

Offering Memorandum for Non-Qualifying Issuers

Form 45-106F2

Date: January 27, 2018

The Issuer

Name: SIERRA MORTGAGE FUND LTD. (the "Company" or "Issuer")
Head office: 3300 – 34th Avenue
Vernon, British Columbia V1T 2P7
Phone Number: 250-558-1111
E-mail address: oac@telus.net
Fax Number: 250-558-1100
Currently Listed or Quoted? No. **These securities do not trade on any exchange or market**
Reporting Issuer? No.
SEDAR Filer? No.

The Offering

Securities offered: Up to 1,000,000 Class "A" Redeemable Preferred Shares without par value (the "Offering"). Under certain circumstances the Company has the right, pursuant to its Articles, to suspend redemption of the securities offered. See Item 5.1.2.

Price per security: \$10.00 per security

Minimum/Maximum Offering: **There is no minimum. You may be the only purchaser** under this Offering. The maximum Offering is \$10,000,000.00. **Funds available under the Offering may not be sufficient to accomplish our proposed objectives.**

Minimum Subscription Amount: \$100.00

Payment terms: Bank draft, lawyer's trust cheque or personal cheque on closing made payable to the Company at the time of subscription.

Proposed closing date(s): One or more closings will occur (each a "Closing") from the date of this Offering Memorandum until January 27, 2019 or such other date as may be determined by the Company in accordance with all applicable laws (the "Offering Period"), on a date or dates established by the Company. The Company may extend the Offering. All subscriptions received are subject to rejection or acceptance by the Company in full or in part and the Company reserves the right to close the Offering at any time without notice.

Income tax consequences: There are important tax consequences to these securities. See Item 6.

Selling agent? No selling agent is acting exclusively on behalf of the Company in respect of this Offering. The securities may be sold by registered dealers. See Item 7.

Resale restrictions

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

Purchaser's rights

You have 2 business days to cancel your agreement to purchase these securities. If there is a misrepresentation in this Offering Memorandum, you have the right to sue either for damages or to cancel the agreement. See Item 11.

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

Item 1: Use of Available Funds

1.1 Funds

The following table discloses the funds available as a result of the Offering:

		Assuming min. Offering	Assuming max. Offering
A.	Amount to be raised by this Offering	\$0.00	\$10,000,000.00
B.	Selling commissions and fees (see Notes 1, 2, 3 & 4)	\$0.00	\$300,000.00 (see Note 2)
C.	Estimated Offering costs (e.g., legal, accounting, audit)	\$25,000.00	\$30,000.00
D.	Available funds: $D = A - (B+C)$	\$(25,000.00)	\$9,670,000.00
E.	Additional sources of funding required	\$0.00	\$0.00
F.	Working capital deficiency	\$0.00	\$0.00
G.	Total: $H = (D+E) - F$	\$(25,000.00)	\$9,670,000.00

The Company or a subscriber (“Subscriber”) may engage registered dealers (“Dealers”) to act on behalf of the Company or the Subscriber to market these Class “A” Shares. Class “A” Shares may also be purchased by a Subscriber who has been introduced by a finder (each a “Finder”), in which case the Manager (as defined in Item 2.1 below) may agree to pay such Finders a finder’s fee of up to \$0.30 per Class “A” Share purchased where such Finders are either registered under the applicable securities laws or exempt from registration under certain applicable registration exemptions. See Note 4 below.

Note 1: If a Subscriber purchases Class “A” Shares with the assistance of a registered dealer (“Dealer”) he has the option of: a) paying an upfront sales charge (“USC”) to the Dealer in addition to the Subscription Price paid to the Company for the Class “A” Shares, the amount of the commission payable under these circumstances is to be negotiated between the Subscribers and their Dealers to a maximum of \$0.50 per Class “A” Share (5.0%), or b) agreeing to pay the Company a deferred sales charge (“DSC”) if the Shares are redeemed within the first 6 years of purchase (see Note 2 below), in which event the Company will pay the Dealer a sales commission of up to \$0.30 per Class “A” Share (3.0%) acquired. Also see Note 3 below.

If the Class “A” Shares are acquired without the services of a Dealer no commissions or service fees will be payable.

Note 2: Assuming all of the Offering were to be sold with the assistance of Dealers and/or Finders and all Subscribers elect to pay the DSC. The DSC (i.e., redemption fee) is payable to the Company by only those Subscribers who chose to use the services of a Dealer under the DSC option and the Subscriber redeems his Class “A” Shares within the first 6 years of purchase. The DSC is calculated at the rate of \$0.45 per Class “A” Share (4.5%) if redeemed in the first year, which reduces annually at the rate of \$0.05 per annum (0.5%) on each anniversary of the Closing until the DSC becomes \$0.20 per Class “A” Share (2.0%) on the fifth anniversary of Closing. After the sixth anniversary of Closing, there is no DSC payable on redemptions.

If the Class “A” Shares are acquired without the services of a Dealer no commissions or service fees will be payable.

Note 3: In the event the Class “A” Shares are acquired through the services of a Dealer, the Company may pay service fees to the Dealers of up to 1% per annum of the average value of the Class “A” Shares beneficially owned by the clients of such Dealers for so long as such Class “A” Shares are owned by such clients. Such service fees are recorded as an expense in the annual audited financial statements of the Company.

Note 4: Where the Manager has agreed to pay a finder’s fee to a Finder, the amount payable shall be borne by the Manager and no trailing services fees shall be payable to the Finder.

1.2 Use of Available Funds

The following table provides a detailed breakdown of how the Company will use the available funds:

Description of intended use of available funds listed in order of priority	Assuming min. Offering	Assuming max. Offering
Net proceeds will be used to invest in residential, single-family construction, commercial, industrial and other mortgage loans on real property in established areas primarily in the Thompson Okanagan regions of British Columbia; however, investments may be extended to other established areas within British Columbia or Alberta. See Item 2.3.1 Investment Policies and Guidelines.	\$(25,000.00)	\$9,670,000.00
Net Proceeds may be used to fulfill redemption requests and any suspended redemption requests which may become payable. (see Note 1)	0.00	0.00
Total: Equal to G in the Funds Table above	\$(25,000.00)	\$9,670,000.00

Note 1: The Company may use its discretion to suspend requests for redemptions and maintain the suspension until sufficient funds are available to allow for redemptions. Subsequent to September 30, 2017 the six (6) redemption requests totaling 40,219 Class “A” Preferred Shares (\$402,190) for the December 31, 2017 Redemption Date were paid early January 2018. There are five (5) outstanding redemption requests from shareholders, payable on the records of the Company effective for the June 30, 2018 Redemption Date, totaling 73,920 Class “A” Preferred Shares (\$739,200), which the Company reserves the right to redeem early if it is deemed to be in the best interest of the Company to do so. See Item 5.1.2. The Company temporarily suspended redemption requests for a short period in January, 2000. Since that time, it has not been necessary for the Company to suspend any requested redemptions and all redemption requests have been met through sufficient liquidity in the Company’s mortgage portfolio.

1.3 Reallocation

The Company intends to spend the available funds as stated. The Company will reallocate funds only for sound business reasons.

Item 2: Business of Sierra Mortgage Fund Ltd.

2.1 Structure

The Company was incorporated under the *Company Act* (British Columbia) on January 10, 1995 and transitioned under the *Business Corporations Act* (British Columbia) on February 20, 2006. The head office and records office of the Company is located at 3300 – 34th Avenue, Vernon, British Columbia, V1T 2P7. The registered office of the Company is located at 3rd Floor, 1665 Ellis Street, Kelowna, British Columbia, V1Y 6B2.

The Company is controlled and managed by Lakeland Asset Management Inc. (the “Manager”) a subsidiary of 460284 BC Ltd. (the “Parent”), which in turn is owned by Craig Williams and Cottonwood Spring Hereford Ranch Ltd., each as to 50.0%. See Item 3 Directors, Management, Promoters and Principal Holders.

2.2 *Alterations to Articles*

On August 18, 1998 the shareholders approved, by way of special resolution, an alteration to the Company's Articles by adding in section 5.9 "No share in the capital of the Company will be transferred to any person except as approved by resolution of the board or by ordinary resolution." The alteration was filed with the Registrar on September 16, 1998.

On January 5, 2000 the shareholders approved by way of special resolution an alteration to the Company's Articles by deleting and replacing the special rights and restrictions associated with the Class "A" Redeemable Preferred Shares and the Class "B" Redeemable Preferred Shares to, among other things, amend the redemption provisions applicable to such shares. The alteration was filed with the Registrar on January 7, 2000.

The Company filed a Notice of Alteration on April 28, 2015 to reflect further alterations to the Articles pursuant to an order of the Supreme Court of British Columbia, which order was issued by the court on April 16, 2015 as a *nunc pro tunc* order having an effective date of January 10, 1995 and which effected the following:

1. as of January 10, 1995, *nunc pro tunc*, the Company's Articles were rectified so that the last sentence of section 25.1(a) is deleted and the first sentence of section 25.1(c) and sections 25.1(d)(ii) and (f) thereof read as follows:

25.1(c):

The holders of each class of shares shall be entitled to receive, *pari passu*, and the Company shall pay by way of dividends thereon, quarterly as declared by the Directors, all of the profits of the Company available for the payment of dividends.

25.1(d)(ii):

After the Company has made the distribution contemplated by paragraph (d)(i), the holders of the Common shares, Class "A" Redeemable Preferred Shares and the Class "B" Redeemable Preferred Shares shall be entitled to receive a share of the remaining amount available for distribution. The aggregate amount distributable to all holders of such classes of shares shall be determined by multiplying the amount remaining to be distributed by a fraction the numerator of which is the amount paid up on issued shares of the particular class and the denominator of which is the amount paid up on the issued shares of all classes immediately prior to the distribution pursuant to paragraph (d)(i).

25.1(f):

The Company may, upon giving notice as hereinafter provided redeem at any time the whole or from time to time any part of any class of shares pursuant to the British Columbia Company Act in such proportions of the classes of shares of the Company as the Directors may specify, on payment for each share to be redeemed of the price therefore (herein called the "Redemption Price"). The Redemption Price of each share shall be the Net Asset Value Per Share, being the amount per redeemed share that the holder thereof would be entitled to receive under subparagraph 25.1(d) hereof if it were applicable.

2. paragraph (a) of the Company's Special Resolution dated January 5, 2000 is deleted.

2.3 *Our Business*

The Company carries on business as a mortgage investment corporation in the Province of British Columbia in accordance with Section 130.1 of the *Income Tax Act* (Canada) (the “Tax Act”). The Company may elect to carry on business as a mortgage investment corporation in other provinces of Canada if conditions justify geographic expansion of its business.

The Company invests its funds in a portfolio of first and second mortgage loans secured primarily against residential real estate, although loans secured against raw land, commercial, industrial and other non-residential real estate may also be considered, in order to obtain a stable source of income through interest, fees and penalties earned on these loans. To the extent that funds are not invested in mortgage loans from time to time, investments will be held in the form of cash deposited into savings accounts, short-term deposits, or guaranteed income certificates with a bank or other corporation, any of whose deposits are insured by the Canada Deposit Insurance Corporation or, a British Columbia Credit Union whose deposits are 100% insured by the Province of British Columbia.

Mortgage investment opportunities are sourced exclusively through Okanagan Approval Corp. (“OAC”), a mortgage brokerage company owned by the Parent and therefore related to the Manager. The Manager is responsible for managing the Company’s mortgage portfolio and accordingly, the Company does not have and does not expect to have any employees.

The Company may also fund its investments through equity financings, or the Company may employ leverage, as permitted by applicable legislation, by issuing debt obligations up to a maximum of five times the net book value of its assets. The Company borrows only to the extent that the Manager is satisfied that such borrowing and additional investments will increase the overall profitability of the Company. As a mortgage investment corporation under the Tax Act, the Company is allowed deductions from income in respect of dividends paid out to its shareholders. The Company intends to pay out all of its net income and net realized capital gains as dividends and as a result does not anticipate paying any income tax. See Item 6 “Income tax Consequences”.

The Company relies on exemptions from the prospectus and registration requirements under the applicable securities laws including, without limitation, the Offering Memorandum exemption under Part 2.9 of National Instrument 45-106 and the exemption from the dealer registration requirement under British Columbia Instrument 32-517, which registration requirement is currently set to expire on December 31, 2018. The Company also relies on the guidance provided by the Canadian Securities Administrators in CSA Staff Notice 31-323 to support the Company’s determination that it would not be considered to be an “investment fund” for the purposes of the registration requirements under National Instrument 31-103 by virtue of the fact that its primary activity is mortgage lending (i.e. operation of a business that creates and manages mortgages) and that the Company (i) originates its mortgages in its name directly or through an agent retained by the Company and acting on its behalf, (ii) funds the mortgages, (iii) enters into mortgage agreements as the mortgagee and (iv) administers the mortgages, either directly or through an agent acting on its behalf. The Company relies on the guidance in CSA Staff Notice 31-323 that the investment fund manager registration requirement in National Instrument 31-103 will not typically apply in respect of a pooled mortgage investment entity that is not an investment fund. There can be no assurance that the foregoing prospectus and registration exemptions and guidance will remain in effect or will be interpreted by the applicable securities regulators to apply to the Company in the manner and to the extent described. If the Company is unable to continue to rely on any of the foregoing prospectus and registration exemptions and guidance, its business could be materially adversely affected. See Item 8.3.

2.3.1 *Investment Policies and Guidelines*

The investment activities of the Company will be conducted in accordance with the following policies and general guidelines:

- a) we will invest only in first or second mortgage loans (which can include *inter alia* first, second or third mortgage charges over more than one property) secured primarily against residential real estate, which includes single-family residences, townhouses and apartment condominium units and multi-family rental dwelling buildings, although mortgage loans secured against raw land, commercial, industrial and other non-residential real estate uses will also be considered;
- b) construction mortgage loans will be restricted to single-family residential properties;
- c) we will only invest in a second mortgage loan if the prior first mortgage charge is registered in favor of a conventional lending institution;
- d) third mortgage loans will only be considered in very rare circumstances, ie. where both the prior first and second charges are held by the same conventional lending institution, effectively making the Company's a second charge;
- e) we will not invest in a mortgage loan unless such investment has been approved unanimously by all 4 members of the credit committee, which is currently comprised of the 3 Directors of the Company and one shareholder at large (the "Credit Committee") or, unanimously by no less than 3 of the 4 members if all 4 members are not available within 24 hours of the time of the loan submission. In the event that the shareholder at large member of the Credit Committee is unable or unwilling to act in that capacity, the Company may determine to replace that member of the Credit Committee or, to proceed with a Credit Committee comprised of the 3 Directors of the Company;
- f) mortgage loans will be made against real estate located in established areas primarily in the Okanagan, Thompson and Shuswap regions of British Columbia, however, investments may be extended to other established areas within British Columbia or Alberta;
- g) at least 70.0% of the Company's assets must be investments in first or second mortgage loans (which can include *inter alia* first, second or third mortgage charges over more than one property) secured against residential real estate or held in cash deposits or other financial instruments with an institution whose deposits are insured by the Canada Deposit Insurance Corporation or a Credit Union;
- h) no more than 30.0% of the Company's assets will be investments in first or second mortgage loans secured over raw land, commercial, industrial or other real estate not classified as residential;
- i) we will only invest in mortgage loans on properties for which we have received and reviewed an independent appraisal report unless the loan, plus any prior financial charges, represents 60.0% or less of the current BC Assessment Authority value, in which case the Credit Committee may elect to waive the requirement for an independent appraisal report;
- j) an investment in a mortgage loan will not be made unless, at the date the investment is approved by the Credit Committee, the amount secured by such mortgage investment, plus the amount owing under any prior financial charges, generally does not exceed 75.0% of the appraised value of the property or properties securing the mortgage; provided that the appraised value may be based on stated conditions including without limitation; completion, rehabilitation or lease-up of improvements located on the property or properties, which activities we will monitor on an on-going basis;
- k) if the independent appraisal report concludes a value for the property or properties securing the mortgage loan on other than an "as is basis", we will fund the loan by way of progress advances upon completion of specified stages of construction or development supported by receipt of progress inspection reports or assessments made by a Director of the Company, an appraiser, a professional engineer or a quantity surveyor, as applicable, or upon completion of other specified benchmarks;

- l) no single investment, or related group of investments, involving one property or development, or involving several properties or developments owned or controlled, directly or indirectly by one borrower and its affiliates, will generally exceed the lesser of \$600,000.00 or 15.0% of the book value of the assets of the Company;
- m) each and every property forming security for any mortgage loan will be inspected by at least one member of the Credit Committee or, in the event a property is located outside of our primary lending area, by an individual approved by the Credit Committee, prior to the advance of any funds; and
- n) we will invest primarily in mortgage loans with terms of one year but will attempt to stagger the maturities of the mortgage loans in order to produce an orderly turnover of assets and liabilities.

