial liability is the amount at which the instrument is measured on initial recognition minus principal repayments, plus or minus any cumulative amortization using the effective interest method of any difference between the initial amount and maturity amount and adjusted for any expected credit loss allowance. The ‘gross carrying amount’ of a financial asset is the amortized cost of a financial asset before adjusting for any expected credit losses.

Interest income and expense is calculated by applying the effective interest rate to the gross carrying amount of the financial asset (when the asset is not credit-impaired) or the amortized cost of the financial liability.

Where a financial asset has become credit-impaired subsequent to initial recognition, interest income is calculated in subsequent periods by applying the effective interest method to the amortized cost of the financial asset. If the asset subsequently ceases to be credit-impaired, calculation of interest income reverts to the gross basis.

***Standards issued but not yet effective***

The Company has not yet applied the following new standards, interpretations and amendments to standards that have been issued as at December 31, 2022 but are not yet effective. Unless otherwise stated, the Company does not plan to early adopt any of these new or amended standards and interpretations.

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

Amendments to IAS 1, issued in January 2020, provide clarification on the requirements for classifying liabilities as either current or non-current.

The amendments are effective for annual periods beginning on or after January 1, 2023. The Company believes there is no impact of these amendments on its financial statements.

***IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2 Making Materiality Judgements***

Amendments to IAS 1 and IFRS Practice Statement 2, issued in February 2021, help entities provide accounting policy disclosures that are more useful to primary users of financial statements by replacing the requirement to disclose “significant” accounting policies with a requirement to disclose “material” accounting policies and providing guidance to explain and demonstrate the application of the four-step materiality process to accounting policy disclosures.

The amendments are effective for annual periods beginning on or after January 1, 2023 and are required to be applied prospectively. The Company is currently assessing the impact of these amendments on its financial statements.

***IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors***

Amendments to IAS 8, issued in February 2021, introduce a new definition of “accounting estimates” to replace the definition of “change in accounting estimates” and also include clarification intended to help entities distinguish changes in accounting policies from changes in accounting estimates.

The amendments are effective for annual periods beginning on or after January 1, 2023. The Company is currently assessing the impact of these amendments on its financial statements.

***IAS 12 Income Taxes***

Amendments to IAS 12, issued in May 2021, narrow the scope of the recognition exemption to require an entity to recognize deferred tax on initial recognition of particular transactions, to the extent that transaction gives rise to equal taxable and deductible temporary differences. These amendments apply to transactions for which an entity recognizes both an asset and liability, for example leases and decommissioning liabilities.

The amendments are effective for annual periods beginning on or after January 1, 2023. The Company is currently assessing the impact of these amendments on its financial statements.

## 5. Income taxes

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

| | ***Amount*** | ***2022 % of pre-tax income*** | *Amount* | *2021 % of pre-tax income* |
|---|---|---|---|---|
| Combined federal and provincial income tax rates | **942,984** | **38.7 %** | 1,060,729 | 41.2 % |
| Mortgage Investment Corporation dividend deduction | **(942,984)** | **(38.7)%** | (1,060,729) | (41.2)% |
| Income taxes as reported | **-** | **- %** | - | - % |

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

Net deferred income tax assets are comprised of the following:

| | ***2022*** | *2021* |
|---|---|---|
| **Deferred tax assets** | | |
| Provision for loan impairment | **117,092** | 139,809 |
| **Deferred tax liability** | **-** | - |
| Net balance | **117,092** | 139,809 |

### 6. Bank line of credit

The Company has an overdraft line of credit with TD Canada Trust, with a limit of $15,000,000 that is available to fund eligible mortgages. Interest is calculated at the financial institution's prime rate plus 0.85% per annum and the line of credit is secured by a general security agreement providing a first floating coverage over all assets of the Company. As at December 31, 2022 there was $7,825,153 (2021 - $1,689,895) owing on this facility.

The credit facility is subject to financial covenants with respect to maintaining an interest coverage ratio of no less than 300% and a debt to tangible net worth ratio of no more than 0.75:1. As at December 31, 2022, the Company is in compliance with these covenants. It is management's opinion that the Company is likely to remain in compliance with all covenants throughout the next 12 months.

