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KV MORTGAGE FUND INC. Confidential Offering Memorandum

For use in British Columbia, Alberta, Saskatchewan, Manitoba, Nova Scotia, New Brunswick and Northwest Territories.

Date:	May 5, 2015
The Issuer:	KV Mortgage Fund Inc. (the “Corporation”) Corporate Office Suite 108, 2627 Ellwood Drive SW Edmonton, Alberta T6X 0P7 E-mail: info@kvcapital.ca Phone: 780-433-1222 Fax: 1-866-229-1295
Currently Listed or Quoted:	No. These securities do not trade on any exchange or market.
Reporting Issuer:	No.
SEDAR Filer:	No.
The Offering:	
Securities Offered:	Class A Preferred Shares (the “ Class A Preferred Shares ”) in the capital stock of the Corporation, and Class B Preferred Shares (the “ Class B Preferred Shares ”) in the capital stock of the Corporation (collectively the “ Preferred Shares ”)
Price per Security:	\$10.00 per Class A Preferred Share and \$10.00 per Class B Preferred Share
Minimum Offering:	There is no minimum. You may be the only purchaser. Funds available under the Offering may not be sufficient to accomplish our proposed objectives.
Maximum Offering:	An aggregate of 3,000,000 Preferred Shares, in any combination of Class A and or Class B Preferred Shares (\$30,000,000)
Minimum Subscription:	New Accounts: 15,000 Class A Preferred Shares (\$150,000.00) 1,000 Class B Preferred Shares (\$10,000.00) There is no minimum subscription for existing accounts
Payment Terms:	The subscription price is payable by certified cheque or bank draft on closing to “KV Mortgage Fund Inc. in trust.”
Proposed Closing Dates:	Closings will take place periodically at the Corporation’s discretion.
Income Tax Consequences:	There are important tax consequences relating to the Preferred Shares. We do not provide individual tax advice. Prospective purchasers should seek independent professional advice based upon their own particular circumstances. See Item 6, “ <i>Income Tax Consequences And Deferred Plan Eligibility</i> ”.
Connected Issuer:	KV Mortgage Fund Inc. is a connected issuer, and may be considered to be a related issuer of KV Capital Inc. KV Capital Inc. is the Corporation’s Manager and Advisor, and an Exempt Market Dealer, Restricted Portfolio Manager and Investment Fund Manager in certain jurisdictions, in connection with the distribution of the Corporation’s Preferred Shares hereunder, which may result in potential conflicts of interest. See Item 2, “ <i>Business Of The Corporation</i> ”. KV Capital Inc. is related to the Corporation because Shafin Kanji, Aleem Virani and Jonathan Herman control voting shares in both entities, have the power to elect directors of both companies, are Officers of both entities and because Aleem Virani and Shafin Kanji are Directors of both KV Capital Inc. and the Corporation.
Selling Agent:	Yes. See Item 7, “ <i>Compensation To Be Paid To Sellers And Finders</i> ”. The Corporation has agreed to pay: i) a 1.00% annual Trailer Fee to certain persons who locate and introduce purchasers of Class A Preferred Shares to the Corporation; and ii) a 1.00% annual Trailer Fee to KV Capital Inc. in respect of all sales of Class B Preferred Shares. KV Capital Inc. will pay, from its own resources, Registered Dealers a sales commission and administrative allowance in amounts equal to 4.00% and 1.00% respectively of the proceeds derived from the sale of Class B Preferred Shares and a Trailer Fee that commences after the fifth anniversary of sales of Class B Preferred Shares equivalent to that paid to it by the Corporation on such sales. See Item 2.7, “ <i>Material Agreements</i> ”. Assuming the Maximum Offering is sold through Class A Preferred Shares, the aggregate Trailer Fees payable by the Corporation to Registered Dealers on a yearly basis will be \$300,000 . Assuming the Maximum Offering is sold through Class B Preferred Shares, the aggregate Trailer Fees payable by the Corporation to KV Capital Inc. on a yearly basis will be \$300,000 .
Resale Restrictions:	You will be restricted from selling the Preferred Shares for an indefinite period. See Item 10, “ <i>Resale Restrictions</i> ”.
Purchaser’s Rights:	You have 2 business days to cancel your agreement to purchase these Preferred Shares. If there is a misrepresentation in this Offering Memorandum, you have the right to either sue for damages or to cancel the agreement. See Item 11, “ <i>Purchaser’s Rights</i> ”.

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

DISTRIBUTION OF THE OFFERING

The Corporation conditionally offers Preferred Shares for sale by way of private placement to qualified investors resident in the Provinces and Territories of Canada and, where permitted by law, certain other jurisdictions. In Canada, this Offering will be sold in reliance on certain statutory exemptions contained in National Instrument 45-106 *Prospectus Exemptions* (“**NI 45-106**”) pursuant to the terms of subscription agreements to be entered into between the Corporation and investors. Subscriptions will only be accepted if the Corporation is satisfied that investors are appropriately qualified.

The Corporation is offering Preferred Shares to residents of British Columbia, Alberta, Saskatchewan, Manitoba, Nova Scotia, New Brunswick and Northwest Territories (the “Offering Jurisdictions”) pursuant to the “offering memorandum” exemption contained in NI 45-106. In addition to other requirements, investors resident in the Offering Jurisdictions wishing to purchase more than \$10,000 worth of Preferred Shares must each be an “eligible investor” as defined in NI 45-106 because the Corporation is an Alberta based Issuer. Potential investors should refer to the subscription agreement for further information about the requirements for qualification as an “eligible investor” and will be required to certify that they are “eligible investors” in their subscription agreement.

The Corporation is also offering Preferred Shares to residents of Ontario pursuant to the “accredited investor” and “minimum amount investment” exemptions contained in NI 45-106 concurrently with, but separate from, this Offering (the “Concurrent Offering”). The Corporation may also offer Preferred Shares to residents of jurisdictions other than Canada where permitted by applicable law.

The Preferred Shares may only be purchased by persons who are purchasing as principal for their own account and not for the benefit of any other person, for the purpose of investment only and not with a view to resale. The purchase of Preferred Shares involves certain risks and is not a suitable investment for all potential investors (see Item 8, “*Risk Factors*”). Investment in the Preferred Shares is suitable only for persons who are prepared to hold the Preferred Shares indefinitely, who are in a position to evaluate the prospective investment on the basis of this Offering Memorandum and such other information as is furnished to them, and who are able to bear the risk of investment loss. Accordingly, no subscription for Preferred Shares will be accepted from a prospective investor unless such person represents that such person meets certain minimum suitability standards set out in the form of subscription agreement accompanying this Offering Memorandum.

These suitability standards are minimum requirements for prospective investors and satisfaction of such requirements does not necessarily mean that an investment in Preferred Shares is suitable for each prospective investor. Subscriptions received are subject to rejection or acceptance by the Corporation in whole or in part. The Corporation reserves the right to close the subscription books at any time without notice. Confirmation of acceptance of a subscription will be forwarded to investors promptly after its acceptance. The Corporation is not obliged to accept any subscription. If any subscription is not accepted, the money comprising such subscription will be promptly returned to the investor, without interest.

Before making an investment decision respecting the securities described in this Offering Memorandum, each prospective investor should carefully review and consider this entire Offering Memorandum. Each prospective investor should also consult with its lawyer and investment, accounting and tax advisors concerning this investment. No person is authorized by the Corporation to provide any information or to make any representation other than those contained in this Offering Memorandum in connection with the issue and sale of the securities offered by the Corporation.

This Offering Memorandum is confidential and has been prepared solely for delivery to and review by selected prospective investors of the securities offered hereby. This copy of the Offering Memorandum is personal to the person to whom it is delivered and does not constitute an offer to any other person or to the public generally to subscribe for or otherwise acquire any of the securities offered hereby. Distribution of this Offering Memorandum to any person other than the person to whom it is delivered and those persons, if any, retained to advise such person with respect thereto is unauthorized, and disclosure of any of its contents without the prior written consent of the Corporation is prohibited. Each prospective investor, by accepting delivery of this Offering Memorandum, agrees to the foregoing and undertakes to make no photocopies of or to otherwise reproduce, in whole or in part, this Offering Memorandum, or any documents relating thereto and, if such prospective investor does not purchase any of the securities offered hereby or the Offering is terminated, to return promptly this Offering Memorandum and all such documents to the Corporation, if so requested by the Corporation.

FORWARD LOOKING STATEMENTS

Certain statements included or incorporated by reference in this Offering Memorandum constitute forward-looking statements or information. Forward-looking statements are typically identified by words such as “projected”, “anticipate”, “believe”, “expect”, “plan”, “intend” or similar words suggesting future outcomes or statements regarding an outlook. In particular, this Offering Memorandum contains forward-looking information related to, among other things: i) the amount to be raised under this Offering; ii) that the Corporation will have the ability to deploy assets and construct a portfolio in accordance with its business plan; iii) that the Corporation’s portfolio will perform as forecasted; iv) that the Corporation will maintain its qualification as a Mortgage Investment Corporation as contemplated by the Tax Act; and v) that the Corporation will be able to pay Trailer Fees from revenue (if any) derived from its operations.

Potential investors are cautioned not to place undue reliance on forward-looking statements, as there can be no assurance that the plans, intentions or expectations upon which they are based will occur. By their nature, forward-looking statements involve numerous assumptions, known and unknown risks and uncertainties, both general and specific, that contribute to the possibility that the predictions, forecasts, projections and other things contemplated by the forward-looking statements will not occur. Although management of the Corporation believes that the expectations represented by such forward-looking statements are reasonable, there can be no assurance that such expectations will prove to be correct. Some of the risks and other factors which could cause results to differ materially from those expressed in the forward-looking statements contained in this Offering Memorandum include those described under Item 8, “*Risk Factors*” in this Offering Memorandum, however, we caution that the list of Risk Factors is not exhaustive.

Events or circumstances could cause the Corporation’s actual results to differ materially from those estimated or projected and expressed in, or implied by, these forward-looking statements. Except as required under applicable securities laws, the Corporation undertakes no obligation to update or otherwise revise any forward-looking statements, whether as a result of new information, future events or otherwise, or the foregoing list of factors affecting this information.

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GLOSSARY OF TERMS

The following is a glossary of certain terms used in this offering memorandum (the “**Offering Memorandum**” or “**the OM**”). Certain terms and abbreviations used in this Offering Memorandum are defined separately herein. Words importing the singular, where the context requires, include the plural and vice versa and words importing any gender include all genders. All dollar amounts herein are in Canadian dollars, unless otherwise stated:

“**ABCA**” means the Alberta Business Corporations Act (Alberta) RSA 2000, c. B-9 and any amendments thereto.

“**Administrative Allowance**” has the meaning set forth in Item 7.2, “*Sales Commission Paid By KV Capital Inc. On Class B Preferred Shares*”.

“**Advisor**” means KV Capital Inc., the Corporation’s advisor pursuant to the Advisory Agreement.

“**Advisory Agreement**” means the Advisory Agreement entered into between the Corporation and KV Capital Inc. on January 14, 2013.

“**Affiliate**” has the meaning ascribed thereto in the ABCA.

“**Borrower**” means a person borrowing under a Bridge Financing Loan or Mortgage Loan, as the case may be.

“**Bridge Financing Loan**” means a short term loan that is secured by an irrevocable direction, registered against Real Property by way of a caveat, to pay from the proceeds of binding contracts to sell such Real Property.

“**Closing**” means the closing date of the sale of the Preferred Shares, which may occur from time to time.

“**Commercial Mortgage**” means a Mortgage that is principally secured by Real Property and which is not a Residential Mortgage.

“**Concurrent Offering**” means the concurrent but separate offering by the Corporation of Class A and Class B Preferred Shares in reliance on prospectus exemptions available under NI 45-106, other than the Offering Memorandum exemption.

“**Credit Facility**” means the credit facility agreement entered into between the Corporation and 579548 Alberta Inc. effective May 5, 2015.

“**Dividend Reinvestment Plan**” or “**DRIP**” means the dividend reinvestment plan of the Corporation.

“**Exempt Market Dealer**” has the meaning ascribed thereto in National Instrument 31-103, *Registration Requirements, Exemptions and Ongoing Registrant Obligations*.

“**First Mortgage**” means a Mortgage having priority over all other financial interests registered as security against the same Real Property as such Mortgage.

“**Fractional Mortgage**” means a Mortgage that is principally secured by an undivided interest in Real Property which is supported by a separate title for that undivided interest.

“**Investment**” means an investment in a Mortgage, such Mortgage being granted as security for repayment of loans advanced pursuant to a Mortgage Loan or a Bridge Financing Loan, as well as investments in Permitted Investments.

“**Investment Fund Manager**” has the meaning ascribed thereto in National Instrument 31-103, *Registration Requirements, Exemptions and Ongoing Registrant Obligations*.

“KV Capital Inc.” means KV Capital Inc., the Manager under the Management Agreement, the Advisor under the Advisory Agreement, and a party related to the Corporation because Shafin Kanji, Aleem Virani and Jonathan Herman control voting shares in both entities, have the power to elect directors of both companies, are Officers of both entities and because Aleem Virani and Shafin Kanji are Directors of both KV Capital Inc. and the Corporation. See Item 2, *“Business Of The Corporation”*.

“Lending Review Committee” means a committee formed to review investments consisting of an Officer of the Advisor and up to five additional parties to be determined by the Board of Directors of the Corporation from time to time.

“Loan to Value” or **“LTV”** means the ratio calculated as of a particular calendar date by dividing the outstanding principal of a Mortgage or Bridge Financing Loan, and in the case of a Second Mortgage includes the outstanding principal of the First Mortgage, by the value of the Real Property mortgaged therein, including any cross collateralized Real Property with an equal position charge on title to the primary Real Property according to the following methodology:

- (a) For non-construction Mortgage Loans:

$$\frac{\text{NCP}}{\text{AIV}}$$

Where:

NCP = principal outstanding under a non-construction Mortgage or Bridge Financing Loan, and in the case of a Second Mortgage includes the principal outstanding on the First Mortgage.

AIV = “as is” value of the Real Property as determined by a third party.

- (b) For construction Mortgage Loans:

$$\frac{\text{CP}}{\text{LV} + \text{CI}}$$

Where:

CP = principal outstanding under a construction Mortgage or Bridge Financing Loan, and in the case of a Second Mortgage includes the principal outstanding on the First Mortgage.

LV = value of land as determined by a third party.

CI = value of completed improvements, accreted according to the following methodology:

- (1) Land servicing costs as (i) the difference between third party determinations of “land only” and “as serviced” values using the percentage of completion method. Percent complete for these purposes is determined by a third party Quantity Surveyor; or (ii) \$1.00 of value for each \$1.00 of verifiable cost incurred when no third party determined “as serviced” value is available.
- (2) Construction costs as the difference between third party determinations of “land only” and “as complete” values using the percentage of completion method. Percent complete for this purpose is determined by site inspections completed by third parties, or alternatively by staff of KV Capital Inc.

“Management Agreement” means the Management Agreement entered into between the Corporation and KV Capital Inc. on January 14, 2013.

“Manager” means KV Capital Inc., the Corporation’s Manager pursuant to the Management Agreement.

“Mortgage” means the granting of an interest in Real Property as security for the repayment of a loan or debt and it includes a First Mortgage, Second Mortgage, Commercial Mortgage, Residential Mortgage, and other forms of security registered against Real Property.

“Mortgage Investment Corporation” or **“MIC”** has the meaning ascribed thereto in the Tax Act.

“Mortgage Loan” means any loan of money that is secured by a Mortgage, whether or not a Fractional Mortgage.

“Net Asset Value” means the stated capital for all outstanding Preferred Shares divided by the total stated capital for all of the Corporation’s securities, with the resulting quotient multiplied by the difference determined by subtracting the Corporation’s total liabilities from the Corporation’s total assets with the resulting product thereof divided by the total number of Preferred Shares outstanding at the calculation date.

“Offering” means the offering and sale of Preferred Shares of the Corporation pursuant to this Offering Memorandum.

“Offering Jurisdictions” means the Canadian provinces of British Columbia, Alberta, Saskatchewan, Manitoba, New Brunswick, Nova Scotia and territory of Northwest Territories.

“Paid Up Capital” means the price per security as documented on the face page of this Offering.

“Permitted Investment” means an investment, other than a Mortgage Investment, which is permitted to be made by a MIC, such as the Corporation, pursuant to the Tax Act. Permitted Investments may be debt or equity, secured or unsecured, and they may be evidenced by a promissory note, loan agreement, or other form of evidence of an indebtedness, and the investment may or may not be made with a party related to the Corporation. See Item 8, *“Risk Factors”*.

“Portfolio” means the portfolio of Mortgages of the Corporation.

“Purchaser” means a person who has duly executed and delivered to the Corporation a Subscription Agreement for Preferred Shares, and which subscription has been accepted by the Corporation.

“Real Property” means land and buildings situated thereon, and anything affixed to the land.

“Redemption Notice” means written instruction from a holder of Preferred Shares and delivered to the Corporation at the address provided herein requesting a redemption of issued and outstanding Preferred Shares of the Corporation.

“Registered Dealer” means a registrant under the securities legislation of the Offering Jurisdictions, as required, in respect of completing this Offering.

“Residential Mortgage” means a Mortgage that is principally secured by “houses” or on property included within a “housing project” (as such terms are defined in section 2 of the National Housing Act, RSC 1985, C N-11).

“Restricted Portfolio Manager” has the meaning ascribed thereto in National Instrument 31-103, *Registration Requirements, Exemptions and Ongoing Registrant Obligations*.

“Second Mortgage” means a Mortgage having priority over all other financial interests other than any First Mortgage registered as security against the same Real Property.

“Subscription Agreement” means the subscription and power of attorney forms that accompany this Offering Memorandum.

“Tax Act” means the Income Tax Act, RSC 1985, c.1(5th Supp.) and any amendments thereto.

“Trailer Fee” has the meaning set forth in Item 7, *“Trailer Fees and Trailer Fees Paid by KV Capital Inc. On Class B Preferred Shares”*.

1. USE OF AVAILABLE FUNDS

1.1 Funds

The funds available to the Corporation as a result of this Offering are as follows:

		Assuming Minimum Offering	Assuming Maximum Offering
A	Amount to be raised by this Offering ⁽¹⁾	\$0	\$30,000,000
B	Selling Commissions and Fees ⁽²⁾	\$0	\$300,000
C	Estimated Offering costs (e.g. legal, accounting, audit, etc.)	\$25,000	\$25,000
D	Available funds: $D = A - (B + C)$	\$(25,000)	\$29,675,000
E	Additional sources of funding required	\$0	\$0
F	Working capital deficiency ⁽³⁾	\$0	\$0
G	Total: $G = (D+E) - F$	\$(25,000)	\$29,675,000

⁽¹⁾ This Offering will not be reduced by any amount raised through the Concurrent Offering.

⁽²⁾ The Corporation pays a Trailer Fee equal to 1.00% per annum of the amount raised under this Offering to Registered Dealers who locate and introduce purchasers of Class A Preferred Shares to the Corporation, and a 1.00% per annum Trailer Fee to KV Capital Inc. in respect of the sale of all Class B Preferred Shares. KV Capital Inc. will pay, from its own resources, to Registered Dealers a sales commission and administrative allowance in amounts equal to 4.00% and 1.00% of the proceeds derived from the sale of Class B Preferred Shares and a Trailer Fee that commences after the fifth anniversary of sales of Class B Preferred Shares equivalent to that paid to it by the Corporation on such sales. See Items 7, “*Compensation To Be Paid To Sellers And Finders*” and 2.7 “*Material Agreements*”. Since inception, Trailer Fees have been funded from earnings of the Corporation; however such costs are nonetheless liabilities of the Corporation regardless of earnings.

⁽³⁾ As of the date of this Offering Memorandum, the Corporation does not have a working capital deficiency.

1.2 Use Of Available Funds

The available funds will be used as follows:

Description of intended use of available funds listed in order of priority	Assuming Minimum Offering	Assuming Maximum Offering
Invest in Investments, which include Mortgage Loans, Bridge Financing Loans and other Permitted Investments that are sourced, administered and underwritten by KV Capital Inc. See Item 2, “ <i>Business Of The Corporation</i> ”. KV Capital Inc. is related to the Corporation because Shafin Kanji, Aleem Virani and Jonathan Herman control voting shares in both entities, have the power to elect directors of both companies, are Officers of both entities and because Aleem Virani and Shafin Kanji are Directors of both KV Capital Inc. and the Corporation.	N/A	\$29,675,000
Total: Equal to G in the Funds table above	\$(25,000)	\$29,675,000

1.3 Reallocation

The Corporation intends to spend the available funds as stated. The Corporation will reallocate funds only for sound business reasons, which business reasons will relate only to the Corporation’s activities as a “Mortgage Investment Corporation” as that term is defined in the Tax Act.

2. BUSINESS OF THE CORPORATION

2.1 Structure

The Corporation was incorporated on January 8, 2009 in the Province of Alberta pursuant to the *Business Corporations Act* (Alberta). The Corporation's name was amended to KV Mortgage Fund Inc. on June 3, 2011 (the Corporation was formerly known as "The Mortgage Corner Investment Fund Ltd.")

KV Capital Inc. was incorporated on August 31, 2006 in the Province of Alberta pursuant to the *Business Corporations Act* (Alberta). The Corporation's name was amended to KV Capital Inc. on June 3, 2011 (the Corporation was formerly known as "The Mortgage Corner Ltd."). KV Capital Inc. is extra provincially registered in British Columbia and Ontario.

Effective January 14, 2013, the Corporation revised the characteristics of all then outstanding Preferred Shares on that date such that all previously issued and outstanding securities would be denominated as Class A Preferred Shares and additionally would be governed by the terms of the Class A Preferred Shares as described herein. The adoption of the amendments were undertaken on the approval of the Board of Directors and were approved by shareholders at a special shareholder meeting held in Edmonton, Alberta on January 14, 2013 in accordance with the requirements of the ABCA. See Item 5, "Offered Securities".

KV Capital Inc. is registered with the Alberta Securities Commission as an Exempt Market Dealer, Investment Fund Manager and Restricted Portfolio Manager (restricted to advising in Mortgages), with the Ontario Securities Commission as an Exempt Market Dealer and Investment Fund Manager and with the British Columbia Securities Commission as an Exempt Market Dealer.

KV Mortgage Fund Inc. is a connected issuer, and may be considered to be a related issuer, of KV Capital Inc. KV Capital Inc. is the Corporation's Manager, Advisor, Restricted Portfolio Manager and Investment Fund Manager in certain jurisdictions, and an Exempt Market Dealer in connection with the distribution of the Corporation's Preferred Shares hereunder.

KV Capital Inc. is related to the Corporation because Shafin Kanji, Aleem Virani and Jonathan Herman control voting shares in both entities, have the power to elect directors of both companies, are Officers of both entities and because Aleem Virani and Shafin Kanji are Directors of both KV Capital Inc. and the Corporation. KV Mortgage Fund Inc. has retained KV Capital Inc. to provide management and advisory services as described under Item 2.7.1 "Management Agreement" and 2.7.2 "Advisor Agreement" and the Corporation has agreed to pay the fees as described therein.

The Corporation pays to KV Capital Inc. all Trailer Fees in respect of Class B Preferred Share sales and KV Capital Inc., from its own corporate funds, pays sales commissions and Trailer Fees to third parties that find and introduce purchasers of Class B Preferred Shares to the Corporation. See Items 7, "Compensation To Be Paid To Sellers And Finders" and 2.7.3 "Amounts Paid By KV Capital Inc. To Third Party Registered Dealers".

2.2 Our Business

The Corporation is a "mortgage investment corporation" ("MIC") as that term is defined in the Tax Act (See Item 6, "Income Tax Consequences And Deferred Plan Eligibility" for the requirements of a MIC under the Tax Act). As a MIC the Corporation is in the business of investing in the Investments, which include investments in Mortgages pursuant to Bridge Financing Loans and Mortgage Loans to builders, developers and owners of Real Property located in Canada, which Bridge Financing Loans and Mortgage Loans are sourced, administered and underwritten by KV Capital Inc. See Item 2, "Business Of The Corporation".

On January 14, 2013, the Corporation entered into the Management Agreement with KV Capital Inc., pursuant to which KV Capital Inc. is responsible for: (a) directing the business, operations and affairs of the Corporation, (b) recommending the organization and reorganization, as the case may be, of the Corporation, (c) managing the Investment portfolio of the Corporation (other than credit adjudication) and taking such actions in relation thereto as it, in its sole discretion, considers necessary or desirable; (d)

providing day to day operations and administrative services for the operations of the Corporation and paying all costs, expenses and overhead relating to the provision of such services; (e) providing the Corporation with an office within KV Capital Inc.'s office premises free of rent, utilities and basic telephone charges (all other costs with respect to the Corporation shall be for the Corporation's own account including, without limitation, legal, audit and general and administrative costs) and (f) generally acting as an Investment Fund Manager and Restricted Portfolio Manager. See Item 2.7.1, "*The Management Agreement*". Accordingly, the Corporation does not now have and does not expect to have any employees other than the Officers listed under Item 3, "*Interests Of Directors, Management, Promoters And Principal Holders*".