2.3.2 Matching and Interest Rate Sensitivity

In order to minimize the effect of interest rate movements, the Company's policy will be to match the term of its mortgage investments to the term of any borrowings. The matching of debt to mortgage assets will be made on the basis of cash flows and duration of the mortgage loans comprising the Mortgage Portfolio, taking into account such factors as anticipated prepayments, payment defaults and accelerated amortization.

The Company may also enter into other financial transactions deemed prudent by the board of directors to improve the match of assets and liabilities and to reduce funding costs.

2.4 Development of Business

For the fiscal year ended September 30, 2017 our shareholders earned a net annual return of 5.04% compared to a net annual return of 6.39% for the previous fiscal year ended September 30, 2016.

For the three months ended December 31, 2017 our shareholders earned a net annualized return of 6.51%. Historically, over the past 22 years to September 30, 2017, the net annual average return earned by our shareholders is 6.85%.

There is no guarantee that such rates of return will continue or that shareholders will receive similar returns in future years. The factors which affect the rate of return are described in Item 8.

As at December 31, 2017 we had 45 mortgage loans under administration totaling \$8,983,477, of which 24 totaling \$6,037,940 (67%) were secured as first mortgages. The remaining 21 mortgage loans were secured as second mortgages or, a combination of first, second and in some circumstances third mortgages where two or more properties are secured.

One (1) of the 45 mortgage loans under administration, with a balance outstanding of \$659,953 including accrued interest owing to December 31, 2017, was classed as impaired. An accumulated allowance of \$408,166, including accrued interest not considered collectible, has been set aside for any shortfall that may occur on the disposition of the property that secures our first mortgage loan is secured over a 1.92 acre multi-family development site in Salmon Arm, for which we have a court ordered conduct of sale.

One (1) other loan in the portfolio totaling \$29,747, including accrued interest owing considered collectible, was in arrears with demand for repayment having been made December 11, 2017. This loan is secured as a second charge over a single-family residence located in Vernon BC, subsequent to an existing first of approximately \$200,000. The current estimated value for the property is \$375,000 giving us a conservative 61% combined overall loan ratio.

These loan investments change continuously as mortgage loans in the portfolio are repaid or properties owned are sold and new opportunities emerge as the Company continues to seek sound mortgage investment opportunities primarily through established relationships OAC has within the mortgage broker network.

Subsequent to December 31, 2017:

- at the date of this Offering there exists seven (7) active, partially funded constructions loans in the portfolio with a combined unfunded total of \$508,186, to be advanced as construction progresses, on which the Company is earning Standby Fees averaging 4.47% for warehousing these funds.
- prior to the date of this Offering advances totaling \$190,484 had been made under four (4) of the existing seven (7) active construction loans;
- one (1) new first mortgage construction loan was approved for a total amount of \$650,000, the first advanced of \$180,000 under which is to occur January 31, 2018;
- at the date of this Offering the Company was holding cash of \$313,044, including a short-term loan the amount of \$250,000 received from Cottonwood Spring Hereford Ranch Ltd., shareholder of the Parent, which is to be repaid from the repayment of two (2) existing loans in the portfolio scheduled for no later than February 15, 2018.

The Company's assets, other than cash, consist primarily of mortgage loans secured by first and second mortgage charges against freehold real property. The following table summarizes the outstanding mortgage loans made by the Company and under the administration of the Manager as at December 31, 2017:

Mortgage Type	Number of Mortgages	Principal Amount Outstanding	Percentage of Total Mortgages (By Value)
Residential Mortgage Loans:			
1 st Mortgages	12	\$2,926,236	32.57%
2 nd Mortgages	11	\$642,220	7.15%
Interalia Mortgages	5	\$842,319	9.38%
Residential Construction Mortgage Loans:			
1 st Mortgages	8	\$1,995,489	22.21%
2 nd Mortgages	0	\$0	0.00%
Interalia Mortgages	3	\$1,184,718	13.19%
Raw Land Mortgage Loans:			
1 st Mortgages	4	\$1,116,215	12.43%
2 nd Mortgages	0	\$0	0.00%
Interalia Mortgages	2	\$276,280	3.08%

See Note 5 to the attached audited financial statements for the fiscal year ended September 30, 2017 in Item 12 – Financial Statements for a detailed comparative summary of the Mortgage Portfolio as at September 30, 2017, including the regional distribution of the Mortgage Portfolio between the South Okanagan, North Okanagan, Shuswap and other areas, the accrued interest, allowances for credit losses and the range of loan maturities.

The Company does not currently have any commercial mortgage loans in the Mortgage Portfolio.

2.5 *Long Term Objectives*

Our long term objectives are to continue the steady growth of our issued and outstanding share capital along with the number of our shareholders and to provide those shareholders with a sustainable income, while maintaining preservation of capital and liquidity for our shareholders as our guiding principles.

These objectives will be achieved by continuing with this and future offerings (see Item 8.3) and investing the net proceeds of those offerings into mortgage loans that meet our Investment Policies and Guidelines (see Item 2.3.1). A larger capital base will assist by enabling us to realize economies of scale on our fixed costs and by allowing us to continue to increase our presence in our chosen markets as a reliable private mortgage lender, thereby increasing the number of lending opportunities submitted to us for our consideration.

Our income will consist primarily of interest, fees and penalties earned on the mortgage loans in the portfolio from time to time, the entire net proceeds of which will be paid out either in cash or stock dividends to our shareholders, at their option, on a quarterly basis.

We intend to continue our focus on sourcing opportunities for single-family constructions loans, complemented with traditional debt consolidation private mortgages, which allow us to achieve a higher yield by charging standby fees on that portion of the construction loans that we must “warehouse” until needed as construction progresses, progress advance fees and by turning our funds over more frequently, which results in more up-front loan fees earned.

The short-term nature of construction loans, usually 6-9 months, also allows us to achieve our goal of capital preservation by virtually always lending in the current market and thereby lessening the likelihood of getting caught in a downturn in property values. Conversely, this can make it more difficult to keep our capital working on a continuous basis and achieving our net return objectives if we are unable to source enough single-family construction loan opportunities.

There can be no assurance that we will be successful in meeting these objectives.

2.6 *Short Term Objectives and How We Intend to Achieve Them*

(a) Our business objectives for the next 12 months are to proceed with this Offering and to match the funds raised with mortgage loans that meet our Investment Policies and Guidelines as described in Item 2.3.1. There is no assurance that the maximum Offering or any portion of the maximum Offering will be sold; however, the net proceeds of the Offering will be invested in corresponding mortgages as set out herein (See Item 1 – Use of Available Funds).

(b) The following table outlines how we intend to meet our objectives over the next 12 months:

What we must do and how we will do it	Target completion date	Our cost to complete
Advertise, network and otherwise promote the sale of Class “A” Redeemable Preferred Shares.	On-going	\$5,000.00 See Note 1 below
Advertise, network and otherwise seek mortgage loans meeting our Investment Policies from an expanding base of independent mortgage brokers.	On-going	See Note 2 below

Note 1: This figure consists primarily of marketing, networking, promotion costs and creating a Company website and does not include selling commissions and fees or other estimated Offering costs such as legal, accounting and audit costs, which other costs are described in Item 1.1.

Note 2: There are no costs anticipated to originate new mortgage loan opportunities as these costs are incurred by Okanagan Approval Corp., a company owned by the Parent and related to the Manager, which is responsible for sourcing and providing mortgage loan opportunities for consideration by the Company. However, once mortgage loans are secured and funded, the Company pays a management fee to the Manager of 2.0% per annum calculated and paid monthly on the average balance outstanding under the loan portfolio.

2.7 *Insufficient Funds*

Due to the fact there is no minimum Offering amount, the funds that are available to the Company as a result of the Offering may not be sufficient to accomplish all of our objectives and there is no assurance that alternative financing will be available.

2.8 *Material Agreements*

The following summarizes the material agreements to which the Company is currently a party, and the material agreements of related parties, any of which may be inspected in detail during the distribution of the Offering at the offices of the Manager located at 3300 – 34th Avenue, Vernon, British Columbia, between 10:00 a.m. and 4:00 p.m. Monday to Thursday (excluding holidays).

2.8.1 *Management Agreement*

Pursuant to a management agreement between the Company and the Manager, a related party (see Item 2.3), dated February 2, 1995 (as amended) (the “Management Agreement”), the Manager is solely responsible for managing the day to day operations of the Company in accordance with the Company’s Articles and its investment policies and guidelines.

- (A) The Manager is responsible for, among other things:
 - a. processing and administering the mortgage loans and other security interests in real property made by the Company;
 - b. providing financial management services for the operation of the Company including coordinating the funding of mortgage loans as approved by the Credit Committee and administering the mortgages, general security agreements and other forms of security over the assets of the Company’s borrowers;
 - c. providing administrative services required by the Company in carrying on business as a mortgage investment corporation under the Tax Act;
 - d. providing monthly financial reports and cash flow statements, together with such other reports as the Company may reasonably request (at the Company’s cost); and
 - e. acting on a basis that is fair and reasonable to the Company and to exercise its powers and discharge its duties under the Exclusive Mortgage Origination Agreement honestly, in good faith and in the best interests of the Company and, in connection therewith, OAC must exercise the degree of care, skill and diligence that a reasonably prudent person experienced in the business of mortgage administration would exercise in comparable circumstances.
- (B) The Management Agreement has an indefinite term; however, the Management Agreement may be terminated by the Company upon the happening of one of the following events:
 - a. if any proceedings in insolvency, bankruptcy, receivership or liquidation are taken against the Manager; or
 - b. if the Manager makes an assignment for the benefit of its creditors or commits any act of bankruptcy within the meaning of the Bankruptcy and Insolvency Act (Canada); or
 - c. if the Manager assigns or purports to assign the Management Agreement or any rights or obligations thereunder without the prior consent in writing of the Company; or
 - d. if the Manager commits a breach or default under the Management Agreement, provided that if such breach or default does not relate to payment of any monies to be paid by the Manager to the Company thereunder, the Company must give the Manager notice in writing stipulating the breach or default by the Manager and the Manager will have a period of thirty (30) days

from the date of the giving of such notice to remedy the breach or default to which such notice relates; or

- e. if the Company gives to the Manager one (1) year's notice of its intention to terminate the Management Agreement; or
- f. if the Manager shall fail to achieve profits enabling the Company to pay dividends quarterly in any fiscal year pursuant to its Articles and the Company elects to terminate the Management Agreement pursuant to the provisions of the Articles of the Company; or
- g. by mutual consent, in writing, of the Company and the Manager.

(C) The Management Agreement may be terminated by the Manager at any time upon the happening of one of the following events;

- a. if any proceedings in insolvency, bankruptcy, receivership or liquidation are taken against the Company, other than proceedings relating to realizations of security on any mortgage property; or
- b. if the Company makes an assignment for the benefit of its creditors or commits any act of bankruptcy within the meaning of the Bankruptcy and Insolvency Act (Canada); or
- c. if the Company shall assign the Management Agreement, or any rights or obligations thereunder without the prior consent in writing of the Manager; or
- d. if the Company commits a breach or default under the Management Agreement, provided that if such breach or default does not relate to payment of any monies to be paid by the Company to the Manager thereunder, the Manager must give the Company notice in writing stipulating the breach or default by the Company and the Company will have a period of thirty (30) days from the date of the giving of such notice to remedy the breach or default to which such notice relates; or
- e. if the Manager gives to the Company one (1) year's notice of its intention to terminate the Management Agreement; or
- f. by mutual consent, in writing, of the Manager and the Company.

(D) In the event of termination of the Management Agreement:

- a. the Manager will not be entitled to any special compensation in respect of the termination of its services; and
- b. the Manager must turn over and deliver to the Company (or its authorized agent) all trust monies of the Company and all other funds held by it in respect of all mortgages serviced thereunder and all documents, records, tax receipts, insurance policies, appraisals, and correspondence, files and other papers in the Manager's possession pertaining to the mortgages serviced thereunder.

The Management Agreement provides that in consideration of the services provided by the Manager as described above, the Company will pay to the Manager a fee (the "Management Fee") equal to two percent (2%) of the average outstanding balance of the mortgage loans under its administration, calculated monthly, together with any disbursements paid for or on behalf of the Company by the Manager.

The Management Fee is to be paid at the end of each month, on the basis of the operations of the Company during that month, calculated on the average monthly mortgage portfolio loan balance, subject to adjustment in the event of a dispute by the Company. If need be, there will be a reconciliation and, if applicable, an adjusting payment will be made after the net annual yield to the shareholders is determined.

The Manager will bear its own operating costs associated with administering the mortgages in the Mortgage Portfolio. The Manager and the Company may by mutual agreement reduce the amount payable to the Manager for the services it provides to the Company. In addition to the Management Fee, the Company is obligated to reimburse the Manager for certain expenses incurred by the Manager on behalf of the Company which are not recoverable from any other source including, but not limited to, messenger services, photocopying, land title searches, credit bureau reports, printing costs, surveyor certificates, postage, appraisals (including physical inspection of mortgaged properties by employees of the Manager or agents for the Manager), long distance telephone charges, legal fees, accounting fees and audit fees (if necessary), real estate commissions, insurance premiums, advertisements and promotions approved by the Company.

The Company is responsible for paying expenses incurred directly by the Company, including, but not limited to, fees and expenses of its directors and officers, the cost of acquisition of mortgages, appraisal fees, foreclosure costs, any commission or brokerage fees on the purchase and sale of the mortgage portfolio, taxes of all kinds to which the Company is subject, interest expenses, auditors' fees, legal fees, fees payable in respect of the issuance and administration of the Company's securities, the cost of submitting financial reports and providing other information to shareholders and regulators, messenger services, photocopying, land title searches, credit bureau reports, printing costs, survey certificates, postage, long distance telephone charges, rent for office space of the Company (paid to the Parent, see Item 2.1), accounting fees, real estate commissions, advertisements, promotions and insurance premiums. All expenses to be paid by the Company must be approved by the directors of the Company. In addition, certain expenses, such as appraisal costs and costs associated with the enforcement of mortgages and other security, may be partially or wholly recoverable from the relevant borrower and/or from the funds recovered from enforcement proceedings. In the absence of specific instructions from the Company, the Manager is authorized to exercise any reasonable discretion or remedy under any mortgage which the Company is entitled to exercise. Prior to exercising such discretion, pursuing such remedy or accepting such instructions from the Company, the Manager is entitled to require payment of funds by the Company in an amount sufficient for such purposes and an indemnity from the Company for all associated costs, charges, expenses and liabilities which the Manager may incur. However, if it appears that any such costs and expenses which are not recoverable from the borrower will exceed \$1,500.00, the Manager must obtain the consent and directions of the Company prior to proceeding.