### 7. Related party transactions and commitments

During the year, the Company paid $702,026 (2021- $728,290) in management fees to Can Terra Financial Inc. The Company has a service contract with Can Terra Financial Inc., a company that is controlled by the Board of Directors of Classic Mortgage Corporation through a holding company, for the procurement of administration and management services. Can Terra Financial Inc. incurs all expenses for the Company outside of bank and interest charges, collection expenses, bad debts and insurance costs. The Company is also responsible for any tax obligations, including filing, remitting, and paying balances owing to taxation authorities. The contract stipulates compensation equal to 21% of total per annum profit (excluding management fees and taxes), to be calculated and paid monthly. Applicable management fees (before taxes) under this model will be no less than 1.4% of total mortgage receivables, but no more than 2% of total mortgage receivables per annum. The contract is renewed annually and based on the Company's Articles, the service contract between the Company and Can Terra Financial Inc. may be modified with 2/3 shareholder approval passed at a properly convened meeting of the Shareholders of the Company.

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

### 8. Share capital

Common shares authorized:

Unlimited Common voting shares without par value

Common shares issued:

| | ***2022*** | *2021* |
|---|---|---|
| 33,587,596 Common shares (2021 - 37,614,076) | **33,587,596** | 37,614,076 |

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

During the year ended December 31, 2022, 3,414,853 (2021 - 116,841) Common shares were issued via cash and reinvested dividends for $3,414,853 (2021 - $116,841). In addition, 7,441,333 (2021 - 3,381,534) Common shares were redeemed for cash proceeds of $7,441,333 (2021 - $3,381,534).

## 9. Financial instruments

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

***Credit Risk***

Credit risk is the risk of financial loss to the Company because a counterparty to a financial instrument fails to discharge its contractual obligations. Credit risk primarily arises from the Company's mortgages receivable.

Management and the Board of Directors review and update the credit risk policy annually. The Company's maximum credit risk exposure before taking into account any collateral held is the carrying amount of loans as disclosed on the statement of financial position.

Overall monitoring and processes will change as deemed necessary in response to the ongoing economic impact of COVID-19, the rapid changes in interest rates and high inflation environment. This has and will include changes to the current processes to ensure that the overall portfolio is secured and the Company will continue to support the customers and find their optimal credit solutions.

**Risk management process**

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

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

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

As at December 31, 2022, the Company had the following outstanding financial instruments subject to credit risk:

| | ***2022*** | *2021* |
|---|---|---|
| Commitments to extend credit | **701,500** | 1,690,000 |

**Inputs, assumptions and techniques**

*Definition of default and assessments of credit risk*

Financial instruments are assessed at each reporting date for a significant increase in credit risk since initial recognition. This assessment considers changes in the risk of a default occurring at the reporting date as compared to the date of initial recognition.

The Company considers mortgages receivable to be in default when contractual payments are more than 90 days past due or other objective evidence of impairment exists, such as notification from the borrower. This definition is consistent with the definitions used for the Company's internal credit risk management practices and has been selected because it most closely aligns the definition of default to the Company's past credit experience, and the covenants placed in standard borrowing contracts.

Changes in credit risk are assessed on the basis of the risk that a default will occur over the contractual lifetime of the financial instrument rather than based on changes in the amount of expected credit losses or other factors. In making this assessment the Company takes into account all reasonable and supportable information available without undue cost or effort. The Company considers past due information of its balances and information about the borrower available through regular commercial dealings.

The credit risk of a financial instrument is deemed to have significantly increased since initial recognition when contractual payments have exceeded 30 days past due.

The Company identifies credit-impaired financial assets through regular reviews of past due balances.

*Measurement of expected credit losses*

When measuring 12-month and lifetime expected credit losses, the Company considers the probability of default and the expected credit losses based on historical data of financial assets with similar credit risk.

Significant judgments, estimates and assumptions are required when calculating the expected credit losses of financial assets. In addition, management makes assumptions and estimates about the impact that future events may have on the historical data used to measure expected credit losses.

*Write-offs*

Financial assets are written off when there is no reasonable expectation of recovery. The Company assesses that there is no reasonable expectation of recovery when there is indication that no additional funds will be paid. Where an asset has been written off but is still subject to enforcement activity, the asset is written off but remains on a list of delinquent accounts. Where information becomes available indicating the Company will receive funds, such amounts are recognized at their fair value.

