

## Offering Memorandum

**No securities regulatory authority or regulator has assessed the merits of these securities or reviewed this Offering Memorandum. Any representation to the contrary is an offence. This page is a summary only. Purchasers should read the entire Offering Memorandum for full details about the Offering. This is a risky investment. See Item 8 – Risk Factors.**

Date: September 21, 2018  
 The Issuer: Silvermont Finance Inc. (the “Corporation” or “Silvermont”)  
 Address: 5255 Henri-Bourassa West, Suite 110  
 Montreal, Quebec  
 H4R 2M6  
 Phone: (514) 335-5530  
 Fax: (514) 335-5514  
 E-mail: info@silvermontfinance.com  
 Currently listed or quoted? **No. These securities do not trade on any exchange or market**  
 Reporting Issuer? No.  
 SEDAR filer? No.

### The Offering

<b>Securities Offered</b>	8% Unsecured Fixed Rate Bonds (referred to as the Series “A” Bonds) 9% Unsecured Fixed Rate Bonds (referred to as the Series “B” Bonds) 10% Unsecured Fixed Rate Bonds (referred to as the Series “C” Bonds) plus profit participation 12% Unsecured Fixed Rate Bonds (referred to as the Series “F” Bonds) plus profit participation (collectively, the “Bonds”) <b>See Item 5.1 – Terms of Securities for the terms of the Bonds.</b>
<b>Price per Security</b>	\$100 per Bond.
<b>Minimum Offering</b>	\$250,000 (2500 Bonds)
<b>Maximum Offering</b>	\$8,000,000 (80,000 Bonds). Each Series of Bonds are available up to a maximum of \$2,000,000 (20,000 Bonds). After the maximum number of Bonds in each series is subscribed for, no further Bonds will be issued for that particular series.
<b>Payment terms</b>	Payment in full of the subscription price is to be made by wire transfer or by way of delivery of a certified cheque or bank draft and completed Subscription Agreement. See Item 11 – Subscriber’s Rights and Item 5 – Securities Offered.
<b>Minimum Subscription Amount Per Subscriber</b>	\$2500 (25 Bonds).
<b>Proposed Closing Date(s)</b>	Subscriptions will be received subject to the rights of the Corporation to reject or allot them in whole or in part and subject to the right to close the subscription books at any time without notice. Closing shall occur from time to time in the course of the Offering or on such other date as the Corporation determines. The first Closing Date shall occur on or before October 31, 2018.
<b>Income Tax Consequences</b>	There are important tax consequences to these securities. <b>See Item 6 – Tax Consequences and Funds from Tax Deferred Plans.</b>
<b>Purchaser’s Rights</b>	<b>You have 2 business days to cancel your Subscription Agreement to purchase these securities. If there is a misrepresentation in this Offering Memorandum, you have the right to sue either for damages or to cancel the Subscription Agreement. See Item 11 – Subscriber’s Rights.</b>
<b>Resale Restrictions</b>	<b>You will be restricted from selling your securities for an indefinite period. See Item 10 – Resale Restrictions.</b>
<b>Selling Agents</b>	Where allowed by applicable securities legislation, the Corporation intends to offer compensation of up to 10% of the gross proceeds of the Offering to investment dealers, exempt market dealers and/or their dealing representatives on the exempt market, parties related to the Corporation or consultants of such parties. <b>See Item 7 – Compensation Paid to Sellers and Finders.</b>
<b>Marketing Materials</b>	All marketing materials related to this Offering and delivered or made reasonably available to prospective subscriber are hereby incorporated by reference into this Offering Memorandum.

### SILVERMONT FINANCE INC. COPY

**Please print your name, sign and date below, and submit this page with your Subscription Agreement**

**Investor Name:** \_\_\_\_\_ **Investor Signature:** \_\_\_\_\_ **Date:** \_\_\_\_\_

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<b>Maximum Offering</b>	\$8,000,000 (80,000 Bonds). Each Series of Bonds are available up to a maximum of \$2,000,000 (20,000 Bonds). After the maximum number of Bonds in each series is subscribed for, no further Bonds will be issued for that particular series.
<b>Payment terms</b>	Payment in full of the subscription price is to be made by wire transfer or by way of delivery of a certified cheque or bank draft and completed Subscription Agreement. See Item 11 – Subscriber’s Rights and Item 5 – Securities Offered.
<b>Minimum Subscription Amount Per Subscriber</b>	\$2500 (25 Bonds).
<b>Proposed Closing Date(s)</b>	Subscriptions will be received subject to the rights of the Corporation to reject or allot them in whole or in part and subject to the right to close the subscription books at any time without notice. Closing shall occur from time to time in the course of the Offering or on such other date as the Corporation determines. The first Closing Date shall occur on or before October 31, 2018.
<b>Income Tax Consequences</b>	There are important tax consequences to these securities. <b>See Item 6 – Tax Consequences and Funds from Tax Deferred Plans.</b>
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<b>Selling Agents</b>	Where allowed by applicable securities legislation, the Corporation intends to offer compensation of up to 10% of the gross proceeds of the Offering to investment dealers, exempt market dealers and/or their dealing representatives on the exempt market, parties related to the Corporation or consultants of such parties. <b>See Item 7 – Compensation Paid to Sellers and Finders.</b>
<b>Marketing Materials</b>	All marketing materials related to this Offering and delivered or made reasonably available to prospective subscriber are hereby incorporated by reference into this Offering Memorandum.
<b>INVESTOR COPY</b>	
<b>Please retain this complete copy of the Offering Memorandum for your records.</b>	

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## FORWARD-LOOKING INFORMATION

This Offering Memorandum contains forward-looking statements. Often, but not always, forward-looking statements can be identified by the use of words such as “plans”, “proposes”, “expects”, “estimates”, “intends”, “anticipates” or “believes”, or variations (including negative and grammatical variations) of such words and phrases or state that certain actions, events or results “may”, “could”, “would”, “might” or “will” be taken, occur or be achieved. Forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of Silvermont to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Actual results, performance and developments are likely to differ, and may differ materially, from those expressed or implied by the forward-looking statements contained in this Offering Memorandum.

Such forward-looking statements are based on a number of assumptions which may prove to be incorrect including, but not limited to: the completion of this Offering, the ability of Silvermont to acquire and maintain an investment portfolio capable of generating the necessary annual yield or returns to enable Silvermont to achieve its investment objectives, the ability of Silvermont to establish and maintain relationships and agreements with key strategic partners, the maintenance of prevailing interest rates at favourable levels, the ability of borrowers to service their obligations under the Loans, the ability of the Manager to effectively perform its obligations to Silvermont, anticipated costs and expenses, competition, and changes in general economic conditions. While Silvermont anticipates that subsequent events and developments may cause its views to change, Silvermont specifically disclaims any obligation to update these forward-looking statements, except as required by applicable law. These forward-looking statements should not be relied upon as representing Silvermont’s views as of any date subsequent to the date of this Offering Memorandum.

Although Silvermont has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors that cause actions, events or results not to be as anticipated, estimated or intended. There can be no assurance that forward-looking statements will prove to be accurate, as actual results, performance and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements. The factors identified above are not intended to represent a complete list of the factors that could affect Silvermont. Additional factors are noted under “Risk Factors”.

## GLOSSARY OF TERMS

In this Offering Memorandum, unless the context otherwise requires, the following words and terms shall have the indicated meanings and grammatical variations of such words and terms shall have corresponding meanings:

**“Administrative Agreement”** means the Administrative Services Agreement between the Corporation and Knightswood dated 21, 2018, the terms of which are referred to in Item 2.6 herein.

**“Auxly”** means Auxly Cannabis Group Inc., a publicly traded company listed on the TSX Venture Exchange, trading under the symbol “XLY”.

**“Bank Prime Rate”** means the minimum rate at which the Bank of Canada extends short-term advances to members of the Canadian Payments Association.

**“Bondholder”** means a holder of Bonds purchased by a Subscriber pursuant to this Offering Memorandum.

**“Bonds”** means the unsecured Series A, B, C and F Bonds issued by the Corporation pursuant to this Offering Memorandum.

**“Borrowers”** means those individuals, companies, corporations, businesses and other entities who meet the Corporation’s lending criteria and to whom the Corporation advances Loans as further described in Item 2 – Business of the Corporation.

**“Class “A” Shares”** means the Class “A” Preferred shares of the Corporation.

**“Class “B” Shares”** means the Class “B” Common shares of the Corporation.

**“CRA”** means the Canada Revenue Agency.

**“Corporation”** means Silvermont Finance Inc.

**“Deferred Plan”** means any one of or collectively a RRSP, RRIF, RESP and a TFSA.

**“Deferred Plan Capital”** means capital of any kind raised by the Corporation from a RRSP, RRIF, RESP or TFSA pursuant to this Offering.

**“GAAP”** means, at any time, accounting principles generally accepted in Canada, including those set out in the Handbook of the Canadian Institute of Chartered Accountants.

**“Holdco”** means 9159908 Canada Inc., a corporation created under the *Canada Business Corporations Act*.

**“Hypothec”** means a charge that has a first, second or third place priority over all other security interests registered against the same movable or immovable asset.

**“Immovable Loan”** means a loan made in the Province of Quebec and secured by immovable assets, as defined in the *Civil Code of Québec*.

**“Knightswood”** means Knightswood Holdings Ltd., a wholly owned subsidiary of Auxly.

**“Knightswood Shares”** means the 6,000 Class A Preferred Shares of the Corporation held by Knightswood as of the date of this Offering Memorandum.

**“Lender Fee”** means the percentage of the Loan amount charged by the Corporation to a Borrower to process, approve and provide a Loan to a Borrower. The Lender Fee will be deducted from the Loan proceeds advanced to the Borrower. A Lender Fee may be charged on personal and/or corporate Loans. Lender Fees will be determined by the amount of available funds the Corporation has to utilize, the situation and circumstances of the Borrower including the Borrower’s ability to repay the Loan.

**“Loan Agreement”** means the agreement to be entered into by the Corporation and the Borrower which details the terms and conditions of the Loan.

“**Loans**” means, collectively, (i) Immovable Loans and Moveable Loans and in the other provinces of Canada by a Mortgage; or (ii) in all provinces of Canada, a loan secured by guarantees, liens, charges and other forms of collateral or personal and/or corporate guarantees.

“**Maximum Offering**” means 80,000 Bonds (\$8,000,000).

“**Minimum Offering**” means 2500 Bonds (\$250,000).