Additional details of the expenses and management fees appear in Item 12 - Financial Statements.

2.8.2 *Exclusive Mortgage Origination Agreement*

Pursuant to an agreement between the Company and OAC, a related party (see Item 2.3), dated October 20, 1998 (the "Exclusive Mortgage Origination Agreement"), OAC has been appointed and designated as the sole mortgage broker of record for the purpose of originating mortgage loan applications for consideration by the Company.

Pursuant to the Exclusive Mortgage Origination Agreement, the Company may, based on its own credit, collateral and other lending criteria, in its sole and unilateral discretion, from time to time accept and review applications from borrowers referred to the Company by OAC. The Company is in no way bound to make any loan referred to the Company by OAC and any mortgage loan approvals will be determined solely at the discretion of the Company via approval by the Credit Committee. The Company shall have no liability to OAC or to customers of OAC on account of the Company declining to approve or make any loan submitted by OAC. OAC is obligated to, at all times, act on a basis that is fair and reasonable to the Company and to exercise its powers and discharge its duties under the Exclusive Mortgage Origination Agreement honestly, in good faith and in the best interests of the Company and, in connection therewith, OAC must exercise the degree of care, skill and diligence that a reasonably prudent person experienced in the business of mortgage brokering would exercise in comparable circumstances. OAC has also agreed and confirmed that in any one mortgage loan transaction, the combined fees paid by the borrower to OAC and the Company shall not exceed 12% of the principal amount borrowed.

The Company acknowledges that it is not the only source of funds for mortgage loans for customers of OAC and OAC acknowledges that it is an independent contractor and not a servant or employee of the Company. Compensation to OAC for any loans approved and funded by the Company is to be paid by the borrowers on a fee for services basis. The Exclusive Mortgage Origination Agreement may not be assigned by either party without the prior written consent of the other and may be terminated by either party giving written notice to the other.

2.8.3 Financing Arrangements

As of December 31, 2017, the Company did not have any outstanding balances due under any short term or long term financing arrangements. The Company may enter into short term or long term financing arrangements in the future where it is appropriate and in the best interest of the Company to do so. Generally speaking, long term financing arrangements will follow industry standard terms and conditions for conventional mortgage portfolio financing offered by chartered Canadian banks and other institutional lenders. Short term financing arrangements will generally involve short term and bridge loans from shareholders and/or private investors on conventional terms and at reasonable interest rates. Short term financing arrangements are typically unsecured.

Subsequent to December 31, 2018 the Company entered into a short-term loan arrangement with Cottonwood Spring Hereford Ranch Ltd., a shareholder of the Parent, which will be repaid in full on or before February 15, 2018 from the scheduled repayment of two (2) existing loans in the portfolio totaling \$583,530 at December 31, 2017.

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Item 3: Interests of Directors, Management, Promoters and Principal Holders

3.1 Compensation and Securities Held

Name and municipality of principal residence	Positions held (e.g., director, officer, promoter and/or principal holder) and the date of obtaining that position.	Compensation paid by the Company in most recently completed financial year & the compensation anticipated to be paid in the current financial year	Number, type & percentage of securities of the Company held after completion of min. Offering	Number, type & percentage of securities of the Company held after completion of max. Offering
Craig Williams Vernon, BC	Director since Feb. 1995 & President of the Company since Mar. 1999. Shareholder & President of the Parent, sole shareholder of the Manager & OAC. Member of the Credit Committee.	\$70,500 for 2017 \$72,000 for 2018 See Note 1	7,653 (0.88%) Class "A" Preferred	7,653 (0.42%) Class "A" Preferred
Morgan Thomas Vernon, BC	Director/Vice-President since Jan. 2001. Shareholder of Cottonwood Spring Hereford Ranch Ltd. Member of the Credit Committee.	NIL	NIL	NIL
Laurie Thomas Vernon, BC	Secretary-Treasurer since Mar. 1999 & Director since Jan. 2001. Shareholder of Morgan's Glass Company Ltd. Member of the Credit Committee.	\$3,000 for 2017 \$3,400 for 2018	NIL	NIL
Lakeland Asset Management Inc.	Manager & promoter of the Company since Feb. 1995.	\$135,855 for 2017 \$150,000 for 2018 See Note 2	100 (100.0%) Common	100 (100.0%) Common
Okanagan Approval Corp. ("OAC")	Broker of record owned by the Parent through which all mortgage loans are sourced	\$70,803 for 2017 See Note 3	NIL	NIL
Cottonwood Spring Hereford Ranch Ltd. ("Cottonwood")	Shareholder of the Parent, the sole shareholder of the Manager. Cottonwood is owned by Morgan Thomas, Director & Vice-President of the Company, Thelma Thomas & the Thomas Family Trust. Morgan, a principal of the Manager, is one of the Trustees of the Thomas Family Trust; Thelma, his spouse, is the other Trustee.	NIL	61,451 (7.03%) Class "A" Preferred	61,451 (3.34%) Class "A" Preferred
Morgan's Glass Company Ltd.	Owned by Laurie Thomas, Director & Secretary-Treasurer of the Company & Glyn Thomas, her spouse.	NIL	17,291 (1.98%) Class "A" Preferred	17,291 (0.94%) Class "A" Preferred
Jason Shortt	Member of the Credit Committee.	\$1,200 for 2017 \$1,200 for 2018	25,271 (2.89%) Class "A" Preferred	25,271 (1.37%) Class "A" Preferred

Note 1: Salaried income paid to Mr. Williams by the Parent, sole owner of the Manager.

Note 2: Compensation paid to the Manager is at the rate of 2.0% per annum calculated monthly based on the average outstanding balance of the Mortgage Portfolio. See Item 2.8.1.

Note 3: Broker fees earned by OAC from borrowers referred to the Company under the Exclusive Mortgage Origination Agreement with OAC. See Item 2.8.2. Not paid for by the Company.

3.2 *Management Experience*

The Manager has been responsible for managing the affairs of the Company since operations began in February 1995. **Lakeland Asset Management Inc.**, (the “Manager”), a related party, is governed by the Corporations Act and has a head office located at 3300 – 34th Avenue, Vernon, British Columbia, V1T 2P7. The Manager is in the business of managing the operations of mortgage investment corporations such as the Company. The manager does not currently manage the operations of any mortgage investment corporations other than the Company.

Name	Principal occupation and related experience
Craig Williams	Licensed mortgage broker. President and Director of the Company and of the Manager and member of the Credit Committee for the Company since inception. Craig is also President and Director of the Parent and of OAC, both related parties. Since 1995 Craig has been managing the affairs of the Company and first became involved in the mortgage industry in January 1983 when he joined the mortgage department of Royal Trust in Kelowna. Subsequently he spent the next 11 years with VanCity Credit Union and Mutual Life of Canada in their Vancouver commercial mortgage departments underwriting large commercial mortgage loans and appraising the underlying security in many circumstances.
Morgan Thomas	Vice-President and Director of the Company and member of the Credit Committee since 2000. Morgan had owned and operated Morgan’s Glass for 40 years before selling to his son and daughter in-law and is himself an active investor in real estate in the North Okanagan. In 1989 Morgan was given the responsibility of winding down the operations of the British Columbia Enterprise Corporation, a provincial Crown Corporation to divest it of its real estate assets.
Laurie Thomas	In 2001 Laurie and her husband Glyn acquired Morgan’s Glass Company Ltd. from Morgan and Thelma Thomas. Laurie is the Secretary and Director of the Company and member of the Credit Committee since 2000. Laurie has been actively involved with the Company, the Manager and OAC since inception in 1995.
Jason Shortt	Licensed British Columbia Land Surveyor for 17 years. He has been a director of the Vernon Chamber of Commerce and currently sits on the O’Keefe Ranch Society Board. Member of the Credit Committee since 2009

3.3 *Penalties, Sanctions and Bankruptcy*

- a) There have been no penalties or sanctions that have been in effect during the last 10 years against:
- (i) a director, executive officer or control person of the Issuer; or
 - (ii) an issuer of which a person referred to in (i) above was a director, executive officer or control person at the time.

Prior to the past 10 years, on November 8, 2005, the Issuer received a written request from the British Columbia Securities Commission suggesting the Company not distribute any further securities under the offering memorandum exemption or conduct any act in furtherance of a trade due to the Company selling securities to subscribers under a stale-dated Offering Memorandum between February 1, 2004 and September 1, 2005.

The Company resolved this matter by issuing an Amended and Restated Offering Memorandum to those subscribers who had purchased Class “A” Preferred Shares under the stale-dated Offering Memorandum, along with a right of rescission to rescind their previous purchase of the securities.

13 individuals had subscribed for a total of 75,200 Class “A” Preferred Shares of the Company during the period in question, for an aggregate amount of \$752,000.00 and all were given the right to rescind their purchase. None of the subscribers elected to rescind their purchase of the securities and instead chose to sign a new Form 45-106F4 Risk Acknowledgment to reconfirm their purchase.

- b) There have been no declarations 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 issuer; or
 - (ii) issuer of which a person referred to in (i) above was a director, executive officer or control person at the time.

3.4 *Loans*

The Company has no loans or debentures due to or from any of the directors, management, promoters or principal holders.

Item 4: Capital Structure

4.1 *Share Capital*

Description of security	Number authorized to be issued	Price per security	Number outstanding at January 1, 2018	Number outstanding after min.	Number outstanding after max. Offering
Common Shares without par value (see Note 1)	100,000	\$1.00	100	100	100
Class "A" Preferred Shares without par value (see Note 1)	9,000,000	\$10.00	874,384	874,384	1,841,384
Class "B" Preferred Shares without par value (see Note 1)	900,000	\$10.00	NIL	NIL	NIL

Note 1: The holders of each class of shares are entitled to receive, *pari passu*, all the profits of the Company by way of dividends payable quarterly as declared by the Directors (See Item 2.2). Only the Common shares have voting privileges, the Class "A" and "B" Redeemable Preferred Shares are non-voting.

4.2 *Long Term Debt Securities*

The Company currently has no long term debt outstanding. The Company may choose to incur long term debt in the future in connection with leveraging its Mortgage Portfolio pursuant to one of more conventional financing facilities.

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4.3 *Prior Sales*

During the last 12 months, the Company has issued the following securities:

Date of issuance	Type of security issued	Number of securities issued	Price per security	Total funds received
February 27, 2017	Class "A" Preferred	666	\$10.00	\$6,660.00
March 16, 2017	Class "A" Preferred	1,550	\$10.00	\$15,500.00
April 1, 2017	Class "A" Preferred	2,495	\$10.00	\$24,950.00
April 13, 2017	Class "A" Preferred	1,086	\$10.00	\$10,860.00
May 18, 2017	Class "A" Preferred	1,245	\$10.00	\$12,450.00
July 1, 2017	Class "A" Preferred	2,474	\$10.00	\$24,740.00
August 21, 2017	Class "A" Preferred	19,000	\$10.00	\$190,000.00
September 21, 2017	Class "A" Preferred	10,410	\$10.00	\$104,100.00
October 1, 2017	Class "A" Preferred	3,359	\$10.00	\$33,590.00
October 5, 2017	Class "A" Preferred	1,900	\$10.00	\$19,000.00
November 4, 2017	Class "A" Preferred	37,400	\$10.00	\$374,000.00
December 7, 2017	Class "A" Preferred	7,410	\$10.00	\$74,100.00
January 1, 2018	Class "A" Preferred	3,745	\$10.00	\$37,450.00
January 14, 2018	Class "A" Preferred	5,000	\$10.00	\$50,000.00

Item 5: Securities Offered

5.1 *Terms of Securities*

The Company hereby offers to residents of British Columbia on a private placement basis, up to 1,000,000 non-voting Class "A" Redeemable Preferred Shares ("Class "A" Shares") at a price of \$10.00 per Class "A" Share (the "Subscription Price"). The Offering is made on a best efforts basis by the Company commencing on January 27, 2018 and ending on January 27, 2019 unless extended by the Company in accordance with all applicable laws (the "Offering Period"). One or more closings will occur (each a "Closing") during the Offering Period on a date or dates established by the Company.

The Company may authorize registered dealers (the "Dealers") to participate in the Offering and/or to arrange subscription for the Class "A" Shares. If a Dealer arranges for a subscription of Class "A" Shares, a commission of up to \$0.50 per Class "A" Share may be payable by the subscriber ("Subscriber") on the sale of such Class "A" Shares. The amount of the commission payable under these circumstances is to be negotiated between Subscribers and their Dealers.

Alternatively, Subscribers using the services of a Dealer may elect to pay a deferred sales charge (ie. redemption fee), in which case the Company will pay the Dealer's commission to a maximum of \$0.30 per Class "A" Share. In this circumstance, if a Subscriber redeems his Class "A" Shares within the first year of purchase, the Subscriber will be liable to pay to the Company a redemption fee, sometimes called a deferred sale charge ("DSC") of \$0.45 per Class "A" Share redeemed.

The DSC is reduced annually at the rate of \$0.05 per annum on each anniversary of the Closing until the DSC becomes \$0.20 per Class "A" Share on the fifth anniversary of Closing. After the sixth anniversary of Closing, there is no DSC payable.

All costs of this Offering, estimated at \$25,000-\$30,000, will be paid for by the Company. The Company's commission costs, if any, are deferred and amortized over six years.

Trailer commissions (i.e. service fees) will be paid by the Company on a continuing basis to Dealers as a percentage of capital invested in the Company through those Dealers' efforts, at a rate of 0.25% per calendar quarter of the average value of Class "A" Shares beneficially owned by such Dealers' clients for so long as such shares are owned by those clients.

Class "A" Shares may also be purchased by a Subscriber who has been introduced by a Finder, in which case the Manager may agree to pay such Finders a finder's fee of up to \$0.30 per Class "A" Share purchased where such Finders are either registered under the applicable securities laws or exempt from registration under certain applicable registration exemptions. Any such finder's fees shall be borne by the Manager and are not an expense to the Company.

Subscriptions for Class "A" Shares will be accepted subject to rejection or allotment in full or in part by the Company. The Company reserves the right to close the subscription books at any time without notice. Subscriptions which are rejected will be returned without interest or deductions.

This Offering is not subject to any minimum aggregate subscription level and therefore, any funds received from a Subscriber are available to the Company immediately after expiration of the 48 hour hold period (see Item 5.2) and need not be refunded to the Subscriber.

5.1.1 Voting Rights or Restrictions on Voting

The holders of the Common shares without par value are entitled at all meetings of the shareholders of the Company to one vote in respect of each Common share held. The holders of the Class "A" Shares and Class "B" Redeemable Preferred Shares ("Class "B" Shares") are not entitled to attend or to vote at any meetings of the shareholders of the Company except under limited circumstances namely, the failure of the Company to earn profits available for the payment of dividends in any fiscal year of the Company. No class of shares may be created or issued ranking as to capital or dividends in priority to or on a parity with the Class "A" Shares and the Class "B" Shares, nor shall the authorized number of any class of shares be increased without the approval of the holders of such shares.