*Significant increase in credit risk - COVID-19, interest rate and inflationary environment impacts*

There are judgments involved in determining whether or not there is a significant increase in credit risk resulting in loans moving between stages of expected credit loss and, therefore, being subject to different expected credit loss models. Due to the ongoing pandemic, the Company has implemented programs to allow for the deferral of payments on mortgages in certain circumstances. With respect to those loans where the customer has taken advantage of the loan payment deferral programs, the Company has assessed whether this is indicative of a significant increase in credit risk, including consideration on whether this is indicative of a short-term change or an increase in the risk the member will default over the life of the loan. In addition, the Company will continue to monitor the impact of the increased interest rates and inflation may have on their clients and their ability to repay their debt obligations. Where appropriate, the Company may deem a change in credit risk to have occurred for certain borrowers due the current environment and will adjust their staging and expected credit losses as necessary.

**Exposure to credit risk**

The following table sets out information about the credit quality of financial assets assessed for impairment under IFRS 9 *Financial instruments*. The amounts in the table, unless otherwise indicated, represent the assets' gross carrying amount.

The gross carrying amount represents the maximum exposure to credit risk for that class of financial asset.

| | | | | *2022* |
|---|---|---|---|---|
| | *12-month ECL* | *Lifetime ECL (not credit impaired)* | *Lifetime ECL (credit impaired)* | *Total* |
| **Residential mortgages** | | | | |
| Low risk | **38,316,506** | **-** | **-** | **38,316,506** |
| Medium risk | **-** | **167,182** | **-** | **167,182** |
| Default | **-** | **-** | **843,465** | **843,465** |
| Total gross carrying amount | **38,316,506** | **167,182** | **843,465** | **39,327,153** |
| Less: allowance for impaired loans | **333,715** | **1,384** | **166,914** | **502,013** |
| Total | **37,982,791** | **165,798** | **676,551** | **38,825,140** |
| **Raw land mortgages** | | | | |
| Low risk | **1,797,171** | **-** | **-** | **1,797,171** |
| Medium risk | **-** | **334,329** | **-** | **334,329** |
| Default | **-** | **-** | **-** | **-** |
| Total gross carrying amount | **1,797,171** | **334,329** | **-** | **2,131,500** |
| Less: allowance for impaired loans | **15,515** | **2,841** | **-** | **18,356** |
| Total | **1,781,656** | **331,488** | **-** | **2,113,144** |
| **Commercial mortgages** | | | | |
| Low risk | **855,486** | **-** | **-** | **855,486** |
| Medium risk | **-** | **-** | **-** | **-** |
| Default | **-** | **-** | **-** | **-** |
| Total gross carrying amount | **855,486** | **-** | **-** | **855,486** |
| Less: allowance for impaired loans | **7,429** | **-** | **-** | **7,429** |
| Total | **848,057** | **-** | **-** | **848,057** |
| **Farm mortgages** | | | | |
| Low risk | **1,299,575** | **-** | **-** | **1,299,575** |
| Medium risk | **-** | **-** | **-** | **-** |
| Default | **-** | **-** | **-** | **-** |
| Total gross carrying amount | **1,299,575** | **-** | **-** | **1,299,575** |
| Less: allowance for impaired loans | **11,209** | **-** | **-** | **11,209** |
| Total | **1,288,366** | **-** | **-** | **1,288,366** |
| **Mortgages receivable** | | | | |
| Total gross carrying amount | **42,268,738** | **501,511** | **843,465** | **43,613,714** |
| Less: loss allowance | **367,868** | **4,225** | **166,914** | **539,007** |
| Total carrying amount | **41,900,870** | **497,286** | **676,551** | **43,074,707** |