On January 14, 2013, the Corporation entered into the Advisory Agreement with KV Capital Inc., pursuant to which KV Capital Inc. will perform a review of each prospective Investment and will advise upon and make recommendations to the Corporation in respect of the same. See Item 2.7.2, "*The Advisory Agreement*".

To the extent that the funds of the Corporation are not invested in Investments from time to time, funds will be held in cash deposited with a Canadian chartered bank or will be invested by KV Capital Inc. on behalf of the Corporation in short term deposits, savings accounts or government guaranteed income certificates so as to maintain a level of working capital for the ongoing operations of the Corporation.

As a MIC, the Corporation is permitted to deduct from its income all dividends paid by the Corporation to its shareholders. The Corporation intends to pay out all of its taxable income and net realized capital gains as dividends within the time period specified in the Tax Act and as a result does not anticipate paying any income tax.

2.2.1 Nature Of Investment Projects

The Corporation invests in Mortgages. In other words, it will lend funds pursuant to Mortgage Loans, secured by First or Second Mortgages registered against Real Property with the appropriate Land Titles Offices.

The Corporation primarily seeks to lend funds on customized terms to borrowers located in Alberta, most of whom require funding on relatively short notice, during the construction of projects when the pre-sale requirements of Canadian financial institutions would not generally have been satisfied, or during a transitional phase in its business development. Borrowers of the Corporation typically use short-term loans and require a bridge period of six months to two years where they require temporary capital for land acquisition, land servicing, construction, property repairs, redevelopment of a property, restructuring or for the purchase of another investment. These short-term loans are typically repaid with proceeds generated on the sale of assets, or are repaid with debt obtained from other sources.

The Corporation believes that this portion of the Canadian borrower market, particularly in western Canada, is typically under-served by Canadian financial institutions which are reluctant to dedicate resources for these smaller, shorter-term mortgage investments and cannot typically provide the customization or meet the funding time frames required for the borrower's needs.

Borrowers of the Corporation generally seek financing to:

- Receive funding quickly in furtherance of executing on real estate investment opportunities;
- Structure loan terms that are consistent with their investment model cash flows and project budgets; and
- Lower monthly payments relative to amortizing conventional loans.

In exchange for accessing the above benefits, borrowers are willing to pay higher interest rates and lender fees than are typically charged by Canadian financial institutions. Under the terms of the Corporation's agreement with KV Capital Inc., all lender fees paid by borrowers are for the exclusive benefit of KV Capital Inc. Historically lender fees charged to borrowers have typically ranged from 1% to 3% of the financing provided. Lender fees are determined by the complexity of the transaction and competition within the market for private financing. Historic interest rates charged on the Corporation's Investments have typically

ranged from 8% to 13%. Interest rates on the Mortgages in which the Corporation invests are determined by KV Capital Inc. to price risk of the transactions and in accordance with competition within the market for private financing.

The Corporation will also lend pursuant to Bridge Financing Loans secured by an irrevocable direction to pay from proceeds of contracts related to Real Property registered by way of caveat against such Real Property, and it may assume existing Mortgage Loans (and related Mortgages) and make other Permitted Investments.

2.2.2 Investment Policies And Portfolio Development

The composition of the Investment portfolio of the Corporation will vary over time depending on the Corporation's assessment of the appropriate strategy given overall market conditions and outlook. The Corporation will endeavor to continue to build and maintain an Investment portfolio that encompasses the following general characteristics:

- (a) Short and intermediate term Investments.
- (b) Payment schedules consisting primarily of interest only.
- (c) Investments in Mortgages on both full ownership and fractional ownership Real Property.
- (d) Investments in Canadian dollars secured on Canadian based Real Property.

2.2.3 Investment Objective And Strategy

The principal investment objective of the Corporation is to provide holders of Preferred Shares with income for distribution or re-investment while preserving capital. The Corporation will seek to achieve this principal investment objective by investing in Mortgages. Income of the Corporation will primarily consist of interest received, less all operational costs including the Management Fee (defined below) paid to KV Capital Inc. and Trailer Fees that may be paid to KV Capital Inc. See Item 2.7.1, "*The Management Agreement*" and Item 2.7.2, "*The Advisory Agreement*" and Item 7 "*Compensation To Be Paid To Sellers And Finders*".

2.2.4 Operating Policies

The Corporation has adopted the following investment criteria and guidelines:

- (a) The Corporation may invest only in Mortgages where the Mortgage Loan or Bridge Financing Loan has a Loan-to-Value ratio of 80% or less, calculated at the date the investment is made.
- (b) All Mortgages in which the Corporation invests will be First Mortgages or Second Mortgages, in either case being a Commercial Mortgage or Residential Mortgage.
- (c) The Corporation's Investments in Second Mortgages will not exceed 30% of its portfolio of Investments as of the date any investment in a Second Mortgage is made.
- (d) Each Investment made by the Corporation will have been reviewed by and received a positive recommendation from KV Capital Inc. during the terms of the Management and Advisory Agreements. In the following circumstances, and as updated from time to time at the discretion of the Lending Review Committee, any Investment made by the Corporation will additionally have been reviewed by and received a positive recommendation from the Lending Review Committee:
 - (1) Mortgage Loans and Bridge Financing Loans having a LTV in excess of 70.00% as of the date the Corporation's Investment is made.

- (2) Any one Investment that represents an excess of 10.00% of the Corporation's portfolio of Investments as of the date the Corporation's Investment is made.
- (3) Investments that collectively represents an excess of 10% of the Corporation's portfolio of Investments secured on the same Real Property as of the date the Corporation's Investment is made.
- (4) Investments in Second Mortgages where the combined outstanding principal balances of the First and Second Mortgages that are secured on the same Real Property is in excess of 10.00% of the Corporation's portfolio of Investments as of the date the Corporation's Investment is made.
- (e) Mortgages may contain clauses permitting the mortgagor, when not in default, to renew the Mortgage for additional terms if agreed to by KV Capital Inc. in its sole discretion. At the discretion of the Directors (as defined below), the Corporation may purchase existing Mortgages.
- (f) The Corporation will not charge any lender fees to borrowers. Lender fees that may be paid by borrowers that are counterparties of the Mortgages in which the Corporation invests are for the benefit of KV Capital Inc. See Item 2.2.1, "*Nature Of Investment Projects*".
- (g) The Corporation may borrow funds for its Investments in amounts up to 20.00% of the book value of the Corporation's portfolio of Investments at an interest rate less than the interest rate charged by the Corporation on the corresponding Investments made with such borrowed funds.
- (h) The Corporation may participate in Investments on a syndicated basis.
- (i) All Mortgage Loans will, following funding, have a Mortgage registered on title to the subject Real Property in the name of the Corporation, one or more of its affiliates or a nominee.
- (j) All Investments will be made in established or developing areas in Canada.
- (k) The Corporation will maintain at least 50.00% of its assets in Mortgages registered as security against residential Real Property or in cash deposits and/or in other Permitted Investments.
- (l) No more than 50.00% of the Corporation's assets will be invested in Mortgages registered as security against commercial and industrial Real Property.
- (m) All Mortgages invested in by way of Bridge Financing Loans will be secured by a caveat registered against title to Real Property and/or an irrevocable assignment of proceeds from the sale of Real Property.
- (n) The Corporation will not make any investment that would result in it failing to qualify as a MIC.
- (o) The Corporation will not invest for the purposes of exercising control over management of any company or other entity.
- (p) The Corporation will not make short sales of securities or maintain a short position in any securities.
- (q) The Corporation will not guarantee the securities or obligations of any person.
- (r) To the extent that funds are not invested in Mortgages from time to time, they will be held in cash deposited with a Canadian chartered bank or will be invested by KV Capital Inc. on behalf of the Corporation in short term deposits, savings accounts or government

guaranteed income certificates or treasury bills so as to maintain a level of working capital for the ongoing operations of the Corporation.

- (s) Any property obtained in settlement of amounts outstanding will be disposed of for a value equal to that property's fair market value. Any transfer of such property to KV Capital Inc., Affiliates of the Corporation, or other non-arm's length parties will not be transferred for less than the total amount outstanding on the associated loan at the time of transfer.
- (t) The Corporation will not loan money to, borrow money from or invest in securities of KV Capital Inc., affiliates of the Corporation or any other non-arm's length party including but not limited to Kanvi Homes Inc. (a party related to Aleem Virani, Shafin Kanji and Jonathan Herman that is actively engaged in residential construction activities independent of the operations of the Corporation).

If, due to change in the provisions of the Tax Act or other legislation applicable to the Corporation, any of the foregoing restrictions require amendment in order to comply with such change in legislation, the Corporation's Directors (the "**Directors**") may make such change and such change will be binding on the Corporation.

KV Capital Inc. will provide the Corporation with assistance from time to time on any revisions to the foregoing policies in order to comply with applicable securities, corporate and tax legislation. In the event of any change in the law, KV Capital Inc. would be expected to inform the Corporation of such change immediately and provide assistance to the Corporation such that it complies with and observes such change upon such change becoming effective. See Item 2.2.3, "*Investment Objective And Strategy*", Item 2.7.1, "*The Management Agreement*" and Item 2.7.2, "*The Advisory Agreement*".

2.2.5 Portfolio Summary

As of the date of this Offering Memorandum the non-cash portion of the Corporation's portfolio consists of the following individual securities:

Property Type	Project Phase	Location	Status ⁽¹⁾	Interest Rate	Principal	Loan to Value ⁽²⁾	Months to Maturity	Position
Residential	Land	AB	Current	13.50%	\$70,177	62%	0	Second
Commercial	Completed	AB	Current	11.00%	\$130,000	56%	5	First
Residential	Land	AB	Current	10.50%	\$140,000	65%	5	First
Residential	Land	AB	Current	11.00%	\$150,000	44%	0	First
Residential	Construction	AB	Current	11.00%	\$150,500	31%	3	First
Residential	Construction	AB	Current	10.50%	\$173,250	51%	7	First
Residential	Completed	AB	Current	10.00%	\$176,250	73%	1	First
Residential	Completed	AB	Current	10.50%	\$220,200	62%	3	First
Residential	Land	AB	Current	10.50%	\$240,000	53%	4	First
Commercial	Completed	AB	Current	10.75%	\$246,690	55%	11	First
Commercial	Land	AB	Current	10.00%	\$250,000	68%	5	First
Residential	Completed	AB	Current	10.50%	\$255,250	70%	3	First
Residential	Completed	AB	Current	10.50%	\$255,864	64%	10	First
Residential	Completed	AB	Arrears	11.00%	\$259,487	46%	0	First
Residential	Land	AB	Current	10.00%	\$271,500	50%	8	First
Residential	Land	AB	Current	10.50%	\$296,000	48%	6	First
Residential	Land	AB	Current	10.50%	\$308,100	68%	10	First
Commercial	Land	AB	Current	10.20%	\$320,000 ⁽³⁾	71%	5	First
Residential	Land	AB	Current	10.50%	\$336,000 ⁽⁴⁾	60%	3	First
Commercial	Construction	AB	Current	14.00%	\$350,000	54%	5	Second
Residential	Land	AB	Current	10.00%	\$362,500	42%	3	First
Residential	Completed	AB	Current	10.00%	\$375,000	69%	8	First

Residential	Completed	AB	Current	10.00%	\$375,000	69%	8	First
Commercial	Land	AB	Current	10.50%	\$445,000	52%	8	First
Residential	Construction	AB	Current	10.50%	\$468,170	73%	10	First
Commercial	Completed	AB	Current	10.00%	\$500,000	63%	3	Second
Residential	Construction	AB	Current	10.00%	\$612,826	65%	2	First
Residential	Construction	AB	Current	10.00%	\$647,000	54%	17	First
Commercial	Land	AB	Current	10.75%	\$650,000	64%	2	First
Residential	Construction	AB	Current	10.50%	\$763,875	57%	2	First
Residential	Construction	AB	Current	10.50%	\$844,730	60%	2	First
Residential	Construction	AB	Current	10.00%	\$879,936	66%	1	First
Residential	Completed	AB	Current	10.00%	\$900,000	50%	3	First
Residential	Construction	AB	Current	10.50%	\$978,000	63%	3	First
Commercial	Completed	AB	Current	12.00%	\$1,050,000	45%	3	First
Residential	Construction	AB	Current	10.25%	\$1,164,163	45%	2	First
Residential	Completed	AB	Arrears	10.25%	\$1,175,000	50%	2	First
Residential	Land	AB	Current	10.00%	\$1,200,000	68%	4	First
Residential	Construction	AB	Current	11.00%	\$1,238,650 ⁽⁴⁾	59%	9	First
Residential	Development	AB	Current	10.50%	\$1,400,000	40%	6	First
Land	Land	AB	Current	10.50%	\$1,480,000	25%	12	First
Commercial	Land	AB	Current	10.50%	\$1,500,000 ⁽³⁾	60%	5	First
Residential	Construction	AB	Current	10.50%	\$1,518,750	63%	7	First
Residential	Construction	AB	Current	10.75%	\$1,691,008	62%	12	First
Residential	Completed	AB	Current	10.75%	\$1,942,858	63%	0	First
Residential	Construction	AB	Current	10.50%	\$2,102,174	46%	2	First
Residential	Construction	AB	Current	10.25%	\$2,430,000	46%	9	First
Commercial	Completed	AB	Current	10.25%	\$2,474,054	60%	1	First
Commercial	Construction	AB	Current	10.00%	\$2,541,654	50%	11	First
Commercial	Completed	AB	Current	10.00%	\$3,000,000	53%	3	First ⁽⁵⁾
Residential	Construction	AB	Current	11.00%	\$3,107,609	57%	5	First
Commercial	Completed	AB	Current	9.75%	\$3,650,000	37%	8	First
Commercial	Completed	ON	Current	8.50%	\$4,690,000	63%	5	First
Residential	Development	AB	Current	10.00%	\$4,891,479	31%	4	First
Commercial	Construction	AB	Current	10.75%	\$5,587,687	41%	4	First
	Total				\$63,236,391			
	Less: portfolio allowance for loan losses				\$nil			
	Net value of portfolio				\$63,236,391			

Generally speaking, the higher the number of mortgages in Arrears, the higher the risk to the investor, since this risk can affect interest income revenue and can tie up revenue which could otherwise be used by the Corporation to invest in performing mortgages and honour redemption requests made by the shareholders. See Item 8.23, “*Risks Related To Mortgage Defaults*”.

As of the date of this Offering Memorandum the individual securities comprising the non-cash portion of the Corporation’s portfolio are grouped for purposes of summarizing the portfolio into categories on the basis of principal as follows:

Grouping Category	Percent of Total Non-Cash Portfolio
Residential Property Type	55%
Commercial Property Type	43%
Other Property Type	2%
First Mortgage Position	98%
Second Mortgage Position	2%
Land Project Phase	13%
Development Project Phase	10%
Construction Project Phase	43%
Completed Project Phase	34%
Other Permitted Investments	0%

2.2.6 Leverage

The Corporation may utilize leverage (the borrowing of capital for investing in mortgages) from time to time at the discretion of the Manager through the Credit Facility arranged by the Manager with 579548 Alberta Inc., an arm's length party which is not related to the Corporation. Subject to complying with the rules to maintain its qualifications as a MIC, under the Credit Facility the Corporation may borrow up to a maximum amount of \$3,000,000. The Manager expects that the Corporation will utilize leverage to bridge timing differences resulting from loan maturities and new loan origination and for general working capital purposes when required. The Credit Facility will bear interest at the Toronto Dominion Bank’s prime lending rate plus 5.5% per annum. As of the date of this Offering Memorandum, the Toronto Dominion Bank’s prime lending rate is 2.85% per annum. Interest on any outstanding principal amount will be calculated daily and is payable monthly in arrears on the first business day of each month.

The Corporation has granted 579548 Alberta Inc. a First Priority security interest in the cash and securities held by the Corporation and also in all current and future Mortgage Investments contained in the Corporation’s Mortgage Portfolio. **This means that the rights of Investors to interest income paid via dividends and to the return of capital via redemption of Shares or through wind-up and dissolution will be subordinate to the right of 579548 Alberta Inc. to be repaid any amounts which may be outstanding under the Credit Facility.** See Item 8, “*Borrowing And Leverage*”.

2.3 Development Of The Business

The Corporation has been conducting business since January 2009 and since that time it has grown its portfolio of Investments to approximately \$63.2 million worth of Mortgages, and has to date raised approximately \$70.19 million through the issuance of 4,887,958.451 Class A Preferred Shares and 2,130,596.102 Class B Preferred Shares. At the request of Preferred Shareholders, the Corporation returned approximately \$6.55 million to prior purchasers of Preferred Shares by processing redemptions of 620,930.659 Class A Preferred Shares, and 33,651.897 Class B Preferred Shares. The Corporation has maintained its contractual relationship with KV Capital Inc. since incorporation through the Management Agreement and the Advisory Agreement, and has paid all of the ongoing operating costs from earnings generated by the Corporation, such that capital invested in the Corporation has been solely used for Investment purposes. As of the date of this Offering the Corporation operates as a going concern, and has achieved the following significant milestones:

- Appointed a board of directors that is comprised of a majority of individuals who are independent of the Manager and the Corporation;
- Appointed a lending review committee that is comprised of a majority of individuals who are independent of the Manager and the Corporation;
- Invested over \$136,452,712 of principal into Mortgage Investments; and
- Received principal repayments in excess of \$73,216,321.

The below table documents the Preferred Shares historical Redemption Price, internal rate of return, return per dollar invested and dollars of dividends declared by the Corporation during the last three (3) years:

	Redemption Price	Internal Rate of Return ⁽¹⁾	Return Per Dollar Invested ⁽²⁾	Dividends Declared
April 2012	\$10.00 per preferred share	8.99%	0.69%	\$54,981
May 2012	\$10.00 per preferred share	9.01%	0.71%	\$58,188
June 2012	\$10.00 per preferred share	9.31%	0.71%	\$58,929
July 2012	\$10.00 per preferred share	9.10%	0.72%	\$59,928
August 2012	\$10.00 per preferred share	9.24%	0.73%	\$62,455
September 2012	\$10.00 per preferred share	9.24%	0.71%	\$61,928
October 2012	\$10.00 per preferred share	9.56%	0.76%	\$66,260
November 2012	\$10.00 per preferred share	9.56%	0.73%	\$65,599
December 2012	\$10.00 per preferred share	9.03%	0.71%	\$69,750
January 2013	\$10.00 per preferred share	7.97%	0.63%	\$68,471
February 2013	\$10.00 per preferred share	10.11%	0.71%	\$85,677
March 2013	\$10.00 per preferred share	8.86%	0.70%	\$99,360
April 2013	\$10.00 per preferred share	9.33%	0.71%	\$112,770
May 2013	\$10.00 per preferred share	8.80%	0.70%	\$124,140
June 2013	\$10.00 per preferred share	9.51%	0.73%	\$136,204
July 2013	\$10.00 per preferred share	9.26%	0.73%	\$146,978
August 2013	\$10.00 per preferred share	9.06%	0.72%	\$151,966
September 2013	\$10.00 per preferred share	9.52%	0.73%	\$161,535
October 2013	\$10.00 per preferred share	8.95%	0.71%	\$168,824
November 2013	\$10.00 per preferred share	8.81%	0.67%	\$197,142
December 2013	\$10.00 per preferred share	9.17%	0.72%	\$231,638
January 2014	\$10.00 per preferred share	9.04%	0.72%	\$241,704
February 2014	\$10.00 per preferred share	9.61%	0.68%	\$248,647
March 2014	\$10.00 per preferred share	9.05%	0.72%	\$274,119
April 2014	\$10.00 per preferred share	9.16%	0.70%	\$299,119
May 2014	\$10.00 per preferred share	8.54%	0.68%	\$302,813
June 2014	\$10.00 per preferred share	8.89%	0.68%	\$312,975
July 2014	\$10.00 per preferred share	8.78%	0.70%	\$333,500
August 2014	\$10.00 per preferred share	8.79%	0.70%	\$353,348
September 2014	\$10.00 per preferred share	9.54%	0.73%	\$380,967
October 2014	\$10.00 per preferred share	8.89%	0.70%	\$382,294
November 2014	\$10.00 per preferred share	8.94%	0.68%	\$379,983
December 2014	\$10.00 per preferred share	9.11%	0.72%	\$411,034
January 2015	\$10.00 per preferred share	8.78%	0.70%	\$403,256
February 2015	\$10.00 per preferred share	9.76%	0.69%	\$407,157
March 2015	\$10.00 per preferred share	8.43%	0.67%	\$404,458

⁽¹⁾ Internal Rate of Return is by definition an annualized value.

⁽²⁾ Return per dollar invested is equal to the dividends that were declared on each dollar invested in Class A or Class B Preferred Shares during the month presented.

These historical dividends do not guarantee that the Corporation will maintain the same level of dividends in the future as payment of dividends is subject to a solvency test as set forth in subsection 43 of the ABCA (the "Solvency Test").

The Solvency Test exists in the ABCA in part to act as a safeguard against the erosion of shareholder capital. The directors must have reasonable grounds for believing that the Corporation can meet both arms of the Solvency Test at the time the dividend is declared and paid. In assessing whether there are reasonable grounds for believing the Corporation will meet the Solvency Test, the directors of the Corporation will consider whether it can meet its liabilities as they come due, and they will consider whether the realizable value of the corporation's assets would, by declaring or paying a dividend, be less than the aggregate of its liabilities and stated capital of all classes. In doing so, the directors must first consider if the Corporation is a going concern. If so, they can then establish the fair market value of the Corporation's assets. This is done by establishing the net present value of the current and performing mortgages based on a reasonable discount. Mortgages that are not fully secured, or collection efforts are not expected to result in full repayment of the mortgage loan, as well as foreclosed properties are valued based on independent appraisals and current real estate industry information on market prices of the underlying real property collateral, less the costs of foreclosure and sale. Upon establishing that the Solvency Test can be met, the Corporation is in a position to distribute dividends. If the Corporation cannot meet the Solvency Test then no dividend distribution can be made. See Item 8.22, "*Fluctuations In Distributions*". **Dividends fluctuate and are not guaranteed.**

2.4 Long Term Objectives

The long term objective (beyond the next 12 months) of the Corporation is to continue to grow its portfolio of Investments and provide existing and new Shareholders of the Corporation with income (by way of dividend) derived by the Corporation from its Investments while preserving capital. The Corporation has specifically targeted investments in Mortgages where the interest rate has enabled it to pay out distributions that meets a targeted annual yield that is set as the two year Government of Canada Bond Yield (series V122538) plus 550 basis points.

The Corporation intends to carry on its business in a manner so that it is qualified and continues to qualify as a "mortgage investment corporation" under the Tax Act.

The Corporation intends to:

- grow its investable assets to at least \$100 million by completing this Offering, subsequent offerings of Class A and Class B Preferred Shares and the Concurrent Offering; and
- deploy its investable assets into Mortgages in accordance with the Corporation's operating policies and investment guidelines. See Item 2.2 "*Our Business*".

2.5 Short Term Objectives And How We Intend To Achieve Them

The short term objectives (over the next 12 months) of the Corporation are:

- (a) to continue raising funds under this Offering and the Concurrent Offering;
- (b) to invest the available funds in Investments in accordance with the operating policies and investment guidelines disclosed above;
- (c) declare dividends to shareholders consistent with past practice; and
- (d) process redemptions of Preferred Shares as and when received, but subject to the ACBA and the Corporation's Articles.

The Corporation intends to do the following to meet these short term objectives over the next twelve (12) months:

What the Corporation must do and how it will be accomplished	Target completion date or, if not known, the number of months to complete	The cost to the Corporation of completion
Continue raising funds under this Offering and the Concurrent Offering with the assistance of KV Capital Inc. by sourcing subscriptions from potential Purchasers through arm's length third parties, the contacts of the Corporation and KV Capital Inc.	12 Months	\$ ⁽¹⁾
With the assistance of KV Capital Inc., source and invest in Investments.	Ongoing	\$ ⁽²⁾
With the assistance of KV Capital Inc., administer the Corporation's portfolio of Investments.	Ongoing	\$ ⁽³⁾

⁽¹⁾ Estimated costs for legal, audit and other professional services associated with completion of this Offering. See Item 1, "Use Of Available Funds".

⁽²⁾ Costs of originating and underwriting the Investments by the Corporation are born by KV Capital Inc. KV Capital Inc. does not receive compensation from the Corporation for its services as an Advisor under the Advisory Agreement, however, all commissions, finder's fees and lender's fees associated with originating and underwriting Investments are paid by the Borrower for the exclusive benefit of KV Capital Inc. without resulting in direct costs to the Corporation. See Item 2.2.1, "Nature of Investment Projects" and Item 2.7.2, "The Advisory Agreement".

⁽³⁾ In any given month, the Corporation allocates 7.50% (inclusive of applicable taxes) of its monthly income to KV Capital Inc. (the "Management Fee"). Payment of the Management Fee to KV Capital Inc. in any given month is contingent on the Corporation generating a monthly net income and comprehensive income (calculated inclusive of the Management Fee) being sufficient to provide an 8.00% annualized return on the opening Paid Up Capital of the Corporation's outstanding Preferred Shares in that month (the "Hurdle Rate"). In the event that the Corporation's monthly net income and comprehensive income would otherwise be insufficient to provide investors with a return equal to or exceeding the Hurdle Rate, the Management Fee in respect of that month is reduced to the extent necessary so that to the extent possible such return is not less than 8.00%, with the intention that the Management Fee paid by the Corporation in any month will be \$0.00 if the Hurdle Rate is not achieved in that month and the return on the opening balance of Preferred Shares will be at least 8.00% when a Management Fee is paid by the Corporation. The calculation of Management Fees and the Hurdle Rate in any given month will not affect the calculation in any subsequent month. See Item 2.7.1, "The Management Agreement".