5.1.2 Rights of Redemption or Retraction

The Company may redeem all or any part of any of the Class "A" Shares and Class "B" Shares (collectively the "Preferred Shares") outstanding by invitation for tenders addressed to all the holders of record of the Preferred Shares outstanding by private contract at the lowest price at which, in the opinion of the Board of Directors, Preferred Shares are obtainable. If, upon any invitation for tenders under the provisions of this paragraph, the Company receives tenders at the same lowest price which the Company is willing to pay, in an aggregate number greater than the number for which the Company is prepared to

accept tenders, the Preferred Shares so tendered will be purchased as nearly as may be, pro-rata, disregarding fractions according to the number of Preferred Shares so tendered by each of the holders of Preferred Shares who submitted tenders at the same lowest price. The Company may also redeem the whole or from time to time any part of any class of shares, in such proportions as the Board of Directors may specify, upon giving notice as provided in the Articles and upon payment for each share to be redeemed of the price therefor (defined in the Articles as the “Redemption Price”). The Redemption Price is equal to the Net Asset Value Per Share, being the amount per redeemed share that the holder thereof would be entitled to receive upon a reduction of capital or the liquidation, dissolution or winding-up of the Company or other distribution of property or assets of the Company among its shareholders for the purposes of winding up its affairs. In such circumstances, the holders of the Class “A” Shares and the Class “B” shares are entitled to receive ratably an amount equal to the aggregate amount paid up on the shares held by them respectively and, after the holder of the Common shares have received an amount equal to the aggregate amount paid up on the shares held by them respectively, the holders of the Common shares, the Class “A” Shares and the Class “B” Shares are entitled to receive a share of the remaining amount available for distribution, which amount shall be determined by multiplying the amount remaining to be distributed by a fraction the numerator of which is the amount paid up on the issued shares of the particular class and the denominator of which is the amount paid up on the issued shares of all classes as of the time that is immediately prior to any payment of the amount paid up on all classes of shares. By virtue of the foregoing method of determining the Redemption Price, the Redemption Price may not be equivalent to the price paid for the corresponding share to be redeemed.

The Preferred Shares are also redeemable at the option of the holder, provided the Company has not suspended redemptions pursuant to its Articles. Subject to the maximum redemption amounts during any suspension of redemptions, a holder of Preferred Shares may request the Company to redeem, at any time, all or any part of the Preferred Shares held by such holder (the “Redeeming Holder”). The Redeeming Holder must give written notice to the Company of their intention to redeem and each notice must indicate the number of Shares to be redeemed (the “Notice”). The Company shall redeem the Shares specified in the Notice on December 31st in the calendar year in which Notice is given, if the Notice is given prior to or on June 30th of such calendar year or, if Notice is given after June 30th of such calendar year, on June 30th of the following calendar year (each of such days being a “Redemption Date”), by payment of the Redemption Price. The Company may waive notice of redemption by instrument in writing.

The Company has the right pursuant to its Articles to suspend redemption of the Preferred Shares for an indefinite period. Accordingly, the holders of the Preferred Shares have no assurance of when they may be able to redeem their Preferred Shares and receive the redemption amount. The redemption amount is defined in the Company Articles by formula and may not amount to the price paid for each Preferred Share by the holder if certain circumstances prevail at the time of redemption. The purpose of this suspension provision is to allow the Directors to manage the financial stability of the Company and other material matters, all in the best interests of the Company, should periods occur when insufficient cash is available for the redemption of Preferred Shares and to allow for a more equitable redemption of Preferred Shares amongst all shareholders. Notwithstanding the circumstances in which redemptions have been suspended, holders of Preferred Shares may nevertheless request redemption and the Company shall redeem, on a pro-rata basis, Preferred Shares twice yearly on June 30th and December 31st, up to a maximum of 5.0% of total shareholders’ equity as set out in the most recent audited annual financial statements of the Company, in respect of which Notice has been given until the Company revokes the suspension of redemption rights.

5.1.3 Dividends

The holders of each class of shares of the Company are entitled to receive, *pari passu* and ratably according to the amount paid up on such shares, on a quarterly basis as declared by the Directors, all of the profits of the Company available for the payment of dividends. With respect to the first three quarters of each fiscal year, dividends will normally be paid within 30 days of the quarter end to which the

dividend relates. The year-end dividend is normally paid within 15 days after completion of the annual audit, a process which can take up to two months after year end.

Dividends are payable in cash or in additional Preferred Shares, at the written election of the individual shareholder. If no such written election is provided by a shareholder, dividends payable to that shareholder will be paid in additional Preferred Shares and the shareholder will be deemed to have elected to receive their dividends in this manner. If dividends are paid in Preferred Shares, the shareholder will be issued additional Preferred Shares at the subscription price of \$10.00 per Preferred Share. No fractional Preferred Shares will be issued and any remaining balance will be held by the Company on account for the benefit of the shareholder, without interest, which will be rolled forward to the next quarters' distribution earnings for the purpose of purchasing additional Preferred Shares at \$10.00 per Preferred Share.

5.2 *Subscription Procedure*

If you are a resident of British Columbia you may subscribe for Class "A" Shares by returning to us at 3300 - 34th Avenue Vernon, B.C. V1T 2P7, the following:

- a) a completed subscription agreement in the form set out as Schedule A to the Offering Memorandum ("Subscription Agreement");
- b) two (2) completed copies of the Risk Acknowledgement (Form 45-106F4) set out in Appendix I to the Subscription Agreement (you are required to keep a signed original of this form for your records);
- c) two completed copies of the Risk Acknowledgement under BCI 32-517, Exemption from Dealer Registration Requirement for Trades in Securities of Mortgage Investment Entities/BCI 32-513 Registration Exemption from Dealer Registration Requirement for Trades in Connection with Certain Prospectus-Exempt Distributions (or its local jurisdiction equivalent, as applicable), as set out in Appendix II to the Subscription Agreement (you are required to keep a signed original of this form for your records); and
- d) a lawyer's trust cheque, personal cheque or bank draft in the amount of your investment, plus applicable selling commissions if any, payable to Sierra Mortgage Fund Ltd.

We will hold your subscription funds in trust until midnight on the second business day after the day on which we received your signed Subscription Agreement and Risk Acknowledgments, after which the funds become immediately available to the Company before the applicable Closing and acceptance of the subscription by the Board of Directors of the Company.

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

At the Closing we will deliver to you copies of the certificates representing fully paid Class "A" Shares, provided the subscription price has been paid in full.

Closings will take place periodically at our discretion. We may close the Offering on an earlier or later date as we may determine.

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Item 6: Income Tax Consequences and RRSP Eligibility

6.1 *Professional Advice*

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

6.2 *Income Tax Consequences*

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

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

It is further assumed for the purposes of this summary that the Company is now and was as of January 14, 1998, and will at all material times continue to be, a "mortgage investment corporation" as defined for the purposes of the Tax Act. It is assumed that no change in the circumstances or investments of the Company, or in the composition or activities of its shareholders, will occur that would cause the Company to cease to qualify as a mortgage investment corporation, although no assurances can be given in these respects. It is also assumed that the Company and the Manager will take whatever steps are necessary to ensure that the Company will continue to meet the requirements of a mortgage investment corporation in the Tax Act.

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

The Company will be subject to the rules of income taxation generally applicable to a "public corporation" as defined for the purposes of the Tax Act, except that the Company will, in computing its income for a taxation year, be entitled to deduct:

- a. all taxable dividends, other than capital gains dividends, paid by the Company during the year or within 90 days after the end of the year to the extent that those dividends were not deductible by the Company in computing its income for the preceding year; and
- b. $\frac{1}{2}$ of all capital gains dividends paid by the Company during the period commencing 91 days after the commencement of the year and ending 90 days after the end of the year.

Subscribers will be required to include any taxable dividends (other than a capital gains dividend) received on their Class "A" Shares in a taxation year in income in the year as interest income. The normal rules applicable to taxable dividends received from Canadian corporations, such as the dividend gross-up and credit treatment available for individuals and trusts and the deduction from income available for Canadian corporations, will not apply to any such dividend received on the Class "A" Shares.

Subscribers who receive a capital gains dividend on the Class “A” Shares in a taxation year will be deemed to receive the dividend as a capital gain on the disposition of property, and consequently will be required to include $\frac{1}{2}$ of any such dividend in income for the year as a taxable capital gain, and not as income from a share of the capital stock of the Company. Characterization of a dividend as a capital gains dividend depends upon payment of the dividend and an appropriate election being made by the Company within prescribed time periods and on the capital gains realized by the Company and other factors.

Where a Subscriber receives a dividend in the form of an issuance of Class “A” Shares, the amount of the dividend will, for the purpose of the rules described above, be equal to the amount by which the Company’s paid-up capital is increased by reason of such dividend, and that amount will also constitute the Subscriber’s cost of the Class “A” Shares so acquired. **Subscribers electing, or who are deemed to have elected, to receive a dividend in the form of an issuance of Class “A” Shares should consult their own tax and legal advisors.**

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

A Subscriber who disposes of a Share to a third party (other than the Company) in a taxation year will generally realize a capital gain (or capital loss) equal to the amount by which the proceeds of disposition thereof exceed (or are exceeded by, respectively) the adjusted cost base to the Subscriber of the Share. $\frac{1}{2}$ of any such capital gain (the taxable capital gain) must be included in the Subscriber’s income to be taxed at normal rates. The Subscriber must deduct $\frac{1}{2}$ of any such capital loss (allowable capital loss) from taxable capital gains realized in the year (including taxable capital gains resulting from the receipt of capital gains dividends on Class “A” Shares as discussed above) and, to the extent not so deductible, may deduct from taxable capital gains realized in any of the three preceding or any following taxation year.

This tax disclosure is provided by the Company and the Company makes no warranties or representations, implied or otherwise, with respect to the application of any particular taxation matters to any particular Subscriber. If the Company were to cease to qualify as a mortgage investment company, the income tax consequences would be materially different.

6.3 RRSP Eligibility

Pursuant to Regulation 4900(1)(c) of the Tax Act, the Class “A” Shares will be qualified investments for trusts governed by Registered Retirement Savings Plans, Deferred Profit Sharing Plans, Registered Education Savings Plans, Registered Retirement Income Funds and Tax Free Savings Accounts (the “Registered Plans”) at the particular time if the Company qualified as a mortgage investment corporation under the Tax Act and if, throughout the calendar year in which the particular time occurs, the Company does not hold as part of its property any indebtedness, whether by way of mortgage or otherwise of a person who is an annuitant, a beneficiary, an employer or a subscriber under the Registered Plan, or of any other person who does not deal at arm’s length with that person.

Notwithstanding the foregoing, the annuitant or, in the case of a Tax free Savings Account, the holder of the Registered Plan will be subject to a penalty tax if the Class “A” Shares are deemed to be a “prohibited investment” or an “advantage” for the Registered Plan. The Class “A” Shares will generally be deemed a “prohibited investment” if the annuitant or holder of the Registered Plan does not deal at arm’s length with the Company for the purposes of the Tax Act or, the annuitant or holder has a “significant interest” (within the meaning of the Tax Act) in the Company or a corporation, partnership or trust with which the

Company does not deal at arm's length for the purposes of the Tax Act. "A significant interest" in a corporation generally means ownership of 10% or more of the issued shares of any class of the capital stock of the corporation (or of any related corporation), either alone or together with persons with which the shareholder does not deal at arm's length for the purposes of the Tax Act. **You should consult your own professional advisers to obtain advice concerning the RRSP eligibility of these securities.**

The penalty tax applies if the annuitant or holder, at any time, owns directly or indirectly 10% or more of any class of shares of the Company through the Registered Plan. Class "A" Shares of the Company held by persons not dealing at arm's length with the annuitant or holder, including persons related to the annuitant or holder, are deemed to be owned by the annuitant or holder for the purpose of determining if the annuitant or holder owns directly or indirectly 10% or more of any class of shares.

This tax disclosure is provided by the Company and the Company makes no warranties or representations, implied or otherwise, with respect to eligibility of the Class "A" Shares for any particular Registered Plan of which any particular Subscriber is the annuitant. If the Company were ever to cease to qualify as a mortgage investment company, investment eligibility consequences would be materially different. In addition, the Class "A" Shares may be determined to not be qualified investments for a Registered Plan in certain circumstances as a result of the application of certain ineligibility rules contained in the applicable legislation. See Item 8.2.

Item 7: Compensation Paid to Sellers and Finders

The Company may authorize Dealers to participate in the Offering and/or to arrange subscription for the Class "A" Shares. If a Dealer arranges for a subscription of Class "A" Shares, a commission of up to \$0.50 per Class "A" Share may be payable by the Subscriber on the sale of such Class "A" Shares. The amount of the commission payable under these circumstances is to be negotiated between Subscribers and their Dealers.

Alternatively, Subscribers using the services of a Dealer may elect to pay a deferred sales charge (i.e. redemption fee), in which case the Company will pay the Dealer's commission to a maximum of \$0.30 per Class "A" Share. In this circumstance, if a Subscriber redeems his Class "A" Shares within the first year of purchase, the Subscriber will be liable to pay to the Company a redemption fee, sometimes called a deferred sale charge or DSC of \$0.45 per Class "A" Share redeemed.

The DSC is reduced annually at the rate of \$0.05 per annum on each anniversary of the Closing until the DSC becomes \$0.20 per Class "A" Share on the fifth anniversary of Closing. After the sixth anniversary of Closing, there is no DSC payable.

Trailer commissions (i.e. service fees) will be paid by the Company on a continuing basis to Dealers as a percentage of capital invested in the Company through those Dealers' efforts, at a rate of 0.25% per calendar quarter of the average value of Class "A" Shares beneficially owned by such Dealers' clients for so long as such shares are owned by those clients.

Class "A" Shares may also be purchased by a Subscriber by who has be introduced by a Finder, in which case the Manager may agree to pay such Finders a finder's fee of up to \$0.30 per Class "A" Share purchased where such Finders are either registered under the applicable securities laws or exempt from registration under certain applicable registration exemptions. Any such finder's fees shall be borne by the Manager and are not an expense to the Company.

The Company's commission costs, if any, are deferred and amortized over six years.

See also Item 5.1.

Item 8: Risk Factors

In addition to certain factors already set forth in this Offering Memorandum potential subscribers should consider the following factors, which are inherent to the ownership of the Class “A” Shares and are not the only risks involved with an investment in such securities. The following is only a summary of some of the general risk factors involved with an investment in the Class “A” Shares; prospective subscribers should review the risks of making such an investment with their professional advisors:

8.1 *Investment Risk*

- The Subscription Price was determined arbitrarily by the Directors of the Company based on the price at which the Class “A” Shares have been sold in the past.
- You may never be able to sell your securities and recover all or any part of your investment, unless we are able to complete a subsequent public offering, or we are able to sell the loan portfolio of the Company for cash, or merge with a public Corporation.
- As no market for these securities exists or will exist after this Offering, it may be difficult for the subscriber to sell them. These securities are redeemable to the Company; however, under certain circumstances, the Company has the right to suspend redemption indefinitely. See Item 5.1.2 Rights of Redemption or Retraction.
- In the event the Company is liquidated, dissolved or wound up under governing legislation, shareholders will be entitled to a distribution of corporate assets or proceeds of assets under such legislation and pursuant to the Company’s Articles after provision has been made for the payment of the Company’s liabilities. The holders of each class of shares are entitled to a ratable distribution of assets after payment to all shareholders of the amount of paid up capital on such shares, such paid up amounts payable firstly on the Class A Shares and Class B Shares and secondly on the Common shares. The ratable distribution of the assets remaining for distribution after payment of the amounts paid up on all classes of shares is determined by multiplying the amount remaining to be distributed by a fraction the numerator of which is the amount paid up on the issued shares of the particular class and the denominator of which is the amount paid up on the issued shares of all classes as of the time that is immediately prior to any payment of the amount paid up on all classes of shares.
- The Company has the right pursuant to its Articles to suspend redemption of the Class “A” Shares or Class “B” Shares, for an indefinite period. Accordingly, the holders of the Preferred Shares have no assurance of when they may be able to redeem their Preferred Shares and receive the redemption amount. The redemption amount is defined in the Company Articles by formula and may not amount to the price paid for each Preferred Share by the holder if certain circumstances prevail at the time of redemption. The shareholders are entitled, on a pro rata basis, to redemption of the Class “A” Shares or Class “B” Shares during any suspension to an aggregate maximum of 10% (5% twice yearly on Class “A” Shares as described in Item 5.1.2) annually of the shareholders equity as shown on the Company’s most recent audited annual Financial Statements until the Company revokes the suspension of redemption rights. When and if the redemption rights are reinstated by the Company, the holders of Class “A” Shares and Class “B” Shares wishing to redeem are entitled to redemption upon giving no less than six months’ notice prior to the end of June or December of each year (see Item 5.1.2). There are no Class “B” Shares outstanding at this time and the Company does not intend to offer any such Class “B” Shares for sale during the term of this Offering.
- The normal gross-up and dividend tax credit rules do not apply to dividends paid on the Company’s shares.