| | | | | *2021* |
|---|---|---|---|---|
| | *12-month ECL* | *Lifetime ECL (not credit impaired)* | *Lifetime ECL (credit impaired)* | *Total* |
| **Residential mortgages** | | | | |
| Low risk | 37,189,842 | - | - | 37,189,842 |
| Medium risk | - | - | - | - |
| Default | - | - | 299,008 | 299,008 |
| Total gross carrying amount | 37,189,842 | - | 299,008 | 37,488,850 |
| Less: allowance for impaired loans | 427,005 | - | 70,009 | 497,014 |
| Total carrying amount | 36,762,837 | - | 228,999 | 36,991,836 |
| **Raw land mortgages** | | | | |
| Low risk | 2,355,012 | - | - | 2,355,012 |
| Medium risk | - | - | - | - |
| Default | - | - | - | - |
| Total gross carrying amount | 2,355,012 | - | - | 2,355,012 |
| Less: allowance for impaired loans | 26,858 | - | - | 26,858 |
| Total carrying amount | 2,328,154 | - | - | 2,328,154 |
| **Commercial mortgages** | | | | |
| Low risk | 856,846 | - | - | 856,846 |
| Medium risk | - | - | - | - |
| Default | - | - | - | - |
| Total gross carrying amount | 856,846 | - | - | 856,846 |
| Less: allowance for impaired loans | 9,805 | - | - | 9,805 |
| Total carrying amount | 847,041 | - | - | 847,041 |
| **Farm mortgages** | | | | |
| Low risk | 1,033,435 | - | - | 1,033,435 |
| Medium risk | - | - | - | - |
| Default | - | - | - | - |
| Total gross carrying amount | 1,033,435 | - | - | 1,033,435 |
| Less: allowance for impaired loans | 11,786 | - | - | 11,786 |
| Total carrying amount | 1,021,649 | - | - | 1,021,649 |
| **Total mortgages receivable** | | | | |
| Total gross carrying amount | 41,435,135 | - | 299,008 | 41,734,143 |
| Less: loss allowance | 475,454 | - | 70,009 | 545,463 |
| Total carrying amount | 40,959,681 | - | 228,999 | 41,188,680 |

As at December 31, 2022, the maximum exposure to credit risk with respect to mortgages receivable, without taking into account collateral held or other credit enhancements, is $43,613,714 (2021 - $41,734,143). The Company holds property backed personal financial guarantees with respect to mortgages receivable.

**Amounts arising from expected credit losses**

*Reconciliation of the loss allowance*

The following tables show a reconciliation of the opening to the closing balance of the loss allowance by class of financial instrument.

| | *12-month ECL* | *Lifetime ECL (not credit impaired)* | *Lifetime ECL (credit impaired)* | *Total* |
|---|---|---|---|---|
| **Mortgages receivable** | | | | |
| Balance at January 1, 2021 | **302,208** | **-** | **297,792** | **600,000** |
| Write-offs | **-** | **-** | **(54,537)** | **(54,537)** |
| Provision for loan impairment | **173,246** | **-** | **(173,246)** | **-** |
| Balance at December 31, 2021 | **475,454** | **-** | **70,009** | **545,463** |
| Write-offs | **-** | **-** | **-** | **-** |
| Provision for loan impairment | **(107,586)** | **4,225** | **96,905** | **(6,456)** |
| Balance at December 31, 2022 | **367,868** | **4,225** | **166,914** | **539,007** |

***Interest rate risk***

Interest rate risk is the risk that the value of a financial instrument might be adversely affected by a change in the interest rates. Changes in market interest rates may have an effect on the cash flows associated with some financial assets and liabilities, known as cash flow risk, and on the fair value of other financial assets or liabilities, known as price risk. The Company is exposed to interest rate risk primarily relating to the following financial assets and liabilities. The table summarizes the carrying amounts of financial instruments exposed to interest rate risk by the earlier of the contractual repricing dates.

***Financial instruments exposed to interest rate risk:***

| | | | | | ***2022*** | *2021* |
|---|---|---|---|---|---|---|
| | ***Floating rate*** | ***Within one year*** | ***One to five years*** | ***Not interest sensitive*** | ***Total*** | *Total* |
| ***Financial assets*** | | | | | | |
| Mortgages receivable | **-** | **40,229,360** | **2,845,347** | **-** | **43,074,707** | 41,188,680 |
| *(effective interest rate%)* | **-** | **8.21 %** | **8.46 %** | **-** | **8.22 %** | 8.13 % |
| Other assets | **-** | **-** | **-** | **279,309** | **279,309** | 273,258 |
| | **-** | **40,229,360** | **2,845,347** | **279,309** | **43,354,016** | 41,461,938 |
| ***Financial liabilities*** | | | | | | |
| Bank line of credit | **7,825,153** | **-** | **-** | **-** | **7,825,153** | 1,689,895 |
| *(effective interest rate%)* | **7.30 %** | **-** | **-** | **-** | **7.30 %** | 3.30 % |
| Other liabilities | **-** | **-** | **-** | **2,357,459** | **2,357,459** | 2,655,294 |
| | **7,825,153** | **-** | **-** | **2,357,459** | **10,182,612** | 4,345,189 |

The Company is not exposed to significant interest rate risk on its accrued interest receivable, dividends payable or management fees payable.

A 1% change in interest rates could increase interest expense by approximately $78,251 (2021 - $16,899). The Company uses simulation modeling to simulate the effect of a change in the market rate of interest.