“**Mortgage**” means a mortgage having priority over other security interests (subject in certain cases to other charges) registered against the same real property used to secure such mortgage for the principal amount.

“**Moveable Loan**” means a loan made in the Province of Quebec secured by movable assets, as defined in the *Civil Code of Québec*.

“**NI 45-106**” means National Instrument 45-106 – *Prospectus Exemptions*.

“**Offering**” means the offering of up to 80,000 Bonds pursuant to the terms of this Offering Memorandum.

“**Offering Documents**” means any offering memorandum, prospectus or term sheet, and applicable subscription agreement prepared by the Corporation in connection with a distribution of its securities.

“**Offering Jurisdictions**” means the Provinces and Territories of Canada.

“**Offering Memorandum**” means this offering memorandum dated June 15<sup>th</sup>, 2018 as amended or supplemented.

“**Portfolio Company**” or “**Portfolio Companies**” means one or more businesses in which Silvermont has made an investment;

“**Option Agreement**” means the Option Agreement between the Corporation, Holdco and Knightswood dated September 21, 2018, the terms of which are referred to in Item 2.6 herein.

“**Principal Amount**” means the aggregate dollar value of each Subscriber’s subscription for Bonds determined by multiplying the number of Bonds purchased by a Subscriber by \$100.

“**Quarterly Fee**” means the quarterly fee payable by the Corporation in cash to Knightwood in an amount equal to: (i) \$3,750 per calendar quarter (\$15,000 per annum) if the aggregate principal amount value of the Bonds issued and outstanding at the end of any calendar quarter is less than \$3,000,000; or (ii) \$5,000 per calendar quarter (\$20,000 per annum) if the aggregate principal amount value of the Bonds issued and outstanding at the end of any calendar quarter is greater than \$2,999,999 and less than \$5,000,000; or (iii) \$6,250 per calendar quarter (\$25,000 per annum) if the aggregate face value of the Bonds issued and outstanding at the end of any calendar quarter is equal to or greater than \$5,000,000; plus applicable taxes.

“**Regulations**” means the Tax Act regulations.

“**RESP**” means registered Education Savings Plan as defined under the Tax Act.

“**RRIF**” means Registered Retirement Income Fund as defined under the Tax Act.

“**RRSP**” means Registered Retirement Savings Plan as defined under the Tax Act.

“**Series A Bondholders**” means the registered holders of Series A Bonds pursuant to this Offering Memorandum.

“**Series A Bonds**” means the 8% unsecured fixed rate bonds issued by the Corporation pursuant to this Offering Memorandum.

“**Series B Bondholders**” mean the registered holders of Series B Bonds pursuant to this Offering Memorandum.

“**Series B Bonds**” means the 9% unsecured fixed rate bonds issued by the Corporation pursuant to this Offering Memorandum.

“**Series C Bondholders**” mean the registered holders of Series C Bonds pursuant to this Offering Memorandum.

“**Series C Bonds**” means the 10% unsecured fixed rate bonds with profit participation issued by the Corporation pursuant to this Offering Memorandum.

“**Series F Bondholders**” mean the registered holders of Series F Bonds pursuant to this Offering Memorandum.

“**Series F Bonds**” means the 12% unsecured fixed rate bonds with profit participation issued by the Corporation pursuant to this Offering Memorandum.

“**Subscribers**” means parties who subscribe for Bonds pursuant to this Offering.

“**Subscription Agreement**” means the Subscription Agreement entered into between a Subscriber and the Corporation with respect to the purchase of Bonds by a Subscriber under this Offering.

“**Tax Act**” means the *Income Tax Act* (Canada).

“**TFSA**” means Tax-Free Savings Account as defined by the Tax Act.

In this Offering Memorandum, references to “dollars” and \$ are to the lawful currency of Canada, unless otherwise indicated.

## ITEM 1. USE OF AVAILABLE FUNDS

### 1.1 Funds Available Pursuant to this Offering

1.1.1 The following table provides the general allotment of funds available pursuant to this Offering:

		Assuming Minimum Offering	Assuming Maximum Offering
A.	Amount to be raised	\$250,000	\$8,000,000
B.	Selling commissions and fees <sup>(1)</sup>	\$15,000	\$480,000
C.	Estimated costs (lawyers, accountants, auditors)	\$50,000	\$100,000
D.	Available funds: $D = A - (B + C)$	\$185,000	\$7,420,000
E.	Additional sources of funding required	-	-
F.	Total : $F=D+E$	\$185,000	\$7,420,000

(1) The fund shall offer as compensation to the Selling Agents a percentage from the gross proceeds realized on the sale of the units. See item 7 – Compensation Paid to Sellers and Finders

As of September 21, 2018, there was no working capital deficiency.

### 1.2 Use of Available Funds pursuant to the Offering

1.2.1 The following table provides a detailed breakdown of the total use of funds available as a result of the Offering:

Description of intended use of available funds listed in order or priority	Assuming Minimum Offering	Assuming Maximum Offering
Movable and Immovable Loans, Venture Capital Investments <sup>(1)</sup>	\$140,000	\$7,34 5,000
Quarterly Fee x 5 years <sup>(2)</sup>	\$45,000	\$75,000

Notes:

(1) See Item 8 – Risk Factors.

(2) Excludes applicable sales taxes (5% GST and 9.975% QST) payable under the Administrative Agreement.

Silvermont intends to use the available funds to pay all fees, including, without limitation; pay Knightswood the Quarterly Fee; costs incurred by the Corporation with respect to the Offering; and advance the Movable and Immovable Loans granted to Borrowers, the Venture Capital Investments, shall be paid from the proceeds of the Offering. **See Item 2.6 – Material Agreements.**

## ITEM 2. BUSINESS OF THE CORPORATION

### 2.1 Structure

Silvermont was incorporated on January 11, 2018 under the *Canada Business Corporations Act*. Its head office is located at 5255 Henri-Bourassa Ouest, Ville Saint-Laurent, Quebec, H4R 2M6.

The Corporation is controlled by Knightswood, a wholly owned subsidiary of Auxly, a public corporation listed on the TSX Venture Exchange trading under the symbol “XLY”. Knightswood owns 60% of the issued and outstanding Class A Preferred Shares of the Corporation. See Sub-Item 3.1 “Compensation and Securities Held”.

Voting control of the Corporation by Knightswood ensures that the Bonds issued by the Corporation pursuant to the present Offering qualify as Deferred Plan investments.

Knightswood’s control and interest in the Company is to earn fees and not to participate in the management, operations and profits of the Company. **See Administrative Agreement under Item 2.6 – Material Agreements.**



**Subscribers of the Bonds of the Company should understand that the assets and management of Knightswood, and its parent company, Auxly, are not in any way committed to the activities of the Company other than Knightswood voting its shares at shareholder meetings of the Company. Both Knightswood and Auxly do not encourage or discourage an investment in the Company.**

### **Release of Knightswood and Auxly**

As term of this Offering, Subscribers acknowledge that:

- (a) The assets and management of Knightswood and Auxly are not in any way committed to the activities of the Company other than Knightswood voting its shares at shareholder meetings of the Company. Further, the Subscriber acknowledges that neither Knightswood nor Auxly has performed any due diligence on the Company, its assets or management and neither Knightswood nor Auxly encourages or discourages an investment in the Company;
- (b) Neither Knightswood nor Auxly owes a fiduciary duty of care or any other duty to Subscribers in connection with the Bonds issued under this Offering;
- (c) Neither Knightswood nor Auxly shall be liable to Subscribers for any liabilities, losses or damages suffered or incurred by Subscribers in connection with this investment, including any default by the Company in the payment of interest and/or repayment of the principal of the Bonds issued pursuant to this Offering; and
- (d) the Subscriber will release and forever discharge Knightswood and Auxly, together with their officers, directors, servants, employees, agents and other representatives from any and all actions, causes of action, claims, demands, or other liability of any nature or kind howsoever arising, including, without limitation, any and all claims, past or present, and which may arise in the future, in any way related to the Subscriber's investment in the Bonds of the Company.

For additional information with respect to Auxly, please see [www.sedar.com](http://www.sedar.com).

9159908 Canada Inc. holds 4,000 Class "A" Preferred shares, representing 40% of the issued and outstanding Class "A" Preferred Shares of the Corporation. 9159908 holds also 1,000 class "B" Common shares, representing 100% of the Class "B" Common shares of the Corporation. 9159908 Canada Inc. is controlled by Ms. Elpida Tzaferis.

## **2.2 Business**

The Corporation is in a start-up phase and has no business prior to this Offering and no development history. Since the date of incorporation, the Corporation has been engaged in preparation for this Offering.

The Corporation is raising funds to provide Loans to Borrowers that meet the Corporation's lending criteria. The Corporation intends to build a diverse portfolio by funding Loans to Borrowers secured by Hypothecs, Mortgages, guarantees, personal and/or corporate guarantees, liens, charges and other forms of collateral. The Corporation will also make Venture Capital Investments in which Silvermont shall have an active role as explained in this section.

The Corporation will actively seek to originate Loans from mortgage brokers, finance consultants, accountants, public advertisements and through other loan origination avenues or affiliates. The Corporation will provide Loans to Borrowers whom it regards as creditworthy despite credit histories that limit their access to traditional sources. The Corporation's customer base will consist of a large variety of Borrowers including corporations, business owners and individuals.

While the Corporation intends to evaluate each Loan on a case by case basis it will also evaluate a Borrower's assets by assessing (i) whether the assets can be pledged; (ii) if the asset is easy to seize and liquidate; and (iii) if such assets have priority liens registered against them (iv) employment and income, (v) co-signers, etc. The Borrower is responsible for the payment of the Lender Fee, appraisal fee, mortgage broker fee, legal fees and any other fees incurred by the Corporation on behalf of the Borrower to advance a Loan. All fees will be paid from the Loan proceeds and any additional fees incurred by the Corporation on behalf of the Borrower will be added to the Loan amount or any other arrangement that the Corporation deems suitable. When a Borrower is in default, the Corporation will initiate proper legal action. A Borrower will be allowed to repay its Loan in advance.

### Management and other fees

The Corporation may retain the services of various third parties to handle its management and administrative tasks, including Loan oversight, marketing, accounting, loan origination and other functions. All administration and operating expenses paid or incurred will be paid by the Corporation in connection with the conduct of its business including without limitation: legal, accounting, marketing, salaries, compensation payable to consultants and other service providers. The corporation has retained the services of Calixa Capital Partners Inc. in an advisory committee role for this offering. **See Item 3.2- Management Experience.**

## **2.3 Development of Business**

The Corporation was created on January 11, 2018 and its purpose is to allow Subscribers to invest in the creation and granting of Loans secured by Hypothecs, Mortgages, guarantees, liens, charges and other forms of collateral by the acquisition of Series A Bonds, Series B Bonds, Series C Bonds and Series F Bonds offered by the Corporation according to the Offering.