- There can be no assurance that the tax rules that apply to the Company and its shares will not be changed or interpreted to apply in a manner that is materially different from previous taxation years. If such changes in the tax rules or their interpretation or application to the Company were to occur, the business and operating results of the Company could be materially adversely affected and the consequences to the Company's shareholders could also be materially adverse. See Item 8.2.
- An investment in Class "A" Shares purchased under this Offering are not guaranteed against loss by any agency, such as the Canadian Deposit Insurance Corporation, unlike an investment placed into a guaranteed investment certificate or term deposit with a bank or other corporation whose deposits may be insured to a certain maximum limit.
- This is a highly speculative investment. A potential subscriber should invest in the Class "A" Shares only if you are able to bear the risk of the entire loss of your investment and have no need for immediate liquidity. An investment in the Class "A" Shares should not constitute a major portion of a Subscriber's portfolio.

8.2 *Issuer Risk*

- When assessing the potential risks and rewards of an investment in this Offering, you are relying on the Manager to make appropriate decisions with respect to the management of the Company business. Investors have no right to take part in the management of the Company and the Company will generally be bound by the decisions of the Manager.
- If the Company makes any improper distributions of dividends, the shareholders might be deemed to be holding such distributions in trust for creditors who could recover the amount of such distributions from the shareholders. You should also know that if the Company defaults on secured indebtedness, the lender will be entitled to exercise available legal and equitable remedies against the Company which could result in the loss of the property of the Company secured by such creditors.
- Under the Management Agreement, the Manager has agreed to ensure that the Company's operations are conducted in a manner so as to retain its qualification as a mortgage investment corporation under the Tax Act. If, for any reason, the Company fails to maintain its qualification as a mortgage investment corporation under the Tax Act (see Item 6.2) the dividends paid by the Company on the Class "A" Shares offered will cease to be deductible from the income of the Company and both the Company and its shareholders could be materially adversely affected.
- The Company and its shareholders are dependent in large part upon the experience, expertise and good faith of the Manager. The Manager is entitled to act in a similar capacity for other companies but with different investment policies to that of the Company; however, the Manager is contractually obligated pursuant to the terms of the Management Agreement to manage the affairs of the Company in a proper, prudent and honest fashion.
- The Company and its shareholders are dependent in large part on the experience, expertise and good faith of the Directors in supervising the management of the business and affairs of the Company.
- The Company and its shareholders are dependent in large part on the experience and expertise of the Credit Committee in approving mortgage loans made by the Company.
- There are certain risks inherent in mortgage lending over which neither the Company nor the Manager has any control. These risks include but are not limited to abnormal fluctuations in interest rates, the general state of the economy, concentration of mortgages on properties which are in one geographic location and falling real estate values.

- There are potential conflicts of interest to which the directors and officers of the Company may be subject in connection with the operations of the Company. These conflicts arise primarily out of the contractual relationship between the Company and the Manager, which is obligated to manage the Company to a certain standard. A conflict may occur if the Company and the Manager renegotiate the terms of the Management Agreement.
- While it is the Company's understanding that Class "A" Shares will be qualified investments for any trust governed by a registered retirement savings plan, deferred profit sharing plan, registered retirement income fund or, a tax free savings account (each a "Registered Plan") at any particular time, such will not be the case if the Company holds at any time in a calendar year that includes that particular time, any indebtedness of a person who is an annuitant, beneficiary or employee under the governing Plan of any trust or, of any other person who does not deal at arm's length with that person (each a "Connected Person"). While it is the Company's understanding that this ineligibility rule applies only in respect of the governing Plan relating to the relevant Connected Person, the language of the legislative provision which establishes this ineligibility rule is not clear and there is a risk that the provision could be applied or interpreted in such a way that the Class "A" Shares will not be qualified investments for any Registered Plans, including those that are not otherwise related to a Connected Person. While the Manager will take all necessary precautions to avoid such an advance of loan funds to any Connected Person, there is no assurance that such advance will not be made to such a person inadvertently or that ineligibility rule will not be applied or interpreted to apply to all Registered Plans holding Class "A" Shares.
- There can be no assurance that the tax rules that apply to the Company and its shares will not be changed or interpreted to apply in a manner that is materially different from previous taxation years. If such changes in the tax rules or their interpretation or application to the Company were to occur, the business and operating results of the Company could be materially adversely affected and the consequences to the Company's shareholders could also be materially adverse.
- The Company relies on certain prospectus and registration exemptions and guidance under the applicable securities laws. There can be no assurance that these prospectus and registration exemptions and guidance will remain in effect or will be interpreted by the applicable securities regulators to apply to the Company in the same manner and to the same extent as they previously have. If the Company is unable to continue to rely on any of these prospectus and registration exemptions and guidance, its business could be materially adversely affected. See Item 2.3.

8.3 *Industry Risk*

- Unlike guaranteed investment certificates, term deposits or money you have deposited in an account with a financial institutions, an investment with the Company is **not** guaranteed by the Canada Deposit Insurance Corporation, by any other government body or, insurer or, by us.
- The Company is in competition with other similar mortgage investment corporations in the region. There is no assurance that the Company will be able to secure enough mortgage loans sufficient to advance investment funds raised through this Offering.
- Investment funds, any or all, not advanced are placed into interest bearing deposits with the Company's financial institution and will earn lower rates of return than what it would earn if invested into mortgage loans.
- The profitability of the Company will be dependent on both general and local economic conditions and will be affected by fluctuations in the rate of economic growth, the rate of expansion (or contraction) of the real estate market in the target areas, and the rate of interest offered on loans by our competitors in the private mortgage market.

- The Company's business is to provide loans to borrowers who typically do not qualify for financing from conventional institutional lenders. Accordingly, the risk of default in repayment of these loans may be higher than the risk to conventional institutional lenders.
- The loans in the Company's Mortgage Portfolio will **not** be insured against default by Canada Mortgage & Housing Corporation, or any other mortgage insurance provider, in whole or in part.
- In case of default by a borrower on a mortgage within the Mortgage Portfolio, it may be necessary for the Company, in order to protect the Company's investment in the mortgage, to commence foreclosure proceedings and make further cash outlays to protect the property forming the security for the loan or to maintain prior encumbrances in good standing.
- The Company may, from time to time, have one or more mortgage loans in its Mortgage Portfolio which it considers to be impaired. The Company defines a loan as being impaired where full recovery of the investment in that mortgage loan is considered in doubt based on a current valuation of the security held, for which write-downs may have to be taken and for which a specific loss provision must therefore be established. As of the date of this Offering the Company has one (1) loan it considers to be impaired for an amount of \$659,953, for which it believes it has established adequate provisions for any losses that may result.
- The Company relies on exemptions from the prospectus and registration requirements under the applicable securities laws including, without limitation, the Offering Memorandum exemption under Part 2.9 of National Instrument 45-106 and the exemption from the dealer registration requirement under British Columbia Instrument 32-517, which registration requirement is currently set to expire on December 31, 2018. The Company also relies on the guidance provided by the Canadian Securities Administrators in CSA Staff Notice 31-323 to support the Company's determination that it would not be considered to be an "investment fund" for the purposes of the registration requirements under National Instrument 31-103 by virtue of the fact that its primary activity is mortgage lending (i.e. operation of a business that creates and manages mortgages) and that the Company (i) originates its mortgages in its name directly or through an agent retained by the Company and acting on its behalf, (ii) funds the mortgages, (iii) enters into mortgage agreements as the mortgagee and (iv) administers the mortgages, either directly or through an agent acting on its behalf. The Company relies on the guidance in CSA Staff Notice 31-323 that the investment fund manager registration requirement in National Instrument 31-103 will not typically apply in respect of a pooled mortgage investment entity that is not an investment fund. There can be no assurance that the foregoing prospectus and registration exemptions and guidance will remain in effect or will be interpreted by the applicable securities regulators to apply to the Company in the manner and to the extent described. If the Company is unable to continue to rely on any of the foregoing prospectus and registration exemptions and guidance, its business could be materially adversely affected. Among other things, the Company's ability to continue to raise additional capital could be materially impeded, the Company's liquidity could be materially adversely affected, and the Company's ability to grow and operate as a lender of private mortgage funds efficiently and economically could be materially adversely affected in such event, which could lead ultimately to the eventual winding up of the Company.

Item 9: Reporting Obligations

- 9.1** As a shareholder of the Company you will receive a brief quarterly financial report, prepared by management, along with the quarterly distribution of dividends. You will also receive audited financial statements of the Company annually in accordance with the Corporation Act. You will not be given notice of nor be entitled to attend general meetings of the holders of the outstanding Common shares of the Company. However, you will be given notice of and be entitled to attend informal annual information meetings of the holders of Class "A" Redeemable Preferred Shares.

9.2 The Company is not a reporting issuer in British Columbia or any jurisdiction.

Item 10: Resale Restrictions

- 10.1** These securities will be subject to a number of resale restrictions, including a restriction on trading. Until the restriction on trading expires, you will not be able to trade the securities unless you comply with an exemption from the prospectus and registration requirements under securities legislation.
- 10.2** Unless permitted under securities legislation, you cannot trade the securities before the date that is 4 months and a day after the date the Company becomes a reporting issuer in any province or territory of Canada. The Company has no current intention of becoming a reporting issuer in any jurisdiction.
- 10.3** For trades in Manitoba, unless permitted under securities legislation, you must not trade the securities without the prior written consent of the regulator in Manitoba unless:
- (a) the Company has filed a prospectus with the regulator in Manitoba with respect to the securities you have purchased and the regulator in Manitoba has issued a receipt for that prospectus; or
 - (b) you have held the securities for at least 12 months.

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

Item 11: Purchasers' Rights

If you purchase these securities under Part 2.9 (1) (Offering Memorandum) of National Instrument 45-106 Prospectus Exemptions you will have certain rights, some of which are described below. **For information about your rights you should consult a lawyer.**

(1) Two Day Cancellation Right

You can cancel your agreement to purchase these securities. To do so, you must provide written notice to us by midnight on the 2nd business day after you sign the Subscription Agreement to purchase the securities.

(2) Statutory Rights of Action in the Event of a Misrepresentation

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

- (a) the Company to cancel your agreement to buy these securities; or
- (b) for damages against the Company, every person who was a Director at the date of the Offering Memorandum and every other person who signed the Offering Memorandum.

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

If you intend to rely on the rights described in (a) or (b) above, you must do so within strict time limitations. You must commence your action to cancel the agreement within 180 days after the transaction or you must commence your action for damages within 180 days after learning of the misrepresentation or three (3) years after the transaction.

Item 12: Financial Statements

Included in this Offering Memorandum are the audited financial statements for the Company for the fiscal year ended September 30, 2017 together with accompanying notes and the auditor's report thereon.

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Financial Statements of

SIERRA MORTGAGE FUND LTD.

Year ended September 30, 2017



KPMG LLP
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3205-32 Street, 3rd Floor
Vernon BC V1T 9A2
Canada
Tel (250) 503-5300
Fax (250) 545-6440

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Sierra Mortgage Fund Ltd.

We have audited the accompanying financial statements of Sierra Mortgage Fund Ltd., which comprise the balance sheet as at September 30, 2017, the statements of earnings and retained earnings and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the

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KPMG Canada provides services to KPMG LLP.



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financial position of Sierra Mortgage Fund Ltd. as at September 30, 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

A handwritten signature in black ink that reads "KPMG LLP". The signature is written in a cursive, stylized font. Below the signature is a long, horizontal, slightly curved line that serves as a flourish or underline.

Chartered Professional Accountants

January 23, 2018

Vernon, Canada

SIERRA MORTGAGE FUND LTD.

Statement of Financial Position

As at September 30, 2017, with comparative information for 2016

	2017	2016
Assets		
Cash and cash equivalents (note 4)	\$ 914,230	\$ 1,661,362
Mortgages receivable (note 5)	7,859,272	6,633,272
	<u>\$ 8,773,502</u>	<u>\$ 8,294,634</u>

Liabilities and Shareholders' Equity

Liabilities:

Accounts payable and accrued liabilities	\$ 39,696	\$ 37,151
Distributions payable to shareholders	118,207	127,352
Deferred revenue	38,559	16,791
Redeemable preferred shares (note 6)	8,576,940	8,113,240
	<u>8,773,402</u>	<u>8,294,534</u>

Shareholders' equity:

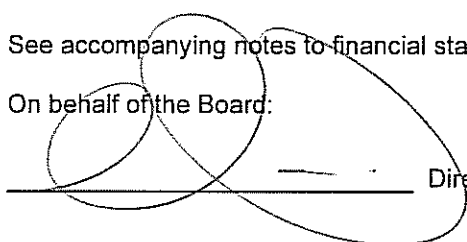
Common shares (note 7)	100	100
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Contingency (note 8)


	<u>\$ 8,773,502</u>	<u>\$ 8,294,634</u>
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See accompanying notes to financial statements.

On behalf of the Board:



Director



Director

SIERRA MORTGAGE FUND LTD.

Statements of Comprehensive Income and Changes in Shareholders' Equity

For the year ended September 30, 2017, with comparative information for 2016

	2017	2016
Revenue:		
Interest income	\$ 626,814	\$ 683,778
Fee income	63,532	59,699
	690,346	743,477
Mortgage impairment expense (note 5)	(82,410)	(79,610)
	607,936	663,867
Expenses:		
Management fees (note 9)	135,855	138,584
Professional fees	30,478	13,107
Office and general (note 9)	13,100	9,527
Brokerage fees	9,606	6,199
Interest and bank charges	607	513
	189,646	167,930
Earnings before distributions to shareholders	418,290	495,937
Distributions to shareholders	(418,290)	(495,937)
Profit, being comprehensive income for the year and shareholders' equity end of year	\$ -	\$ -

See accompanying notes to financial statements.

SIERRA MORTGAGE FUND LTD.

Statements of Cash Flows

For the year ended September 30, 2017, with comparative information for 2016

	2017	2016
Cash provided by (used in):		
Operating activities:		
Interest and fees received	\$ 629,704	\$ 669,022
Cash paid to suppliers	(188,002)	(148,459)
Distributions to shareholders	(315,187)	(328,589)
	126,515	191,974
Financing activities:		
Redemption of preferred shares	(136,860)	(324,860)
Issuance of preferred shares	485,960	796,940
	349,100	472,080
Investing activities:		
Issuance of new mortgages receivable	(5,227,401)	(3,609,590)
Repayment of mortgages receivable	4,004,654	3,330,299
	(1,222,747)	(279,291)
(Decrease) increase in cash and cash equivalents	(747,132)	384,763
Cash and cash equivalents, beginning of year	1,661,362	1,276,599
Cash and cash equivalents, end of year	\$ 914,230	\$ 1,661,362
Non-cash investing and financing activities:		
Shares issued in lieu of cash dividends (note 6)	\$ 114,600	\$ 152,330

See accompanying notes to financial statements.