2.6 **Insufficient Funds**

The funds available as a result of this Offering either may not or will not be sufficient to accomplish all of the Corporation's proposed objectives over the next twelve (12) months. There are no assurances that alternative financing will be available.

2.7 **Material Agreements**

The following summarizes all material agreements to which the Corporation is a party, including any material agreements between the Corporation and any related parties:

2.7.1 **The Management Agreement**

On January 14, 2013, the Corporation entered into the Management Agreement with KV Capital Inc. The Management Agreement is a related party transaction because Shafin Kanji, Aleem Virani and Jonathan Herman control voting shares in both the Corporation and the Manager, have the power to elect directors of both companies, are Officers of both entities and because Aleem Virani and Shafin Kanji are Directors of both the Manager and the Corporation. See Items 2, "Business Of The Corporation", and 8.15, "Conflicts Of Interest". Pursuant to the Management Agreement, KV Capital Inc. is responsible for: (a) directing the business, operations and affairs of the Corporation, (b) recommending the organization or reorganization, as the case may be, of the Corporation, (c) managing the Investment portfolio of the Corporation (other than credit adjudication) and taking such actions in relation thereto as it, in its sole discretion, considers necessary or desirable; (d) providing day to day operations and administrative services for the operations

of the Corporation and paying all costs, expenses and overhead relating to the provision of such services; (e) providing the Corporation with an office within KV Capital Inc.'s office premises free of rent, utilities and basic telephone charges; all other costs with respect to the Corporation shall be for the Corporation's own account including, without limitation, legal, audit, shareholder and Director meetings and shareholder communication costs and (f) generally acting as an Investment Fund Manager and Restricted Portfolio Manager. Without limiting the generality of the foregoing, KV Capital Inc. will in connection with Investments acquired by the Corporation: (i) investigate, select and conduct relations with consultants, borrowers, lenders, mortgagors and other mortgage and investment participants, accountants, mortgage loan originators, mortgage managers, technical advisers, lawyers, underwriters, mortgage brokers and dealers, corporate fiduciaries, escrow agents, depositories, custodians, agents for collection, insurers, insurance agents, banks, builders and developers; to employ, retain and supervise such persons and the services performed or to be performed by such persons and to substitute any such party or itself for any other such party or for itself; (ii) provide those services as may be required relating to the collection, handling, prosecuting and settling of any claims in respect of the Corporation's Investments, including foreclosing and otherwise enforcing mortgages and other liens and security interest securing our Investments; (iii) act on the Corporation's behalf as nominee or agent in connection with acquisitions or dispositions of Investments, the execution of deeds, mortgages or other instruments in writing for or on the Corporation's behalf and the handling, prosecuting and settling of any claims relating to the Corporation's Investments; (iv) generally perform such other acts as a commercial mortgage loan administrator would perform in the management of similar Investments including servicing and administering the Investments of the Corporation, holding the Corporation's interest in Investments as nominee and bare trustee for and on the Corporation's behalf, completing progress or other advances under Investments subject to receipt of funds, monitoring Investments, tracking the status of outstanding payments, grace periods (if any) and due dates, calculating and assessing other applicable charges relating to Investments, making reasonable efforts to collect all payments on account of principal and interest (or other distributions payable on Investments) and to the extent reasonably possible, causing the borrower to perform its obligations under the related loan, maintaining records and accounts in respect of each Investment, remitting to the Corporation all amounts received on account of the Corporation's interest in Investments, and on a monthly basis and from time to time forwarding to the Corporation reports in respect of all of the Corporation's Investments as can be reasonably expected.

In any given month, the Corporation allocates 7.50% (inclusive of applicable taxes) of its monthly income to KV Capital Inc. (the "Management Fee"). Payment of the Management Fee to KV Capital Inc. in any given month is contingent on the Corporation generating a monthly net income and comprehensive income (calculated inclusive of the Management Fee) being sufficient to provide an 8.00% annualized return on the opening Paid Up Capital of the Corporation's outstanding Preferred Shares in that month (the "Hurdle Rate"). In the event that the Corporation's monthly income and comprehensive income would otherwise be insufficient to provide investors with a return equal to or exceeding the Hurdle Rate, the Management Fee in respect of that month is reduced to the extent necessary so that to the extent possible such return is not less than 8.00%, with the intention that the Management Fee paid by the Corporation in any month will be \$0.00 if the Hurdle Rate is not achieved in that month and the return on the opening balance of Preferred Shares will be at least 8.00% when a Management Fee is paid by the Corporation. The calculation of Management Fees and the Hurdle Rate in any given month will not affect the calculation in any subsequent month.

KV Capital Inc. may charge from time to time administrative fees, Not Sufficient Funds (NSF) fees and similar fees to applicable Borrowers with respect to the Investments; historically NSF fees have been charged at the rate of \$250.00 or less per payment returned NSF. KV Capital Inc. shall endeavor to collect the amount of all costs incurred or advance made from the applicable Borrowers but, in all events, the Corporation (and any other co-lenders) shall indemnify KV Capital Inc. for and shall pay to KV Capital Inc. such costs within 30 business days of demand by KV Capital Inc. plus interest at the interest rate payable by the applicable Borrower respecting such Investment. KV Capital Inc. has an unsecured lien over the Corporation's assets for any of the costs described above which remain unpaid 30 business days after demand. **This means that the rights of Investors to interest income paid via dividends and to the return of capital via redemption of Shares or through wind-up and dissolution will be subordinate to the right of KV Capital Inc. to be repaid any amounts which may be outstanding under the**

aforementioned unsecured lien. See Item 8.32, “*Manager Lien Over The Corporation’s Assets*”. The Corporation agrees not to hold KV Capital Inc. liable for any losses, damages or costs resulting from unpaid costs.

KV Capital Inc., or its principals or affiliates, may purchase with their own funds and own as co-lenders, interests in the Investments. KV Capital Inc., or its principals or Affiliates are not required to disclose such co-investments on an ongoing basis. See Items 2.2.4, “*Operating Policies*” and 8.15, “*Conflicts Of Interest*”.

The Management Agreement will continue in force until terminated by the Corporation upon (i) a bankruptcy, receivership or liquidation order issued against KV Capital Inc.; (ii) KV Capital Inc. making an assignment for the benefit of creditors or committing an act of bankruptcy within the meaning of the *Bankruptcy and Insolvency Act* (Canada); (iii) KV Capital Inc. assigning the Management Agreement or its rights or obligations thereunder to any person who is not an affiliate of KV Capital Inc. without the prior written consent of the Corporation, such consent to not be unreasonably withheld; (iv) KV Capital Inc. committing a breach or default under the Management Agreement not related to the payment of any money to be paid by KV Capital Inc. to the Corporation and the same is not cured within 90 days of KV Capital Inc. receiving notice thereof; (v) KV Capital Inc. committing a breach or default under the Management Agreement related to the payment of any money to be paid by KV Capital Inc. to the Corporation and the same is not cured within 15 days of KV Capital Inc. receiving notice thereof; or (vi) KV Capital Inc. receiving payment of an amount equal to the weighted average monthly Management Fee for the previous 12 months. KV Capital Inc. may terminate the Management Agreement upon (i) a bankruptcy, receivership or liquidation order issued against the Corporation; (ii) the Corporation making an assignment for the benefit of its creditors or commits an act of bankruptcy within the meaning of the *Bankruptcy and Insolvency Act* (Canada); or (iii) KV Capital Inc. giving one year written notice to the Corporation of intention to terminate the Management Agreement.

The Management Agreement may also be terminated by mutual consent in writing.

Under the terms of the Management Agreement, the Corporation shall indemnify and hold harmless KV Capital Inc., and its Affiliates, and their respective directors, officers, employees, agents and shareholders (together, the “Indemnified Parties”), from and against any and all claims, actions, suits, proceedings, demands, assessments, judgments, losses, damages, liabilities, expenses, costs (including all legal fees and costs on a solicitor and his own client basis) to which the Indemnified Parties, may be put or suffer as a result of KV Capital Inc. performing its duties under the Management Agreement other than gross negligence or willful blindness and, without limiting the generality of the foregoing, the Corporation will save, indemnify, and hold the Indemnified Parties harmless from and against the following: i) a misrepresentation or breach of any direct or indirect representation or warranty made by the Corporation to its shareholders; ii) any failure by the Corporation to comply with applicable legislation in connection with the sale of securities in the capital of the Corporation except to the extent they relate to the obligations of KV Capital Inc. as a Registered Dealer acting on behalf of the Corporation; and iii) any failure or default of a borrower of the Corporation or any failure or defect in the mortgage security or any other security securing any loan made by the Corporation.

2.7.2 The Advisory Agreement

On January 14, 2013, the Corporation entered into the Advisory Agreement with the Manager. The Advisory Agreement is a related party transaction because Shafin Kanji, Aleem Virani and Jonathan Herman control voting shares in both the Corporation and the Manager, have the power to elect directors of both companies, are Officers of both entities and because Aleem Virani and Shafin Kanji are Directors of both the Manager and the Corporation. See Item 8.15, “*Conflicts Of Interest*”. Pursuant to the Advisory Agreement, KV Capital Inc. will perform a review of each prospective Investment and will advise upon and make recommendations to the Corporation in respect of the same. KV Capital Inc. may charge a fee to borrowers in respect of such review, which fee will be the exclusive responsibility of the applicable borrower without any resulting direct cost to the Corporation. All such fees paid by borrowers are for the exclusive benefit of KV Capital Inc. In addition to reviewing Investments, pursuant to the Advisory Agreement KV Capital Inc. may source Investments directly for the Corporation and any commissions, advisor fees, finder's fees or other such fees in relation thereto will also be the exclusive responsibility of the applicable borrower without

any resulting direct cost to the Corporation and all such fees will be for the exclusive benefit of KV Capital Inc. See Item, 2.2 “*Nature Of Investments*”.

The Advisory Agreement will continue in force for an indefinite period unless terminated by the Corporation on one year written notice to KV Capital Inc. of its intention to terminate the Advisory Agreement or payment in lieu thereof equal to the weighted average compensation paid to KV Capital Inc. by all Borrowers for the previous one year period.

KV Capital Inc., or its principals or Affiliates, may purchase with their own funds and own as co-lenders, interests in the Investments. KV Capital Inc., or its principals or Affiliates are not required to disclose such co-investments on an ongoing basis. See Items 2.2.4, “*Operating Policies*” and 8.15, “*Conflicts Of Interest*”.

2.7.3 Amounts Paid By KV Capital Inc. To Third Party Registered Dealers

Effective January 14, 2013 KV Capital Inc. entered into an agreement (the “Amounts Paid by KV Capital Inc. to Third Party Registered Dealers Agreement”) with the Corporation to pay Trailer Fees, sales commissions and an administrative allowance on sales of the Corporation’s Class B Preferred Shares to Registered Dealers in exchange for receiving certain Trailer Fees paid by the Corporation to KV Capital Inc. in respect of such sales. Under the arrangement, the following amounts are payable by the Corporation to KV Capital Inc. upon the processing of any redemptions of Class B Preferred Shares: See Item 7.1 “*Trailer Fees*”, Item 7.2 “*Sales Commissions Paid By KV Capital Inc. On Class B Preferred Shares*” and Item 7.3 “*Trailer Fees Paid By KV Capital Inc. On Class B Preferred Shares*”.

- (1) on Redemption Notices within 12 months after any holder of Class B Preferred Shares becomes a shareholder – 6.00% of the aggregate redemption transaction proceeds;
- (2) on Redemption Notices dated between 12 and 24 months after any holder of Class B Preferred Shares becomes a shareholder – 5.00% of the aggregate redemption transaction proceeds;
- (3) on Redemption Notices dated between 24 and 36 months after any holder of Class B Preferred shares becomes a shareholder – 4.00% of the aggregate redemption transaction proceeds;
- (4) on Redemption Notices dated between 36 and 48 months after any holder of Class B Preferred Shares becomes a shareholder – 3.00% of the aggregate redemption transaction proceeds;
- (5) on Redemption Notices dated between 48 and 60 months after any holder of Class B Preferred Shares becomes a shareholder – 2.00% of the aggregate redemption transaction proceeds; and
- (6) on Redemption Notices dated after 60 months after any holder of Class B Preferred Shares becomes a shareholder – 0.00% of the aggregate redemption transaction proceeds.

2.7.4 KV Capital Inc. Distributing As A Related Party Registered Dealer

Pursuant to a Distribution Agreement entered into between KV Capital Inc. and the Corporation dated effective January 14, 2013, the Corporation has appointed KV Capital Inc., on a non-exclusive basis to act as dealer on its behalf in connection with the Offering. KV Capital has agreed to use its reasonable efforts to find Purchasers of the Preferred Shares of the Corporation subject to the terms and conditions of this Offering Memorandum.

In consideration of the services performed by KV Capital Inc. as a Registered Dealer, the Corporation has agreed to pay Trailer Fees to KV Capital Inc. for any Purchasers of the Preferred Shares that it locates and introduces to the Corporation. Trailer Fees paid by the Corporation to KV Capital Inc. in respect of Purchasers of Preferred Shares that it introduces to the Corporation are equal to the Trailer Fees paid by the Corporation in respect of Purchasers referred to it by third party Registered Dealers and will:

- be equal to 1.00% per annum of the Paid Up Capital invested into Class A or Class B Preferred Shares by such Purchasers;

- be paid on Class A and Class B Preferred Shares issued under the DRIP to such Purchasers, if any;
- with respect to the Class A or Class B Preferred Share for which it is paid, start and continue for as long as the Class A or Class B Preferred Share of such Purchasers remain outstanding; and
- be calculated and paid on Class A or Class B Preferred Shares of such Purchasers that are outstanding on the Corporation's fiscal quarters.

For greater clarity and without limiting the generality of the preceding, all Purchasers of the Corporation's Preferred Shares are subject to the same terms as every other shareholder regardless of the Registered Dealer that introduced them to the Corporation. See Item 5.1, "*Terms Of Preferred Shares (Class A And B)*", 7.1, "*Trailer Fees*", 7.2, "*Sales Commission Paid By KV Capital Inc. On Class B Preferred Shares*", 7.3, "*Trailer Fees Paid By KV Capital Inc. On Class B Preferred Shares*" and 2.7.3, "*Amounts Paid By KV Capital Inc. To Third Party Registered Dealers*".

Under the terms of the Distribution Agreement between the Corporation and KV Capital Inc., the Corporation has agreed to indemnify KV Capital Inc. and each of its directors, officers and employees and save them harmless against all losses, claims, damages or liabilities: i) existing by reason of an untrue statement contained in the Offering Memorandum or Subscription Agreement (other than the portion completed by the Purchasers) by reason of the omission to state any fact necessary to make such statements not misleading; ii) arising directly or indirectly out of any cease trade order made by any regulatory authority based on an allegation that any such untrue statement or representation, or omission exists; or iii) resulting from any failure by such Issuer to file the Offering Memorandum as required by the Act or prepare an amendment or supplement to it as required by the Act.

KV Capital Inc. will in turn indemnify the Corporation and each of its respective directors, officers and employees and save them harmless against all losses, claims damages or liabilities arising out of or based upon: i) any unauthorized verbal or written communication in connection with the Offering made by the KV Capital Inc. or its sub-agents or their respective principals, directors, officers, employees, representatives, affiliates or their respective agents; ii) a material breach by KV Capital Inc. of any term, condition, representation, warranty or covenant set forth in the distribution agreement between KV Capital Inc. and the Corporation; or iii) the failure of any purchaser of Securities connected with KV Capital Inc. to meet the eligibility or accreditation requirements.

3. INTERESTS OF DIRECTORS, MANAGEMENT, PROMOTERS AND PRINCIPAL HOLDERS

3.1 Compensation And Securities Held

The following table sets forth information about each Director, Officer and promoter of the Corporation and each person who directly or indirectly, beneficially owns or controls 10% or more of any class of voting securities of the Corporation (a "**Principal Holder**"):

Name and municipality of principal residence	Positions held (e.g., director, officer, promoter and/or Principal Holder) and the date of obtaining such position	Compensation paid by issuer or related party in the most recently completed financial year (or since inception if applicable) and the compensation anticipated to be paid in the current financial year	Number, type and percentage of securities of the Corporation held after completion of the minimum offering	Number, type and percentage of securities of the Corporation held after completion of the maximum offering
Shafin Kanji Edmonton, Alberta	Chief Executive Officer, Director, Lending Review Committee Member, Promoter and Principal Holder since January 8, 2009	Fiscal 2015: \$180,000 ⁽¹⁾ Expected fiscal 2016: \$250,000 ⁽¹⁾	100 Class A Common Shares (25%) 54,734.643 Class A Preferred Shares (0.860%)	100 Class A Common Shares (25%) 54,734.643 Class A Preferred Shares (0.584%)
Aleem Virani Edmonton, Alberta	President, Director, Promoter and Principal Holder since January 8, 2009	Fiscal 2015: \$180,000 ⁽¹⁾ Expected fiscal 2016: \$250,000 ⁽¹⁾	100 Class A Common Shares (25%) 21,110.482 Class A Preferred Shares (0.332%)	100 Class A Common Shares (25%) 21,110.482 Class A Preferred Shares (0.225%)
Jonathan Herman Edmonton, Alberta	Secretary/Treasurer since June 1, 2012, Chief Financial Officer since August 2012, Promoter and Principal Holder since September 13, 2011	Fiscal 2015: \$150,000 ⁽¹⁾ Expected fiscal 2016: \$180,000 ⁽¹⁾	100 Class A Common Shares (25%) 5,000.000 Class B Preferred Shares (0.079%)	100 Class A Common Shares (25%) 5,000.000 Class B Preferred Shares (0.053%)
Farhan Virani Edmonton, Alberta	Principal Holder since September 13, 2011	Fiscal 2015: \$180,000 ⁽¹⁾ Expected fiscal 2016: \$250,000 ⁽¹⁾	100 Class A Common Shares (25%) 35,619.734 Class A Preferred Shares (0.560%)	100 Class A Common Shares (25%) 35,619.734 Class A Preferred Shares (0.380%)
Marc Prefontaine Edmonton, Alberta	Director and Lending Review Committee member since June 1, 2012	Fiscal 2015: \$12,484 Expected fiscal 2016: \$14,000	6,207.693 Class A Preferred Shares (0.098%)	6,207.693 Class A Preferred Shares (0.066%)
Paul Allard Edmonton, Alberta	Director and Lending Review Committee member since September 1, 2013	Fiscal 2015: \$11,725 Expected fiscal 2016: \$14,500	37,472.622 Class A Preferred Shares (0.589%)	37,472.622 Class A Preferred Shares (0.400%)
Ralph Young Edmonton, Alberta	Director since October 30, 2014 and Lending Review Committee member since December 11, 2014	Fiscal 2015: \$3,667 Expected fiscal 2016: \$12,000	Nil	Nil
KV Capital Inc. ⁽²⁾ Edmonton, Alberta	Promoter since January 8, 2009	Fiscal 2015: \$2,152,403 ⁽³⁾ Expected fiscal 2016: \$3,250,000 ⁽³⁾	2,063.472 Class B Preferred Shares (0.032%)	2,063.472 Class B Preferred Shares (0.022%)

⁽¹⁾ Compensation disclosed includes a portion of the recipient's compensation paid by KV Capital Inc. on the basis of assets under management.

⁽²⁾ KV Capital Inc. is controlled by Kanvi Group Inc. Aleem Virani, Shafin Kanji and Farhan Virani indirectly control more than 50% of Kanvi Group Inc.

⁽³⁾ Compensation is paid pursuant to the Management Agreement and Advisory Agreement and it includes an allocation of revenues earned by KV Capital Inc. that were paid by borrowers to KV Capital Inc. on the basis of assets under management.

3.2 Management Experience

The following table discloses the principal occupation of the Directors and Officers of the Corporation over the past five (5) years:

Name	Principal occupations and related experience
Shafin Kanji	Mr. Kanji, a Chartered Accountant and Chartered Business Valuator, is a founding principal of KV Capital Inc., a private mortgage brokerage, Exempt Market Dealer, Restricted Portfolio Manager, Investment Fund Manager and real estate investment company. Previously, Mr. Kanji served as the CEO of JER Envirotech Ltd., and as the COO and CFO at Matrikon Inc. Mr. Kanji has extensive experience while working with KPMG LLP in the areas of fraud investigation and business valuations as well as in real estate development and construction through his current involvement as a founding principal of Edmonton based Kanvi Homes Inc. Mr. Kanji has served as a Director and Officer of KV Capital Inc. since inception in August of 2006. Mr. Kanji has served as a Director and Chief Executive Officer of the Corporation since inception in January of 2009.
Aleem Virani	Mr. Virani, a Chartered Accountant and Chartered Business Valuator, is a founding principal of KV Capital Inc., a private mortgage brokerage, Exempt Market Dealer, Restricted Portfolio Manager, Investment Fund Manager and real estate investment company. Previously, Mr. Virani held the Controller position for Trans Global Group of Companies (subsidiary of the Brick Group Income Fund) and prior to that was with Kingston Ross Pasnak LLP specializing in the areas of business valuations and litigation support, and a public accountant at Deloitte and Touche LLP. Mr. Virani also has experience in real estate development and construction through his current involvement as a founding principal of Edmonton based Kanvi Homes Inc. Mr. Virani has served as a Director and the President of KV Capital Inc. since inception in August of 2006. Mr. Virani has served as a Director and the President of the Corporation since inception in January of 2009.
Jonathan Herman	Mr. Herman, a Chartered Accountant, is an Officer of KV Capital Inc., a private mortgage brokerage, Exempt Market Dealer, Restricted Portfolio Manager, Investment Fund Manager and real estate investment company. Previously, Mr. Herman was a public accountant with Deloitte and Touche LLP, and prior to that served as a Tax Officer with Alberta Finance Tax & Revenue Administration. Mr. Herman has served as the Chief Financial Officer of KV Capital Inc. since August of 2012, and was the firm's Controller from July of 2011 until July of 2012. Mr. Herman has served as the Corporation's Chief Financial Officer since August of 2012 and as the Secretary and Treasurer since June of 2012.
Marc Prefontaine	Mr. Prefontaine is a Senior Director with MCAP in the Edmonton Real Estate Finance Group, and a founding member of the Edmonton office of MCAP. Mr. Prefontaine has over 13 years of experience in the Canadian mortgage banking industry with originating, underwriting, adjudication, servicing, asset management and default management of mortgages. Mr. Prefontaine has served as a Director of the Corporation since June of 2012.
Paul Allard	Mr. Allard holds a Masters degree in Business Administration and is the Vice President of Allard Developments, where he has been actively involved for the last 14 years in executing residential and commercial real estate development projects. During this time he has also held positions with the Canadian Western Bank Group and sat as a Director of Vero Energy. In addition to his current position as a Director and interim Chairman of the Board of Directors with the Corporation, Mr. Allard is also an active Director of the Highbury Foundation (charitable organization). Mr. Allard has served as a Director of the Corporation since September of 2013.
Ralph Young	Mr. Young holds a Masters degree in Business Administration and is the 20 th Chancellor of the University of Alberta. He chairs the University of Alberta Senate, serves as a member of the Board of Governors and represents the public interest in the University. Previously Mr. Young held the Chief Executive Officer position with Melcor Developments Ltd., where he retired in July 2013 after a 42 year career in the real estate development industry. Mr. Young has previously served on the boards of the Winspear Concert Hall Society, the Citadel Theatre, MacEwan University, Alberta College, the Edmonton Eskimos Football Club, the Rotary Club and the City of Edmonton Centennial Committee. He also served as a Director or trustee with the Caritas Health Group, Alberta Heritage Foundation for Medical Research and Alberta Innovates – Health Solutions, and he is a past President of the University of Alberta Alumni Council and the School of Business Advisory Council. In addition to his current position as a Director of the Corporation he also currently serves on the Boards of Melcor Development Ltd., Melcor REIT, The Edmonton Regional Airport Authority, ZCL Composites Inc., the Citadel Theatre, The TELUS Edmonton Community Board, and is a member of the Rotary Club of Edmonton and the Association of Professional Engineers of Alberta. Mr. Young has served as a Director of the Corporation since October 30, 2014.

3.3 Penalties, Sanctions And Bankruptcy

No penalty or sanction is now in effect or has been in effect during the last ten (10) years, and no cease trade order that has been in effect for a period of more than 30 consecutive days has been in effect during the past 10 years against (i) a Director, executive officer or control person of the Corporation; or (ii) an issuer of which a person referred to in (i) was a Director, executive officer or control person at the time.

No declaration of bankruptcy, voluntary assignment in bankruptcy, proposal under any bankruptcy or insolvency legislation, proceeding, arrangement or compromise with creditors or appointment of a receiver, receiver manager or trustee to hold assets has been in effect during the last 10 years with regard to any (i) Director, executive officer or control person of the Corporation; or (ii) an issuer of which a person referred to in (i) was a Director, executive officer or control person at the time.