### Creation and Granting of Movable and Immovable Loans

Funds available pursuant to the Offering will be used primarily to create and grant private Loans to Borrowers. Immovable Loans are secured by a Hypothec on properties. Movable Loans are secured by a movable hypothec. The Loans will finance residential and commercial real estate properties, as well as projects needing of equity, bridges, renovation and construction financing and provide a quick source of cash. Funds raised pursuant to the Offering will be held in a separate trust account.

### Immovable Loans

The Corporation will advance up to 85% of the market value of an immovable property as determined by an appraisal from an accredited third party appraiser. The Corporation may provide financing at higher ratios in certain conditions where additional immovable collateral is proposed by the Borrower, the whole at the discretion of the Corporation. However, in some cases and upon an appraisal, the Corporation may, at its discretion, grant Loans covering more than 85% of the immovable property market's value. In such an event, the Corporation will ensure it obtains sufficient movable and immovable collateral from the Borrower. The Corporation also requires Borrowers to maintain insurance for the full value of the property.

### Movable Loans

Movable Loans granted by the Corporation are secured by movable assets granted by the Borrowers or by Hypothecs, mortgages, guarantees, charges, liens, and/or personal or corporate guarantees and other forms of security. Potential Movable Loan Borrowers need to satisfy standard criteria previously established by Management. These criteria include the evaluation by Management of the movable securities, asset liquidity and exit plan strategy. The value of the security asset under the hypothec will be established by a movable evaluation by Management. Some assets will be considered in accordance with their liquid value. Movable assets may include but will not be limited to inventory, accounts receivable, equipment, machinery, etc. With regards to movable asset securities of corporations, they will previously need to establish their potential generated liquidity. In general, the duration of the Movable Loans is three years.

The Corporation will study movable asset risk and establish the price, the interest rate and related fees. Borrowers may choose to pay the Movable Loan on a monthly basis, a lump sum at the end of the Movable Loan term or any other arrangement that Management deems suitable. If the Borrower repays a Movable Loan earlier than at maturity, then the Borrower will be responsible for paying the interest rate amount for the remainder of the original term of the Movable Loan unless Management agrees to a different arrangement.

### Venture Capital Investments

The maximum asset allocation of the portfolio in venture capital is targeted to be in the vicinity of 50% (and 50% in movable/immovable loans) of total net proceeds.

To mitigate risk, Silvermont will optimally target several projects, with no one project representing more than 10% of total net proceeds (with the exception of the first 3 months, when the initial purchases will be added to the pool).

Silvermont will also invest in corporations, partnerships or joint ventures in which Silvermont shall have an active role. The investment criteria are as follows:

In making investment decisions with respect to follow-on investments for existing portfolio companies and for new opportunities, Silvermont will focus on, among other factors, the following investment criteria:

- **Management:** Senior management should be well qualified, motivated and committed to the business relative to other industry participants operating in comparable fields;
- **Market Opportunity:** The business should have the potential to serve a defined marketplace and the opportunity must be significant enough to allow the business to experience rapid and sustainable growth;
- **Competition:** The business plans and operations should demonstrate a sustainable advantage over other industry participants operating in comparable fields;
- **Availability of co-investors:** Silvermont believes that capable co-investors can add significant value to an investment opportunity by increasing the amount of capital available to the business and through access to the networks and expertise of their principals.
- **Diversification:** Silvermont will endeavour to diversify its portfolio by investing in debt and equity securities in a variety of businesses of different sizes and at different stages of their development and by investing in businesses serving different markets.

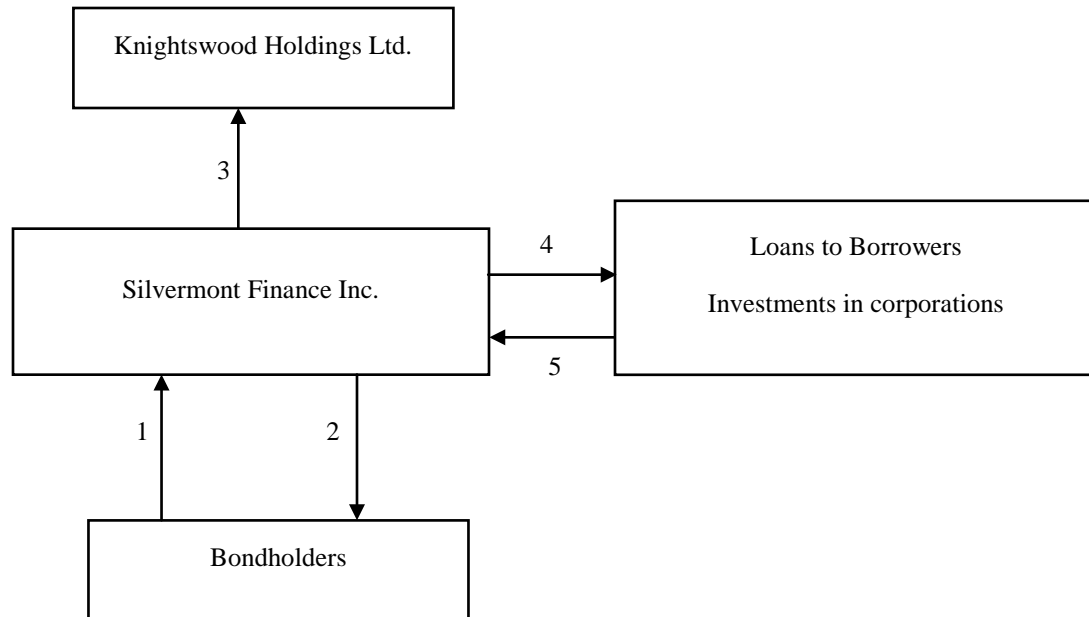
The Corporation intends to build a diverse portfolio of companies associated or related to principally, but not limited to the technology, manufacturing, infrastructure, and service industry. The Corporation will finance companies or make Venture Capital Investments in which Silvermont shall have an active role.

#### Exit Strategy

Before each investment is made, Silvermont will consider possible methods of realizing on the investment. Typically, Silvermont will realize on investments in one of four ways: (i) through a public offering; (ii) through a sale to or merger with another company for cash or shares for which a public market exists; (iii) through a sale to the principals of the business; or (iv) through automatic repayment terms contained within the investment structure. From the outset, Silvermont will contemplate which alternative will be appropriate for the Portfolio Company and will seek to assist the business to perform towards achieving the requisite objectives. Silvermont anticipates that it will seek representation on the board of directors of many Portfolio Companies in order to monitor the performance of the business and, where appropriate, to use the experience and industry expertise of principals of Silvermont to identify strategic partners or purchasers for the Portfolio Company. It is anticipated that in order to benefit from the long-term growth potential of Portfolio Companies, Silvermont will be required to hold investments for a significant period of time. Silvermont will seek to remain fully invested; however it will generally seek to divest of investments in Portfolio Companies when the business no longer meets its investment criteria or when more attractive investment opportunities are available to Silvermont. Since Silvermont will generally invest in private businesses, there can be no assurance that it will be able to divest of investments on favourable terms, or at all. These factors may limit Silvermont's ability to dispose of its investments profitably.

### 2.3.1 Investment Flow Chart

The following organizational diagram and accompanying notes describes the economic model underlying the Offering and provides an overview of the key transactions between the Bondholders, the Corporation and Knightswood.



- (1) Subscribers purchase Bonds in the Corporation with funds from Deferred Plans or cash.
- (2) The Corporation issues Bonds to Subscribers.
- (3) The Corporation will use funds from this Offering to pay the Quarterly Fee to Knightswood. See Item 1.1 – Funds Available Pursuant to this Offering and Item 2.6 – Material Agreements.
- (4) The Corporation will use the available funds to provide Loans to Borrowers. See Item 2 – Business of the Corporation.
- (5) A portion of the proceeds of the Loan will be used by Borrowers to pay the Corporation the Lender Fees. See Item 2 –Business of the Corporation.

### 2.4 Objectives of the Corporation

#### Short Term Objectives:

The Corporation’s goal for the next two months is to raise the Minimum Offering required for closing, be able to complete two Venture Capital investments, and provide Loans to Borrowers.

The Corporation seeks to raise capital, on a short and long term basis, by offering potential investors the possibility of investing in Series A Bonds at a fixed rate of 8%, in Series B Bonds at a fixed rate of 9%, Series C Bonds at a fixed rate of 10% and Series F Bonds at a fixed rate of 12%. The Corporation may, in its discretion, issue additional series of Bonds other than those described in this Offering Memorandum. Through the Offering, Silvermont intends to eventually create and grant Movable and Immovable Loans to Borrowers, and venture capital investments.

#### Long Term Objectives:

The long term objective of the Corporation is to complete the maximum offering and generate revenue by making loans to borrowers and/or making Venture Capital Investments.

### 2.5 Insufficient Funds

Funds available as a result of the Offering may not be sufficient to accomplish all of Silvermont’s proposed objectives. Closing shall occur from time to time in the course of the Offering or on such other date as the Corporation determines. There is no assurance that alternative financing will be available.

## 2.6 Material Agreements

The Corporation has entered and will enter into material agreements, including:

### Administrative Agreement

The Company has entered into an Administrative Services Agreement (the “**Administrative Agreement**”), dated September 21, 2018, with Knightswood, the parent company of the Corporation, pursuant to which Knightswood has agreed to maintain its good standing under applicable securities legislation. In consideration therefor, and in consideration for the other covenants in the Administrative Agreement, the Corporation will pay Knightswood a fee (the “**Quarterly Fee**”) as follows:

- (i) \$3,750 per calendar quarter (\$15,000 per annum) if the aggregate principal amount value of the Bonds issued and outstanding at the end of any calendar quarter is less than \$3,000,000; or
- (ii) \$5,000 per calendar quarter (\$20,000 per annum) if the aggregate principal amount value of the Bonds issued and outstanding at the end of any calendar quarter is greater than \$2,999,999 and less than \$5,000,000; or
- (iii) \$6,250 per calendar quarter (\$25,000 per annum) if the aggregate face value of the Bonds issued and outstanding at the end of any calendar quarter is equal to or greater than \$5,000,000.