SIERRA MORTGAGE FUND LTD.

Notes to Financial Statements

Year ended September 30, 2017, with comparative information for 2016

1. Reporting entity:

Sierra Mortgage Fund Ltd. (the "Corporation") was incorporated under the laws of British Columbia on January 10, 1995. The objective of the Corporation is to originate and manage long-term income generation through a portfolio of interests in mortgages underwritten on real property.

The investment objective of the Company is to acquire and maintain a diverse portfolio of investments that generate income which allows the Company to pay quarterly dividends to shareholders.

As long as the Corporation continues to qualify as a mortgage investment corporation ("MIC") under Section 130.1 of the Income Tax Act (Canada), taxable income may be reduced by distributions paid during the year, or within 90 days of the fiscal year-end. As a result, the Corporation can distribute its net earnings from operations to shareholders without the payment of corporate income tax.

The Corporation is domiciled in Canada at 3300 - 34th Avenue, Vernon, British Columbia and its registered office is 3rd Floor, 1665 Ellis Street, Kelowna, British Columbia.

2. Basis of preparation:

(a) Statement of compliance:

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The financial statements were authorized for issue by the Board of Directors on January 23, 2018.

(b) Basis of measurement:

The financial statements have been prepared on the historical cost basis, except foreclosed properties held for sale that are measured at fair value at each reporting date.

(c) Functional and presentation currency:

These financial statements are presented in Canadian dollars, which is the functional currency of the Corporation.

SIERRA MORTGAGE FUND LTD.

Notes to Financial Statements (continued)

Year ended September 30, 2017, with comparative information for 2016

2. Basis of preparation (continued):

(d) Use of estimates and judgment:

The preparation of the financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

The most significant estimates that the Corporation is required to make relate to the impairment of the mortgages receivable (note 5). These estimates may include assumptions regarding local real estate market conditions, interest rates and the availability of credit, cost and terms of financing, the impact of present or future legislation or regulation, prior encumbrances and other factors affecting the investments and underlying security of the investments.

(e) Measurement of fair values:

The Corporation's accounting policies and disclosures require the measurement of fair values for both financial and non-financial assets and liabilities.

When measuring the fair value of an asset or liability, the Corporation uses market observable data where possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1 Quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices);
- Level 3 Inputs for the asset or liability that are not based on observable market data (that is unobservable inputs).

Management reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or appraisals are used to measure fair values, management will assess the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of IFRS, including the level in the fair value hierarchy in which such valuations should be classified.

The information about the assumptions made in measuring fair value is included in the following note:

Note 3 (d) - Foreclosed properties held for sale

SIERRA MORTGAGE FUND LTD.

Notes to Financial Statements (continued)

Year ended September 30, 2017, with comparative information for 2016

3. Significant accounting policies:

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, unless otherwise indicated.

(a) Financial instruments:

(i) Financial assets:

The Corporation initially recognizes loans and receivables on the date that they are originated. The Corporation's financial assets are comprised of mortgages receivable and cash and cash equivalents, both of which are classified as loans and receivables. Such financial assets are recognized initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial assets are measured at amortized cost using the effective interest method.

The Corporation derecognizes a financial asset when the contractual rights of the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in such transferred financial assets that is created or retained by the Corporation is recognized as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Corporation has a legal right to offset the amounts and intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

(ii) Financial liabilities:

The Corporation initially recognizes financial liabilities on the date that they are originated. The Corporation derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

The Corporation has the following financial liabilities which it has classified as other financial liabilities: accounts payable and accrued liabilities, distributions payable to shareholders and redeemable preferred shares. Such financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortized cost using the effective interest method.

(b) Cash and cash equivalents:

Cash and cash equivalents comprise balances with less than 90 days maturity from the date of acquisition, including cash and deposits with banks and cheques and other items in transit.

SIERRA MORTGAGE FUND LTD.

Notes to Financial Statements (continued)

Year ended September 30, 2017, with comparative information for 2016

3. Significant accounting policies (continued):

(c) Mortgages receivable:

Mortgages receivable are recognized initially at fair value. Subsequent to initial recognition, the mortgages are measured at amortized cost using the effective interest method, less any impairment losses.

The mortgages are assessed at each reporting date to determine whether there is objective evidence of impairment.

Mortgage credit quality is assessed at a specific and collective level for reasonable assurance of timely collection of the full amount of principal and interest. Impairment is assessed on a specific mortgage basis taking into account past experience, credit quality, payments in arrears, general economic conditions and real estate market conditions. When a mortgage is identified as impaired, the carrying amount becomes the lower of the recorded investment and the estimated realizable amount. Estimated realizable amounts are measured by discounting the expected future cash flows at the effective interest rate inherent in the mortgage. When the amount and timing of such cash flows cannot be estimated with reasonable reliability, estimated realizable amounts are based on the fair value of the security underlying the mortgages, net of expected costs of realization.

All individually significant mortgages not found to be specifically impaired are then collectively assessed for impairment that has occurred, but not yet been identified.

Mortgages that are not individually significant are collectively assessed for impairment by grouping together mortgages with similar risk characteristics. In assessing the collective impairment, the Corporation uses analysis of past performance and the level of the allowance already in place, adjusted for management's judgment as to whether current economic and credit conditions are such that actual losses are likely to be greater or less than suggested by past performance.

Losses are recognized in the statement of comprehensive income and reflected in an allowance account against the mortgages receivable. Interest on the impaired asset continues to be recognized through the unwinding of the discount if it is considered collectable, and adjusted to the allowance account if not considered collectable. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

SIERRA MORTGAGE FUND LTD.

Notes to Financial Statements (continued)

Year ended September 30, 2017, with comparative information for 2016

3. Significant accounting policies (continued):

(d) Foreclosed properties held for sale:

When the Corporation obtains legal title of the underlying security of an impaired mortgage investment, the carrying value of the mortgages receivable, which comprises of principal, costs incurred, accrued interest and the related provision for mortgage investment loss, if any, is reclassified from mortgage investments to foreclosed properties held for sale ("FPHFS"). At each reporting date, FPHFS are measured at fair value, with changes in fair value recorded in profit or loss in the period they arise. The Corporation uses management's best estimate to determine fair value of the properties, which may involve frequent inspections, engaging realtors to assess market conditions based on previous property transactions, or retaining professional appraisers to provide independent valuations.

Contractual interest on the mortgages receivable is discontinued from the date of transfer from mortgage investments to FPHFS. Net income or loss generated from FPHFS, if any, is recorded as net operating (gain) loss from FPHFS, while fair value adjustments on FPHFS are recorded separately.

At year end there were nil FPHFS (2016 - nil).

(e) Revenue recognition:

Interest income is recorded on the accrual basis using the effective interest method. When calculating the effective interest rate, the Corporation estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

Deferred revenue includes lender fees received from borrowers that are amortized over the contractual terms of the mortgage to fee income using the effective interest method. Discharge fees are recognized as mortgages are discharged.

(f) Income taxes:

It is the intention of the Corporation to qualify as a MIC for Canadian income tax purposes. As such, the Corporation is able to deduct, in computing its income for a taxation year, dividends paid to its shareholders during the year or within 90 days of the end of the year. The Corporation intends to maintain its status as a MIC and pay dividends to its shareholders in the year and in future years to ensure that it will not be subject to income taxes. Accordingly, for financial statement reporting purposes, the tax deductibility of the Corporation's distribution of dividends result in the Corporation being effectively exempt from taxation and no provision for current or deferred taxes has been recorded.

SIERRA MORTGAGE FUND LTD.

Notes to Financial Statements (continued)

Year ended September 30, 2017, with comparative information for 2016

3. Significant accounting policies (continued):

(g) Share capital:

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

Preferred shares are classified as a liability due to redemption options of the shareholders. Dividends are recognized as distributions to shareholders in profit or loss as accrued.

(h) Dividends:

Subject to the discretion of the Board of Directors, dividends on shares are calculated and paid quarterly. Interest income from mortgages in arrears by three months or more is not included in the calculation until the mortgage is no longer in arrears, or if sufficient equity on the secured property exists and the loan is still considered collectible.

SIERRA MORTGAGE FUND LTD.

Notes to Financial Statements (continued)

Year ended September 30, 2017, with comparative information for 2016

3. Significant accounting policies (continued):

(i) New standards not yet adopted:

(i) IFRS 9, Financial Instruments ("IFRS 9"):

In July 2014, the IASB issued IFRS 9. IFRS 9 (2014) introduces new requirements for the classification and measurement of financial assets. Under IFRS 9 (2014), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. The standard introduces additional changes relating to financial liabilities. It also amends the impairment model by introducing a new expected credit loss model for calculating impairment. The standard will be effective for annual periods beginning on or after January 1, 2018 and will be applied retrospectively with some exemptions. The Corporation is currently assessing the impact of the new standard on its financial statements.

(ii) IFRS 15, Revenue from Contracts with Customers ("IFRS 15"):

In May 2014, the IASB issued IFRS 15. The new standard provides a comprehensive framework for recognition, measurement and disclosure of revenue from contracts with customers, excluding contracts within the scope of the standard on leases, insurance contracts and financial instruments. IFRS 15 becomes effective for annual periods beginning on or after January 1, 2018 and is to be applied retrospectively. Early adoption is permitted. The Corporation is currently assessing the impact of the new standard on its financial statements.

4. Cash and cash equivalents:

Cash and cash equivalents includes cash held in trust and the related trust liability. The Corporation is required to hold monies received for certain types of transactions in a trust account, separate from the Corporation's general cash accounts.

These funds were received by the Corporation during the year as an interest reserve to be drawn upon against the related mortgage and for purchases of shares. As at September 30, 2017, the Corporation had funds in trust totaling \$nil (2016 - \$14,768).

SIERRA MORTGAGE FUND LTD.

Notes to Financial Statements (continued)

Year ended September 30, 2017, with comparative information for 2016

5. Mortgages receivable:

The mortgages receivable are first and second mortgages and consist of short-term financing for residential construction projects and term loans for completed or substantially completed owner-occupied and income-producing properties in British Columbia. The mortgages bear interest at rates from 7.3% to 12.0% (2016 - 7.0% to 12.0%) per annum.

At year end, there are 44 (2016 - 37) mortgage investments. Of these, 24 mortgages totaling \$4,955,044 - 60% (2016 - \$3,609,590 - 52%) are first mortgages. The remaining 20 mortgages totaling \$3,242,440 - 40% (2016 - \$3,322,950 - 48%) are non-first mortgages, which may include second mortgages, or a combination of first, second and third mortgages if more than one property is secured.

At September 30, 2017, two of the mortgages were in arrears (2016 - four). At September 30, 2017, one (2016 - one) of the mortgages has been assessed as impaired. A provision for mortgage impairment has been deemed necessary.

A mortgage is considered in arrears when a payment has not been received by the contractual due date. A mortgage is considered impaired if the recoverable amount is less than its carrying amount. Mortgages are not considered impaired if they are either (i) less than 90 days past due, unless there is information to the contrary; or (ii) fully secured and collection effects are reasonably expected to result in repayment.

	2017	2016
Performing mortgages	\$ 7,283,113	\$ 4,964,091
Mortgages in arrears	273,406	1,369,680
Impaired mortgages	640,965	558,556
	8,197,484	6,892,327
Accrued interest	43,466	40,213
	8,240,950	6,932,540
Allowance for credit losses:		
Specific	(381,678)	(299,268)
Collective	-	-
	(381,678)	(299,268)
	\$ 7,859,272	\$ 6,633,272

The specific allowance for credit losses relates to the impaired mortgage balance and allows for accrued and unpaid interest on the mortgage receivable.

SIERRA MORTGAGE FUND LTD.

Notes to Financial Statements (continued)

Year ended September 30, 2017, with comparative information for 2016

5. Mortgages receivable (continued):

The Corporation provides for specific losses based on a regular review of individual mortgages. In assessing the existence of impairment in value of mortgage investments, management compares the current fair market valuation data against data at the date of the initial appraised amount, monitors changes in market interest rates whereby increasing rates will affect the discount rate used in fair valuing properties and monitors monthly cash flows receivable to ensure repayment terms are being met. In addition, mortgages receivable are issued on short-terms thereby limiting the period of exposure to the negative impact of market conditions on their recoverability.

Payments received on mortgages that have been classified as impaired are recorded first to recover collection costs, principal and any previous write-offs or allowances, and then as interest income.

A mortgage will be classified back to performing status when it is determined that there is reasonable assurance of full and timely repayment of interest and principal in accordance with the terms and conditions of the mortgage, and that none of the criteria for classification of the mortgage as impaired continue to apply.

	2017	2016
Allowances for credit losses:		
Beginning of period	\$ 299,268	\$ 218,573
Current provisions	82,410	79,610
Prior year provisions recognized in profit and loss	-	1,085
	\$ 381,678	\$ 299,268

SIERRA MORTGAGE FUND LTD.

Notes to Financial Statements (continued)

Year ended September 30, 2017, with comparative information for 2016

5. Mortgages receivable (continued):

Diversification:

The mortgages receivable at year end consisted of 80% (2016 - 77%) residential mortgages and 20% (2016 - 23%) residential construction mortgages.

At year end, there were no borrowers that represented greater than 10% of outstanding mortgage investments (2016 - nil).

	2017		2016	
	Amount	#	Amount	#
South Okanagan	\$ 2,003,321	7	\$ 1,671,479	5
North Okanagan	3,978,570	24	3,693,983	25
Shuswap	1,906,454	9	708,870	3
Other	309,139	4	817,995	4
	8,197,484	44	6,892,327	37
Accrued interest	43,466		40,213	
Allowances for credit losses	(381,678)		(299,268)	
	\$ 7,859,272		\$ 6,633,272	

The maturity of loans at the reporting date was as follows:

	2017		2016	
Within 6 months	\$ 3,496,853		\$ 4,859,287	
6 to 12 months	3,782,000		1,932,876	
12 to 18 months	918,631		100,164	
	8,197,484		6,892,327	
Accrued interest	43,466		40,213	
Allowances for credit losses	(381,678)		(299,268)	
	\$ 7,859,272		\$ 6,633,272	

SIERRA MORTGAGE FUND LTD.

Notes to Financial Statements (continued)

Year ended September 30, 2017, with comparative information for 2016

6. Redeemable preferred shares:

The Corporation is authorized to issue up to 9,000,000 Class A and 900,000 Class B redeemable preferred shares. The shares are non-voting, participating, redeemable, retractable, and without par value. The shares are retractable at the option of the holder and therefore have characteristics that are similar to debt. The redemption price is defined in the Corporation articles by formula and may not amount to the price paid for each share by the holder if certain circumstances prevail at the time of redemption. The Directors of the Corporation have discretion in suspending redemption of the preferred shares. In the event that the Directors choose to establish a period of suspension, preferred shares may still be redeemed every six months and the total amount of preferred shares to be redeemed at either redemption date is not to exceed 5% of outstanding shareholders' equity, as set out in the financial statements of the Corporation for the most recently completed fiscal year, distributed on a pro-rata basis amongst those redeeming shareholders who have provided the required notice. The option to suspend or delay redemption has not been considered an unconditional right to avoid redemption as the suspension cannot be carried forward indefinitely.