3.4 Loans

No debenture or loan due to or from the Directors, management, promoters and Principal Holders exist or existed 30 days prior to the date of this Offering Memorandum.

4. CAPITAL STRUCTURE

4.1 Share Capital

Description of Security	Number authorized to be issued	Price per security	Number outstanding as at the date hereof	Number outstanding after minimum Offering ⁽²⁾	Number outstanding after maximum Offering ⁽²⁾
Class A Common Shares ⁽¹⁾	Unlimited	\$2.50 per Class A Common Share	400	400	400
Class A Preferred Shares	Unlimited	\$10.00	4,267,833.128	4,267,833.128	9,364,777.333 combination of Class A and Class B Preferred Shares
Class B Preferred Shares	Unlimited	\$10.00	2,096,944.205	2,096,944.205	

⁽¹⁾ The holders of the Corporation's Class A Common Shares are entitled to dividends as and when declared by the Directors as long as such dividend will not have the effect of reducing the net assets, including goodwill, of the Corporation to an amount insufficient to enable the repurchase or redemption by the Corporation of all of the Preferred Shares issued and outstanding. The holders of Class A Common Shares are also entitled to notice of and one vote per share at meetings of the shareholders of the Corporation, except meetings at which only the holders of a particular class of shares other than Class A Common Shares may vote as prescribed by the *Business Corporations Act* (Alberta). Upon liquidation or dissolution of the Corporation, holders of Class A Common Shares are entitled to receive such assets as are distributable to the holders of all Common Shares, subject to the rights of holders of any series of outstanding Preferred Shares.

⁽²⁾ Amounts assume no redemptions, and no issuances pursuant to the DRIP or the Concurrent Offering.

4.2 Long Term Debt

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

Description of long term debt (including whether secured)	Interest Rate	Repayment terms	Amount outstanding at May 5, 2015
Nil	N/A	N/A	N/A

4.3 Prior Sales

During the last twelve (12) months, the Corporation has issued the following Preferred Shares or securities convertible or exchangeable into Preferred Shares:

Date of issuance	Type of security issued	Number of securities issued	Price per security	Total funds received
May 13, 2014	Class A Preferred Shares	81,000	\$10.00	\$810,000
May 13, 2014	Class B Preferred Shares	31,980	\$10.00	\$319,800
May 15, 2014	Class A Preferred Shares	(850)	\$10.00	\$(8,500)
May 15, 2014	Class B Preferred Shares	1,000	\$10.00	\$10,000
May 23, 2014	Class B Preferred Shares	18,257	\$10.00	\$182,570
May 31, 2014	DRIP Class A Preferred Shares	10,421.6	\$10.00	\$104,216
May 31, 2014	DRIP Class B Preferred Shares	4,226.5	\$10.00	\$42,265
June 02, 2014	Class A Preferred Shares	(99,282.6)	\$10.00	\$(992,826)
June 02, 2014	Class B Preferred Shares	(1,100)	\$10.00	\$(11,000)
June 04, 2014	Class A Preferred Shares	41,070	\$10.00	\$410,700
June 04, 2014	Class B Preferred Shares	5,600	\$10.00	\$56,000
June 17, 2014	Class A Preferred Shares	165,500	\$10.00	\$1,655,000
June 17, 2014	Class B Preferred Shares	15,164	\$10.00	\$151,640
June 20, 2014	Class B Preferred Shares	6,000	\$10.00	\$60,000
June 23, 2014	Class B Preferred Shares	1,500	\$10.00	\$15,000
June 30, 2014	DRIP Class A Preferred Shares	10,675.7	\$10.00	\$106,757
June 30, 2014	DRIP Class B Preferred Shares	4,436	\$10.00	\$44,360
July 02, 2014	Class A Preferred Shares	(14,867.5)	\$10.00	\$(148,675)
July 02, 2014	Class B Preferred Shares	24,892.7	\$10.00	\$248,927
July 09, 2014	Class B Preferred Shares	2,500	\$10.00	\$25,000
July 11, 2014	Class B Preferred Shares	5,000	\$10.00	\$50,000
July 15, 2014	Class A Preferred Shares	6,485	\$10.00	\$64,850
July 15, 2014	Class B Preferred Shares	5,000	\$10.00	\$50,000
July 31, 2014	DRIP Class A Preferred Shares	10,988.3	\$10.00	\$109,883
July 31, 2014	DRIP Class B Preferred Shares	4,769	\$10.00	\$47,690
August 01, 2014	Class A Preferred Shares	54,695.7	\$10.00	\$546,957
August 01, 2014	Class B Preferred Shares	37,647.6	\$10.00	\$376,476
August 05, 2014	Class A Preferred Shares	145,000	\$10.00	\$1,450,000
August 11, 2014	Class A Preferred Shares	6,000	\$10.00	\$60,000
August 11, 2014	Class B Preferred Shares	6,850	\$10.00	\$68,500
August 14, 2014	Class B Preferred Shares	1,500	\$10.00	\$15,000
August 18, 2014	Class A Preferred Shares	6,000	\$10.00	\$60,000
August 18, 2014	Class B Preferred Shares	8,408	\$10.00	\$84,080
August 31, 2014	DRIP Class A Preferred Shares	11,135.5	\$10.00	\$111,355
August 31, 2014	DRIP Class B Preferred Shares	4,856.6	\$10.00	\$48,566
September 02, 2014	Class A Preferred Shares	15,058.6	\$10.00	\$150,586

September 02, 2014	Class B Preferred Shares	6,172.7	\$10.00	\$61,727
September 16, 2014	Class A Preferred Shares	29,500	\$10.00	\$295,000
September 16, 2014	Class B Preferred Shares	15,924	\$10.00	\$159,240
September 19, 2014	Class A Preferred Shares	150,000	\$10.00	\$1,500,000
September 19, 2014	Class B Preferred Shares	5,197.4	\$10.00	\$51,974
September 22, 2014	Class B Preferred Shares	9,000	\$10.00	\$90,000
September 23, 2014	Class A Preferred Shares	15,000	\$10.00	\$150,000
September 30, 2014	DRIP Class A Preferred Shares	12,208.4	\$10.00	\$122,084
September 30, 2014	DRIP Class B preferred Shares	5,163.8	\$10.00	\$51,638
October 01, 2014	Class A Preferred Shares	1,000	\$10.00	\$10,000
October 01, 2014	Class B Preferred Shares	15,500	\$10.00	\$155,000
October 03, 2014	Class A Preferred Shares	12,000	\$10.00	\$120,000
October 03, 2014	Class B Preferred Shares	11,058.8	\$10.00	\$110,588
October 08, 2014	Class B Preferred Shares	10,000	\$10.00	\$100,000
October 15, 2014	Class A Preferred Shares	40,000	\$10.00	\$400,000
October 16, 2014	Class B Preferred Shares	8,847	\$10.00	\$88,470
October 27, 2014	Class B Preferred Shares	6,600	\$10.00	\$66,000
October 31, 2014	DRIP Class A Preferred Shares	12,478.6	\$10.00	\$124,786
October 31, 2014	DRIP Class B Preferred Shares	5,135	\$10.00	\$51,350
November 03, 2014	Class A Preferred Shares	(17,634)	\$10.00	(\$176,340)
November 10, 2014	Class A Preferred Shares	103,890	\$10.00	\$1,038,900
November 10, 2014	Class B Preferred Shares	34,730	\$10.00	\$347,300
November 13, 2014	Class A Preferred Shares	8,965	\$10.00	\$89,650
November 13, 2014	Class B Preferred Shares	1,000	\$10.00	\$10,000
November 30, 2014	DRIP Class A Preferred Shares	12,237.7	\$10.00	\$122,377
November 30, 2014	DRIP Class B Preferred Shares	5,159.2	\$10.00	\$51,592
December 01, 2014	Class B Preferred Shares	(3,159.7)	\$10.00	(\$31,597)
December 04, 2014	Class A Preferred Shares	28,315	\$10.00	\$283,150
December 04, 2014	Class B Preferred Shares	14,000	\$10.00	\$140,000
December 12, 2014	Class A Preferred Shares	2,100	\$10.00	\$21,000
December 12, 2014	Class B Preferred Shares	43,702	\$10.00	\$437,020
December 17, 2014	Class B Preferred Shares	16,524	\$10.00	\$165,240
December 23, 2014	Class A Preferred Shares	47,500	\$10.00	\$475,000
December 23, 2014	Class B Preferred Shares	4,100	\$10.00	\$41,000
December 31, 2014	DRIP Class A Preferred Shares	13,108.2	\$10.00	\$131,082
December 31, 2014	DRIP Class B Preferred Shares	5,702.2	\$10.00	\$57,022
January 05, 2015	Class A Preferred Shares	(23,000)	\$10.00	(\$230,000)
January 05, 2015	Class B Preferred Shares	(9,974.8)	\$10.00	(\$99,748)
January 19, 2015	Class A Preferred Shares	59,000	\$10.00	\$590,000
January 19, 2015	Class B Preferred Shares	34,176	\$10.00	\$341,760
January 31, 2015	DRIP Class A Preferred Shares	13,036.7	\$10.00	\$130,367

January 31, 2015	DRIP Class B Preferred Shares	5,701.6	\$10.00	\$57,016
February 05, 2015	Class A Preferred Shares	(32,000)	\$10.00	(\$320,000)
February 13, 2015	Class A Preferred Shares	3,500	\$10.00	\$35,000
February 13, 2015	Class B Preferred Shares	46,800	\$10.00	\$468,000
February 23, 2015	Class A Preferred Shares	10,052.4	\$10.00	\$100,524
February 23, 2015	Class B Preferred Shares	13,555	\$10.00	\$135,550
February 26, 2015	Class A Preferred Shares	14,417	\$10.00	\$144,170
February 26, 2015	Class B Preferred Shares	12,200	\$10.00	\$122,000
February 27, 2015	Class A Preferred Shares	62,500	\$10.00	\$625,000
February 28, 2015	DRIP Class A Preferred Shares	13,080.2	\$10.00	\$130,802
February 28, 2015	DRIP Class B Preferred Shares	5,771.8	\$10.00	\$57,718
March 01, 2015	Class A Preferred Shares	800	\$10.00	\$8,000
March 03, 2015	Class B Preferred Shares	17,000	\$10.00	\$170,000
March 05, 2015	Class A Preferred Shares	8,930	\$10.00	\$89,300
March 05, 2015	Class B Preferred Shares	2,000	\$10.00	\$20,000
March 09, 2015	Class A Preferred Shares	(9,229.8)	\$10.00	(\$92,298)
March 09, 2015	Class B Preferred Shares	(4,472.2)	\$10.00	(\$44,722)
March 25, 2015	Class A Preferred Shares	12,237	\$10.00	\$122,370
March 25, 2015	Class B Preferred Shares	31,335	\$10.00	\$313,350
March 26, 2015	Class A Preferred Shares	(2,822.4)	\$10.00	(\$28,224)
March 27, 2015	Class A Preferred Shares	15,000	\$10.00	\$150,000
March 31, 2015	Class A Preferred Shares	17,500	\$10.00	\$175,000
March 31, 2015	Class B Preferred Shares	6,000	\$10.00	\$60,000
March 31, 2015	DRIP Class A Preferred Shares	13,056.7	\$10.00	\$130,567
March 31, 2015	DRIP Class B Preferred Shares	5,714.7	\$10.00	\$57,147
April 01, 2015	Class A Preferred Shares	600	\$10.00	\$6,000
April 02, 2015	Class A Preferred Shares	(2,000)	\$10.00	(\$20,000)
April 02, 2015	Class B Preferred Shares	(1,108.1)	\$10.00	(\$11,081)
April 14, 2015	Class A Preferred Shares	16,100	\$10.00	\$161,000
April 14, 2015	Class B Preferred Shares	22,799	\$10.00	\$227,990
April 17, 2015	Class A Preferred Shares	50,000	\$10.00	\$500,000
April 17, 2015	Class B Preferred Shares	1,200	\$10.00	\$12,000
April 23, 2015	Class A Preferred Shares	4,000	\$10.00	\$40,000
April 23, 2015	Class B Preferred Shares	3,979	\$10.00	\$39,790
April 24, 2015	Class A Preferred Shares	132,500.3	\$10.00	\$1,325,003
April 24, 2015	Class B Preferred Shares	2,667	\$10.00	\$26,670

5. OFFERED SECURITIES

5.1 Terms Of Preferred Shares (Class A And B)

The Corporation is offering for sale **3,000,000** Preferred Shares at a price of **\$10.00** per Preferred Share. The holders of the Preferred Shares are entitled to dividends as **and when declared by the Directors**. **The holders of the Preferred Shares are not entitled to receive notice of or to attend and vote at any meeting of the shareholders of the Corporation, except as required under the ABCA.** Upon liquidation

or dissolution of the Corporation, holders of Preferred Shares shall rank senior to all other classes of shares and are entitled to receive such assets as are distributable to the holders of Preferred Shares. All of the Preferred Shares to be outstanding on completion of the Offering will be fully paid and non-assessable. The holders of the Corporation's Class A and Class B Preferred Shares shall rank senior to the Common Shares and pari passu with each other in respect to priority in the payment of dividends and in the distribution of assets or return of capital of the Corporation.

Class A and Class B Preferred Shares differ from each other as follows:

	Class A Preferred Shares	Class B Preferred Shares	Reference to OM Item
Subscription minimum	15,000.00 Shares (\$150,000.00)	1,000.00 Shares (\$10,000.00)	See Item 5.2, "Subscription Qualification"
Compensation received by Selling Agents	1.00% annual Trailer Fee to Registered Dealers who locate and introduce purchasers of Class A Preferred Shares to the Corporation	1.00% annual Trailer Fee paid by Corporation to KV Capital Inc. in respect of all sales of Class B Preferred Shares. KV Capital Inc. will pay, from its own resources, Registered Dealers a sales commission and administrative allowance in amounts equal to 4.00% and 1.00% respectively of the proceeds derived from the sale of Class B Preferred Shares and a Trailer Fee that commences after the fifth anniversary of sales of Class B Preferred Shares equivalent to that paid to it by the Corporation on such sales.	See Items 7.1 "Trailer Fees", 7.2 "Sales Commission Paid By KV Capital Inc. On Class B Preferred Shares" and 7.3 "Trailer Fees Paid by KV Capital Inc. on Class B Preferred Shares"
Payment by Corporation to KV Capital Inc. upon Redemption	None.	A payment by the Corporation to KV Capital Inc. upon redemption of Class B Preferred Shares in an amount equal to: (1) on Redemption Notices dated in the first 12 months after any holder of Class B Preferred Shares becomes a shareholder – 6.00% payment; (2) on Redemption Notices dated between 12 and 24 months after any holder of Class B Preferred Shares becomes a shareholder – 5.00% payment; (3) on Redemption Notices dated between 24 and 36 months after any holder of Class B Preferred shares becomes a shareholder – 4.00% payment; (4) on Redemption Notices dated between 36 and 48 months after any holder of Class B Preferred Shares becomes a shareholder – 3.00% payment; (5) on Redemption Notices dated between 48 and 60 months after any holder of Class B Preferred Shares becomes a shareholder – 2.00% payment; and (6) on Redemption Notices dated after 60 months after any holder of Class B Preferred Shares becomes a shareholder or in respect of a Class A Preferred Share at any date – no payment.	See Items 5.1, "Terms of Preferred Shares (Class A and B)" and 2.7.3, "Amounts Paid by KV Capital Inc. to Third Party Registered Dealers"

Each Preferred Share of the Corporation is redeemable by the Corporation on 30 days' notice. Redemption of any Preferred Shares of the Corporation is at the option of the Corporation, in its absolute

discretion. The redemption price (the “**Redemption Price**”) for Preferred Shares will be: (i) Net Asset Value per Preferred Share as calculated using the un-audited monthly balance sheet of the Corporation; plus (ii) the aggregate of all dividends on the Preferred Shares which are then declared but unpaid. The Directors may elect, in their discretion, to redeem Preferred Shares from particular holders to the exclusion of other holders of Preferred Shares. Holders of Preferred Shares have no right to require the Corporation to redeem their Preferred Shares.

Requests by shareholders of the Corporation for their Preferred Shares to be redeemed shall be handled at the discretion of the Directors having regard to legislative requirements, current financial conditions and other relevant circumstances. In processing redemptions of the Corporation’s Preferred Shares within each individual account, the Corporation will redeem Preferred Shares in the following order: i) outstanding Preferred Shares purchased through DRIP where Preferred shares issued at earliest date under the DRIP are redeemed in priority to subsequent issuances under the DRIP, ii) all other outstanding Preferred Shares where Preferred Shares issued at earliest date are redeemed in priority to subsequent issuances.

Notwithstanding the foregoing, the Directors have approved a Management Policy (the “**Management Policy**”) that establishes a normal course Redemption Date (the “**Redemption Date**”) as the last day of each month (or in cases where this date is not a business day the next business day immediately following the last day of each month) to allow any holder of Preferred Shares to request redemption of any or all of their outstanding shares on this date subject to all of the following:

- (a) A discount from the aggregate redemption transaction proceeds equal to:
 - (1) on Redemption Notices dated in the first 12 months after any holder of Class B Preferred Shares becomes a shareholder – 6.00% discount;
 - (2) on Redemption Notices dated between 12 and 24 months after any holder of Class B Preferred Shares becomes a shareholder – 5.00% discount;;
 - (3) on Redemption Notices dated between 24 and 36 months after any holder of Class B Preferred shares becomes a shareholder – 4.00% discount;
 - (4) on Redemption Notices dated between 36 and 48 months after any holder of Class B Preferred Shares becomes a shareholder – 3.00% discount;
 - (5) on Redemption Notices dated between 48 and 60 months after any holder of Class B Preferred Shares becomes a shareholder – 2.00% discount; and
 - (6) on Redemption Notices dated after 60 months after any holder of Class B Preferred Shares becomes a shareholder or in respect of a Class A Preferred Share at any date – 0.00% discount.
- (b) Satisfactory Redemption Notice being provided to the corporation a minimum of 30 days prior to the Redemption Date. The Preferred Shares shall be considered to be tendered for redemption on the date the Corporation has, to the satisfaction of the Directors, received a Redemption Notice (the “**Tendered Preferred Shares**”). If 30 days’ notice is not given, the Corporation may defer the request to the next Redemption Date. All Redemption Notices received by the Corporation shall be time and date stamped on receipt.
- (c) That the total number of Tendered Preferred Shares on any given Redemption Date does not exceed 5% of the total number of Preferred Shares outstanding on such Redemption Date. If the extraordinary circumstances referenced above occurs, the Corporation, in its sole discretion, may implement one of the following measures:
 - (1) Prorated Redemptions – The Corporation shall give notice to Tendering Preferred Shareholders that their Tendered Preferred Shares shall be redeemed at the Redemption Date in a quantity prorated over the total of all Preferred Shares for

which a properly tendered Redemption Notice was received with the intention that not more than 5% of the total number of Preferred Shares outstanding on the said Redemption Date are Redeemed on this date. Under this measure the unredeemed portion of Tendered Preferred Shares shall at the option of the Preferred Shareholder, either (i) maintain their order of priority for the next subsequent Redemption Date until such date as all such Preferred Shares have been redeemed; or (ii) have the redemption request retracted;

- (2) Temporary Suspension of Redemptions – The Corporation shall give notice to all Preferred Shareholders that normal course redemptions under the Management Policy are suspended. Issuance of a suspension notice by the Corporation will have the effect of canceling all pending redemption requests. At the end of the suspension period normal course redemptions will resume; or
- (3) Redeem all properly Tendered Preferred Shares.

As of the date of this Offering Memorandum the Corporation has not exercised their right to modify or suspend redemptions under the Management Policy.

Under the Management Policy: (i) Cash payments pursuant to properly tendered Redemption Notices shall be paid on or before the Redemption Date, at the Corporation's discretion, on a pro rata basis; and (ii) the Preferred Shareholder will retain all rights with respect to any Preferred Share tendered for redemption until the first day of the calendar month in which the Redemption Price is paid, on which date the Preferred Shareholder will cease to participate in dividends of the Corporation.

Notwithstanding anything else contained in the Corporation's Articles of Incorporation no redemption or retraction of Preferred Shares shall occur if it would result in a violation of any provision of the ABCA. The ABCA contains a test very similar to the Solvency Test but with respect to the redemption or retraction of shares. Where the directors are considering if the Corporation can redeem Preferred Shares they must apply a similar solvency test analysis before doing so, as set out in Part 5 of the ABCA. In this way the Corporation can continue to meet its business objective of providing holders of Preferred Shares with income while preserving capital for distribution or re-investment.

Constraints On Transferability

The Tax Act stipulates that to qualify as a MIC, a corporation must have 20 or more shareholders and no person would have been a "specified shareholder" (as such term is defined in the Tax Act and modified for the purposes of a MIC) of the corporation at any time in the year. The Tax Act states that a trust governed by a registered pension plan or a deferred profit sharing plan is counted as four shareholders for purposes of determining the number of shareholders of the Corporation and one shareholder for purposes of determining if a shareholder of the corporation is a specified shareholder. The Articles of the Corporation restrict the transfer of any securities of the Corporation unless approved by the Directors. The Directors intend to refuse registration of any allotment or transfer of shares which would result in the Corporation ceasing to meet the qualifications of a MIC. As the Corporation is not currently a reporting issuer in the selling jurisdictions or in any other jurisdiction, the Preferred Shares are subject to resale restrictions pursuant to applicable securities law. See Item 10, "*Resale Restrictions*".

Preferred Shares are not convertible into any other class, or series of security. As a MIC, the Corporation will be permitted to deduct dividends paid to shareholders from its income for tax purposes. The Corporation intends to pay out all of its taxable income and net realized capital gains as dividends within the time period specified in the Tax Act and as a result does not anticipate paying any income tax.

5.2 Subscription Qualification

The Corporation is currently offering the Preferred Shares for sale to qualified Purchasers in British Columbia, Alberta, Saskatchewan, Manitoba, Nova Scotia, New Brunswick and Northwest Territories. The Offering is being made in accordance with certain statutory prospectus exemptions contained in securities

legislation in British Columbia, Alberta, Saskatchewan, Manitoba, Nova Scotia, New Brunswick and Northwest Territories. Such exemptions relieve the Corporation from the requirement to prepare and file a prospectus. As such, Purchasers will not receive the benefits associated with purchasing the Preferred Shares pursuant to a filed prospectus, including the review of the material by the securities commissions or similar regulatory authority in such jurisdictions.

The Preferred Shares are being sold under the “Offering Memorandum” Exemption (the “OM Exemption”) in NI 45-106 to qualified Purchasers in British Columbia, Alberta, Saskatchewan, Manitoba, Nova Scotia, New Brunswick, and Northwest Territories.

In order for the Corporation to rely on the OM Exemption to sell the Preferred Shares, Purchasers must purchase the Preferred Shares as principal and, before purchasing the Preferred Shares, Purchasers in British Columbia, Alberta, Saskatchewan, Manitoba, Nova Scotia, New Brunswick and Northwest Territories must be given a copy of this Offering Memorandum and sign the “Risk Acknowledgement Form” accompanying this Offering Memorandum. These qualifications are set out in the accompanying subscription agreement and vary depending upon the Purchaser's province of residence. **Please carefully review the accompanying subscription agreement to determine the exemption requirement that applies to you.**

At the date of each subscription, the Corporation requires that Purchasers of Class A Preferred Shares either (i) have an active holding of the Corporation's Class A Preferred Shares; (ii) have a spouse or common-law partner that has an active holding of the Corporation's Class A Preferred Shares; or (iii) together with any accounts registered in the name of a spouse or common-law partner, or Controlled Legal Entity have a joint minimum subscription of 15,000 Class A Preferred Shares.

Purchasers of Class B Preferred Shares are required by the Corporation to purchase and hold a minimum of 1,000 Class B Preferred Shares.

5.3 Subscription Procedure

Purchasers may purchase the Preferred Shares by delivering to the Corporation, at the address stipulated on the face page of this Offering Memorandum, the following:

- (a) A completed Subscription Agreement in the form accompanying this Offering Memorandum;
- (b) A completed copy of NI 45-106F4 Risk Acknowledgment Form accompanying this Offering Memorandum (Purchasers should retain one copy for their records); and
- (c) A certified cheque or bank draft for the full amount of the subscription, payable to **KV Mortgage Fund in Trust**.

Subscriptions will be received subject to rejection or acceptance in whole or in part by the Corporation and the Corporation reserves the right to close the subscription books at any time without notice. Subscriptions for the Preferred Shares are subject to acceptance by the Corporation of a Subscription Agreement and compliance with all applicable securities laws. Any subscription funds for subscriptions that it does not accept will be returned promptly after the Corporation has determined not to accept the funds, without interest.

All subscription funds received will be held in trust until the latest of (i) midnight on the second business day after the day on which the funds are received by the Corporation; and (ii) the date the Corporation accepts any such Subscription Agreement. After such time, all subscriptions are irrevocable by the Purchaser.

6. INCOME TAX CONSEQUENCES AND DEFERRED PLAN ELIGIBILITY

You should consult your own professional advisors to obtain advice on the income tax consequences that apply to you. This summary has been prepared by Fraser Milner Casgrain LLP.