The Quarterly Fee will increase immediately by \$5,000 per year if a quarterly payment is missed.

### Option Agreement

6,000 Class A Preferred Shares of the Company are held by Knightswood, a corporation resident in Canada and a wholly owned subsidiary of Auxly whose shares are listed on the TSX Venture Exchange. Knightswood, Holdco and the Corporation have entered into an option agreement (the “**Option Agreement**”) dated September 21, 2018, pursuant to which Knightswood has granted an option to Holdco to purchase all of the shares of the Corporation held by Knightswood at a price of \$0.01 per share. The option is exercisable by Holdco at any time after the happening of certain events including any order to cease or suspend trading in the securities of Auxly, or Auxly ceasing to be a reporting company whose shares are listed and posted for trading on a prescribed stock exchange in Canada as contemplated by the *Income Tax Act* (Canada), or Knightswood or Auxly passing any resolution or any orders made for its winding up or dissolution, or a receiver or receiver manager being appointed for Knightswood or Auxly. In order to facilitate the transfer of the Corporation’s shares pursuant to this option, Knightswood has placed the duly endorsed share certificate representing all of the Company’s shares in escrow with the Corporation’s solicitors.

Pursuant to the Option Agreement, Holdco has also granted Knightswood the right to require Holdco to purchase Knightswood’s shares of the Corporation on 60 days written notice at \$0.01 per share. If this option were to be exercised, Holdco intends to find a purchaser for such shares so that the Bonds remain a qualified investment for Registered Plans or to otherwise qualify the Debentures. Knightswood has also agreed not to sell, transfer, assign or otherwise dispose of the shares of the Corporation to any person except to an affiliate who is a company resident in Canada whose shares are listed on a prescribed stock exchange in Canada and who has agreed to be bound by the Option Agreement.

Under the Option Agreement, the board of directors of the Company is to consist of two (2) directors, two (2) of whom are to be nominated by Holdco.

### Agreements with Selling Agents

The Corporation will sign agreements with Selling Agents in connection with the issuance of Series A Bonds, Series B Bonds, Series C Bonds and Series F Bonds of the Corporation. The Corporation intends to offer the following remuneration to the Selling Agents according to each Series:

<b>Offering</b>	<b>Selling commissions and fees</b>
Series A Bonds	2% of the gross proceeds of the Series A Bonds
Series B Bonds	6% of the gross proceeds of the Series B Bonds
Series C Bonds	10% of the gross proceeds of the Series C Bonds
Series F Bonds	No commission.

### **ITEM 3. INTERESTS OF DIRECTORS, MANAGEMENT, PROMOTERS AND PRINCIPAL HOLDERS**

#### **3.1 Compensation and Securities Held**

The following table presents the information regarding compensation and securities held for each director, officer and promoter of the Corporation as well as each person who owns, or exercises control or direction over, more than 10% of the voting securities of the Corporation. Only Class “A” Shares are voting.

<b>Name and municipality of principal residence</b>	<b>Position held and date of obtaining that position</b>	<b>Compensation paid by the Corporation in the last financial year and the compensation anticipated to be paid in the current financial year</b>	<b>Number, type and percentage of securities of the Corporation held after completion of Min. Offering</b>	<b>Number, type and percentage of securities of the Corporation held after completion of Max. Offering</b>
9159908 Canada Inc. Montreal, Quebec	Shareholder since January 2018.	—	4,000 Class “A” Preferred Shares 1,000 Class “B” Common Shares	4,000 Class “A” Preferred Shares 1,000 Class “B” Common Shares
Knightwood Holdings Ltd. Vancouver, British Columbia	Shareholder since September 2018.	Last financial year : \$0 Anticipated : \$25,000	6,000 Class “A” Preferred Shares	6,000 Class “A” Preferred Shares

Notes:

#### **3.2 Management experience**

Elpida Tzaferis holds a B.A. from McGill University and a Bachelors of Education from Western University. Ms. Tzaferis has 15 years experience with the acquisition of real estate properties as well as acquiring financing for various projects. Ms.Tzaferis has valuable expertise in real estate financing and development.

Jana Di Giovanni holds a B.A from Concordia University, with a strong background in finance and business development. She has gained valuable experience working on various projects acquiring financing for commercial and real estate developments. With a thorough understanding of capital markets and private placement, Ms. Di Giovanni adds expertise relevant to the demands of today’s markets. As an account manager, Ms. Di Giovanni strives to constantly meet and exceed the expectations of client’s needs in whichever development or management project she partakes in.

#### **Calixa Capital Partners Inc.- Advisory Committee**

Calixa Capital Partners Inc. has more than twenty-five shareholders with varied expertise and several years of experience in the financial industry. Calixa Capital Partners Inc. is also a 25% shareholder of Cape Cope Financial Management Inc., an exempt market dealer and selling agent of this offering. Calixa selects emerging companies in

forward-looking and growth sectors. Targeted companies must have proven, state-of-the-art technology and strong market positioning, and be managed by an experienced and motivated team.

Silvermont Finance Inc. believes that the extensive experience of Calixa and the members of its investment advisory committee will provide the Corporation with differentiated and superior capabilities in each phase of the investment process.

The Advisory Committee will provide advice and make recommendations to it from time to time on matters ranging from investment sourcing, financial analysis and due diligence. The Committee has no investment authority regarding the Corporation. The Corporation may pay the Committee members consulting fees at such times and in such amounts as Silvermont Finance Inc. determines in its sole discretion.

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

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

## **ITEM 4. CAPITAL STRUCTURE**

### **4.1 Share Capital**

The following sets out the capital structure of the Corporation as of the date indicated below:

<b>Description of Security</b>	<b>Number authorized to be issued</b>	<b>Price per security</b>	<b>Number outstanding as of the date of this Offering</b>	<b>Number outstanding assuming completion of Minimum Offering</b>	<b>Number outstanding assuming completion of Maximum Offering</b>
Class “A” Preferred Shares	Unlimited	\$0.01	10,000	10,000	10,000
Class “B” Common Shares	Unlimited	\$0.01	1,000	1,000	1,000

The Corporation is authorized to issue an unlimited number of Class “A” Preferred Shares and an unlimited number of Class “B” Common Shares.

The rights, privileges, restrictions and conditions attached to the Class “A” Preferred Shares as a Class “A” and Class “B” Common Shares as a class shall be as follows:

#### Class “A” Preferred Shares

Voting rights:

The holders of the Class “A” Preferred Shares shall be entitled to one vote for each Class “A” Preferred Share held at all meetings of shareholders of the Corporation, other than at which only the holders of another class or series of shares are entitled to vote separately as a class or series.

Dividends:

The holders of the Class “A” Preferred Shares shall not be entitled to receive any dividend payable by the Corporation.

**Dissolution:**

In the event of a reduction of capital or the liquidation, dissolution or winding-up of the Corporation or other distribution of property or assets of the Corporation among its shareholders for the purpose of winding-up its affairs (a “**Winding-Up Event**”):

- (i) Prior to the Class “A” Preferred shareholders receiving any consideration of a Winding-Up Event, any bondholders of the Corporation at the time of such event shall be entitled to receive from the Corporation an amount equal to the face value of their bond together with any accrued interest paid thereon up to the date of payment (the “**Priority Payment**”) in priority to any distribution of the Corporation’s assets for property to the Class “A” Preferred shareholders. If the Corporation does not have sufficient property or assets to pay the aggregate of the Priority Payment then each bondholder will be entitled to their pro-rata share of the Corporation’s property or assets in priority to the Class “A” Preferred shareholders; and
- (ii) The Class “A” Preferred shareholders shall be entitled to receive an amount equal to the aggregate amount of paid up capital on the Class “A” Preferred Shares held by them respectively after repayment of the aggregate Priority Payment and in the event that there is not sufficient property or assets to return the entire amount of the paid up capital thereon to all shareholders, the amount available for distribution shall be distributed to the shareholders on a pro-rata basis according to the number of Class “A” Preferred Shares owned by each shareholder.

*Class “B” Common Shares*

**Non-Voting:**

Subject to the provisions of the laws governing the Corporation, as now existing or hereafter amended, the holders of the Class “B” Common Shares shall not be entitled as such to receive notice of or to attend any meeting of shareholders of the Corporation and shall not be entitled to vote at any such meeting, except that holders of the Class “B” Common Shares shall be entitled to notice of any meeting of the shareholders called for the purpose of authorizing the dissolution of the Corporation or the sale, lease or exchange of all or substantially all of the property of the Corporation other than in the ordinary course of business of the Corporation.

**Dividends:**

Subject to the prior rights of the holders of any shares ranking senior to the Class “B” Common Shares with respect to priority in the payment of dividends, the holders of the Class “B” Common Shares shall be entitled to receive dividends and the Corporation shall pay dividends thereon, if, as and when declared by the directors out of the moneys of the Corporation properly applicable to the payment of dividends, in such amount and in such form as the board of directors may from time to time determine, and all dividends which the directors may declare on the Class “B” Common Shares shall be declared and paid in equal amounts per share on all Class “B” Common Shares at the time outstanding. No dividends may be declared or paid on the Class “B” Common Shares if payment of the dividend would cause the realizable value of the Corporation’s assets to be less than the aggregate of its liabilities and the amount required to redeem any bonds issued by the Corporation then outstanding having attached thereto a right of redemption or retraction.

**Dissolution:**

In the event of the dissolution, liquidation or winding-up of the Corporation, whether voluntary or involuntary, or any other distribution of assets of the Corporation among its shareholders for the purpose of winding-up its affairs, subject to the prior rights of the holders of the Class “A” Preferred Shares and to any other shares ranking senior to the Class “B” Common Shares with respect to priority in the distribution of assets upon dissolution, liquidation or winding-up, the holders of the Class “B” Common Shares shall be entitled to receive the remaining property and assets of the Corporation.



## 4.2 Long Term Debt

As of the date of this Offering, the Corporation does not have any outstanding long term debt. In the event the Corporation is successful in raising funds pursuant to this Offering, it will have the following unsecured debt obligations to Subscribers through the issue of Bonds offered by the Corporation pursuant to this Offering.

Description of Security	Number authorized to be issued	Number outstanding as of the date of this Offering	Number outstanding assuming completion of Minimum Offering	Number outstanding assuming completion of Maximum Offering
Series A, B, C and F Bonds	80,000	Nil	2500 <sup>(1)</sup> Representing a debt obligation of \$250,000 to Subscribers under this Offering plus applicable interest thereon.	80,000 <sup>(1)</sup> Representing a debt obligation of \$8,000,000 to Subscribers under this Offering plus applicable interest thereon.