The mortgage receivables are at fixed rates and are at terms of one to two years. As these loans renew, they will be at the higher current interest rates.

***Liquidity risk***

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

## 10. Fair value measurements

The Company classifies fair value measurements recognized in the statement of financial position using a three-tier fair value hierarchy which prioritizes the inputs used in measuring fair value as follows:

- Level 1: Quoted prices (unadjusted) are available in active markets for identical assets or liabilities
- Level 2: Inputs other than quoted prices in active markets that are observable for the asset or liability, either directly or indirectly
- Level 3: Unobservable inputs for which there is little or no market data and which require the Company to develop its own assumptions.

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

The Company considers a fair value measurement to have transferred between the levels in the fair value hierarchy on the date of the event or change in circumstances that caused the transfer. There were no transfers between Level 1 and Level 2, as well as no transfers into or out of Level 3 during the period.

In determining fair value measurements, the Company uses valuation techniques including comparison with quoted or observable prices for similar instruments.

***Assets and liabilities measured at fair value***

The Company’s assets and liabilities measured at fair value in the statement of financial position on a recurring basis have been categorized into the fair value hierarchy as follows:

| | | | | *2022* |
|---|---|---|---|---|
| | ***Fair Value*** | ***Level 1*** | ***Level 2*** | ***Level 3*** |
| ***Assets*** | - | - | - | - |
| ***Liabilities*** | | | | |
| **Financial liabilities at fair value through profit or loss** | | | | |
| Bank line of credit | **7,825,153** | **7,825,153** | - | - |
| Total liabilities | **7,825,153** | **7,825,153** | - | - |

| | *Fair Value* | *Level 1* | *Level 2* | *2021* *Level 3* |
|---|---|---|---|---|
| ***Assets*** | | | | |
| | - | - | - | - |
| ***Liabilities*** | | | | |
| **Financial liabilities at fair value through profit or loss** | | | | |
| Bank line of credit | 1,689,895 | 1,689,895 | - | - |
| **Total liabilities** | 1,689,895 | 1,689,895 | - | - |

***Financial instruments for which fair value is only disclosed***

The following table analyses within the fair value hierarchy the Company's assets and liabilities (by class) not measured at fair value at December 31, 2022 but for which fair value is disclosed.

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

| | ***Carrying amount*** | ***Fair Value*** | ***Level 1*** | ***Level 2*** | ***2022*** ***Level 3*** |
|---|---|---|---|---|---|
| ***Assets*** | | | | | |
| Accrued interest receivable | **279,309** | **279,309** | **-** | **279,309** | **-** |
| Mortgages receivable | **43,074,707** | **42,216,731** | **-** | **42,216,731** | **-** |
| Total assets | **43,354,016** | **42,496,040** | **-** | **42,496,040** | **-** |
| ***Liabilities*** | | | | | |
| Dividends payable | **2,357,459** | **2,357,459** | **-** | **2,357,459** | **-** |
| Total liabilities | **2,357,459** | **2,357,459** | **-** | **2,357,459** | **-** |

| | *Carrying amount* | *Fair Value* | *Level 1* | *Level 2* | *2021* *Level 3* |
|---|---|---|---|---|---|
| ***Assets*** | | | | | |
| Accrued interest receivable | 273,258 | 273,258 | - | 273,258 | - |
| Mortgages receivable | 41,188,680 | 41,188,680 | - | 41,188,680 | - |
| Total assets | 41,461,938 | 41,461,938 | - | 41,461,938 | - |
| ***Liabilities*** | | | | | |
| Dividends payable | 2,651,821 | 2,651,821 | - | 2,651,821 | - |
| Management fees payable | 3,473 | 3,473 | - | 3,473 | - |
| Total liabilities | 2,655,294 | 2,655,294 | - | 2,655,294 | - |

## 11. Capital management

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

Capital of the Company is comprised of shareholders' equity of $33,290,004 (2021 - $37,258,066), and bank line of credit of $7,825,153 (2021 - $1,689,895). The Company's capital is primarily utilized in its ongoing business operations through reinvestment in mortgages. There were changes in the Company's approach to capital management during the year as the Company utilizes its bank line of credit as an additional source of capital.

**Item 15. CERTIFICATE AND DATE**

**CERTIFICATE**

Dated: **May 1, 2023**

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

GIOVANNI (JOHN) MERCURI
President (chief executive officer) and Director

E. FRANCA MERCURI
Secretary-Treasurer (chief financial officer) and Director