6.1 General

The following is a summary of the principal Canadian federal income tax consequences of acquiring, holding and disposing of the Preferred Shares by a subscriber who, at all relevant times, is a resident of Canada, deals with the Corporation at arm's length, and who acquires and holds the Preferred Shares as capital property. Purchasers to whom the Preferred Shares might not constitute capital property may elect, in certain circumstances, to have such property treated as capital property by making the election permitted by subsection 39(4) of the Tax Act. This summary is not applicable to any holder of Preferred Shares which is a "financial institution", as defined in section 142.2 of the Tax Act or to any holder of Preferred Shares an interest in which is a "tax shelter investment" as defined in subsection 143.2(1) of the Tax Act.

This summary is based upon the facts set out in this Offering Memorandum, the current provisions of the Tax Act and the regulations thereunder, proposed amendments to the Tax Act and the regulations thereunder publicly announced by or on behalf of the Minister of Finance (Canada) prior to the date hereof and the current published administrative practices of the Canada Revenue Agency (the "CRA"). This summary assumes that proposed amendments to the Tax Act and the regulations thereunder will be enacted as currently proposed but does not take into account or anticipate any other changes in law of any nature and does not take into account tax legislation or considerations of any province, territory or foreign jurisdiction.

The summary contained in this section is of a general nature only and is not exhaustive of all possible Canadian federal income tax consequences. It is not intended to be and should not be interpreted as legal or tax advice to any particular subscriber. Purchasers should consult with their own tax advisors regarding their income tax consequences of acquiring holding and disposing of the Preferred Shares including the application and effect of the income and other tax laws of any country, province, state or local tax authority.

This summary is based on the assumption that the Corporation meets certain conditions which are imposed by the Tax Act on the Corporation in order for the Corporation to qualify as a MIC. These conditions will generally be satisfied if, throughout a taxation year of the Corporation:

- (a) the Corporation was a Canadian corporation as defined in the Tax Act;
- (b) the Corporation's only undertaking was the investing of funds of the Corporation and it did not manage or develop any real or immovable property;
- (c) none of the property of the Corporation consisted of debts owing to the Corporation that were secured on real or immovable property situated outside Canada;
- (d) none of the property of the Corporation consisted of debts owing to the Corporation by non-resident persons, except any such debts that were secured on real or immovable property situated in Canada;
- (e) none of the property of the Corporation consisted of shares of the capital stock of corporations not resident in Canada;
- (f) none of the property of the Corporation consisted of real or immovable property situated outside Canada, or any leasehold interest in such property;
- (g) there were 20 or more shareholders of the Corporation and no person would have been a specified shareholder (as such term is defined in the Tax Act and modified for the purposes of a MIC) of the Corporation at any time in the taxation year;

- (h) holders of Preferred Shares of the Corporation had a right, after payment to them of their preferred dividends, and payment of dividends in a like amount per share to the holders of the common shares of the Corporation, to participate *pari passu* with the holders of common shares in any further payment of dividends;
- (i) the cost amount of the Corporation's property represented by Mortgages that were secured on houses or on property included within a housing project (as those terms are defined in the *National Housing Act*), together with cash on hand and deposits with a bank or any other corporation whose deposits are insured by the Canada Deposit Insurance Corporation or a credit union (collectively, the "**Qualifying Property**") was at least 50% of the cost amount to it of all of its property;
- (j) the cost amount to the Corporation of all real or immovable property of the Corporation (including leasehold interests in such property but excluding real or immovable property acquired as a consequence of foreclosure or default on a Mortgage held by the Corporation) did not exceed 25% of the cost amount to it of all of its property;
- (k) the Corporation's liabilities did not exceed 3 times the amount by which the cost amount to it of all of its property exceeded its liabilities, where at any time in the year the cost amount to it of its Qualifying Property was less than 2/3 of the cost amount to it of all of its property; and
- (l) the Corporation's liabilities did not exceed 5 five times the amount by which the cost amount to it of all of its property exceeded its liabilities, where paragraph (k) above is not applicable.

It is intended, and this summary assumes, that these requirements will be satisfied so that the Corporation will qualify as a MIC at all relevant times. If the Corporation were not to qualify as a MIC, the income tax consequences would be materially different from those described below.

6.2 Taxation Of The Corporation

The Corporation will, in computing its income for a taxation year, generally be entitled to deduct the full amount of all taxable dividends (other than capital gains dividends) which it pays to shareholders during the year or within 90 days after the end of the year to the extent that such dividends were not deductible by the Corporation in computing its income for the preceding year. A MIC is deemed to be a public corporation for the purposes of the Tax Act, with the result that no capital dividends can be paid by the Corporation. However, a MIC may elect to treat a dividend paid by the Corporation to shareholders during the period commencing 91 days after the start of the taxation year and ending 90 days after the end of that year as a capital gains dividend as provided for in the Tax Act, and the Corporation will be permitted to deduct ½ of all capital gains dividends from its income. As discussed below, a capital gains dividend is taxed in the hands of a shareholder as a capital gain arising from a notional disposition of capital property. The combination of the Corporation's deduction for capital gains dividends and the shareholder's deemed capital gain will allow the Corporation to flow capital gains through to a shareholder on a tax efficient basis. By being deemed a public corporation for the purposes of the Tax Act, any income retained by the Corporation in any taxation year will be subject to tax at the highest corporate rates. However, the Corporation intends to declare taxable dividends and capital gains dividends each year in sufficient amounts to reduce its taxable income to \$nil.

6.3 Taxation Of Shareholders

The Tax Act stipulates that taxable dividends, other than capital gains dividends, received from the Corporation by a shareholder on the Preferred Shares shall be deemed to have been received by the shareholder as interest payable on a bond. Capital gains dividends received by a shareholder will be treated as realized capital gains, and will be subject to the general rules relating to the taxation of capital gains in the hands of the shareholder. **SINCE TAXABLE DIVIDENDS (OTHER THAN CAPITAL GAINS DIVIDENDS) RECEIVED FROM THE CORPORATION ARE DEEMED TO CONSTITUTE INTEREST INCOME IN THE HANDS OF THE SHAREHOLDER (AND NOT DIVIDEND INCOME), THE NORMAL**

GROSS UP AND DIVIDEND TAX CREDIT RULES WILL NOT APPLY TO DIVIDENDS PAID BY THE CORPORATION TO INDIVIDUALS AND TRUSTS ON THE PREFERRED SHARES AND CORPORATE SHAREHOLDERS WILL NOT BE ENTITLED TO DEDUCT THE AMOUNT OF DIVIDENDS RECEIVED FROM THE CORPORATION FROM THEIR TAXABLE INCOME.

The cost to a Purchaser of Preferred Shares acquired pursuant to this offering will equal the purchase price of the Preferred Shares plus the amount of any other reasonable costs incurred in connection therewith. This cost will be averaged with the cost of all other Preferred Shares held by the Purchaser to determine the adjusted cost base of each Preferred Share.

A disposition of Preferred Shares (other than to the Corporation by way of redemption of Preferred Shares) will give rise to a capital gain (or capital loss) to the extent that the proceeds of disposition of the Preferred Shares exceed (or are exceeded by) the adjusted cost base of the Preferred Shares and the disposition costs. Amounts paid by the Corporation to the shareholder on the redemption by the Corporation of a Preferred Share, up to the paid-up capital thereof, will be received by the shareholder as a tax free return of capital. Any amount paid by the Corporation on the redemption of a Preferred Share which is in excess of the paid-up capital of such Preferred Share will be deemed to be a dividend and will be included in the income of a holder of Preferred Shares as a dividend in accordance with the rules contained in the Tax Act. Under the Tax Act, 50% of any capital gain realized by a shareholder (including capital gains deemed to be realized as a result of a receipt of a capital gains dividend) will be included in the shareholder's income as a taxable capital gain. Subject to certain specific rules in the Tax Act, 50% of an allowable capital loss realized in a taxation year must be netted against any taxable capital gains realized by the shareholder in such year, and any excess allowable capital loss can be carried back 3 years or carried forward indefinitely.

The taxable capital gains realized by a shareholder who is an individual may give rise to "Alternative Minimum Tax" calculated in the Tax Act depending upon the shareholder's circumstances. A shareholder that is a "Canadian-controlled private corporation" as defined in the Tax Act may be liable under section 123.3 of the Tax Act to pay an additional refundable tax of 6 2/3% on certain investment income, including amounts in respect of interest and taxable capital gains. The 6 2/3% tax is to be added to such corporate shareholder's refundable dividend tax on-hand account and will be eligible for refund at a rate of \$1.00 for every \$3.00 of dividends paid by the shareholder corporation to its shareholders.

6.4 Eligibility For Investment By Deferred Income Plans

The Preferred Shares will be qualified investments for a trust governed by a Registered Retirement Savings Plan (the "RRSP"), Registered Education Savings Plan (the "RESP"), Registered Retirement Income Fund (the "RRIF"), Deferred Profit Sharing Plan, Registered Disability Savings Plan, a Tax-Free Savings Account (the "TFSA") or other deferred plans (collectively a "Deferred Plan") at a particular time if the Corporation qualifies as a MIC under the Tax Act at such particular time and if throughout the calendar year in which the particular time occurs, the Corporation does not hold as part of its property any indebtedness, whether by way of Mortgage or otherwise, of a person who is an annuitant, a beneficiary, an employer or a subscriber, as the case may be, under the relevant Deferred Plan or of any other person who does not deal at arm's length with that person. Deferred Plans will generally not be liable for tax in respect of any dividends received from the Corporation.

Depending on the type of Deferred Plan, the acquisition of a non-qualified investment or if an investment was a qualified investment on acquisition but ceases to remain qualified (if, for example, the Corporation ceases to qualify as a MIC at any time throughout a taxation year), then the Tax Act may impose unfavorable tax consequences on the trust or the annuitant under the trust or both (including revocation of the trust in the case of a RESP). The Tax Act provides for additional special rules with respect to a RRSP, RRIF or TFSA that will characterize the holding of shares of a MIC by a RRSP, RRIF or TFSA as a "prohibited investment" if the holder or a group of related parties (as the term is defined in the Tax Act) of the RRSP, RRIF or TFSA owns, directly or indirectly, 10% or more of any class of shares of the MIC. If a RRSP, RRIF or TFSA holds a prohibited or non-qualified investment, the holder of the RRSP, RRIF or TFSA is liable to pay additional taxes and penalties depending on circumstances.

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

7. COMPENSATION TO BE PAID TO SELLERS AND FINDERS

7.1 Trailer Fees

Class A Preferred Shares

In respect of sales of Class A Preferred Shares, the Corporation will pay ongoing Trailer Fees to registered dealers who locate and introduce Purchasers to the Corporation. Trailer Fees paid by the Corporation will:

- be equal to 1.00% per annum of the Paid Up Capital invested into Class A Preferred Shares;
- be paid on Class A Preferred Shares issued under the DRIP, if any;
- with respect to the Class A Preferred Share for which it is paid, start and continue for as long as the Class A Preferred Share remains outstanding; and
- be calculated and paid on Class A Preferred Shares outstanding on the Corporation's fiscal quarters.

Assuming the Maximum Offering is sold through Class A Preferred Shares, the aggregate Trailer Fees payable by the Corporation to Registered Dealers on a yearly basis will be **\$300,000**.

Class B Preferred Shares

In respect of sales of Class B Preferred Shares, the Corporation will pay ongoing Trailer Fees to KV Capital Inc. Trailer fees paid by the Corporation will:

- be equal to 1.00% per annum of the Paid Up Capital invested into Class B Preferred Shares;
- be paid on Class B Preferred Shares issued under the DRIP, if any;
- with respect to the Class B Preferred Share for which it is paid, start and continue for as long as the Class B Preferred Share remains outstanding; and
- be calculated and paid on Class B Preferred Shares outstanding on the Corporation's fiscal quarters.

Assuming the Maximum Offering is sold through Class B Preferred Shares, the aggregate Trailer Fees payable by the Corporation to KV Capital Inc. on a yearly basis will be **\$300,000**.

KV Capital Inc. has agreed to pay Trailer Fees, sales commissions and an administrative allowance on sales of the Corporation's Class B Preferred Shares in exchange for receiving the Trailer Fees paid by the Corporation in respect of such sales. See Item 7.2 "*Sales Commission Paid By KV Capital Inc. On Class B Preferred Shares*" and Item 7.3 "*Trailer Fees Paid By KV Capital Inc. On Class B Preferred Shares*".

7.2 Sales Commission Paid By KV Capital Inc. On Class B Preferred Shares

Other than Trailer Fees, the Corporation does not pay sales commission in respect of the Offering. For sales of Class B Preferred Shares, KV Capital Inc. will pay sales commissions and an administrative allowance to any one or more Registered Dealers who locate and introduce Purchasers to the Corporation. Sales commissions and the administrative allowance paid by KV Capital Inc. are funded from KV Capital Inc.'s own resources and will be equal to 4.00% and 1.00% respectively of the proceeds from the sale of Class B Preferred Shares on each Closing Date. Pursuant to the Amounts Paid by KV Capital Inc. to Third Party Registered Dealers Agreement, KV Capital Inc. has agreed to pay these sales commissions and an administrative allowance and Trailer Fees in exchange for receiving the Trailer Fees paid by the Corporation in respect of such sales. See Items 7.1 "*Trailer Fees*", 7.3 "*Trailer Fees Paid By KV Capital Inc. On Class B Preferred Shares*" and 2.7.3 "*Amounts Paid By KV Capital Inc. To Third Party Registered Dealers*".

7.3 Trailer Fees Paid By KV Capital Inc. On Class B Preferred Shares

In respect of sales of Class B Preferred Shares, KV Capital Inc. will pay ongoing Trailer Fees to Registered Dealers who locate and introduce Purchasers to the Corporation. Trailer Fees paid by KV Capital Inc. will:

- be funded from KV Capital Inc.'s own resources;
- be equal to 1.00% per annum of the Paid Up Capital invested into Class B Preferred Shares;
- be paid on Class B Preferred Shares issued under the DRIP, if any;
- start after the fifth anniversary of the Closing Date on which the applicable Class B Preferred Share was issued and continue for as long as the Class B Preferred Shares remain outstanding; and
- be calculated and paid on Class B Preferred Shares outstanding on the Corporation's fiscal quarters.

Pursuant to the Amounts Paid by KV Capital Inc. to Third Party Registered Dealers Agreement KV Capital Inc. has agreed to pay these Trailer Fees, a sales commissions and an administrative allowance on sales of the Corporation's Class B Preferred Shares in exchange for receiving the Trailer Fees paid by the Corporation in respect of such sales. See Item 7.1 "*Trailer Fees*" and Item 7.2 "*Sales Commission Paid By KV Capital Inc. On Class B Preferred Shares*" and 2.7.3 "*Amounts Paid By KV Capital Inc. To Third Party Registered Dealers*".

7.4 Retention Fees For Accounts With Minimum Investments Of 250,000 Preferred Shares

Any subscriber that holds 250,000 or more Preferred Shares in a single account as of the date Trailer Fees are calculated by the Corporation (the "**Qualifying Accounts**") will receive 50% of the Trailer Fees attributable to the Qualifying Account as a retention fee (the "**Retention Fee**"). Retention Fees will be calculated and paid in the same manner and time frames as Trailer Fees, and are for the exclusive benefit of the Qualifying Accounts to which they pertain. In respect of accounts for which Retention Fees are paid by the Corporation, the compensation received by Registered Dealers that introduced such Qualifying Accounts to the Corporation is reduced from a 1.00% per annum Trailer Fee to a 0.50% per annum Trailer Fee with the difference being for the benefit of the Qualifying Account as the Retention Fee. See Item 7.1, "*Trailer Fees*".

8. RISK FACTORS

This is a speculative offering. The purchase of Preferred Shares involves a number of risk factors and is suitable only for Purchasers who are aware of the risks inherent in the real estate industry and who have the ability and willingness to accept the risk of loss of their invested capital and who have no immediate need for liquidity. There is no assurance of any return on a Purchaser's investment. There are certain risks inherent in an investment in the Preferred Shares of the Corporation, including the following factors, which investors should carefully consider before investing. Some of the following factors are interrelated and, consequently, investors should treat such risk factors as a whole. The following information is a summary only of certain risk factors and is qualified in its entirety by reference to, and must be read in conjunction with, the detailed information appearing elsewhere in this Offering Memorandum. These risks and uncertainties are not the only ones that could affect the Corporation and additional risks and uncertainties not currently known to the Corporation or the Manager, or that they currently deem immaterial, may also impair the returns, financial condition and results of operations of the Corporation. If any such risks actually occur, the returns, financial condition and results of operations of the Corporation could be materially adversely affected and the financial performance of the Corporation and the ability of the Corporation to make cash distributions or satisfy requests for the retraction of Preferred Shares could be materially adversely affected.

8.1 The Preferred Shares Are Highly Speculative

An investment in the Preferred Shares is highly speculative. Purchasers should buy them only if able to bear the risk of the entire loss of their investment and have no need for immediate liquidity in their

investment. An investment in the Preferred Shares should not constitute a major portion of a Purchaser's portfolio.

8.2 No Liquidity

No public market currently exists for the Preferred Shares and there can be no assurance that such a public market will ever develop. The Preferred Shares may not be resold or otherwise transferred unless the resale restrictions expire and this may never occur. Until the restrictions on resale expire, purchasers will not be able to trade the Preferred Shares unless purchasers comply with an exemption from the prospectus and registration requirements under applicable securities legislation. Accordingly, there is significant risk that a purchaser may be unable to liquidate his or her investment in the Preferred Shares and each purchaser must be prepared to bear the economic risk of the investment for an indefinite period. Also see Item 10, *"Resale Restrictions"*.

8.3 The Preferred Shares Are Not Insured

The Corporation is not a member institution of the Canada Deposit Insurance Corporation and the Preferred Shares are not insured against loss through the Canada Deposit Insurance Corporation.

8.4 No Guaranteed Return On Investment

There is no guarantee that the Corporation will be able to achieve its business objectives, be able to pay distributions or that an investment in Preferred Shares will earn any positive return or any return at all in the short or long term. Any funds available for distribution to shareholders will vary according to, among other things, the interest and principal payments received in respect of the Investments comprising the corporation's portfolio. There is no assurance that the corporation's portfolio of investments will generate any return.

Moreover, the interest rates being charged for Mortgages reflect interest rates in general, and as interest rates fluctuate, management of the Corporation expects that the aggregate yield on Investments will fluctuate accordingly. See Item 8.21, *"Sensitivity to Interest Rates"*.

8.5 Failure To Qualify As A MIC Under the Tax Act Will Have Adverse Tax Consequences

Although the Corporation intends to qualify at all times as a MIC, no assurance can be provided in this regard. Since the Corporation must meet certain requirements throughout the year to qualify as a MIC, it is only possible to determine whether the Corporation qualifies as a MIC for a particular taxation year at or after the end of such year.

No shareholder of the Corporation is permitted, together with "related persons", at any time to hold more than 25% of any class of the issued shares of the Corporation. The Corporation intends to monitor major holdings of Preferred Shares to ensure that no one Shareholder of the Corporation exceeds this 25% maximum ownership limit set by the Tax Act, in order for the Corporation to maintain its qualification as a MIC. In order for the Corporation to stay within this 25% limit, it may have to exercise its right to Redeem the Preferred Shares.

If, for any reason, the Corporation fails to maintain its qualification as a MIC under the Tax Act, dividends paid by the Corporation on the Preferred Shares will cease to be deductible from the Corporation's income and the Preferred Shares, unless listed on a prescribed stock exchange for the purposes of the Tax Act, may cease to be qualified investments for Deferred Plans. See Item 6, *"Income Tax Consequences And Deferred Plan Eligibility"*.

8.6 *Investments Of The Corporation Are Secured Against Real Property Whose Value Can Fluctuate*

The Corporation's investments will be secured by Real Property. All Real Property investments are subject to elements of risk. Real Property value is affected by general economic conditions, local real estate markets, the attractiveness of the property to tenants, competition from other available properties and other factors. While third party verification of the value of Real Property are required before the Corporation may make any Investments, the values provided therein, even where reported on an "as is" basis are not necessarily reflective of the market value of the underlying Real Property, which may fluctuate. In addition, the values reported in third party verifications may be subject to certain conditions, including the completion, rehabilitation or lease-up improvements on the Real Property providing security for the Investment. There can be no guarantee that these conditions will be satisfied and to the extent they are not satisfied, the reported value may not be achieved. Even if such conditions are satisfied, the reported value may not necessarily reflect the market value of the Real Property at the time the conditions are satisfied.

A substantial decline in the value of Real Property provided as security for a Mortgage may cause the value of the property to be less than the outstanding principal amount of the related loan. Foreclosure by the Corporation on any such loan generally would not provide the Corporation with proceeds sufficient to satisfy the outstanding principal amount of such loan.

The value of income producing Real Property may also depend on the credit worthiness and financial stability of the borrower granting security in such Real Property. The Corporation's income and funds available for distribution to security holders would be adversely affected if a significant number of such borrowers were unable to pay their obligations to the Corporation or if the Corporation were unable to invest its funds in Mortgages on economically favourable terms.

Due to their nature, the Investments tend to be relatively illiquid, with the degree of liquidity generally fluctuating in relation to demand for and the perceived desirability of the Investment. Such lack of liquidity may tend to limit the Corporation's ability to vary its portfolio promptly in response to changing economic or investment conditions. If the Corporation were required to liquidate its Mortgage investments, the proceeds to the Corporation might be significantly less than the total value of its Investment on a going concern basis.

The Corporation will be subject to the risks associated with debt financing, including the risk that Mortgage indebtedness secured by the properties of the Corporation will not be able to be refinanced or that the terms of refinancing will not be as favourable as the terms of existing indebtedness.

8.7 *The Corporation May Be Unable To Make Investments*

The Corporation relies on KV Capital Inc. to source the Mortgages it invests in, and accordingly the Corporation is exposed to adverse developments in the business and affairs of KV Capital Inc., including without limitation to its management and financial strength and to its ability to operate its business profitably. The ability of the Corporation to make investments in accordance with its business objectives and strategies depends upon the availability of suitable investments and the amount of funds available to make such investments. Additionally, the Corporation may occasionally hold excess cash pending investments being made in additional Mortgages, which may negatively impact returns.

8.8 *The Corporation May Be Unable To Fund Investments*

The Corporation may commit to making future Investments in anticipation of repayment of principal outstanding under existing Investments. In the event that such repayments of principal are not made in contravention of the Borrowers' obligations, the Corporation may be unable to advance some or all of the funds required to be advanced pursuant to the terms of its commitments and may face liability in connection with its failure to make such advances.

8.9 The Corporation Will Be Competing with Others For Mortgage Loans

The performance of the Corporation depends, in large part, on the Corporation's ability to invest in Mortgages that provide favourable yields. The Corporation will be competing for Mortgage Loans with individuals, corporations and institutions (both Canadian and foreign) which are seeking or may seek Mortgage investments similar to those desired by the Corporation. Many of these investors will have greater financial resources than those of the Corporation, or operate without the investment or operating restrictions of the Corporation 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 Mortgage investments, thereby increasing purchase prices and reducing the yield on the Investments.

8.10 Borrowing And Leverage

The Corporation may utilize leverage (the borrowing of capital for investing in mortgages) from time to time at the discretion of the Manager through the Credit Facility arranged by the Manager with 579548 Alberta Inc., an arm's length party which is not related to the Corporation. Subject to complying with the rules to maintain its qualifications as a MIC, under the Credit Facility the Corporation may borrow up to a maximum amount of \$3,000,000. The Manager expects that the Corporation will utilize leverage to bridge timing differences resulting from loan maturities and new loan origination and for general working capital purposes when required. The Credit Facility will bear interest at the Toronto Dominion Bank's prime lending rate plus 5.5% per annum. As of the date of this Offering Memorandum, the Toronto Dominion Bank's prime lending rate is 2.85% per annum. Interest on any outstanding principal amount will be calculated daily and is payable monthly in arrears on the first business day of each month.

The Corporation has granted 579548 Alberta Inc. a first priority security interest in the cash and securities held by the Corporation and also in all current and future Mortgage Investments contained in the Corporation's Mortgage Portfolio. **This means that the rights of Investors to interest income paid via dividends and to the return of capital via redemption of Shares or through wind-up and dissolution will be subordinate to the right of 579548 Alberta Inc. to be repaid any amounts which may be outstanding under the Credit Facility.**

In the event the Corporation cannot not meet its obligations with respect to the Credit Facility (such as the payment of interest or the repayment of principal), the Corporation may incur substantial costs if the Corporation is forced to sell assets to repay the loan or to otherwise protect its Investments while managing its debts. In addition, the Corporation may lose some or all of its assets as a result of 579548 Alberta Inc. exercising its rights under the security agreement granted by the Corporation to 579548 Alberta Inc. in connection with Credit Facility.

The interest expense incurred in respect of the Credit Facility may exceed the incremental capital gains/losses and income generated by the incremental investments in Mortgages made with the proceeds of the Credit Facility. Accordingly, any event which adversely affects the value of Mortgages would be magnified to the extent that the Credit Facility is employed to purchase such Mortgages. In addition, the Corporation may not be able to renew the Credit Facility on acceptable terms or at all. There can be no assurance that the borrowing strategy employed by the Corporation in respect of the Credit Facility will enhance returns.