(1) See Item 5.1 – Terms of Securities, for the terms of the Bonds offered pursuant to this Offering.

## 4.3 Prior Sales

The Corporation has not offered any Bonds for sale in the twelve (12) months prior to the date of this Offering Memorandum.

# ITEM 5. SECURITIES OFFERED

## 5.1 Terms of Securities

The securities being offered pursuant to this Offering are unsecured Series A Bonds, Series B Bonds, Series C Bonds and Series F Bonds of Silvermont Finance Inc. The Bonds qualified as Deferred Plan Investments. Bonds do not entitle the holders thereof (“**Bondholders**”) to vote. The price of each Bond is \$100.

Each Series A Bond entitles the Bondholders to a fixed interest at a rate of 8%, payable within 30 days of the end of each quarter, being March 31, June 30, September 30 and December 31 of each year. The Corporation’s debt obligations represented by the Series A Bonds are unsecured and will rank *pari passu* among themselves and with all other unsubordinated and unsecured Bonds of the Corporation except for such preferences as provided for under applicable law. The Series A Bonds shall mature on the first anniversary date of their issuance (“**Series A Bonds Maturity Date**”).

Each Series B Bond entitles the Bondholders to a fixed interest at a rate of 9%, payable within 30 days of the end of each quarter, being March 31, June 30, September 30 and December 31 of each year. The Corporation’s debt obligations represented by the Series B Bonds are unsecured and will rank *pari passu* among themselves and with all other unsubordinated and unsecured Bonds of the Corporation except for such preferences as provided for under applicable law. The Series B Bonds shall mature on the third anniversary date of their issuance (“**Series B Bonds Maturity Date**”).

Each Series C Bond entitles the Bondholders to a fixed interest at a rate of 10%, payable within 30 days of the end of each quarter, being March 31, June 30, September 30 and December 31 of each year. The Corporation’s debt obligations represented by the Series C Bonds are unsecured and will rank *pari passu* among themselves and with all other unsubordinated and unsecured Bonds of the Corporation except for such preferences as provided for under applicable law. The Series C Bonds shall mature on the fifth anniversary date of their issuance (“**Series C Bonds Maturity Date**”).

Each Series F Bond entitles the Bondholders to fixed interest at a rate of 12%, payable within 30 days of the end of each quarter, being March 31, June 30, September 30 and December 31 of each year. The Corporation’s debt obligations represented by the Series F Bonds are unsecured and will rank *pari passu* among themselves and with all other unsubordinated and unsecured Bonds of the Corporation except for such preferences as provided for under

applicable law. The Series F Bonds shall mature on the end of the fifth anniversary date of their issuance (“**Series F Bonds Maturity Date**”).

In addition to this payment of 10% per year payable to the Series C Bondholders and 12% per year payable to the Series F Bondholders, each Series C and F Bondholder shall be entitled to receive, on a pro-rata basis with respect to the number of Bonds that the Bondholder holds in relation to the Series C and Series F Bonds issued by the Corporation, an allocation of profit (“**Profit Participation**”) after the Corporation has paid out all its expenses including the interest payments described above. The Profit Participation will be calculated and paid 90 days after the maturity of the Bonds based on the audited financial statements of the Corporation for the last 5 years, in the case of Series F, and 5 years in the case of Series C. Such Profit Participation shall be calculated in the following manner. The profit generated by the Corporation over the last 5 financial years, in respect to Series F, and 5 years in respect to Series C, will be divided as to 10% to Series C and F Bondholders, 10% to Calixa and 10% to Cape Cove Financial Management Inc. The remaining balance shall remain to the Corporation. The profit shall be calculated after having paid all income taxes.

Neither the Corporation nor the Bondholders can redeem the Bonds before the Series A Maturity Date, the Series B Maturity Date, the Series C Maturity Date or the Series F Maturity Date.

## **5.2 Subscription and Payment Procedure**

The Minimum Subscription is \$2,500 for Series A Bonds, Series B Bonds, Series C Bonds and Series F Bonds exclusively. For Series A Bonds, Series B Bonds, Series C Bonds and Series F Bonds exclusively, the Maximum Subscription is of \$10,000 for any Subscriber who is not an “eligible investor” under section 2.9 of Regulation 45-106 exclusively.

If you wish to subscribe to Bonds, you must complete and execute the Subscription Agreement, the acknowledgment of risk form and any other required document and send them to Silvermont. You must also ensure that sufficient funds are available in the account specified on the Subscription Agreement or issue a certified cheque or bank draft payable to the Corporation for the total amount of your subscription.

Your subscription may be refused if it is not delivered in accordance to the foregoing instructions, in particular if the required forms and attestations are not included or payment is not made.

The amount of your subscription will be held by the Corporation up to the closing date of the Offering, and until the expiration of a mandatory period of two days following the signature of your Subscription Agreement.

Subject to applicable securities laws, and the purchaser’s two-day cancellation right, a subscription for Bonds, evidenced by a duly completed Subscription Agreement delivered to the Corporation shall be irrevocable by the Subscriber. See Item 11 – Purchasers’ Rights.

The closing of the Minimum Offering is scheduled to occur on or prior to October 31, 2018. It is expected that the Bonds will be available for delivery within a reasonable period of time after the relevant closing date(s). If the Minimum Offering amount is not met prior to October 31, 2018, collected funds will be returned to the respective parties by November 31, 2018, without interest.

## **ITEM 6. TAX CONSEQUENCES AND FUNDS FROM TAX DEFERRED PLANS**

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

The Tax Act and the regulations thereunder provide generally that bonds or similar obligation of a Canadian corporation (as defined in the Tax Act) which is controlled directly or indirectly by one or more corporations whose shares are listed on a designated stock exchange in Canada will constitute a “qualified investment” for a tax deferred plan.

The Corporation is a Canadian corporation controlled by Knightswood. As a result, the Bonds will constitute a “qualified investment” for tax deferred plans provided the shares of Knightswood remain listed on a stock exchange designated by the Minister of Finance, which they currently are, and as long as Knightswood controls the Corporation. There is no agreement which restricts the ability of Knightswood to vote its Class A Shares of the

Corporation or to appoint a majority of the board of directors of the Corporation. As such, Knightswood should be considered to control the Corporation.

There are additional requirements for a TFSA, RRSP, RESP or RRIF in order for the Bonds not to be a “prohibited investment” which would be subject to a special tax under the Tax Act. The Bonds will be a “prohibited investment” if the account holder does not deal at arm’s length with the Corporation or the account holder is a “specified shareholder” of the Corporation as defined in the Tax Act, generally a person who has a 10% or greater interest in the Corporation together with non-arm’s length persons. Assuming the Bondholder does not meet the above requirements, the Bonds should not be a “prohibited investment”.

There can also be additional special taxes for a TFSA, RRSP, RESP or RRIF on certain tax advantages that unduly exploit the attributes of a TFSA, RRSP, RESP or RRIF, including “advantages” on “prohibited investments” and on “non-qualified investments”. The rules in the Tax Act that define an “advantage” are quite broad; Subscribers should seek independent professional advice as to the applicability of these rules to their particular circumstances.

The income tax information contained in this section was provided by BCF LAW, and it is based on the current provisions of the Tax Act, the regulations thereunder and published administrative practices of the CRA. This summary does not address the possibility of any challenge to the structure by the CRA under the specific and/or general anti-avoidance rules.

This summary is of a general nature only and is not intended to be legal, tax or business advice to the prospective Subscribers. Consequently, Subscribers should seek independent professional advice regarding the tax consequences of investing in the Bonds, based upon their own particular circumstances.

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

Where allowed by applicable securities legislation, the Corporation intends to offer the Series A Bonds, Series B Bonds, Series C Bonds and Series F Bonds through any one, or a combination of, the following parties: investment dealers, exempt market dealers and/or their dealing representatives on the exempt market, parties related to the Corporation or consultants of such parties. The Corporation will offer as remuneration to the Selling Agents: (1) 2% on the gross proceeds of the Series A Bonds (2) 6% on the gross proceeds of the Series B Bonds (3) 10% on the gross proceeds of the Series C Bonds (4) no commission on the gross proceeds of the Series F Bonds.

#### **ITEM 8. RISK FACTORS**

Subscribers are cautioned that an investment in Bonds may involve risks and there is no assurance of a return or benefit on a Bondholder’s investment. This Offering should be considered only by sophisticated Subscribers able to assume the risk of total loss and to make long term investments. Investment in the Corporation is not a complete investment program, and Subscribers should fully understand and be capable of assuming the risks of investing in the Corporation. Subscribers should consider a number of risk factors before investing in the Bonds, including the following:

##### **Control by Knightswood Risk**

Voting control of the Company by Knightswood is to ensure that the Bonds issued pursuant to this Offering are a qualified Deferred Plan investment. Knightswood’s control and interest in the Corporation is to earn fees and it is not in any way committed to the activities of the Corporation other than voting its shares at shareholder meetings of the Corporation. Neither Knightswood nor its parent corporation, Auxly, owes any fiduciary duty of care or any other duty to Subscribers in connection with the Bonds issued under this Offering. Neither Knightswood nor Auxly shall be liable to Subscribers for any liabilities, losses or damages suffered or incurred by Subscribers in connection with this investment, including any default by the Corporation in the payment of interest and/or repayment of the principal of the Bonds issued pursuant to this Offering.

##### **Management Retention Risk**

Holdco does not have a mechanism to ensure that Elpida Tzaferis and/or Jana Di Giovanni remains a director of the Corporation. There is no assurance that their replacement would have the ability to manage the Corporation’s business successfully.

## **General Risk**

The value of the Corporation is linked to the gain derived from the difference between the movable and immovable asset market value and the associated Movable and Immovable Loans secured by Hypothecs. Consequently, the value of the Corporation may go up or down. There can be no guarantee against loss resulting from an investment in Bonds of the Corporation and there can be no assurance that the Corporation's investment approach will be successful or that its performance objectives will be attained.

The Corporation's evaluation of the market, the economy or the individual Borrowers may not foresee the actual fluctuations of the markets, the real economic situation or the actual repayment of the loan by the Borrower. This evaluation may affect the Corporation's performance.

## **Recent Activities of the Corporation**

The Corporation was created on January 11, 2018 and started operations only recently. There is no assurance that the Corporation will achieve all its short- and long-term business objectives.