There are nine (2016 - six) redemption requests totaling \$402,190 and \$739,200 (2016 - \$102,530 and \$84,330) that were paid on the December 31, 2017 and are due for redemption on the June 30, 2018 redemption dates, respectively.

	Class A Shares	
	#	Amount
October 1, 2015:	748,883	\$ 7,488,830
Issued for cash	79,694	796,940
Issued for dividends	15,233	152,330
Redeemed	(32,486)	(324,860)
October 1, 2016:	811,324	8,113,240
Issued for cash	48,596	485,960
Issued for dividends	11,460	114,600
Redeemed	(13,686)	(136,860)
September 30, 2017	857,694	\$ 8,576,940

The Corporation has not issued any Class B preferred shares.

At year end, related parties including directors and common shareholders of the Corporation; directors, common shareholders and key employees of Lakeland Asset Management Inc. ("Lakeland", the Corporation's parent); and close family members and related corporations held 194,367 - 23% Class A shares (2016 - 160,698 shares - 20%).

SIERRA MORTGAGE FUND LTD.

Notes to Financial Statements (continued)

Year ended September 30, 2017, with comparative information for 2016

7. Common shares:

	2016	2015
Authorized:		
10,000 Voting redeemable, participating common shares without par value		
Issued:		
100 Common shares	\$ 100	\$ 100

8. Contingency:

A \$200,000 claim from March 19, 2003 exists against the Corporation. The claim is by a party who alleges that security for amounts advanced by the Corporation in a syndicated loan arrangement was improperly placed. The Corporation filed an appearance immediately and has received no further correspondence from the plaintiff regarding this matter.

Management believes that the settlement of this issue will not have a material adverse impact on the Corporation's financial position; however, the outcome of this matter is presently unknown.

9. Related party transactions:

During the year, \$135,855 (2016 - \$138,584) in management fees were paid to Lakeland. The Management Agreement states that the Manager be paid an annual fee not to exceed 2% of the outstanding balance of the mortgage portfolio, calculated monthly.

460284 B.C. Ltd. is the parent company of Lakeland and provides office supplies, telephone, and office space to the Corporation. During the year the Corporation paid \$9,921 (2016 - \$9,528) for these services.

The Corporation has no employees. Directors were remunerated \$4,450 (2016 - \$1,250) for services provided to the Corporation.

10. Financial instruments:

Overview:

The Board of Directors approves and monitors the risk management processes. The Corporation has exposure to the following risks from its use of financial instruments:

SIERRA MORTGAGE FUND LTD.

Notes to Financial Statements (continued)

Year ended September 30, 2017, with comparative information for 2016

10. Financial instruments: (continued):

a) Credit risk:

The Corporation's exposure to credit risk is on its cash and cash equivalents and mortgages receivable.

Credit risk relates to the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract. Credit risk for accrued interest and mortgage investments is the risk that the mortgagor will fail to discharge the obligation, causing the Corporation to incur a financial loss. Credit risk is reduced by ensuring that the collateral value of the security adequately protects the advances, that there is a viable exit strategy for each investment, that the mortgages are made to qualified borrowers and by limiting amounts advanced in relation to the value of the property secured. The mortgage portfolio is also diversified by location, property type and size of loan on any one property, which further manages credit risk.

The credit quality of performing mortgages is directly related to their nature, interest rate and term as described in note 5. The maximum amount of credit risk is equal to the carrying value of the underlying assets.

b) Liquidity risk:

Liquidity risk is the risk that the Corporation will encounter difficulty in raising funds to meet commitments associated with financial instruments. Management controls liquidity risk through cash flow projections used to forecast funding requirements for mortgage investments and anticipated retraction of redeemable preferred shares. As described in note 6, the Corporation also has the ability to manage liquidity risk through control of redeemable preferred share retractions and the payment of dividends on the redeemable preferred shares. In addition, certain shareholders request their distribution by way of reinvestment of shares in lieu of cash dividends. All other financial liabilities are due within 12 months of the balance sheet date.

	Carrying value	Contractual cash flows	Due between 1 and 365 days	Due greater than 365 days
Accounts payable and accrued liabilities	\$ 39,696	\$ 39,696	\$ 39,696	\$ -
Distributions to shareholders	118,207	84,342	84,342	-
Redeemable preferred shares	8,576,940	8,576,940	1,116,200	7,460,740
	<u>\$ 8,734,843</u>	<u>\$ 8,700,978</u>	<u>\$ 1,240,238</u>	<u>\$ 7,460,740</u>

SIERRA MORTGAGE FUND LTD.

Notes to Financial Statements (continued)

Year ended September 30, 2017, with comparative information for 2016

10. Financial instruments: (continued):

c) Market risk:

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises of three types of risk: currency risk, interest rate risk and other price risk. The Corporation is not subject to currency and other price risks. Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fluctuations in general market interest rates have a limited impact on the interest rates of new mortgage investments due to the nature of the lending. The availability of funds for the Corporation's type of lending, as described in note 5, is the primary influence on the interest rates. The interest rates achieved on mortgage investments directly influence the rate of return available to redeemable preferred shareholders. The Corporation is not exposed to interest rate risk on existing loans as the interest income generated from the mortgages receivable is fixed.

The Corporation does not account for any fixed rate financial assets and liabilities at fair value through profit or loss; therefore a change in interest rates at the reporting date would not affect equity and profit or loss.

The carrying amounts of cash and cash equivalents, mortgages receivable, accounts payable and accrued liabilities, and distributions payable in cash to preferred shareholders approximate their fair values due to the relatively short periods to maturity of these items or because they are receivable or payable on demand.

Due to the uncertainty of the timing of redemption and retraction, the fair value of the redeemable preferred shares, including distributions payable in preferred shares, are not readily determinable.

SIERRA MORTGAGE FUND LTD.

Notes to Financial Statements (continued)

Year ended September 30, 2017, with comparative information for 2016

11. Capital disclosures:

The Corporation considers its capital to comprise its common shares and redeemable preferred shares, which are classified as a financial liability on the balance sheet. In managing its capital, the Corporation's primary objective is to ensure its continued ability to provide a consistent return for its shareholders through investments in mortgages bearing an acceptable interest rate and level of risk. In order to achieve this objective, the Corporation seeks to balance risks and returns at an acceptable level by providing mortgage financing at an interest rate commensurate with the level of risk. In making decisions to adjust its capital structure to achieve these objectives, the Corporation considers both its short-term and its long-term strategic objectives. To secure the additional capital necessary to pursue these plans, the Corporation may attempt to raise additional funds through the issuance of equity.

The Corporation is subject to externally imposed financial covenants of the Income Tax Act in order to qualify as a MIC. There has been no change with respect to the overall capital management strategy during the year ended September 30, 2017. The Corporation was in compliance with these covenants throughout the year.

Item 13: Date and Certificate

Dated the 27th day of January 2018.

This Offering Memorandum does not contain a misrepresentation.

Sierra Mortgage Fund Ltd.

“Craig Williams”
Craig Williams
President and Director

“Laurie Thomas”
Laurie Thomas
Acting CFO and Director

“Morgan Thomas”
Morgan Thomas Director

**Lakeland Asset Management Ltd. Promoter
by:**

“Craig Williams”
Craig Williams Authorized
Signatory

Schedule "A"

SUBSCRIPTION AGREEMENT AND POWER OF ATTORNEY

THIS SUBSCRIPTION AGREEMENT is dated the ____ day of _____, 20__.

BETWEEN:

SIERRA MORTGAGE FUND LTD.

3300 – 34th Avenue

Vernon, BC V1T 2P7

(hereinafter called the "Company")

AND:

Name of Subscriber

Address of Subscriber

(hereinafter called the "Subscriber")

WHEREAS:

(A) The Company intends to carry on its business so as to qualify as a mortgage investment corporation for the purposes of the *Income Tax Act* (Canada) (the "Tax Act");

(B) The Subscriber has offered to subscribe for Class "A" Redeemable Preferred Non-Voting Shares without par value in the capital of the Company (the "Shares") and the Company may accept such subscription on the terms and conditions set forth in this Subscription Agreement (the "Agreement");

NOW THEREFORE THIS AGREEMENT WITNESSES that in consideration of the Company agreeing to allot and issue Shares to the Subscriber and for other good and valuable consideration (the receipt and sufficiency of which is hereby acknowledged by the Subscriber) the parties hereby covenant and agree as follows:

1. **Subscription:** The Subscriber hereby subscribes for _____ Shares at an issue price of \$10.00 each (minimum subscription is 10 Shares or \$100.00) and tenders herewith payment of \$_____ made payable to Company (the "Purchase Funds").

2. **Subscriber Acknowledgement:** The Subscriber acknowledges that:

- (a) The Subscriber is acquiring the Shares pursuant to exemptions described in Part 2 of National Instrument 45-106 ("NI 45-106"), from the registration and prospectus requirements of the securities legislation (the "Legislation") in British Columbia and, consequently, the Subscriber will not be entitled to rely on or use most of the civil remedies available under the Legislation and the Subscriber will not receive information that the Company would otherwise be required to provide to the Subscriber in accordance with the Legislation;
- (b) The Subscriber acknowledges and agrees that the decision to accept or reject this Agreement may be made by the Board of Directors of the Company (the "Board") at such time, under such circumstances and for such reasons as the Board may determine in its sole discretion;
- (c) This Agreement shall be deemed to have been accepted by the Company as of the date of the resolution of the Board accepting the Agreement and allotting and issuing the Shares to the Subscriber;
- (d) The Subscriber hereby directs that, upon acceptance of this Agreement by the Board, the certificates representing the Shares be issued in the Subscriber's name at the address provided below and that such certificates be placed and held in the Company's safe. Notwithstanding the foregoing, the Subscriber may request that the certificates representing the Shares be delivered to the trustee of the Subscriber's Registered Plan;
- (e) The Subscriber acknowledges that the Subscriber is acquiring the Shares pursuant to an exemption described in Part 2.9 of National Instrument 45-106, Offering Memorandum Exemption (the "Offering Memorandum Exemption") and that the Subscriber has received a copy of the Company's Offering Memorandum together with any amendments thereto (the "Offering Memorandum") and has read the Offering Memorandum; and
- (f) As the Subscriber is acquiring the Shares pursuant to the Offering Memorandum Exemption the Subscriber acknowledges and agrees that the Purchase Funds shall become immediately available to the Company on the expiration of midnight on the 2nd business day after the Subscriber signs and delivers this Agreement and the Purchase Funds to the Company, in the absence of the Subscriber exercising its right to cancel, and that the Purchase Funds may be used by the Company for general corporate purposes and shall be characterized as a non-interest bearing, non-callable loan by the Subscriber to the Company until acceptance or rejection of the Agreement by the Board; provided, however, that the Company may pay to the Subscriber such interest on such terms as the Board may determine in its sole discretion from time to time for all or part of the period between the date of the Agreement and the date of acceptance or rejection of the Agreement by the Company.

3. **Registration of Shares:** The Company acknowledges that the Subscriber may request that some of the Shares be registered in the name of a Registered Plan of which the Subscriber is

the annuitant and that initially the Shares will be registered as set forth on the last page hereof. The Subscriber covenants and agrees with the Company that, notwithstanding any such designation with respect to registration, the Subscriber will obtain all proxies, consents and other instructions as the Company may require from time to time so that for all purposes of the Company's communications to its shareholders, the Company may direct such communications to the Subscriber.

4. **Conditions Precedent:** The sale of the Shares to the Subscriber will be subject to the following conditions precedent:

- (a) receipt by the Company of a bank draft, lawyer's trust cheque or like instrument or personal cheque acceptable to the Company, representing the Purchase Funds and payable to the Company;
- (b) receipt by the Company of a duly completed Form 45-106F4 Risk Acknowledgement attached to this Agreement as Appendix I;
- (c) receipt by the Company of a duly executed Form BCI 32-517 / BCI 32-513 Risk Acknowledgement attached to this Agreement as Appendix II; and
- (d) execution of this Agreement by the Company.

The Company may, in its sole discretion, defer the acceptance of the Agreement by the Company, for up to six (6) months from the date of receipt of the Purchase Funds the Agreement. The Company may at its sole option accept any or all subscription offers at any time and shall in any event conclusively accept or reject the Agreement not later than the last day of the seventh month after the initial subscription. In the event that the Company rejects the Agreement more than 10 days after the date of the receipt of the Purchase Funds, the Company shall return the Purchase Funds to the Subscriber within 30 days of such rejection together with an amount equal to the dividends that would have been payable to the Subscriber had the Agreement been accepted by the Company on the third (3rd) business day after the Purchase Funds were delivered to the Company.

5. **The Closing:** The completion of the purchase and sale of the Shares will occur on the first business day of the month after acceptance of the Agreement by the Company (or at such other time as the Board may determine in its sole discretion, acting reasonably). The Subscriber shall have the right to revoke the Agreement at any time prior to acceptance by the Company by delivery to the Company of written notice of revocation signed by the Subscriber. In the event of such revocation, the Purchase Funds shall be returned to the Subscriber without interest or deduction within 30 days after receipt by the Company of written notice of revocation.

As the Subscriber is acquiring the Securities pursuant to the Offering Memorandum Exemption,

- (a) the Subscriber may cancel the agreement to purchase the security by delivering a notice to the Company not later than midnight on the 2nd business day after the Subscriber signs the Agreement to purchase the Shares;
- (b) the Company shall cause to be held in trust all consideration received from the Subscriber until midnight on the 2nd business day after the Subscriber signs the Agreement to purchase the Shares; and
- (c) the Company shall return all consideration to the Subscriber promptly if the Subscriber exercises the right to cancel the Agreement to purchase the Shares.

6. **Closing Procedure:** The sale of the Shares to the Subscriber will take place at the Closing, at which time a photocopy of a share certificate representing the Shares will be forwarded to, or to the order of, the Subscriber.