8.11 No Guarantee Of Diversification Of The Investment Portfolio

Although the Corporation will endeavor to maintain a diversified Investment portfolio, the composition of the Investment portfolio may vary widely from time to time and may be concentrated by type of security, industry or geography, resulting in the Corporation's Investment portfolio being less diversified than at other times. As a result, the returns generated by the portfolio may change as its composition changes.

Given the concentration of the Corporation's exposure to the mortgage lending sector, the Corporation will be more susceptible to adverse economic or regulatory occurrences affecting that sector than an investment fund that is not concentrated in a single sector. Investments in Mortgages are relatively illiquid.

Such illiquidity will tend to limit the Corporation's ability to vary its portfolio of Investments promptly in response to changing economic or investment conditions.

8.12 Changes In Legislation May Adversely Affect Profitability

There can be no assurance that certain laws applicable to the Corporation, including Canadian federal and provincial tax laws, tax proposals, other governmental policies or regulations and governmental, administrative or judicial interpretation thereof, will not change in a manner that will adversely affect the Corporation, the returns generated on an investment in Preferred Shares or fundamentally alter the tax consequences to holders of Preferred Shares.

8.13 Performance May Be Affected By Environmental And Other Regulatory Matters

The Corporation may in the future take possession, through enforcement proceedings, of Real Properties that secured defaulted Mortgage Loans to recover its investment in such loans. Prior to taking possession of any such, KV Capital Inc. will assess the potential environmental liability associated with it and determine whether it is significant, having regard to the value of the property. If KV Capital Inc. subsequently determines to take possession of the Real Property, the Corporation could be subject to environmental liabilities in connection with such Real Property, which could exceed the value of the Real Property. As part of the due diligence performed in respect of any proposed Investment in a Mortgage by the Corporation, KV Capital Inc. may obtain a Phase I Environmental Audit on the underlying Real Property, when it has determined that a Phase I Environmental Audit is appropriate. However, there can be no assurance that any such Phase I Environmental Audit will reveal any or all existing or potential environmental liabilities necessary to effectively insulate the Corporation from potential liability for a materially adverse environmental condition relating to any mortgaged property. If hazardous substances are discovered on a property of which the Corporation has taken possession, the Corporation may be required to remove such substances and otherwise remediate the property. The Corporation may also be liable to tenants and other users of neighbouring properties and may find it difficult or not possible to resell the property prior to or following such remediation.

8.14 Knowledge And Expertise Of KV Capital Inc.

Pursuant to the Management and Advisory Agreements, each dated January 14, 2013 between the Corporation and KV Capital Inc., KV Capital Inc. will advise the Corporation in a manner consistent with the investment objectives and the investment restrictions of the Corporation, and KV Capital Inc. will provide to the Corporation all services and activities that, under the *Real Estate Act* (Alberta), can only be provided by a person that holds a mortgage brokerage license. Although the employees of KV Capital Inc. who will be primarily responsible for the performance of the obligations owed to the Corporation have extensive experience, there is no certainty that such individuals will continue to be employees of KV Capital Inc. respectively in the future.

There is no certainty that the persons who are currently officers and directors of KV Capital Inc. will continue to act in such capacity. Shareholders will be required to rely on the good faith, expertise and judgment of the individuals comprising the management of KV Capital Inc. from time to time. Shareholders do not have the right to direct or influence in any manner the business or affairs of KV Capital Inc.

8.15 Conflicts Of Interest

Some of the Directors of the Corporation are also Directors and Officers of KV Capital Inc. Accordingly, there may be conflicts of interest if the interests of these companies are inconsistent. See Item 2.7.1, "*The Management Agreement*" and Item 2.7.2, "*The Advisory Agreement*".

KV Capital Inc. has entered into the Management Agreement and the Advisory Agreement respectively with the Corporation and is entitled to earn fees for providing services to the Corporation or from Borrowers that form counterparties to the mortgages in which the Corporation invests. The Corporation may be subject to various conflicts of interest because of the fact that the Directors and Officers of KV Capital Inc. are engaged in a wide range of investing and other business activities which may include real property financing

in direct competition with the Corporation. KV Capital Inc. intends to and has established other investment vehicles which may involve transactions which conflict with the interests of the Corporation.

The services of KV Capital Inc. and their respective Directors and Officers are not exclusive to the Corporation. KV Capital Inc. and their affiliates may, at any time, engage in promoting or managing any other corporation or its investments including those which may compete directly or indirectly with the Corporation.

As a result of KV Capital Inc.'s fair allocation policy, the Corporation may, from time to time, be presented with, but yet be precluded from participation in, an investment opportunity available to KV Capital Inc. that would otherwise be compatible with the Corporation's investment objectives and restrictions based upon KV Capital Inc.'s assessment of the relative importance of the investment opportunity to each of the accounts to which KV Capital Inc. has been engaged to provide services, including the Corporation. In addition, a substantial portion of the assets of the Corporation may be co-invested, either directly or indirectly, in mortgage loans that have been syndicated by KV Capital Inc. among the Corporation and one or more other accounts that are managed or advised by KV Capital Inc. See Item 8.26, "*Fair Allocation*".

From time to time, KV Capital Inc., or its principals or affiliates, may purchase with their own funds and own as co-lenders, interests in the Investments that comprise the Corporation's portfolio. In all instances of co-lending between the Corporation and KV Capital Inc., or its principals or affiliates the parties hold either *pari passu* interests in the Investment or KV Capital Inc. and its principals or affiliates hold subordinated interests to the interest of the Corporation. In such scenarios KV Capital Inc. holds the Mortgage in trust on behalf of all parties and administers and services the Mortgage on behalf of all parties. In respect of Mortgages that include related party co-lenders KV Capital Inc. will be subjected to a conflict of interest when exercising its judgment in allocating the economic benefits generated between senior and subordinated mortgage positions where it negotiates both positions, and in allocating its resources to service and administer such mortgages.

There is no assurance the Directors or Officers of the Corporation or KV Capital Inc. will devote their full time or attention to the business and affairs of the Corporation.

The Corporation will rely upon KV Capital Inc. to manage the business of the Corporation and to provide managerial skill. The directors and officers of KV Capital Inc. may have a conflict of interest in allocating their time between the respective businesses and interest of KV Capital Inc. and the Corporation, and other businesses or projects in which they may become involved.

In addition, certain Directors and Officers of the Corporation may face actual or potential conflicts of interest due to their positions as directors or officers of KV Capital Inc., and/or their direct or indirect ownership interest in KV Capital Inc. Messrs. Kanji, Virani and Herman are directors and/or officers of the Corporation and are also directors and/or officers of KV Capital Inc. These directors and officers may have a conflict of interest in allocating their time between the respective businesses and interest of KV Capital Inc. and the Corporation, and other businesses and projects in which they may become involved. Messrs. Kanji, Virani and Herman are also direct or indirect shareholders of KV Capital Inc.

The directors and officers of the Corporation are required by law to act in the best interest of the Corporation. Discharge by the directors and officers of their obligations to the Corporation may result in a breach of their obligations to the other companies, and in certain circumstances could expose the Corporation to liability to those companies. Similarly, discharge by the directors and officers of their obligations, if applicable, to any other company could result in a breach of their obligations to act in the best interest of the Corporation.

Conflicts of interest shall be governed by the provisions of the ABCA. Subsection 120(1) of the ABCA provides that where a Director or Officer of a corporation is a party to a material contract or proposed material contract with the corporation, or is a Director or Officer, or has a material interest in any person who is a party to a material contract or proposed material contract with the corporation, three requirements must be met to render the contract enforceable against the corporation: (i) the Director or Officer must give adequate notice of his or her interest; (ii) the Director or Officer must not vote on the approval of the contract by the Board of Directors; and (iii) the contract must be fair and reasonable to the corporation.

8.16 Dilution

The number of Preferred Shares the Corporation is authorized to issue is unlimited and the Directors have the sole discretion to issue additional Preferred Shares. The proceeds of this Offering may not be sufficient to accomplish all of the Corporation's proposed objectives. In addition to alternate financing sources, the Corporation may conduct future offerings of Preferred Shares in order to raise the funds required which will result in a dilution of the interests of the holders of Preferred Shares in the Corporation and the income or loss from the Corporation.

8.17 Subordination To Loans

As a MIC, the Corporation has the right to borrow funds to provide additional funds for investment. In determining the Corporation's cash flow priorities, loan payments will take priority over the payment of dividends, and in the event of the voluntary or involuntary bankruptcy or winding up of the Corporation, the repayment of loans will take priority over the payment of dividends and return of capital to the holders of Preferred Shares.

8.18 No Assurance Of Achieving Investment Objective Or Paying Distributions

There is no assurance that the Corporation will be able to achieve its investment objectives or be able to pay distributions at targeted levels. The funds available for distribution to holders of Preferred Shares will vary according to, among other things, the interest and principal payments received in respect of the Mortgage Loans comprising the Investment portfolio and the market value of the securities comprising the Investment portfolio. There is no assurance the Investment portfolio will earn any return.

8.19 No Guarantees Or Insurance

There can be no assurance that an investment in Preferred Shares will result in a guaranteed rate of return, if any.

The obligations of those borrowing funds from the Corporation pursuant to Mortgages Loans or Bridge Financing Loans to the Corporation or any other person are not guaranteed by the Government of Canada, the government of any province or any agency thereof nor are they insured under the *National Housing Act* (Canada). In the event that additional security is given by the Borrower or a third party or that a private guarantor guarantees the Mortgage Borrower's obligations, there is no assurance that such additional security or guarantee will be sufficient to make the Corporation whole if and when resort is to be had thereto.

8.20 Subordinated Mortgages

Some of the Investments in which the Corporation invests may be considered to be riskier than senior debt financing because the Corporation will not have a first-ranking charge on the underlying Real Property. When a charge on Real Property is in a position other than first-ranking, it is possible for the holder of a senior-ranking charge on the Real Property, if the borrower is in default under the terms of its obligations to such holder, to take a number of actions against the borrower and ultimately against the Real Property to realize on the security given for the loan. Such actions may include a foreclosure action, the exercising of a giving-in-payment clause or an action forcing the property to be sold. A foreclosure action or the exercise of a giving-in-payment clause may have the ultimate effect of depriving any other holding security against the same Real Property. If an action is taken to sell the Real Property and sufficient proceeds are not realized from such sale to pay off creditors who have lower ranking charges on the Real Property, the holder of a lower ranking charge may lose its investment or part thereof to the extent of such deficiency unless the holder can otherwise recover such deficiency from other property owned by the debtor.

8.21 Sensitivity To Interest Rates

It is anticipated that the value of the Corporation's portfolio of Investments at any given time may be affected by the level of interest rates prevailing at such time. The Corporation's income will consist primarily of

interest payments on the Mortgages comprising the portfolio. If there is a decline in interest rates, the Corporation may find it difficult to purchase or acquire additional Mortgages bearing interest rates sufficient to maintain the level of historical rates of returns on the Preferred Shares. There is no assurance that an interest rate environment in which there is a significant decline in interest rates would not adversely affect the Corporation's ability to maintain the rate of return earned by Preferred Shares at a consistent level. As well, if interest rates increase, the value of the Corporation's portfolio of Investments will be negatively impacted.

8.22 *Fluctuations In Distributions*

The funds available for distributions will vary according to, among other things, the value of the Portfolio and the interest earned thereon. Fluctuations in the market value of the portfolio may occur for a number of reasons beyond the control of KV Capital Inc. or the Corporation. The Corporation will depend on revenue generated from the Portfolio. There can be no assurance regarding the amount of revenue that will be generated by the Investments comprising the Portfolio. The amount of distributions will depend upon numerous factors, including the ability of borrowers to make applicable payments under mortgages, interest rates, unexpected costs, and other factors which may not now be known by or which may be beyond the control of the Corporation or KV Capital Inc. If the directors of the Corporation, on the advice of KV Capital Inc., determine that it would be in the best interests of the Corporation, they may reduce or suspend for any period, or altogether cease indefinitely, the distributions made on the Preferred Shares.

Distributions made to shareholders may exceed actual cash available to the Corporation from time to time because of items such as debt payment obligations, and fluctuations in portfolio returns, if any. The excess cash required to fund distributions may be funded from an operating credit facility, to the extent that one is available or from the capital of the Corporation.

Payment of distributions by way of dividend is also subject to the Solvency Test. The Solvency Test exists in the ABCA in part to act as a safeguard against the erosion of shareholder capital. The directors must have reasonable grounds for believing that the Corporation can meet both arms of the Solvency Test at the time the dividend is declared and paid. In assessing whether there are reasonable grounds for believing the Corporation will meet the Solvency Test, the directors of the Corporation will consider whether it can meet its liabilities as they come due, and they will consider whether the realizable value of the corporation's assets would, by declaring or paying a dividend, be less than the aggregate of its liabilities and stated capital of all classes. In doing so, the directors must first consider if the Corporation is a going concern. If so, they can then establish the fair market value of the Corporation's assets. This is done by establishing the net present value of the current and performing mortgages based on a reasonable discount. Mortgages that are not fully secured, or collection efforts are not expected to result in full repayment of the mortgage loan, as well as foreclosed properties are valued based on independent appraisals and current real estate industry information on market prices of the underlying real property collateral, less the costs of foreclosure and sale. Upon establishing that the Solvency Test can be met, the Corporation is in a position to distribute dividends. If the Corporation cannot meet the Solvency Test then no dividend distribution can be made.

Notwithstanding anything else contained in the Corporation's Articles of Incorporation no redemption or retraction of Preferred Shares shall occur if it would result in a violation of any provision of the ABCA. The ABCA contains a test very similar to the Solvency Test (See Item 2.3, "*Development Of The Business*") but with respect to the redemption or retraction of shares. Where the directors are considering if the Corporation can redeem Preferred Shares they must apply a similar solvency test analysis before doing so, as set out in Part 5 of the ABCA. In this way the Corporation can continue to meet its business objective of providing holders of Preferred Shares with income while preserving capital for distribution or re-investment.

8.23 *Risks Related To Mortgage Defaults*

As part of KV Capital Inc.'s active management of the Corporation's Portfolio, among other strategies, KV Capital Inc. may from time to time deem it appropriate to extend or renew the term of a Mortgage past its maturity, or to accrue the interest on a Mortgage or Bridge Financing Loan. KV Capital Inc. generally will do so if it believes that there is a very low risk to the Corporation of not being repaid the full principal and

interest owing on such loan. In these circumstances, however, the Corporation is subject to the risk that the principal and/or accrued interest may not be repaid in a timely manner or at all, which could impact the cash flows of the Corporation during the period in which it is exercising such remedies or waiving or relaxing its rights. Further, in the event that the valuation of the Real Property underlying the Mortgage has fluctuated due to market conditions, there is a risk that the Corporation may not recover all or substantially all of the principal and interest owed to the Corporation in respect of such Mortgage Loan.

When a Mortgage is extended past its maturity, the loan can either be held over on a month to month basis, or renewed for an additional term at the time of its maturity. Notwithstanding any such extension or renewal, if the borrower subsequently defaults under any terms of the loan, KV Capital Inc. has the ability to exercise its mortgage enforcement remedies in respect of the extended or renewed loan. Exercising mortgage enforcement remedies is a process that requires a significant amount of time to complete, which could adversely impact the cash flows of the Corporation during the period of enforcement. In addition, as a result of potential declines in real estate values, there is no assurance that the Corporation will be able to recover all or substantially all of the outstanding principal and interest owed to the Corporation in respect of such loans by exercising its mortgage enforcement remedies. Should the Corporation be unable to recover all or substantially all of the principal and interest owed to the Corporation in respect of such loans, the returns, financial condition and results of operations of the Corporation would be adversely impacted.

8.24 Foreclosure And Related Costs

One or more borrowers could fail to make payments according to the terms of the loan made to them by the Corporation, and the Corporation could therefore be forced to exercise its rights as mortgagee. The recovery of a portion of the Corporation's assets may not be possible for an extended period of time during this process and there are circumstances where there may be complications in the enforcement of the Corporation's rights as mortgagee. Legal fees and expenses and other costs incurred by the Corporation in enforcing its rights as mortgagee against a defaulting borrower are usually recoverable from the borrower directly or through the sale of the mortgaged property by power of sale or otherwise, although there is no assurance that they will actually be recovered. In the event that these expenses are not recoverable, they will be borne by the Corporation.

Furthermore, certain significant expenditures, including property taxes, capital repair and replacement costs, maintenance costs, Mortgage payments, insurance costs and related charges must be made through the period of ownership of Real Property regardless of whether the property is producing income. The Corporation may therefore be required to incur such expenditures to protect its Investments, even if Borrowers are not honouring their contractual obligations.

8.25 Litigation Risks

The Corporation may, from time to time, become involved in legal proceedings in the course of its business. The costs of litigation and settlement can be substantial and there is no assurance that such costs will be recovered in whole or at all. During litigation, the Corporation is not receiving payments of interest on a mortgage loan that is the subject of litigation, thereby impacting cash flows. The unfavourable resolution of any legal proceedings would have an adverse effect on the Corporation and its financial position and results of operations that could be material.

8.26 Fair Allocation

It is the general policy of KV Capital Inc. that all of its managed accounts that have investment objectives and restrictions that are compatible with a particular investment opportunity should, when practicable, participate pro rata in that investment opportunity based upon, among other things, the relative amount of assets under management in each such account and the relative importance of the investment opportunity to the fulfillment of each such account's investment objective. Accordingly, KV Capital Inc. will generally present to the Corporation any investment opportunity available to KV Capital Inc. that is consistent with the investment objectives and restrictions of the Corporation based upon, and subject to; i) the amount of assets under management on behalf of the Corporation relative to the amount of assets under management

on behalf of all other accounts of KV Capital Inc. that have investment objectives and restrictions that are compatible with the investment opportunity, and ii) the importance of the investment opportunity to the fulfillment of the investment objectives of the Corporation relative to the importance of the investment opportunity to the fulfillment of the investment objectives of such other entities to which KV Capital Inc. provides services. An assessment of the relative importance of an investment opportunity to the fulfillment of a client account's investment objective is dependent upon a number of factors that include the availability of the resources that are required to make the investment, alternative investment opportunities, the composition of the client account's portfolio at the time, the geographic and industry sector exposure associated with the investment opportunity and the liquidity of the account.

As a result of this fair allocation policy, the Corporation may, from time to time, be presented with, but yet be precluded from participation in, an investment opportunity available to KV Capital Inc. that would otherwise be compatible with the Corporation's investment objectives and restrictions based upon KV Capital Inc.'s assessment of the relative importance of the investment opportunity to each of the accounts to which KV Capital Inc. has been engaged to provide services, including the Corporation. In addition, a substantial portion of the assets of the Corporation may be co-invested, either directly or indirectly, in mortgage loans that have been syndicated by KV Capital Inc. among the Corporation and one or more other accounts that are managed or advised by KV Capital Inc.

8.27 Restrictions On Ownership And Repurchase Of Preferred Shares

Under Tax Act legislation, no investor may in conjunction with related parties hold via registered funds (such as RRSPs) more than a 10% interest in an entity. If the 10% threshold is exceeded, then there may be immediate tax consequences to the investor. The Corporation intends to monitor major holdings of Preferred Shares to ensure that no shareholders of the Corporation exceed this 10% maximum ownership limit, however, it is the responsibility of the investor to ensure that its registered funds are properly invested in compliance with these Tax Act requirements.

If a significant number of Preferred Shares are redeemed, i) the Corporation may be required to sell portfolio assets in order to satisfy redemption payment obligations and may not be able to complete such portfolio asset sales on favourable terms or at all, and ii) the expenses of the Corporation would be spread among fewer Preferred Shares. If, as a result of significant repurchases, KV Capital Inc. determines that it is in the best interest of the Corporation to liquidate its assets and dissolve, KV Capital Inc. could, subject to applicable law, seek to terminate the Management and Advisory Agreements.

8.28 Ability To Manage Growth

The Corporation intends to grow the portfolio. In order to effectively deploy its capital and monitor its loans and investments in the future, the Corporation may need to retain additional personnel and may be required to augment, improve or replace existing systems and controls, each of which can divert the attention of management from their other responsibilities and present numerous challenges. As a result, there can be no assurance that the Corporation will be able to effectively manage its growth and, if it is unable to do so, the Portfolio and an investment in Preferred Shares, may be materially adversely affected.

8.29 Construction Mortgages Involve A Higher Degree Of Risk Than Non-Construction Mortgages

Construction Mortgages generally require more active and ongoing management oversight than that required for non-construction Mortgages that are secured by fully-developed properties. The rules under the Tax Act governing MICs prohibit the Corporation from managing or developing real or immovable property, and therefore there are restrictions on the Corporation being able to complete the development of properties that the Corporation assumes ownership or control of by taking enforcement steps against defaulting borrowers. Accordingly, construction Mortgages generally involve a higher degree of risk for a MIC lender than non-construction Mortgages. As of the date of this Offering Memorandum, construction Mortgages (inclusive of Development and Construction Project Phases) represent approximately 53% of the Corporation's Portfolio, as indicated in Item 2.2.5 "*Portfolio Summary*."

8.30 Unsecured Investments

The Corporation is a MIC and as such it is in the business of investing in various mortgages as described above in Item 2 “*Business of the Corporation*”. As a MIC, the Corporation is permitted under the Tax Act to invest in a wide range of investments (i.e., Permitted Investment) other than Mortgage Loans. The Corporation may invest in debt or equity instruments which are not secured by any land collateral or personal property collateral. There is a risk that in the event the borrower defaults in repayment of these unsecured obligations, the Corporation may never collect any amounts owed to it pursuant to the terms of the obligations. This can affect interest income revenue and can tie up revenue which could otherwise be used by the Corporation to invest in performing mortgages and honour redemption requests made by the shareholders. As of the date of this Offering Memorandum the Corporation has no Permitted Investments.

8.31 Reliance On The Manager And The Lending Review Committee

Pursuant to the terms and conditions of the Management Agreement (see Item 2.7.1 “*The Management Agreement*”), the Manager exercises a very high degree of control over the business, operations and affairs of the Corporation and has complete control over the management and administration of the funds of the Corporation. The Manager has undertaken to exercise the power to direct and exercises the responsibility of directing the affairs of the Corporation. As a result, any change in ownership of the Manager, bankruptcy or insolvency proceedings involving the Manager or litigation commenced against the Manager will have a material impact on the Corporation and its investments and ultimately could have a material impact on the return of principal and interest associated with a Purchaser’s Preferred Shares. Further, the Manager advises the Corporation in a manner consistent with the investment objectives and the investment restrictions of the Corporation. Although the employees of the Manager who will be primarily responsible for the performance of the obligations owed to the Corporation have extensive experience, there is no certainty that such individuals will continue to be employees of the Manager in the future. In addition, the Management Agreement may be terminated by either party upon the occurrence of certain events. There is no assurance that the Manager will continue to provide services to the Corporation.

There is no certainty that the persons who are currently officers and directors of the Manager will continue to act in such capacity. Shareholders will be required to rely on the good faith, expertise and judgment of the individuals comprising the management of the Manager from time to time. Shareholders do not have the right to direct or influence in any manner the business or affairs of the Manager.

In addition, there is no certainty that the persons who are current members of the Lending Review Committee will continue to act in such capacity. Shareholders will be required to rely on the good faith, expertise and judgment of the individuals comprising the Lending Review Committee from time to time.

8.32 Manager Lien Over The Corporation’s Assets

Under the terms of the Management Agreement (see Item 2.7.1 “*The Management Agreement*”) the Corporation has granted KV Capital Inc. an unsecured lien over the Corporation’s assets for unpaid costs. This unsecured lien ranks ahead of the interests of Investors but is subordinate to the interests of 579548 Alberta Inc. under the Credit Facility (See Item 8.10 “*Borrowing And Leverage*” for a description of the Credit Facility). **This means that the rights of Investors to interest income paid via dividends and to the return of capital via redemption of Shares or through wind-up and dissolution will be subordinate to the right of KV Capital Inc. to be repaid any amounts which may be outstanding under the Management Agreement.**

In the event the Corporation cannot not meet its obligations with respect to the Management Agreement (such as the payment of fees), the Corporation may incur substantial costs if the Corporation is forced to sell assets to pay amount due thereunder. In addition, the Corporation may lose some or all of its assets as a result of KV Capital Inc. exercising its rights under the security agreement granted by the Corporation to KV Capital Inc. in connection with the Management Agreement.

9. REPORTING OBLIGATIONS

9.1 Disclosure Of Documents And Information

The Corporation is not a reporting issuer in any jurisdiction and as such is not subject to most of the continuous reporting obligations imposed on reporting issuers by securities legislation. Pursuant to the ABCA, it is required to hold an annual general meeting of Shareholders not less than 18 months after the date of incorporation, and thereafter, not later than 15 months after holding the last preceding annual general meeting. It is also required to forward financial statements and proxy materials to all of its Shareholders not less than 21 days prior to each annual general meeting or unanimous signing of a consent resolution in lieu thereof. The Preferred Shareholders will not be given notice of any meetings of the Shareholders of the Corporation and subject to the rights of shareholders under the ABCA Shareholders will generally not be able to vote at such meetings (see Item 5.1, "*Terms of Preferred Shares*"). **We are not required to send you any documents on an annual or ongoing basis.**

9.2 Disclosure Of Corporate And Securities Information

The Corporation is required to file Reports of Exempt Distributions with applicable securities regulators in the jurisdictions where it distributes Preferred Shares. These filings require the Corporation to disclose certain information about the purchaser.