## **Risk Inherent to the Movable and Immovable Hypothecs**

There are a number of risks inherent to the movable and immovable hypothec market, including: changes in the value of movable and immovable assets, properties, competition, interest rates, the economy and regulations. The Corporation has no control over these risks, all of which can affect its performance.

## **Diversification**

The Corporation's only asset, other than the amounts invested by the Bondholders, consists of debts owed by Borrowers and of movable and immovable assets given as collateral. Accordingly, a Subscriber's investment in securities of the Corporation does not alone provide optimal diversification for a balanced portfolio.

## **Key Management Personnel**

The Corporation relies on the diligence and skill of its executive officer and his staff for the final selection, structure, completion and oversight of its Loans. Its future success is to a great extent dependent on its management team coordination and continuous services. Staff, executive officers and key employees leaving the Corporation could have a material adverse effect on the Corporation's ability to implement its business strategy. The Corporation does not maintain life insurance policies on its officers and employees.

## **Status of the Corporation**

As the Corporation is not a mutual fund offered by prospectus as defined under applicable securities legislation, it is not subject to the Canadian regulations, rules and policies that apply to mutual funds offered by prospectus.

## **Liquidity Risk**

Hypothec debt securities are not publicly traded and are generally illiquid. It might accordingly prove difficult for the Corporation to access short-term liquidities should it need them. In addition to the effects noted above, this limited liquidity may have an adverse effect on the Corporation's investment performance.

## **Risks of Real Property Ownership**

Real estate developments, speculation and investments are, generally, subject to numerous risks depending on the nature and location of the property that can affect attractiveness and saleability of real estate assets to potential purchasers or other investors, or the owner's use of such real estate assets, all of which are beyond the control of the Corporation. Such risks include:

- the highly competitive nature of the real estate industry;

- changes in general economic conditions (such as the availability and cost to the Corporation or widespread fluctuations in adjacent property values);
- changes in general or local conditions (such as the supply of competing real estate assets or the possibility of competitive overbuilding or the inability to obtain full occupancy or other usage of any real estate assets);
- governmental regulation, rules or policies (such as increased taxation on the sale of or profits from real property, environmental legislation or municipal approvals for usage, development or subdivision); and
- changes in costs or operating expenses anticipated for real estate assets.

Each segment in the real estate development industry is capital intensive and is typically sensitive to interest rates. Any proceeds generated by the sale of real estate assets depend upon general economic conditions and, accordingly, the ability of the Corporation to repay its financing may be affected by changes in those conditions. The Corporation will be required to make certain significant expenditures in respect of its business including, but not limited to, the payment of property taxes, maintenance costs, mortgage payments, insurance costs and related charges which must be made regardless of whether or not real estate assets are producing sufficient income to service such expenses. If the Corporation is unable or unwilling to meet the payment obligations on such loans, losses could be sustained as a result of the exercise by the lenders of their rights of foreclosure or sale. As a result, the Corporation's ability to make interest payments could be adversely affected.

### **Market Risks**

The economic performance and value of the Corporation's investments in real estate properties will be subject to all of the risks associated with investing in real estate, including:

- changes in the national, regional and local economic climate;
- local conditions, including an oversupply of properties like real estate assets, a reduction in demand for properties like real estate assets, or a reduction in demand for leased premises;
- the attractiveness of all or parts of real estate assets to renters or purchasers;
- competition from other available real estate assets; and
- changes in laws and governmental regulations, including those governing usage, zoning, the environment and taxes.

The Corporation's performance will be affected by the supply and demand for property in its geographic area(s) of ownership. Key drivers of demand include employment levels, population growth, demographic rents and consumer confidence. The potential for reduced sales revenue exists in the event that demand diminishes or supply becomes overabundant thereby driving down prices for real estate assets.

Real estate markets may experience dramatic changes, which may occur abruptly and unexpectedly. Economic circumstances in real estate markets may cause the Corporation to hold real estate assets for a longer than anticipated period of time in order to realize profits from the sale thereof. There can be no guarantee that the Corporation will realize a profit from Properties and there is no guarantee that the Corporation will achieve its objectives.

### **Real Estate Investments are Relatively Illiquid**

Real property investments tend to be relatively illiquid, with the degree of liquidity generally fluctuating in relation to demand for, and for the perceived desirability of, the investment. Such illiquidity may tend to limit the Corporation's ability to vary its asset base promptly in response to changing economic or investment conditions.

### **Fluctuations in Property Capitalization Rates**

As interest rates fluctuate in the lending market, generally so too do capitalization rates, which affect the underlying value of real estate. As such, when interest rates rise, generally capitalization rates should be expected to rise. Over the period of investment, capital gains and losses at the time of disposition can occur due to the increase or decrease of the capitalization rates.

### **Loss of Capital**

All investments in securities involve risk of the loss of all or part of the investor's original capital. An investment in the Corporation carries such risk.

### **No Resale Market for Bonds**

The Corporation's Bonds are not traded on any exchange or market. The Bonds are also subject to restrictions and conditions on their resale. These restrictions and conditions appear on the Bond certificate.

### **General Economic Situation and Immovable Market Conditions**

The financial markets have in 2007 and 2008 entered a period of turbulence triggered primarily by difficulties in the United States housing market. Canada and other countries could presumably experiment a similar slowdown. A second such slowdown could have an effect on the Corporation's performance.

### **Performance**

There can be no assurance that the performance of the Corporation will be comparable to that achieved previously. Moreover, past performance is not indicative of future results.

### **Availability of Suitable Investments**

There is no assurance that sufficient suitable eligible investments with a connection to industries focused on by Silvermont will be found to fulfill the investment objective of Silvermont.

### **Nature of Portfolio Companies**

The business of Silvermont is, alter alia, to invest in small and medium-sized eligible businesses and reserves. Some of these businesses may fail. These investments may require a number of years in order to mature and generate the returns expected by Silvermont and investors. A significant portion of Silvermont's Venture Portfolio will be comprised of investments in private companies. These investments are more speculative and are likely to mature and generate returns at different times, which could create an irregular pattern in the net asset value of Silvermont. In addition, losses on unsuccessful private company investments are often realized earlier than gains on successful private company investments are realized. An investment in Silvermont is appropriate only for investors who are prepared to hold their investment in Silvermont for a long period of time. Eligible investments will be of a relatively small size and in companies in an early stage of development in comparison with the investments made by most publicly offered mutual funds. Silvermont will thus require a greater commitment to both initial analysis and to monitoring and support of on-going developmental activities, relative to the amount of capital invested, than is required by most mutual funds. Consequently, the operating expenses of Silvermont will be higher than those of many mutual funds and other pooled investment vehicles.

### **Dependence on Managers of Portfolio Companies**

Many of the companies in which Silvermont invests are heavily dependent upon key managers of the business. There can be no assurance that the management teams of Portfolio Companies will remain intact during the period of time that Silvermont has invested in the Portfolio Company. The departure of a member of any of the management teams may, in certain circumstances, have a material adverse effect on the value of the investment.

### **Absence of Subscribers**

The Corporation's business strategy includes identifying private placements with Subscribers of Bonds in connection with Movable and Immovable private Loans secured by Hypothecs. Lack of funding from Subscribers may have an adverse effect on the Corporation's operations, leveraging ability and performance.

### **Extension of Term of the Loans**

The Corporation has put into place a rigorous process for evaluating and admitting Borrowers for Loans. The Corporation's income depends on the regular ability of Borrowers to meet their payment obligations. The Corporation may from time to time consider appropriate to extend or renew a Loan beyond its due date or to accrue interest on a Loan so as to give the Borrower more flexible repayment terms. By doing so, the Corporation ensures repayment of capital and interest. There is however a risk that the Borrower may not be able to repay all or any part of the Loan. The Corporation is therefore exposed to risk of loss during that period.

Should the Borrower default, the Corporation will need to follow the appropriate procedures. The Corporation's performance may be affected since the defaulted Loan will not bear any interest, and the capital will be tied up. Failure by one or more Borrowers to reimburse their Loan may have a material effect on the liquidities and performance of the Corporation.

### **Risk of Changes in the Tax Legislation or in Rulings**

There can be no assurance that changes in the Tax Act, future judicial rulings or the implementation of new taxes will not have a negative impact on the Corporation or will not fundamentally alter the income tax consequences to Bondholders of purchasing, holding or disposing of the Bonds. The Corporation strongly encourages the Subscribers to consult their tax adviser about the tax consequences of the acquisition, ownership and disposition of the Bonds purchased pursuant to this Offering.

### **Eligibility of Bonds for Tax Deferred Plans Risk**

No advance income tax ruling has been applied for or received with respect to the eligibility of the Bonds for tax deferred plans. If Knightswood ceases to control the Corporation, ceases to be listed on a stock exchange designated by the Minister of Finance or is deemed not to control the Corporation for purposes of the Tax Act, there may be adverse tax consequences to a Bondholder as the Bonds will cease to constitute a "qualified investment" for tax deferred plans unless the Corporation can make suitable arrangements to maintain eligibility for the Bonds. If the Bonds cease to be eligible Deferred Plan Investments, an annuitant which acquires or holds Bonds may be required to include in his or her income the fair market value of the Bonds acquired with funds in a tax deferred plan. The annuitant may also incur penalties and may have the registration of the tax deferred plan revoked. There is also a risk that CRA reassess Bondholders in respect of their investment in the Bonds.

### **No Insurance Against Loss**

The Bonds are not insured against loss through the Canadian Deposit Insurance Corporation or any other insurance company or program.

### **No Fiduciary**

The Bonds are not being issued pursuant to a trust indenture and the Bondholders will not have the benefit of a trustee to coordinate enforcement and realisation in the event of a default in payment under the Bonds by the Corporation.

### **Risk of Challenge**

The structuring of this Offering in general and the fact that Knightswood controls the Corporation justify the eligibility of the Bonds as Tax Deferred Investments. However, this interpretation of "qualified investment" for purposes of the Tax Act may be challenged under the anti-avoidance provisions. No advance income tax ruling or other comfort has been obtained from any professional firm as to whether or not the general anti-avoidance provisions would apply to this case.

## **Auditor and Registrars**

The auditor of the Corporation is Michael Ravenda CPA Inc., CPA auditor, as of the date of this Offering Memorandum.

## **ITEM 9. REPORTING OBLIGATIONS**

The Corporation is not subject to continuous reporting and disclosure obligations which the securities legislation of any province or territory of Canada would require of a “reporting issuer” as defined in such legislation and, as such, except as noted below, there is no requirement that the Corporation make disclosure of its affairs, including, without limitation, through the prompt notification of material changes by way of news releases.

The Corporation is required, however, to file its audited annual financial statements within a hundred and twenty days after the end of each of its financial years with the applicable securities commissions and provide a copy thereof to each subscriber in Québec, Ontario, Alberta, Saskatchewan, New Brunswick, and Nova Scotia that subscribes for Bonds pursuant to the “offering memorandum” exemption under s. 2.9 of NI 45-106 (the “**OM Exemption**”). Additionally, the Corporation is required to provide:

- (i) to the abovementioned subscribers, a notice detailing the use of the aggregate gross proceeds raised by the Corporation under the OM Exemption; and
- (ii) to subscribers in Ontario, New Brunswick, and Nova Scotia who subscribe for Bonds pursuant to the OM Exemption, a notice within ten days of the occurrence of any of the following events: (a) a discontinuation of the Corporation’s business; (b) a change in the Corporation’s industry; or (c) a change of control of the Corporation.

## **ITEM 10. RESALE RESTRICTIONS**

### **10.1 General Statement**

For trades in Alberta, British Columbia, Saskatchewan, Manitoba, Ontario, Nova Scotia, New Brunswick, Prince Edward Island, Newfoundland and Labrador, Quebec, Yukon, Nunavut and Northwest Territories:

The Bonds 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 Bonds unless you comply with an exemption from the prospectus and registration requirements under securities legislation.

### **10.2 Restricted Period**

For trades in Alberta, British Columbia, Saskatchewan, Manitoba, Ontario, Nova Scotia, New Brunswick, Prince Edward Island, Newfoundland and Labrador, Quebec, Yukon, Nunavut and Northwest Territories:

Unless permitted under securities legislation, you cannot trade the Bonds without an exemption before the date that is 4 months and a day after the date the Corporation becomes a reporting issuer in any province or territory of Canada.

The Corporation does not intend to become a reporting issuer in any province or territory of Canada.

### **10.3 Manitoba Resale Restriction**

For Manitoba residents, you must not trade the securities without the prior written consent of the regulator in Manitoba unless:

- the Corporation has filed a prospectus with the regulator in Manitoba with respect to the securities you have purchased and the regulator in Manitoba has issued a receipt for that prospectus; or
- you have held the securities for at least 12 months.

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



## ITEM 11. SUBSCRIBER'S RIGHTS

If you purchase the Series A Bonds, Series B Bonds, Series C Bonds or Series D Bonds, you will have certain rights, some of which are described below. For more information about your rights you should consult a lawyer.

### **11.1 Subscribers residing in provinces and territories other than Ontario– two (2) days Cancellation Right**

If you purchase Bonds in a province other than Ontario pursuant to the exemption from prospectus requirements provided for in section 2.9 of Regulation 45-106, you can request cancellation of your Subscription Agreement. To do so, you must send a notice to the Corporation by midnight on the second (2<sup>nd</sup>) business day after you sign the agreement to buy the Bonds.

### **11.2 Statutory and Contractual Rights of Action in the Event of a Misrepresentation**

Securities legislation in certain of the provinces and territories of Canada provides Subscribers with a statutory right of action for damages or rescission in cases where an offering memorandum or any amendment thereto contains a misrepresentation. These rights, or notice with respect thereto, must be exercised or delivered, as the case may be, by Subscribers within the time limits prescribed and are subject to the defences and limitations contained under the applicable securities legislation. Subscribers of Series A Bonds resident in provinces or territories of Canada that do not provide for such statutory rights will be granted a contractual right similar to the statutory right of action and rescission described below for Subscribers resident in Ontario.

The following summaries are subject to the express provisions of the securities legislation applicable in each of the provinces and territories of Canada and the associated regulations, rules and policy statements thereunder. Reference should therefore be made thereto for the complete text of such provisions. The rights of action described below are in addition to and without derogation from any other right or remedy that Subscribers may have under applicable laws.

#### **Subscribers in Alberta**

If you are a resident of Alberta, and if there is a misrepresentation in this Offering Memorandum, you have a statutory right to sue:

- (a) the Corporation to cancel your Subscription Agreement; or
- (b) for damages against the Corporation, every person who was a director of the Corporation at the date of this Memorandum and every other Person who signed this Memorandum.

This statutory right to sue is available to you whether or not you relied on the misrepresentation in the Memorandum. However, there are various defences available to the persons or companies that you have a right to sue. In particular, they have a defence if you knew of the misrepresentation when you purchased the Bonds. Additionally, if you elect to exercise a right of rescission against the Corporation, you will have no right of action against the persons described in (b) above.

If you intend to rely on the rights described in (a) or (b) above, you must do so within strict time limitations. You must commence your action to cancel the agreement within 180 days after the date you purchased the Series A Bonds. You must commence your action for damages by way of a notice to the Corporation within the earlier of 180 days after you first had knowledge of the facts giving rise to the cause of action and three (3) years after the day you purchased the Bonds.

#### **Subscribers in British Columbia**

If you are a resident of British Columbia, and if there is a misrepresentation in this Offering Memorandum, you have a statutory right to sue:

- (a) the Corporation to cancel your Subscription Agreement; or
- (b) for damages against the Corporation, every person who was a director of the Corporation at the date of this Memorandum and every other Person who signed this Memorandum.

This statutory right to sue is available to you whether or not you relied on the misrepresentation. However, there are various defences available to the persons or companies that you have a right to sue. In particular, they have a defence if you knew of the misrepresentation at the time you purchased the Bonds. Additionally, if you elect to exercise a right of rescission against the Corporation, you will have no right of action against the persons described in (b) above.

If you intend to rely on the rights described in (a) or (b) above, you must do so within strict time limitations. You must commence your action to cancel the agreement within 180 days after the date you purchased the Bonds. You must commence your action for damages within the earlier of 180 days after you first had knowledge of the facts giving rise to the cause of action and three (3) years after the day you purchased the Bonds.

### **Subscribers in Saskatchewan**

If you are a resident of Saskatchewan, and if there is a misrepresentation in this Offering Memorandum or any amendments thereto, you have a statutory right to sue:

- (a) the Corporation to cancel your Subscription Agreement; or
- (b) for damages against the Corporation, every promoter of the Corporation, every person who was a director of the Corporation at the date of this Memorandum, every person whose consent has been filed respecting the Offering but only with respect to reports, opinions and statements made by that person, and every other person who signed this Memorandum.

These statutory rights to sue are available to you whether or not you relied on the misrepresentation. However, there are various defences available to the persons or companies that you have a right to sue. In particular, they have a defence if you knew of the misrepresentation at the time you purchased the Bonds. Additionally, if you elect to exercise a right of rescission against the Corporation, you will have no right of action against the persons described in (b) above.

If you intend to rely on the rights described in (a) or (b) above, you must do so within strict time limitations. You must commence your action to rescind the agreement within 180 days after the date you signed the Subscription Agreement. You must commence your action for damages within the earlier of one (1) year from the date you first had knowledge of the facts giving rise to the cause of action and six (6) years after the day you purchased the Bonds.

### **Subscribers in Manitoba**

If you are a resident of Manitoba, and if there is a misrepresentation in this Offering Memorandum, you have a statutory right to sue:

- (a) the Corporation to cancel your Subscription Agreement; or
- (b) for damages against the Corporation, every person who was a director of the Corporation at the date of this Memorandum and every other person who signed this Memorandum.

This statutory right to sue is available to you whether or not you relied on the misrepresentation. However, there are various defences available to the persons or companies that you have a right to sue. In particular, they have a defence if you knew of the misrepresentation at the time you purchased Bonds. Additionally, if you elect to exercise a right of rescission against the Corporation, you will have no right of action against the persons described in (b) above.

If you intend to rely on the rights described in (a) or (b) above, you must do so within strict time limitations. You must commence your action to cancel the agreement within 180 days after the date you signed the Subscription Agreement. You must commence your action for damages within the earlier of 180 days from the date you first had knowledge of the facts giving rise to the cause of action and two (2) years after the day of purchase of the Bonds.

## **Subscribers in Ontario**

If you are a resident of Ontario, and if there is a misrepresentation in this Offering Memorandum, as Subscriber who has purchased Series A Bonds pursuant to the Offering Memorandum, without regard to whether you relied on the misrepresentation, have the following rights:

- (a) the Subscriber has a right of action for damages against the Corporation and a security holder on whose behalf the Offering is made; or
- (b) where the Subscriber purchased the securities from a person or the Corporation referred to in the previous paragraph, the Subscriber may elect to exercise his right of rescission against the person or the Corporation, in which case the Subscriber shall have no right of action for damages against such person or the Corporation.

The Corporation will not be held liable under this paragraph if the Subscriber purchased the Series A Bonds with the knowledge of the misrepresentation. In an action for damages, the Corporation will not be liable for all or any portion of such damages that it proves do not represent the depreciation in value of the securities as a result of the misrepresentation relied upon and in no case will the amount recoverable under this paragraph exceed the price at which the securities were sold to the Subscriber.

If you intend to rely on the rights described in (a) or (b) above, you must do so within strict time limitations. You must commence your action to cancel the agreement within 180 days after the date you signed the Subscription Agreement. You must commence your action for damages within the earlier of 180 days after you first had knowledge of the facts giving rise to the cause of action and three (3) years after the day the Bonds were purchased.

Securities legislation in Ontario does not extend the statutory rights of action for damages or rescission to a Subscriber who is purchasing Bonds in reliance on the “accredited investor” exemption as provided in section 2.3 of National Instrument 45-106. This Subscriber will be entitled to a contractual right of action for damages or rescission that is equivalent to the statutory right of action for damages or rescission available to Subscribers resident in Ontario as described above (including insofar as such rights may be subject to the defences and limitations provided for under the *Ontario Securities Act*).

## **Subscribers in Québec**

If you are a resident of Québec, and if there is a misrepresentation in this Offering Memorandum, you have a statutory right to:

- (a) apply to have the Subscription Agreement rescinded or the price revised, without prejudice to your claim for damages in the case of rescission or revision of the price; or
- (b) sue for damages against the Corporation or the Bondholder, as the case may be, whose Bonds were distributed, against the officers or directors of the Corporation or against the dealer under contract to the Corporation whose Bonds were distributed; or
- (c) sue for damages against the expert whose opinion containing the misrepresentation appeared, with his consent, in the Offering Memorandum and any person who is required to sign an attestation in this Offering Memorandum.