10. RESALE RESTRICTIONS

10.1 General Statement

For trades in British Columbia, Alberta, Saskatchewan, Manitoba, Nova Scotia, New Brunswick and Northwest Territories, these Preferred Shares will be subject to a number of resale restrictions, including a restriction on trading. Until the restriction on trading expires, you will not be able to trade the Preferred Shares unless you comply with an exemption from the prospectus and registration requirements under securities legislation. The restriction on trading may never expire.

10.2 Restricted Period

For trades in British Columbia, Alberta Saskatchewan, Nova Scotia, New Brunswick and Northwest Territories, unless permitted under securities legislation, you cannot trade the Preferred Shares before the earlier of the date that is four months and a day after the date the Corporation becomes a reporting issuer in any province or territory in Canada.

For trades in Manitoba, unless permitted under applicable securities legislation, you must not trade the Preferred Shares without the prior written consent of the regulator in Manitoba unless: (i) the Corporation has filed a prospectus with the regulator in Manitoba with respect to the Preferred Shares you have purchased and the regulator in Manitoba has issued a receipt for that prospectus, or (ii) the purchaser has held the Preferred 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.

The Corporation is not now a reporting issuer in any jurisdiction and has no intention of becoming a reporting issuer in any jurisdiction in the immediately foreseeable future.

11. PURCHASER'S RIGHTS

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

(A) Two Day Cancellation Right

You can cancel your agreement to purchase these Securities. To do so you must send a notice to the Corporation by midnight on the 2nd business day after you sign the agreement to buy the Preferred Shares.

(B) Statutory Rights of Action in the Event of a misrepresentation

Purchasers resident in Alberta and British Columbia

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

- (i) the Corporation to cancel your agreement to buy these Preferred Shares; or
- (ii) for damages against the Corporation, every Director of the Corporation as of the date of this Offering Memorandum and every person who signed the Offering Memorandum.

The statutory right to sue is available to you whether or not you relied on the misrepresentation. However, there are various defenses available to the persons or companies that you have a right to sue. In particular, they have a defense if you knew of the misrepresentation when you purchased the Preferred Shares.

If you intend to rely on the rights described in (i) or (ii) above, you must do so within strict time limitations. You must commence your action to cancel the agreement within 180 days from the day of the transaction that gave rise to the cause of action. You must commence your action for damages within the earlier of 180 days after learning of the misrepresentation and 3 years after you signed the agreement to purchase the Preferred Shares.

Purchasers resident in Saskatchewan

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

- (i) the Corporation to cancel your agreement to buy these Preferred Shares, in which case you have no right of action for damages against the Corporation; or
- (ii) for damages against: (i) the Corporation; (ii) every promoter and Director of the Corporation at the time this Offering Memorandum or any amendment to it was sent or delivered to you; (iii) every person or company whose consent has been filed respecting the Offering Memorandum or amendment to it but only with respect to reports, opinions or statements that have been made by them; (iv) every person who or company that, in addition to those persons referenced in (i) and (ii) signed the Offering Memorandum or any amendment to it; and (v) every person who or company that sells the Preferred Shares on behalf of the Corporation under this Offering Memorandum or any amendment to it.

The statutory right to sue is available to you whether or not you relied on the misrepresentation. However, there are various defenses available to the persons or companies that you have a right to sue. In particular, they have a defense if you knew of the misrepresentation when you purchased the Preferred Shares.

If you intend to rely on the rights described in (i) or (ii) above, you must do so within strict time limitations. You must commence your action to cancel the agreement before 180 days from the day of the transaction that gave rise to the cause of action. You must commence your action for damages within the earlier of 1 year after learning of the misrepresentation and 6 years after you signed the agreement to purchase the Preferred Shares.

Purchasers resident in Manitoba

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

- (i) the Corporation to cancel your agreement to buy these Preferred Shares, in which case you have no right of action for damages against the Corporation or any other person mentioned in (ii) below; or
- (ii) for damages against every Director of the Corporation as of the date of this Offering Memorandum and every person who signed the Offering Memorandum.

The statutory right to sue is available to you whether or not you relied on the misrepresentation. However, there are various defenses available to the persons or companies that you have a right to sue. In particular, they have a defense if you knew of the misrepresentation when you purchased the Preferred Shares.

If you intend to rely on the rights described in (i) or (ii) 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 Preferred Shares. You must commence your action for damages within the earlier of 180 days after learning of the misrepresentation and 2 years after you signed the agreement to purchase the Preferred Shares.

Purchasers resident in Nova Scotia

In the event that this Offering Memorandum, a record incorporated by reference in or deemed incorporated into this Offering Memorandum or any amendment to it or any advertising or sales literature (as defined in the *Securities Act* (Nova Scotia)) contains a misrepresentation that was a misrepresentation at the time of purchase, a purchaser of the Shares in Nova Scotia shall be deemed to have relied upon the misrepresentation and will have a statutory right of action for damages against the seller and against every Director of the seller at the date of this Offering Memorandum and every person who signed this Offering Memorandum. Alternatively, the purchaser may elect to exercise a statutory right of rescission against the seller, in which case, the purchaser shall have no right of action for damages against the seller nor against every Director of the seller at the date of this Offering Memorandum nor any person who signed this Offering Memorandum. The right of action of damages or rescission is exercisable not later than 120 days after the date on which payment was made for the Shares, provided that:

- (a) no company or person will be liable if it proves that the purchaser purchased the Shares with knowledge of the misrepresentation;
- (b) in any action for damages, the defendant will not be liable for all or any portion of those damages that it proves do not represent the depreciation in value of the Shares as a result of the misrepresentation; and
- (c) in no case will the amount recoverable under this paragraph exceed the price at which the Shares were sold to the purchaser.

The *Securities Act* (Nova Scotia) provides that no person is liable if it is proven that this Offering Memorandum or any amendment thereto was sent or delivered to the purchaser without the person's knowledge or consent and that, on becoming aware of its delivery, the person gave reasonable general notice that it was delivered without the person's knowledge or consent, or after the delivery of this Offering Memorandum or any amendment hereto and before the purchase of the Shares by the purchaser, on becoming aware of any misrepresentation in this Offering Memorandum or any amendment hereto, the person withdrew their consent to it and gave reasonable general notice of the withdrawal and the reason for it. This provision does not apply if the seller of the Shares is also the issuer.

With respect to any part of this Offering Memorandum or any amendment hereto purporting to be made on the authority of an expert, or to be a copy of, or an extract from, a report, an opinion or a statement of an expert which contains a misrepresentation, no person will be liable if the person had no reasonable grounds to believe and did not believe that there had been a misrepresentation, or the relevant part of this Offering Memorandum or any amendment hereto did not fairly represent the report, opinion or statement of the expert, or was not a fair copy of, or an extract from, the report, opinion or statement of the expert. This provision does not apply if the seller of the Shares is also the issuer.

The *Securities Act* (Nova Scotia) also provides that no person is liable with respect to any part of this Offering Memorandum or any amendment hereto not purporting to be made on the authority of an expert, or to be a copy of, or an extract from, a report, opinion or statement of an expert, unless the person failed to conduct a reasonable investigation to provide reasonable grounds for a belief that there had been no misrepresentation or believed that there had been a misrepresentation. This provision does not apply if the seller of the Shares is also the issuer.

The rights of action for rescission or damages described herein are in addition to and not in derogation from any right the purchaser may have at law.

This summary is subject to the express provisions of the *Securities Act* (Nova Scotia) and the regulations and rules made under it, and prospective purchasers should refer to the complete text of those provisions.

Purchasers resident in New Brunswick

Section 2.1 of New Brunswick Securities Commission Rule 45-802 provides that the statutory rights of action in rescission or damages referred to in Section 150 of the *Securities Act* (New Brunswick) (the “NBSA”) apply to information relating to an offering memorandum that is provided to an investor in securities in connection with a distribution made in reliance on the “offering memorandum” prospectus exemption in Section 2.9 of National Instrument 45-106, *Prospectus and Registration Exemptions* (“NI 45-106”). Section 150 of the NBSA provides that, subject to certain limitations, where any information relating to the offering that is provided to an investor of the securities contains an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances in which it was made (for the purposes of this section, a “Misrepresentation”), a purchaser who purchases securities shall be deemed to have relied on the Misrepresentation if it was a Misrepresentation at the time of purchase and the purchaser has, subject to certain defences, a right of action for damages against the seller or may elect to exercise a right of rescission against the seller, in which case the purchaser shall have no right of action for damages, provided that:

- (a) in an action for rescission or damages, the defendant will not be liable if it proves that the purchaser purchased the securities with knowledge of the Misrepresentation;
- (b) in an action for damages, the defendant is not liable for all or any portion of the damages that it proves do not represent the depreciation in value of the securities as a result of the Misrepresentation relied upon; and
- (c) in no case shall the amount recoverable under the right of action described herein exceed the price at which the securities were offered.

Pursuant to Section 161 of the NBSA, no action shall be commenced to enforce a right of rescission unless such action is commenced not later than 180 days after the date of the transaction that gave rise to the cause of action and in the case of any action, other than an action for rescission, such action shall be commenced before the earlier of (i) one year after the plaintiff first had knowledge

of the facts giving rise to the cause of action; and (ii) six years after the date of the transaction that gave rise to the cause of action.

Every person or company who becomes liable to make any payment for a Misrepresentation may recover a contribution from any person or company who, if sued separately, would have been liable

to make the same payment, unless the court rules that, in all the circumstances of the case, to permit recovery of the contribution would not be just and equitable.

Purchasers resident in Northwest Territories

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

- (i) the Corporation to cancel your agreement to buy these Preferred Shares; or
- (ii) for damages against the Corporation, the selling security holder, and every Director of the Corporation as of the date of this Offering Memorandum and every person who signed the Offering Memorandum.

The statutory right to sue for damages is available to you whether or not you relied on the misrepresentation. There are various defenses available to the persons or companies that you have a right to sue. In particular, they have a defense if you knew of the misrepresentation when you purchased the Preferred Shares.

If you intend to rely on the rights described in (i) or (ii) above, you must do so within strict time limitations. You must commence your action to cancel the agreement within 180 days from the date of the transaction that gave rise to the cause of action. You must commence your action for damages within the earlier of 180 days after learning of the misrepresentation and 3 years after you signed the agreement to purchase the Preferred Shares.

12. FINANCIAL STATEMENTS

The Corporation's financial statements dated February 28, 2015 and 2014 are wrapped within this Offering Memorandum on the following pages.

Financial Statements of
KV MORTGAGE FUND INC.
Years ended February 28, 2015 and 2014

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of KV Mortgage Fund Inc.

We have audited the accompanying financial statements of KV Mortgage Fund Inc., which comprise the statements of financial position as at February 28, 2015, February 28, 2014, and March 1, 2013, the statements of comprehensive income, changes in equity and cash flows for the years ended February 28, 2015 and February 28, 2014, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of KV Mortgage Fund Inc. as at February 28, 2015, February 28, 2014 and March 1, 2013, and its financial performance and its cash flows for the years ended February 28, 2015 and February 28, 2014 in accordance with International Financial Reporting Standards.

Chartered Accountants

April 29, 2015
Edmonton, Canada

KV Mortgage Fund Inc.
Statements of Financial Position

As at		Feb 28, 2015	Feb 28, 2014	Mar 1, 2013
Assets				
Cash		\$ 2,704,336	\$ 810,825	\$ 128,938
Accrued interest receivable		500,636	373,125	101,249
Subscription proceeds receivable		170,170	242,770	61,159
Mortgage loan investments	Note 5	57,319,141	37,087,774	13,019,170
Prepaid expenses		9,088	-	-
Other assets	Note 9	-	5,000	-
Total assets		\$ 60,703,371	\$ 38,499,494	\$ 13,310,516
Liabilities and equity				
Due to Fund Manager	Note 9	\$ 263,316	\$ 143,413	\$ 50,194
Accounts payable and accrued expenses		10,625	24,626	7,706
Dividends payable		218,637	118,679	47,061
Total liabilities		492,578	286,718	104,961
Shareholders' equity				
Class A preferred shares	Note 7	40,111,495	25,363,855	11,933,257
Class B preferred shares	Note 7	20,098,298	12,847,921	1,271,298
Common shares	Note 7	1,000	1,000	1,000
		60,210,793	38,212,776	13,205,555
Retained earnings		-	-	-
Total liabilities and shareholders' equity		\$ 60,703,371	\$ 38,499,494	\$ 13,310,516

See accompanying notes to financial statements.

Approved by the board of directors:

Original signed by Paul Allard _____ Director

Original signed by Aleem Virani _____ Director

KV Mortgage Fund Inc.
Statements of Comprehensive Income

Years ended		Feb 28, 2015	Feb 28, 2014
Income:			
Interest		\$ 5,304,642	\$ 2,546,869
		5,304,642	2,546,869
Expenses:			
Service fees	Note 9	534,593	273,034
Management fees	Note 9	397,754	191,015
Insurance expense		25,989	-
Other operating		43,610	24,880
Audit fees		21,830	15,751
Legal fees		7,092	5,445
Director fees	Note 9	18,938	9,461
Lending review committee fees	Note 9	14,538	2,100
		1,064,344	521,686
Net income and comprehensive income		\$ 4,240,298	\$ 2,025,183
Earnings per share - basic and diluted			
Class A preferred shares	Note 8	\$ 0.84	\$ 0.85
Class B preferred shares	Note 8	0.84	0.85

See accompanying notes to financial statements.

KV Mortgage Fund Inc.
Statements of Changes in Equity

Years ended February 28, 2015 and 2014

	Class A preferred shares	Class B preferred shares	Class A common shares	Retained earnings	Total
Feb 28, 2015					
Shareholders' equity, beginning of year	\$ 25,363,855	\$ 12,847,921	\$ 1,000	\$ -	\$ 38,212,776
Net income and comprehensive income for the year	-	-	-	4,240,298	4,240,298
Dividends to shareholders	-	-	-	(4,240,298)	(4,240,298)
Net proceeds from issuance of shares	16,111,590	6,936,556	-	-	23,048,146
Issued under share based compensation plan	8,634	-	-	-	8,634
Issuance of shares from dividend reinvestment plan	1,401,616	585,537	-	-	1,987,153
Redemption of shares	(2,774,200)	(271,716)	-	-	(3,045,916)
Shareholders' equity, end of year	\$ 40,111,495	\$ 20,098,298	\$ 1,000	\$ -	\$ 60,210,793

	Class A preferred shares	Class B preferred shares	Class A common shares	Retained earnings	Total
Feb 28, 2014					
Shareholders' equity, beginning of year	\$ 11,933,257	\$ 1,271,298	\$ 1,000	\$ -	\$ 13,205,555
Net income and comprehensive income for the year	-	-	-	2,025,183	2,025,183
Dividends to shareholders	-	-	-	(2,025,183)	(2,025,183)
Net proceeds from issuance of shares	13,373,672	11,411,434	-	-	24,785,106
Share based compensation issued to board members	5,000	-	-	-	5,000
Issuance of shares from dividend reinvestment plan	746,055	174,189	-	-	920,244
Redemption of shares	(694,129)	(9,000)	-	-	(703,129)
Shareholders' equity, end of year	\$ 25,363,855	\$ 12,847,921	\$ 1,000	\$ -	\$ 38,212,776

See accompanying notes to financial statements.

KV Mortgage Fund Inc.
Statements of Cash Flows

Years ended	Feb 28, 2015	Feb 28, 2014
Cash provided by (used in):		
Operating activities:		
Net income and comprehensive income	\$ 4,240,298	\$ 2,025,183
Change in non-cash operating items:		
Accrued interest receivable	(127,511)	(272,452)
Prepaid expenses	(9,088)	-
Other assets	5,000	(5,000)
Due to Fund Manager	119,904	93,219
Accounts payable and accrued expenses	(14,001)	16,920
Share based compensation	8,634	5,000
	4,223,236	1,862,870
Financing activities:		
Change in subscription proceeds receivable	72,600	(181,611)
Proceeds from issuance of Class A preferred shares	16,111,590	13,373,672
Proceeds from issuance of Class B preferred shares	6,936,556	11,411,434
Redemption of Class A preferred shares	(2,774,200)	(694,129)
Redemption of Class B preferred shares	(271,716)	(9,000)
Cash dividends paid	(2,153,188)	(1,032,745)
	17,921,642	22,867,621
Investing activities:		
Funding of mortgage loan investments	(59,438,387)	(38,148,352)
Discharge of mortgage loan investments	39,187,020	14,099,748
	(20,251,367)	(24,048,604)
Increase in cash	1,893,511	681,887
Cash, beginning of year	810,825	128,938
Cash, end of year	\$ 2,704,336	\$ 810,825
Supplemental cash flow on non-cash financing activities:		
Class A preferred shares issued under dividend reinvestment plan (Note 7)	\$ 1,401,616	\$ 746,055
Class B preferred shares issued under dividend reinvestment plan (Note 7)	585,537	174,189
Cash flows from operating activities:		
Interest received	\$ 5,177,131	\$ 2,274,993

See accompanying notes to financial statements.

KV MORTGAGE FUND INC.

Notes to Financial Statements

Years ended February 28, 2015 and 2014

1. Nature of operations:

KV Mortgage Fund Inc. (the "Fund") was incorporated under the laws of the Province of Alberta by articles of incorporation on January 8, 2009 under the name The Mortgage Comer Investment Fund Ltd.

The investment objective of the Fund is to provide its preferred shareholders with income generated from a diversified portfolio of mortgage loan investments (also referred to as "mortgages"), while preserving the Fund's capital. KV Capital Inc., as manager of the Fund (the "Fund Manager"), is responsible for the day-to-day operations and providing all general management and administrative services of the Fund's mortgage loan portfolio. KV Capital Inc. is related to the Fund because of the management arrangement, certain common directors and officers, and certain directors and officers of the Fund and KV Capital Inc. whom also control voting shares in both entities.

The Fund and Fund Manager are domiciled in Canada, with head offices at #108, 2627 Ellwood Drive SW, Edmonton, Alberta.

2. Basis of presentation:

(a) Statement of compliance:

The financial statements of the Fund have been prepared by management in accordance with International Financial Reporting Standards ("IFRS"). These are the Fund's first annual financial statements prepared in accordance with IFRS and IFRS 1, First-time Adoption of International Financial Reporting Standards ("IFRS 1").

Previously, the Fund prepared its financial statements in accordance with Part V of Canadian generally accepted accounting principles ("Canadian GAAP"). The Fund has consistently applied the accounting policies used in the preparation of its opening IFRS statements of financial position at March 1, 2013 and throughout all periods presented, as if these policies had always been in effect. An explanation of how the transition to IFRS has affected the reported financial position, financial performance and cash flows of the Fund is provided in note 4.

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

These financial statements were approved by the Board of Directors on April 29, 2015.

(b) Use of estimates and judgments:

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses. The Fund used estimates in its preparation of these financial statements that include valuation of the mortgage loan investments and accrued interest receivable.

These assumptions are limited by the availability of reliable comparable data, economic uncertainty, and the uncertainty of predictions concerning future events. Accordingly, by their nature, estimates are subjective and do not necessarily result in precise determinations. Should the underlying assumptions change, the estimated value could vary by a material amount.

KV MORTGAGE FUND INC.

Notes to Financial Statements

Years ended February 28, 2015 and 2014

3. Significant accounting policies:

(c) Cash and cash equivalents:

Cash and cash equivalents of the Fund comprise cash in hand, deposits held in banks, and highly liquid investments with an original maturity of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(d) Mortgage loan investments:

Mortgage loan investments, classified as loans and receivable investments, are recognized initially at fair value. Subsequent to initial recognition, the mortgage loan investments are measured at amortized cost using the effective interest method, less impairment losses, if any.

The mortgage loan investments are assessed at each reporting date to determine whether there is objective evidence of impairment. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of an asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a mortgage loan investment measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the mortgage's original effective interest rate. Losses are recognized in the statements of comprehensive income and reflected in an allowance account against the investments. Interest on the impaired asset continues to be recognized through the unwinding of the discount if it is considered collectable. Impairment losses can be reversed provided there is an indication that previously recognized impairment losses no longer exist or have decreased.

(e) Revenue recognition:

Interest income earned on mortgage loan investments is accounted for using the effective interest method. Revenue is recognized on the accrual basis or once receipt of such amounts by the Fund are certain.

(f) Income taxes:

It is the intention of the Fund to qualify as a mortgage investment corporation ("MIC") for Canadian income tax purposes. As such, the Fund is able to deduct, in computing its income for the taxation year, dividends paid to its shareholders during the year or within 90 days of the end of the year. The Fund intends to maintain its status as a MIC and pay dividends to its shareholders in the year and in future years to ensure that it will not be subject to income taxes. Accordingly, for financial statement reporting purposes, the tax deductibility of the Fund's distributions of dividends result in the Fund being non-taxable and no provision for current or future income taxes has been recorded.

KV MORTGAGE FUND INC.

Notes to Financial Statements

Years ended February 28, 2015 and 2014

3. Significant accounting policies (continued):

(g) Preferred share compensation plan:

On March 1, 2014 the Fund implemented a new equity-settled preferred share compensation (the "PSC") plan for independent directors and members of the independent lending review committee ("LRC") in respect of their service to the Fund.

Under the terms of the plan, preferred shares were awarded as follows to each qualifying participant (awards are cumulative where an individual holds multiple positions):

Participants	Positions Held		
	Independent Chair	Independent Director	Independent Member
Board of directors	250 Class A preferred shares	500 Class A preferred shares	n/a
LRC members	100 Class A preferred shares	n/a	100 Class A preferred shares

This PSC plan expired as at February 28, 2015 with a new plan made effective as at March 1, 2015. The fair value of the PSC plan is determined by the issue price at the grant date of \$10 multiplied by the number of preferred shares issued. The expense is recognized into income over the same period that the preferred shares vest.

(h) Financial assets and liabilities:

Financial assets include the Fund's cash, accrued interest receivable, subscription proceeds receivable, mortgage loan investments and other assets. Financial liabilities include amounts due to Fund Manager, accounts payable and accrued expenses and dividends payable.

Recognition and measurement of financial instruments

The Fund determines the classification of its financial assets and liabilities at initial recognition. Financial instruments are recognized initially at fair value and in the case of financial assets and liabilities carried at amortized costs, adjusted for directly attributable transaction costs. The Fund has designated its accrued interest receivable, subscription proceeds receivable, mortgage loan investments and other assets as loans and receivables, which are measured at amortized cost.

Amounts due to Fund Manager, accounts payable and accrued expenses and dividends payable are classified as other financial liabilities, which are measured at amortized cost.

The Fund had neither available-for-sale, nor held-to-maturity instruments as at or during the years ended February 28, 2015, February 28, 2014 and March 1, 2013.

(i) Share capital:

Common shares and Class A and B preferred shares are classified as equity. Incremental costs directly attributable to the issue of common shares and Class A and B preferred shares are recognized as a deduction from equity.

KV MORTGAGE FUND INC.

Notes to Financial Statements

Years ended February 28, 2015 and 2014

3. Significant accounting policies (continued):

(j) New standard and interpretation not yet adopted:

- (i) In July 2014, the International Accounting Standards Board ("IASB") issued IFRS 9 Financial Instruments to replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on classification and measurement of financial instruments. In addition, IFRS 9 includes a single expected-loss impairment model and a reformed approach to hedge accounting. This standard is effective for annual reporting periods beginning on or after January 1, 2018, with early adoption permitted. The Fund intends to adopt IFRS 9 in its financial statement for the annual period beginning March 1, 2018. The extent of the impact of adoption of the standard has not yet been determined.
- (ii) In December 2014 the IASB issued amendments to IAS 1 Presentation of Financial Statements as part of its major initiative to improve presentation and disclosure in financial reports. These amendments will not require any significant change to current practice, but should facilitate improved financial statement disclosures. The amendments are effective for annual periods beginning on or after January 1, 2016. Early adoption is permitted. The Funds intends to adopt these amendments in its financial statements for the annual period beginning on March 1, 2016. The extent of the impact of adoption of the standard has not yet been determined.

4. Transition to IFRS:

The Fund has adopted IFRS effective March 1, 2013 ("the transition date") and has prepared its opening IFRS statement of financial position as at that date. Prior to the adoption of IFRS, the Fund prepared its financial statements in accordance with Canadian GAAP.

The significant accounting policies set out in note 3 have been applied in preparing the financial statements for the year ended February 28, 2015, the year ended February 28, 2014, and in the preparation of an opening IFRS statement of financial position as at March 1, 2013.

In preparing its opening IFRS statement of financial position, the Fund has adjusted the presentation of amounts previously reported in the financial statements prepared in accordance with Canadian GAAP. An explanation of how the transition from Canadian GAAP to IFRS has affected the Fund's financial position, financial performance and cash flows is set out in the following notes.

(a) Exemptions and exceptions from full retrospective application:

First-time adopters of IFRS must apply the provisions of IFRS 1. IFRS 1 requires adopters to retrospectively apply all IFRS standards as of the reporting date with certain optional exemptions and certain mandatory exceptions. In preparing the opening IFRS balance sheet in accordance with IFRS 1, the Fund has applied the mandatory exception from full retrospective application of IFRS for estimates. The mandatory exception requires that estimates previously determined under Canadian GAAP cannot be revised due to the application of IFRS, except when necessary to reflect differences in accounting policies.