The Corporation will not be liable under this paragraph if the Subscriber purchased the Bonds with the knowledge of the misrepresentation.

If you intend to rely on the rights described in (a) or (b) above, you must do so within strict time limitations. You must commence your action to cancel the agreement within three (3) years of the date you signed the Subscription Agreement. You must commence your action for damages within the earlier of three (3) years after you first had knowledge of the facts giving rise to the cause of action and five (5) years after the signature of the Subscription Agreement.

### **Subscribers in Nova Scotia**

If you are a resident of Nova Scotia, and if there is a misrepresentation in the Offering Memorandum or any amendment thereto, you have a statutory right to sue:

- (a) the Corporation to cancel your Subscription Agreement; or
- (b) for damages against the Corporation, every person who was a director of the Corporation at the date of the Memorandum and every other person who signed said Memorandum.

This statutory right to sue is available to you whether or not you relied on the misrepresentation. However, there are various defences available to the persons or companies that you have a right to sue. In particular, they have a defence if you knew of the misrepresentation when you purchased the Bonds. Additionally, if you elect to exercise a right of rescission against the Corporation, you will have no right of action against the persons described in (b) above.

If you intend to rely on the rights described in (a) or (b) above, you must do so within strict time limitations. You must commence your action to cancel the agreement within 180 days after the date signed the Subscription Agreement. You must commence your action for damages within the earlier of 180 days after you first had knowledge of the facts giving rise to the cause of action and three (3) years after the signature of the Subscription Agreement.

### **Subscriber in New Brunswick**

If you are a resident of New Brunswick, and if there is a misrepresentation in the Offering, you have a statutory right to sue:

- (a) the Corporation to cancel your Subscription Agreement; or
- (b) for damages against the Corporation or the Sellers.

The Corporation will not be liable under this paragraph if the Subscriber purchased the Bonds with the knowledge of the misrepresentation. In an action for damages, the amount recoverable will not exceed the price paid for the securities and will not include the portion of damages the Corporation proves do not represent the depreciation in value of the securities as a result of the misrepresentation. Additionally, if you elect to exercise a right of rescission against the Corporation, you will have no right of action against the persons described in (b) above.

If you intend to rely on the rights described in (a) or (b) above, you must do so within strict time limitations. You must commence your action to cancel the agreement within 180 days after the date you signed the Subscription Agreement. You must commence your action for damages within the earlier of one (1) year after you first had knowledge of the facts giving rise to the cause of action and six (6) years after the signature of the Subscription Agreement.

### **Subscribers in Newfoundland and Labrador, the Northwest Territories, Nunavut or Prince Edward Island**

If you are a resident of Newfoundland and Labrador, the Northwest Territories, Nunavut or Prince Edward Island, and if there is a misrepresentation in the Offering Memorandum, you have a statutory right to sue

- (a) the Corporation to rescind your Subscription Agreement; or
- (b) for damages against the Corporation, the selling security holder on whose behalf the distribution is made, every person who is a director of the Corporation at the date of the Memorandum and every person who signed said Memorandum.

These statutory rights to sue are available to you whether or not you relied on the misrepresentation. However, there are various defences available to the persons or companies that you have a right to sue. In particular, they have a defence if you knew of the misrepresentation when you purchased the Bonds. Additionally, if you elect to exercise a right of rescission against the Corporation, you will have no right of action against the persons described in (b) above.

If you intend to rely on the rights described in (a) or (b) above, you must do so within strict time limitations. You must commence your action to cancel the agreement within 180 days after the date you signed the purchase agreement. You must commence your action for damages within the earlier of 180 days after you first had knowledge of the facts giving rise to the cause of action and three (3) years after the signature of the Subscription Agreement.

### **General**

The foregoing summaries are subject to the express provisions of the applicable securities legislation and the regulations, rules and policy statements thereunder and reference is made thereto for the complete text of such provisions. The rights of action described herein are in addition to and without derogation from any other right or remedy that the Subscriber may have under applicable laws.

### **ITEM 12. FINANCIAL STATEMENTS**

The audited opening balance sheet follows this page.

**AUDITED OPENING BALANCE SHEETS**

(SEE ATTACHED)

**SILVERMONT FINANCE INC.**  
**STATEMENT OF FINANCIAL POSITION**  
**JUNE 30, 2018**

## **SILVERMONT FINANCE INC.**

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## INDEPENDENT AUDITOR'S REPORT

To the Shareholders of  
SILVERMONT FINANCE INC.

I have audited the accompanying statement of financial position of SILVERMONT FINANCE INC. as at June 30, 2018, and a summary of significant accounting policies and other explanatory information (together "the financial statement").

### *Management's Responsibility for the Financial Statement*

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

### *Auditor's Responsibility*

My responsibility is to express an opinion on the financial statement based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement 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 statement.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

### *Opinion*

In my opinion, the financial statement presents fairly, in all material respects, the financial position of SILVERMONT FINANCE INC. as at June 30, 2018 in accordance with IRFS.

### *Emphasis of Matter*

The accompanying financial statement has been prepared assuming that the Company will commence operations. As discussed in Note 2 to the financial statement, the Company's existence is dependent on its ability to raise adequate financing which raises substantial doubt about its ability to continue as a going concern. Management's plans in regard to this matter are also described in Note 2 to the financial statement.

A handwritten signature in black ink that reads "Michael Ravenda, CPA inc.¹". The signature is written in a cursive, flowing style.

Terrebonne  
September 14, 2018

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<sup>1</sup> CPA auditor, CA, public accountancy permit No. A136351

**SILVERMONT FINANCE INC.**  
**STATEMENT OF FINANCIAL POSITION**  
**AS AT JUNE 30, 2018**

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**ASSET**

**CURRENT ASSET**

Cash and cash equivalents	\$	110
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**SHAREHOLDERS' EQUITY**

SHARE CAPITAL (note 3)	\$	110
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**On behalf of the Board,**

\_\_\_\_\_, Director

\_\_\_\_\_, Director

# **SILVERMONT FINANCE INC.**

## **NOTES TO STATEMENT OF FINANCIAL POSITION**

**AS AT JUNE 30, 2018**

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### **1. Description of business**

Silvermont Finance Inc. (the "Company") is in a start-up phase. The Company is raising funds to provide loans to borrowers that meet the Company's lending criteria. The Company intends to build a diverse portfolio by funding loans to borrowers secured by hypothecs, mortgages, guarantees, personal and/or corporate guarantees, liens, charges and other forms of collateral.

#### **General information**

The Company was incorporated on January 12, 2018 under the Business Corporations Act (Quebec). Its head office is located at 110-5255 Henri-Bourassa Ouest, Montréal, Québec, H4R 2M6.

The statement of financial position (the "financial statement") is the complete set of financial statements prepared by the Company as they are reporting as at June 30, 2018 at which point the Company has not began any business operations.

The financial statement was approved by the Directors for issue on September 14, 2018.

### **2. Significant accounting policies**

#### **Basis of preparation and going concern**

The financial statements has been prepared in accordance with International Financial Reporting Standards (IFRS) and under the assumption that the Company will continue on a going-concern basis. The ability of the Company to continue as a going concern in the long-term depends upon its ability to raise adequate financing. Management is actively targeting sources of financing through the Offering. These conditions indicate the existence of a material uncertainty that may give rise to significant doubt about the entity's ability to continue as a going concern.

#### **Cash and cash equivalents**

Cash and cash equivalents presented in assets on the opening statement of financial position includes components of cash that are readily available or convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash includes bank deposits, cash on hand and short-term deposits with an initial maturity of less than three months. Cash equivalents are short term investments with a term of less than three months from the date of aquisition.

#### **Share capital**

Share capital is presented at the fair value of the consideration received upon issuance.

## SILVERMONT FINANCE INC.

### NOTES TO STATEMENT OF FINANCIAL POSITION

AS AT JUNE 30, 2018

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#### 3. Share capital

##### Issued share capital:

Class A Preferred shares, voting, non-participating.

Class B Common shares, non-voting, participating.

10,000 Class A Preferred shares	\$	100
1,000 Class B Common shares		10
		<hr/>
		\$ 110

#### 4. Subsequent events

The Company is undertaking an issuance of unsecured fixed rate bonds. Series A at a 8 % unsecured fixed rate, Series B at a 9 % unsecured fixed rate, Series C at a 10 % unsecured fixed rate with profit participation and Series F at a 12 % unsecured fixed rate with profit participation, with gross proceeds of up to \$2,000,000 (20,000 bonds) each. The bonds have an aggregate minimum proceeds from sale of securities of \$250,000 (2,500 bonds). The price per bond is \$100 and the minimum subscription per subscriber is \$2,500 (25 bonds).

The Company will sign agreements with selling agents in connection with the issuance of Series A Bonds, Series B Bonds, Series C Bonds and Series F bonds of the Company. The Company intends to offer to the selling agents a selling commissions and fees of 2 % of the gross proceeds of the Series A Bonds, 6 % of the gross proceeds of the Series B Bonds, 10 % of the gross proceeds of the Series C Bonds and 0 % of the gross proceeds of the Series F Bonds.

The Company entered into an agreement with Knightswood Holdings Ltd (Knightswood), the majority shareholder holding 60% of the Class A preferred shares. Knightswood is a subsidiary of Auxly Cannabis Group, a traded company listed on the TSX Venture Exchange, trading under the symbol "XLY". As per the agreement, the Company has undertaken to pay to Knightswood an annual fee in an amount equal to: (i) \$3,750 per calendar quarter (\$15,000 per annum) if the aggregate principal amount value of the Bonds issued and outstanding at the end of any calendar quarter is less than \$3,000,000; or (ii) \$5,000 per calendar quarter (\$20,000 per annum) if the aggregate principal amount value of the Bonds issued and outstanding at the end of any calendar quarter is greater than \$2,999,999 and less than \$5,000,000; or (iii) \$6,250 per calendar quarter (\$25,000 per annum) if the aggregate face value of the Bonds issued and outstanding at the end of any calendar quarter is equal to or greater than \$5,000,000; plus applicable taxes.

ITEM 13. **DATE AND CERTIFICATE**

Dated September 21, 2018

This Offering Memorandum does not contain any misrepresentation.

**SILVERMONT FINANCE INC.**

**SILVERMONT FINANCE INC.**

*(s) Elpida Tzaferis*

*(s) Jana Di Giovanni*

By:

\_\_\_\_\_  
Elpida Tzaferis  
Director, President & Secretary

\_\_\_\_\_  
Jana Di Giovanni  
Director