KV MORTGAGE FUND INC.

Notes to Financial Statements

Years ended February 28, 2015 and 2014

4. Transition to IFRS (continued):

(b) Mortgage loan investments:

Previously under Canadian GAAP, the Fund's mortgage loan investments were classified as financial assets held-for-trading measured at fair value. The Fund's mortgage loan investments have been reclassified as loans and receivable investments. This reclassification did not result in any adjustments to the reported financial position, financial performance and cash flows of the Fund.

5. Mortgage loan investments:

The following is a breakdown of the mortgage loan investments held by the Fund as at February 28, 2015, February 28, 2014 and March 1, 2013:

	%	Feb 28, 2015	%	Feb 28, 2014	%	Mar 1, 2013
Interest in first mortgages	98.4%	\$ 56,398,964	99.8%	\$ 36,997,597	92.1%	\$ 11,993,170
Interest in KV second mortgages	1.6%	920,177	18.9%	70,177	3.1%	400,000
Interest in second mortgages behind a third party	-	-	-	-	4.8%	626,000
	100.0%	\$ 57,319,141	100.0%	\$ 37,067,774	100.0%	\$ 13,019,170

Interest in KV second mortgages refers to the Fund's interest in second mortgages behind first position mortgages that are originated and serviced by the Fund Manager.

Mortgage loan investments are secured by the real property to which they relate and bear interest at a weighted average interest rate of 10.29% (February 28, 2014 – 10.60% and March 1, 2013 – 10.88%).

As at February 28, 2015, three (February 28, 2014 – five and March 1, 2013 – nil) mortgages with principal balances totaling \$2,740,000 (February 28, 2014 – \$3,788,942 and March 1, 2013 – \$nil) are in arrears. Subsequent to year end, arrears interest due as at February 28, 2015 was collected on all of the mortgages in arrears.

During the year ended February 28, 2015 the Fund, through the Fund Manager, was engaged in enforcement remedies against one mortgage loan investment. As at February 28, 2015, the Fund Manager has stayed these enforcement remedies against this mortgage as described in Note 11.

Principal repayments based on contractual maturity dates are as follows:

	Feb 28, 2015	Feb 28, 2014	Mar 1, 2013
Matured	\$ 150,000	\$ 1,853,548	\$ -
Within one year	56,012,317	32,101,726	12,909,170
After one year but less than two years	1,156,824	3,002,500	-
Open term	-	110,000	110,000
	\$ 57,319,141	\$ 37,067,774	\$ 13,019,170

KV MORTGAGE FUND INC.

Notes to Financial Statements

Years ended February 28, 2015 and 2014

5. Mortgage loan investments (continued):

All of the un-matured mortgage loans contain a prepayment option, whereby the borrower may repay the principal at any time prior to maturity, subject to payment of an interest penalty that is specific to each mortgage.

As at February 28, 2014, the Fund had three (March 1, 2013 – nil) mortgage loans outstanding with contractual maturity dates past due. During year ended February 28, 2015, the maturity date was extended on one mortgage loan investment that was past due on February 28, 2014. Further, on the remaining two mortgage loans with past due maturity dates as at February 28, 2014, the Fund was able to fully recover the principal outstanding during the year ended February 28, 2015.

As at February 28, 2015, the Fund had one mortgage loan outstanding with a contractual maturity date past due. Subsequent to year end, the maturity date on this mortgage loan was extended.

6. Trust funds:

Cash held in trust on behalf of third parties are for subscriptions to preferred shares in the Fund that have yet to be accepted. The Fund holds third party assets in a separate bank account to prevent comingling with its own assets. These liabilities are matched by an equal amount of funds on deposit in trust at a financial institution. As at February 28, 2015, trust liabilities amounting to \$nil (February 28, 2014 - \$179,590 and March 1, 2013 - \$nil) have not been included in these financial statements.

7. Shareholders' equity:

The Fund is authorized to issue an unlimited number of Class A voting common shares, an unlimited number of Class B non-voting common shares, an unlimited number of Class A preferred shares and an unlimited number of Class B preferred shares.

All the classes of preferred shares and preferred shares within a class rank equally with respect to dividends, rank senior to the common shares of the Fund and are redeemable at the option of the Fund's board of directors. Class A and Class B preferred shares are privately held and there is no market through which these shares may be sold. The Fund may issue Class A and Class B preferred shares in the future in accordance with securities legislation.

The Class A common shares have a nominal value and are owned by certain shareholders and officers of the Fund Manager.

KV MORTGAGE FUND INC.

Notes to Financial Statements

Years ended February 28, 2015 and 2014

7. Shareholders' equity (continued):

Number of preferred and common shares issued and outstanding changed as follows:

Feb 28, 2015	Class A preferred shares	Class B preferred shares	Class A common shares
Shares outstanding, March 1, 2014	2,536,385	1,284,792	400
Issued for cash	1,611,159	693,656	-
Issued under share based compensation plan	864	-	-
Redeemed	(277,420)	(27,172)	-
Issued under dividend reinvestment plan	140,162	58,554	-
Shares outstanding, February 28, 2015	4,011,150	2,009,830	400

Feb 28, 2014	Class A preferred shares	Class B preferred shares	Class A common shares
Shares outstanding, March 1, 2013	1,193,725	127,172	400
Issued for cash	1,337,367	1,141,143	-
Issued under share based compensation plan	500	-	-
Redeemed	(69,413)	(900)	-
Issued under dividend reinvestment plan	74,206	17,377	-
Shares outstanding, February 28, 2014	2,536,385	1,284,792	400

March 1, 2013	Class A preferred shares	Class B preferred shares	Class A common shares
Shares outstanding, March 1, 2012	815,674	-	400
Issued for cash	565,509	127,124	-
Issued under share based compensation plan	500	-	-
Redeemed	(224,674)	-	-
Issued under dividend reinvestment plan	36,716	48	-
Shares outstanding, March 1, 2013	1,193,725	127,172	400

(a) Redemptions:

Preferred shareholders may on a monthly basis request redemption of any or all of their outstanding shares by providing 30 days advance notice to the Fund. Redemption of the Fund's preferred shares is at the option of the Fund, in its absolute discretion. The board of directors of the Fund may elect, in their discretion, to redeem preferred shares from particular holders to the exclusion of other holders of preferred shares.

Redemptions of Class A preferred shares are completed without any fees. Class B preferred shares are subject to early redemption fees payable to the Fund Manager in the first five years from the date of subscription. Redemption of Class B preferred shares requested after five years from the date of subscription are completed without any early redemption fees.

KV MORTGAGE FUND INC.

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Years ended February 28, 2015 and 2014

7. Shareholders' equity (continued):

The Fund shall not accept redemption requests for preferred shares in the same calendar month where they represent more than 5% of the total number of preferred shares outstanding on the redemption date. Should the amount of preferred shares tendered for redemption exceed the limit, the Fund may, at its discretion redeem all tendered preferred shares, redeem the preferred shares tendered on a pro rata basis, or suspend redemptions. Holders of the Fund's preferred shares have no right to require the Fund to redeem their preferred shares. When preferred shares are redeemed at the option of the Fund, the redemption amount is equal to the net asset value of each particular preferred share plus any declared and unpaid dividends at the redemption date.

(b) Dividends:

The Fund intends to pay dividends to shareholders on a monthly basis, on or about the 15th day following the end of each month.

For the year ended February 28, 2015, the Fund declared dividends on Class A preferred shares of \$2,836,196 (February 28, 2014 - \$1,431,265) on the issued and outstanding preferred shares. As at February 28, 2015 \$140,567 (February 28, 2014 - \$67,651 and March 1, 2013 - \$43,380) was payable to the Class A preferred shareholders.

For the year ended February 28, 2015, the Fund declared dividends on Class B preferred shares of \$1,404,102 (February 28, 2014 - \$590,072) on the issued and outstanding preferred shares. As at February 28, 2015, \$78,070 (February 28, 2014 - \$51,028 and March 1, 2013 - \$3,681) was payable to the Class B preferred shareholders.

(c) Dividend reinvestment plan:

The Fund has instituted a dividend reinvestment plan ("DRIP") available to Class A and Class B preferred shareholders. Under the DRIP, shareholders may enroll to have their dividends reinvested to purchase additional preferred shares of the same class. The preferred shares are issued from treasury at an amount of \$10.00 per share. For the year ended February 28, 2015, 140,162 (February 28, 2014 - 74,606 and March 1, 2013 - 36,716) Class A preferred shares were issued under the DRIP, resulting in reinvested dividends of \$1,401,616 (February 28, 2014 - \$746,055). For the year ended February 28, 2015, 58,554 (February 28, 2014 - 17,419 and March 1, 2013 - 48) Class B preferred shares were issued under the DRIP, resulting in reinvested dividends of \$585,537 (February 28, 2014 - \$174,189). Dividend reinvestments are recorded on a monthly basis.

KV MORTGAGE FUND INC.

Notes to Financial Statements

Years ended February 28, 2015 and 2014

8. Earnings per share:

The following table reconciles the numerators and denominators of the basic and diluted earnings per share for the years ended February 28, 2015 and 2014.

Feb 28, 2015	Class A preferred shares	Class B preferred shares	Total
Net Income	\$ 2,836,196	\$ 1,404,102	\$ 4,240,298
Basic weighted average number of shares	3,386,119	1,676,350	5,062,469
Dilutive effect of potential shares	-	-	-
Diluted weighted average number of shares	3,386,119	1,676,350	5,062,469
Earnings per share - basic and diluted	0.84	0.84	0.84

Feb 28, 2014	Class A preferred shares	Class B preferred shares	Total
Net Income	\$ 1,434,687	\$ 590,496	\$ 2,025,183
Basic weighted average number of shares	1,684,536	693,330	2,377,866
Dilutive effect of potential shares	-	-	-
Diluted weighted average number of shares	1,684,536	693,330	2,377,866
Earnings per share - basic and diluted	0.85	0.85	0.85

For the years ended February 28, 2015 and 2014, the Fund had no outstanding convertible instruments that would trigger conversion of potential preferred shares to preferred shares.

9. Related party balances and transactions:

Transactions with related parties are in the normal course of business and are recorded at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

(a) Syndicate mortgage loan investments:

As at February 28, 2015, the Fund was co-invested as a syndicate with two related parties in three separate mortgage loan investments secured by real estate that was owned by third parties. As at February 28, 2015, the Fund's share in the mortgage investments totaled \$3,212,600 (February 28, 2014 - \$nil).

As at March 1, 2013, the Fund was co-invested as a syndicate with a related party in one mortgage loan investment secured by real estate that was owned by a third party. As at March 1, 2013, the Fund's share in this mortgage investment was \$475,000.

KV MORTGAGE FUND INC.

Notes to Financial Statements

Years ended February 28, 2015 and 2014

9. Related party balances and transactions (continued):

(b) Preferred shareholders:

The following is a breakdown of Class A and B preferred shares held by related parties as at February 28, 2015, February 28, 2014 and March 1, 2013:

	Feb 28, 2015	Feb 28, 2014	Mar 1, 2013
Class A preferred shares			
Non-independent directors and immediate family	\$ 619,593	\$ 686,455	\$ 714,507
Independent directors and LRC members	425,907	253,261	31,605
Other key management	316,539	-	-
Other key management related corporations	567,788	595,000	795,336
Class B preferred shares			
Other key management	50,037	-	-
Other key management related corporations	20,498	-	-
Total shares held by related parties	\$ 2,000,362	\$ 1,534,716	\$ 1,541,448

(c) Transactions during the period:

(i) Service fees:

The Fund pays each registered dealer service fees in respect of outstanding Class A preferred shares that are held by clients of that registered dealer. In respect of outstanding Class B preferred shares, the Fund pays service fees to the Fund Manager. Service fees are calculated and paid at the end of each fiscal quarter. For the year ended February 28, 2015, the Fund incurred service fees of \$534,593 (2014 - \$273,034) with \$149,983 (February 28, 2014 - \$72,204 and March 1, 2013 - \$27,083) of this amount included in accounts payable at February 28, 2015.

(ii) Management fees paid to Fund Manager:

The Fund Manager is responsible for the day-to-day operations, including administration of the Fund's mortgage loan investments. In respect of these services, the Fund pays to the Fund Manager a management fee. For the year ended February 28, 2015 the Fund incurred management fees of \$397,754 (February 28, 2014 - \$191,015) with \$113,333 (February 28, 2014 - \$66,209 and March 1, 2013 - \$22,230) of this amount included in accounts payable at February 28, 2015.

Under the terms of the Management Agreement between the Fund and the Fund Manager, the management fee paid by the Fund is equal to 7.5% of the Fund's revenue, and is calculated monthly and paid quarterly. The Fund Manager's eligibility to receive the management fee for any month is subject to the Fund generating an increase in net income and comprehensive net income that is sufficient to provide a minimum 8% annualized return (the "Hurdle Rate") on the opening monthly capital of the Fund.

KV MORTGAGE FUND INC.

Notes to Financial Statements

Years ended February 28, 2015 and 2014

9. Related party balances and transactions (continued):

The service fees paid by the Fund is equal to 1% per annum, calculated and paid quarterly, of the paid up capital for outstanding preferred shares of the Fund that are held by clients of each registered dealer.

(iii) Compensation to directors:

As at February 28, 2015, the Fund has four directors that are both independent of the Fund and the Fund Manager on its board of directors. In respect of their services during the year, independent directors were provided compensation under the PSC plan as described in Note 3, or alternatively elected to receive annual cash compensation in the form of a \$5,000 and \$2,500 retainer for director and chair offices, respectively. For directors whose appointments were less than a full year, the cash retainer was prorated based on the number of months served.

For the year ended February 28, 2015, the Fund paid remuneration fees to directors of \$15,813 (2014 – \$9,211). The Fund has issued 500 Class A preferred shares under the PSC at February 28, 2015 (February 28, 2014 – 500). During February 28, 2015, \$5,396 (2014 – \$5,461) of share based payments was included in director fees.

Directors that are not independent of the Fund and the Fund Manager do not receive any cash or share compensation.

(iv) Compensation to LRC members:

As at February 28, 2015, the Fund has three independent members of the LRC. In respect of their services during the year, independent LRC members were provided compensation under the PSC plan as described in Note 3, or alternatively elected to receive annual cash compensation in the form of a \$2,000 and \$1,000 retainer for independent LRC member and chair offices, respectively. In addition to annual compensation amounts, effective April 1, 2014, members of the LRC that were independent of management were provided compensation of \$250 for each meeting they attended during the year. Prior to April 1, 2014, members of the LRC received \$100 for each meeting attended.

For the year ended February 28, 2015, the Fund paid remuneration fees to independent LRC members of \$8,713 (2014 – \$2,575). The Fund has issued 300 Class A preferred shares under the PSC at February 28, 2015 (February 28, 2014 – nil and March 1, 2013 – nil). During February 28, 2015, \$3,238 (2014 – \$nil) of share based payments was included in lending review committee fees.

KV MORTGAGE FUND INC.

Notes to Financial Statements

Years ended February 28, 2015 and 2014

9. Related party balances and transactions (continued):

(d) Due to/due from related party balances:

(i) Due to Fund Manager:

Amounts due to the Fund Manager by the Fund were comprised of \$113,333 (February 28, 2014 - \$66,209 and March 1, 2013 - \$22,230) of management fees for the fiscal quarter ended February 28, 2015 and \$149,983 (February 28, 2014 - \$72,204 and March 1, 2013 - \$27,083) of service fees for the fiscal quarter ended February 28, 2015.

As February 28, 2014, the Fund had \$5,000 (March 1, 2013 - \$nil) other assets balance in respect of a refundable loan application fee incurred by the Fund Manager on behalf of the Fund. As of February 28, 2015, the Fund had no such balance outstanding and the proposed line of credit related to this fee was not pursued.

Amounts due from the Fund Manager are governed by the Fund's normal collection terms of net 30 days. Subsequent to the reporting date, the Fund paid these amounts to the Fund Manager.

(ii) Due from Fund Manager:

As at February 28, 2015, the Fund Manager held \$20,536 (February 28, 2014 - \$2,095 and March 1, 2013 - \$nil) of interest receivable in trust on behalf of the Fund. Subsequent to year end, the Fund Manager disbursed the proceeds to the Fund in accordance with the terms of its normal mortgage servicing operations.

10. Fair value of financial instruments:

Financial instruments measured at fair value are categorized by the Fund into one of three hierarchy levels for disclosure purposes. Each level is based on the transparency of the inputs to measure fair value of assets and liabilities.

Level 1 – inputs are unadjusted quoted prices of identical instruments in active markets.

Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 – inputs used in a valuation technique are not based on observable market data in determining fair values of these instruments.

Determination of fair value and the resulting hierarchy requires the use of observable market data whenever available. If different levels of inputs are used to measure a financial instrument's fair value, the classification within the hierarchy is based on the lowest level input that is significant to the fair value measurement.

KV MORTGAGE FUND INC.

Notes to Financial Statements

Years ended February 28, 2015 and 2014

10. Fair value of financial instruments (continued):

(a) Mortgage loan investments:

Fair value is the amount of consideration that would be agreed upon in an arm's-length transaction between knowledgeable, willing parties under no compulsion to act. The Fund Manager acts as market maker for these transactions, and there is no quoted price in an active market for these investments. The Fund makes its determination of fair value based on its assessment of the current lending market for mortgage loan investments of same or similar terms. The carrying values of mortgage loan investments approximate their fair values due to the relatively short periods to maturity and terms. As a result the fair value of mortgage loan investments is based on Level 3 of the fair value hierarchy.

(b) Other financial assets and liabilities:

The fair value of subscription proceeds receivable, accrued interest receivable, amounts due to Fund Manager, accounts payable and accrued expenses, and dividends payable approximate their carrying values due to their short-term maturities.

11. Risk management:

(a) Interest rate risk:

Interest rate risk is the risk that the fair value or future cash flows of the mortgage loan investments will fluctuate because of changes in market interest rates. As of February 28, 2015, no mortgage investments (February 28, 2014 - nil) bear interest at variable rates, therefore, as at February 28, 2015 the Fund is not exposed to cash flow risk as a result of interest rate fluctuations. Further, the Fund does not have material fair value risk on its mortgage investment portfolio primarily as a result of the short term nature of the maturity dates of the mortgage loan investments.

No liabilities of the Fund bear interest.

The Fund does not have material interest rate risk on any of its other financial instruments.

(b) Credit risk:

The Fund's maximum exposure to credit risk is represented by the fair values of subscription proceeds receivable, accrued interest receivable, and mortgage loan investments. Credit risk primarily relates to the possibility that counterparties to mortgage investments may be unable to honour their debt commitments. Any instability in the real estate sector and an adverse change in economic conditions in Canada or other conditions impacting specific mortgage borrowers could result in financial difficulty for borrowers. Financial difficulty experienced by these borrowers could leave them unable to fulfill their obligations.

The Fund has recourse under its mortgage loan investments in the event of default by a borrower, in which case, the Fund would have a claim against the underlying property and security.

KV MORTGAGE FUND INC.

Notes to Financial Statements

Years ended February 28, 2015 and 2014

11. Risk management (continued):

The following is a breakdown of the Fund's investment in mortgage loans engaged in enforcement remedies, through the Fund Manager, as at February 28, 2015, February 28, 2014 and March 1, 2013:

	Feb 28, 2015	Feb 28, 2014	Mar 1, 2013
Principal outstanding	\$ 1,050,000	\$ 1,853,548	\$ -
Accrued interest past due	10,500	50,092	-
	\$ 1,060,500	\$ 1,903,640	\$ -

As of February 28, 2015 the Fund, through the Fund Manager, was engaged in enforcement remedies against one mortgage loan investment. Enforcement actions have been stayed due to cooperation received from the borrower and the ongoing receipt of payments in accordance with a revised schedule. Subsequent to year end, the past due interest on this mortgage has been collected in full by the Fund. Management believes the Fund will fully recover the principal on the mortgage loan for which enforcement actions have been stayed as at February 28, 2015, although there is no assurance that it will be able to do so.

As of February 28, 2014 the Fund, through the Fund Manager, was engaged in enforcement remedies against three (March 1, 2013 - nil) mortgage loan investments. During year ended February 28, 2015, the Fund was able to discontinue the enforcement actions on all three of these mortgage loan investments. Enforcement actions on one mortgage loan investment was discontinued by allowing the title of the mortgage to transfer to the second position mortgage holder while the Fund Manager retained the first charge mortgage position. Further, on the remaining two mortgage loans with enforcement actions underway as at February 28, 2014, the Fund was able to fully recover the principal and interest accrued during the year ended February 28, 2015.

The Fund, through the Fund Manager, mitigates credit risk by the following:

- (i) adhering to the investment restrictions and operating policies included in the asset allocation model;
- (ii) performing a due diligence process on each mortgage loan investment prior to funding. This generally includes, but is not limited to engaging professional independent consultants, lawyers and appraisers and performing credit checks and financial statement review on prospective borrowers;
- (iii) having mortgage investments approved by the independent LRC in accordance with the Fund's operating policies; and
- (iv) actively monitoring the mortgage portfolio and initiating recovery procedures in a timely manner where required.

The Fund's internally imposed investment criteria only permits the Fund to invest in mortgage loan investments with a Loan-to-Value ("LRV") ratio of 80% or less, calculated at the date the investment is made. The LTV ratio is calculated as of a particular calendar date by dividing the outstanding principal of the mortgage loan by the fair value of the underlying property and security.

KV MORTGAGE FUND INC.

Notes to Financial Statements

Years ended February 28, 2015 and 2014

11. Risk management (continued):

(c) Liquidity risk:

Liquidity risk is the risk that the Fund will encounter difficulty in meeting its financial obligations as they become due. This risk arises in the normal course of operations from fluctuations in cash flow as a result of the timing of mortgage loan investment funding and repayments and the possible redemptions of shares. The Fund Manager routinely forecasts future cash flow sources and requirements of the Fund to help mitigate this risk and help ensure cash is efficiently utilized.

Contractual obligations as of February 28, 2015, February 28, 2014 and March 1, 2013 are due as follows:

	Feb 28, 2015		
	Total	Less than 1 year	Greater than 1 year
Due to Fund Manager	\$ 263,316	\$ 263,316	\$ -
Accounts payable and accrued expenses	10,625	10,625	-
Dividends payable	218,637	218,637	-
Liabilities and obligations	\$ 492,578	\$ 492,578	\$ -

	Feb 28, 2014		
	Total	Less than 1 year	Greater than 1 year
Due to Fund Manager	\$ 143,413	\$ 143,413	\$ -
Accounts payable and accrued expenses	24,626	24,626	-
Dividends payable	118,679	118,679	-
Liabilities and obligations	\$ 286,718	\$ 286,718	\$ -

	Mar 1, 2013		
	Total	Less than 1 year	Greater than 1 year
Due to Fund Manager	\$ 50,194	\$ 50,194	\$ -
Accounts payable and accrued expenses	7,706	7,706	-
Dividends payable	47,061	47,061	-
Liabilities and obligations	\$ 104,961	\$ 104,961	\$ -

(d) Capital risk management:

The Fund defines its current capital structure to include common shares, Class A preferred shares and Class B preferred shares. As at February 28, 2015, the Fund has no long term debt outstanding.

The calculation of total capital is as follows:

	Feb 28, 2015	Feb 28, 2014	Mar 1, 2013
Class A preferred shares	\$ 40,111,495	\$ 25,363,855	\$ 11,933,257
Class A preferred shares	20,098,298	12,847,921	1,271,298
Class A common shares	1,000	1,000	1,000
Retained earnings	-	-	-
Total capital	\$ 60,210,793	\$ 38,212,776	\$ 13,205,555

KV MORTGAGE FUND INC.

Notes to Financial Statements

Years ended February 28, 2015 and 2014

11. Risk management (continued):

The Fund manages its capital structure in order to support ongoing operations while focusing on its primary objectives of preserving shareholder capital and generating a cash dividend to preferred shareholders.

The Fund reviews its capital structure on an ongoing basis and adjusts its capital structure in response to mortgage loan investment opportunities, the availability of capital, and anticipated changes in economic conditions.

The Fund's internally imposed investment restrictions and asset allocation model incorporate various restrictions and investment parameters to manage the risk profile of the mortgage loan investments. The investment restrictions permit the Fund to use leverage to maintain liquidity, for general working capital purposes, and to bridge the timing differences between loan advances, maturities and equity offerings. The aggregate amount of borrowing by the Fund may not exceed 20% of the book value of the Fund's mortgage investment portfolio.

In addition, the asset allocation model dictates the allocation of the mortgage investments based upon geographical, borrower, zoning, term, security position and loan-to-appraised value criteria. At February 28, 2015, the Fund did not employ leverage and was in compliance with its investment restrictions and the allocation model parameters.

The Fund is not subject to externally imposed capital requirements.

13. DATE AND CERTIFICATE

DATED MAY 5, 2015

THIS OFFERING MEMORANDUM DOES NOT CONTAIN A MISREPRESENTATION.

signed "Shafin Kanji"

signed "Aleem Virani"

SHAFIN KANJI

ALEEM VIRANI

Chief Executive Officer, Director and Promoter

President, Director and Promoter

signed "Jonathan Herman"

JONATHAN HERMAN

Chief Financial Officer and Promoter