7. **Representations, Warranties and Covenants:**

- (a) The Company represents and warrants to the Subscriber and covenants with the Subscriber that:
 - (i) it is a corporation which has been duly incorporated and is validly existing and in good standing under the laws of British Columbia;
 - (ii) the Purchase Funds will be primarily used for the purposes described in the Offering Memorandum; and
 - (iii) dividends in respect of all net income of the Company will, after providing for such reserves as may be necessary in the discretion of the Board, be declared at such times as the Board sees fit, and will be distributed quarterly to holders of record on the last day of each fiscal quarter of the Company. Such dividends may be payable in cash or in additional Shares, or part in cash and part in additional Shares, at the sole discretion of the Subscriber.
- (b) The Subscriber represents warrants and acknowledges that:
 - (i) the Subscriber is acquiring the Shares pursuant to the Offering Memorandum Exemption which exempts the Company from the registration and prospectus requirements of the securities legislation (the "Legislation") in all jurisdictions relevant to this Agreement and, consequently, the Subscriber will not be entitled to rely on or use most of the civil remedies available under the Legislation and the Subscriber will not receive information that the Company would otherwise be required to provide to the Subscriber in accordance with the Legislation;
 - (ii) the Company is not registered under any securities legislation for the purpose of selling the Shares;
 - (iii) no securities commission or similar regulatory authority has reviewed or passed on the merits of the Shares;
 - (iv) there is no government insurance covering the Shares; and
 - (v) the Subscriber understands that the reliance on the Offering Memorandum Exemption by the Company is based on the fact that:
 - (I) the Subscriber is purchasing the Shares as principal; and
 - (II) at the same time or before the Subscriber signed the Agreement to purchase the Shares, the Subscriber:
 - (1) received an Offering Memorandum from the Company in compliance with NI 45-106;

- (2) signed a Form 45-106F4 - Risk Acknowledgment as attached hereto as Appendix I in duplicate and has retained a copy hereof; and
- (3) if applicable signed a Form BCI 32-517 / BCI 32-513 Risk Acknowledgment attached hereto as Appendix II in duplicate and has retained a signed copy thereof;
- (III) the Subscriber is a resident of British Columbia or, is a private corporation incorporated and in good standing in the jurisdiction of British Columbia;
- (IV) the Subscriber's offer to subscribe for the Shares pursuant to this Agreement is unconditional and irrevocable except as provided herein and may not be transferred or assigned without the prior express written consent of the Board, which consent may be withheld in the sole discretion of the Board;
- (V) the Subscriber's decision to subscribe for the Shares has not been induced by any representations or warranties by the Company with respect to the present or future value of the Company's shares or the Company's prospects of becoming a reporting Company or having its shares listed for trading on any stock exchange at any time in the future;
- (VI) the Subscriber is aware and has been advised that the Purchase Funds represent risk capital for the Company;
- (VII) the Subscriber has been given an opportunity to review all material information about the Company and its business affairs relevant to the Subscriber's decision to invest in the Company and the Subscriber has been advised and given the opportunity to seek independent legal advice with respect to the nature and legal effect of the terms of this Agreement;
- (VIII) the Subscriber is aware that; (i) the Shares hereunder may be subject to an indefinite hold period and other restrictions on resale pursuant to the provisions of the Legislation; (ii) the Company has made no representations with respect to such hold periods or resale restrictions; and (iii) the Subscriber has been advised to seek independent legal advice with respect to any such hold periods or resale restrictions;
- (IX) the Company is not a "reporting issuer" as defined in the Legislation and the Shares issuable upon acceptance of this Agreement by the Company will be issued as an exempt distribution, based upon the representations set out in this Agreement;
- (X) the Subscriber is aware of the characteristics of the Shares and is aware of and has considered the risks inherent in its investment in the Company;

- (XI) the Subscriber has not received any advice in respect of this Agreement from any person purporting to be a director, officer, employee or agent of the Company or of any affiliate of the Company;
- (XII) if the Subscriber is an individual, it has the legal capacity to execute this Agreement and to grant the power of attorney contained herein;
- (XII) if the Subscriber is a corporation, it has the legal capacity to execute this Agreement and to grant the power of attorney contained herein and has taken all necessary steps and effected all necessary corporate actions and approvals to execute this Agreement and to grant the power of attorney contained herein;
- (XIV) the Subscriber is purchasing as principal for its own account and will be the sole beneficial owner of the Securities upon acceptance of this subscription offer by the Board of Directors of the Company;
- (XV) the certificates representing the Shares may contain a legend indicating that the Shares are subject to hold periods pursuant to the Legislation and may only be traded after the expiry of such hold periods and only in accordance with the applicable provisions of the Legislation;
- (XVI) the terms and conditions set forth herein constitute an agreement between the Subscriber and the Company;
- (XVII) the Subscriber is aware that the principal objective of the Company is to manage and generate income from mortgage investments and through income tax exemptions which result from the earning of income as a mortgage investment corporation, which income is not taxable to the Company if it is distributed to the holders of all classes of shares of the Company; and
- (XVIII) the Subscriber, upon becoming a shareholder of the Company, will not sell, transfer or otherwise dispose of the Shares acquired by the Subscriber which in any way would result in the Company no longer qualifying as a mortgage investment corporation for the purposes of the Tax Act and affirms his knowledge of the provisions of the Tax Act governing the restrictions imposed upon mortgage investment corporations and their shareholders.

8. **Hold Period, Retraction and Redemption:** The sale of Preferred Shares by the Company is made subject to the following resale conditions which are imposed by the Securities Act and the Rules thereunder. The Shares will be subject, among other things, to an indefinite hold period, subject to limited allowable resale provisions under the Legislation.

The Shares are redeemable by the Subscriber pursuant to the Articles of the Company. The Redemption Price is equal to the Net Asset Value Per Share, being the amount per redeemed share that the holder thereof would be entitled to receive upon a reduction of capital or the liquidation, dissolution or winding-up of the Company or other distribution of property or assets of the Company among its shareholders for the purposes of winding up its affairs. Pursuant to the Articles, the Board, in its sole discretion, may determine to suspend redemptions of the Preferred Shares by written notice to all shareholders. During any period of suspension, the Preferred Shares may be redeemed by the holders every six months, provided that if the aggregate Redemption Price, as defined in the Articles (see below), of all Preferred Shares for which Notice of Redemption has been received by the Company, exceeds 5% of shareholders equity as set out in the Financial Statements of the Company for the most recently completed fiscal year, then the Company shall redeem such Preferred Shares pro-rata to a maximum of 5% of such shareholders equity every six months. The purpose of this amendment to the Articles of the Company is to allow the Board to sustain the financial health of the Company during periods when insufficient cash is available for redemption of all shares and to allow for a more equitable redemption of shares amongst all Preferred Shareholders.

9. **Purchase Through Dealer:** The Company acknowledges that the Subscriber may purchase the Shares from a registered dealer ("Dealer") and the Subscriber may negotiate the sales commission with his Dealer.

10. **Sales Charge Options and Finder's Fees:** If the Subscriber purchases the Shares from a Dealer, the Subscriber will elect to pay sales charges under either one of the following options:

(a) depending upon negotiations with his Dealer, the Subscriber may be charged by the Dealer a sales commission ranging from 0% to 5% of the Purchase Funds. The Subscriber will, at the time of purchase, pay his Dealer the amount of the sales commission agreed upon with his Dealer (the "Sales Charge Option"); or

(b) the Company will pay to the Subscriber's Dealer a sales commission of up to 3% of the Purchase Funds. If the Subscriber redeems his or her Shares within the first year of purchase, the Subscriber will pay to the Company a redemption fee (sometimes called a "deferred sales charge") of 4.5% of the Purchase Funds. This redemption fee declines at the rate of one-half a percentage point for each year after the Closing until the redemption fee is reduced to 2.0% of the Purchase Funds if redemption occurs in the sixth year after the Closing. Thereafter, there is no redemption fee payable. (the "Deferred Sales Charge Option"); and

(c) the Manager (as defined in the Offering Memorandum) may agree to pay a finder's fee of up to 3.0% of the Purchase Funds, in which case the Subscriber may be required to sign two copies of the Form BCI 32-517 / BCI 32-513 - Risk Acknowledgement attached hereto as Appendix II.

11. **Service Fees:** If the Subscriber purchases the Shares from a Dealer, the Company may pay service fees to such Dealer on a quarterly basis of 1.0% per annum of the average value of the Shares acquired by the Subscriber.

12. **Pre-emptive Rights and Power of Attorney:** The Subscriber hereby irrevocably appoints the President of the Company, or failing him the Secretary of the Company, in office from time to time, as the Subscriber's attorney-in-fact and does hereby authorize him as such to

make and sign on the Subscriber's behalf and to deliver any and all waivers of the Subscriber's right to receive a pro rata offer with respect to any allotment of shares in the capital of the Company which such attorney in his discretion sees fit to give under Section 41 of the *Company Act* (British Columbia), as amended from time to time.

13. **General:** The purchase and sale of the Shares as provided for herein is subject to the following additional terms and conditions:

(a) all notices, demands and payments required or permitted to be given hereunder shall be in writing and may be delivered personally, sent by telegram, email, or facsimile or may be forwarded by first class prepaid registered mail to the addresses set forth below. Any notice mailed as aforesaid shall be deemed to have been given and received on the earlier of actual delivery or on the expiration of 48 hours after it is posted and addressed as follows:

- (iv) if to the Company at the address set forth on page 1,
- (ii) if to the Subscriber, at the address set forth hereunder,

or at such other address or addresses as may from time to time be notified in writing by the parties hereto provided that if there shall be between the time of mailing and the actual receipt of the notice due to a mail strike, slowdown or other labour dispute which might affect the delivery of such notice by the mails, then such notice shall only be effective if actually delivered;

(b) this Agreement shall be governed by and construed in accordance with the laws of the Province of British Columbia together with the federal laws of Canada applicable therein without regard to its conflicts of laws principles;

(c) this Agreement shall not be assignable by either party without the prior written consent of the other (which consent may be withheld in such party's sole discretion) and any attempt to assign the rights, duties or obligations hereunder without such consent shall be of no effect;

(d) this Agreement shall enure to the benefit of and be binding upon the parties hereto and their respective heirs, successors and assigns, as applicable;

(e) each of the parties hereto hereby covenants and agrees to execute such further and other documents and instruments and to do such further and other things as may be necessary to implement and carry out the intent of this Agreement;

(f) should any part of this Agreement be declared or held invalid for any reason, such invalidity shall not affect the validity of the remainder which shall continue in force and effect and be construed as if this Agreement had been executed without the invalid portion and it is hereby declared the intention of the parties hereto that this Agreement would have been executed without reference to any portion which may, for any reason, be hereafter declared or held invalid;

(g) all references to any part to this Agreement shall be read with such changes in number and gender as the context hereof or reference to the parties hereto may require;

(h) this Agreement constitutes the entire agreement between the parties and supersedes every previous agreement, communication, expectation, negotiation, representation, warranty or understanding whether oral or written, express or implied, statutory or otherwise, between the parties with respect to the subject matter of this Agreement;

(i) this Agreement may be executed by facsimile or other electronic transmission and in any number of counterparts with the same effect as if all parties to this Agreement had signed the same document and all counterparts will be construed together and constitute one and the same instrument;

(j) a reference to "approval", "authorization" or "consent" means written approval, authorization or consent;

(k) the headings in this Agreement are for convenience only and are not intended as a guide to interpretation of this Agreement or any portion thereof; and

(l) words importing the masculine gender include the feminine or neuter, words in the singular include the plural, words importing a corporate entity include individuals, and vice versa.

14. **Indemnity:** The Subscriber hereby agrees to indemnify and save harmless the Company from any loss, suits or damages suffered by it as a result of any representation, warranty or statement of the Subscriber hereto being untrue in any material respect.

15. **Sales Charge Election:**

(Please circle your election and initial in the space provided)

	<u>Commission</u>	<u>Initial</u>
Sales Charge Option:	_____%	_____
Deferred Sales Charge Option:	N/A	_____
Finder's Fee	_____%	_____

Signature: _____

Holds Original Certificate: Company: ☐ Subscriber: ☐ Trustee: ☐
Dividends Paid: Cash: ☐ Additional Shares: ☐

This Agreement dated this _____ day of _____, 20__.

Signed, Sealed and Delivered by)	
the Subscriber in the presence of:)	
)	_____
)	Name of Subscriber
_____)	
Witness)	_____
)	Signature of Individual Subscriber or, if
)	executed on behalf of a corporation, the
_____)	Authorized Signatory
Name)	
)	
_____)	
Address)	If executed on behalf of a corporation,
)	Name of Authorized Signatory
)	
)	_____
)	Position of Authorized Signatory

If the share certificate(s) for the Shares issued pursuant to this private placement is/are to be registered in a name that is different from the name shown above, please complete the following:

(Name to appear on Share Certificate(s))

(Street Address)

(City, Province and Postal Code)

(Telephone Number)

(Email Address)

(S.I.N. Number) / (Business Number)

(Date of Birth)

The subscription for Shares by the Subscriber is accepted by the Company this ____ day of _____, 20__.

SIERRA MORTGAGE FUND LTD.

Per: _____
Authorized Signatory

Appendix "I" to Schedule "A"
Of the Offering Memorandum of
Sierra Mortgage Fund Ltd.
Dated January 27, 2018
Form 45-106F4

Risk Acknowledgement

- I acknowledge that this is a risky investment.
- I am investing entirely at my own risk.
- No securities regulatory authority or regulator has evaluated or endorsed the merits of these securities or the disclosure in the offering memorandum.
- The person selling me these securities is not registered with a securities regulatory authority or regulator and has no duty to tell me whether this investment is suitable for me.
- I will not be able to sell these securities except in very limited circumstances. I may never be able to sell these securities.
- The securities are redeemable, but I may only be able to redeem them in limited circumstances.
- I could lose all the money I invest.

I am investing \$_____ [total consideration] in total; this includes any amount I am obliged to pay in future. Sierra Mortgage Fund Ltd. will pay \$_____ [amount of fee or commission] of this to _____ as a fee or commission.

I acknowledge that this is a risky investment and that I could lose all the money I invest.

Date

Signature of Purchaser

Print name of Purchaser

Sign 2 copies of this document. Keep one copy for your records.

**W
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You have 2 business days to cancel your purchase

To do so, send a notice to Sierra Mortgage Fund Ltd. stating that you want to cancel your purchase. You must send the notice before midnight on the 2nd business day after you sign the agreement to purchase the securities. You can send the notice by fax or email or deliver it in person to Sierra Mortgage Fund Ltd. at its business address. Keep a copy of the notice for your records.

Sierra Mortgage Fund Ltd.
3300 – 34th Avenue
Vernon, BC V1T 2P7
Fax: (250) 558-1100 E-mail: oac@telus.net

You are buying Exempt Market Securities

They are called *exempt market securities* because two parts of securities law do not apply to them. If an issuer wants to sell *exempt market securities* to you:

- the issuer does not have to give you a prospectus (a document that describes the investment in detail and gives you some legal protections), and
- the securities do not have to be sold by an investment dealer registered with a securities regulatory authority or regulator.

There are restrictions on your ability to resell *exempt market securities*. *Exempt market securities* are more risky than other securities.

You will receive an offering memorandum. Read the offering memorandum carefully because it has important information about the issuer and its securities. Keep the offering memorandum because you have rights based on it. Talk to a lawyer for details about these rights.

You will not receive advice. You will not get professional advice about whether the investment is suitable for you. But you can still seek that advice from a registered adviser or registered dealer. In Alberta, Manitoba, Northwest Territories, Nunavut, Prince Edward Island, Québec, Saskatchewan and Yukon to qualify as an eligible investor, you may be required to obtain that advice.

The securities you are buying are not listed. The securities you are buying are not listed on any stock exchange, and they may never be listed. You may never be able to sell these securities.

The issuer of your securities is a non-reporting issuer. A *non-reporting issuer* does not have to publish financial information or notify the public of changes in its business. You may not receive ongoing information about this issuer.

For more information on the exempt market, call your local securities regulatory authority or regulator:

British Columbia

British Columbia Securities Commission

PO Box 10142 Pacific Centre

701 West Georgia Street

Vancouver, BC V7Y 1L2

Telephone: (604) 899-6500

Toll Free in British Columbia and Alberta: (800) 373-6393

Facsimile: (604) 899-6506

Instruction: The purchaser must sign 2 copies of this form. The purchaser and the issuer must each receive a signed copy.

**Appendix II to Schedule A
Of the Offering Memorandum of
Sierra Mortgage Fund Ltd.
Dated January 27, 2018**

Risk Acknowledgement under BCI 32-517 / BCI 32-513

***Exemption from Dealer Registration Requirement for Trades in Securities of
Mortgage Investment Entities / Registration Exemption for Trades in Connection with Certain
Prospectus - Exempt Distributions***

Name of Issuer: **Sierra Mortgage Fund Ltd.**

Name of Seller: **Sierra Mortgage Fund Ltd.**

I acknowledge that

- the person selling me these securities is not registered with a securities regulatory authority and is prohibited from telling me that this investment is suitable for me;
- the person selling me these securities does not act for me;
- this is a risky investment and I could lose all of my money;
- I am investing entirely at my own risk.

Date

Signature of Purchaser

Print Name of Purchaser

Name of salesperson
acting on behalf of the seller

Sign two copies of this document. Keep one for your records.

National Instrument 45-106 *Prospectus and Registration Exemptions* may require you to sign an additional risk acknowledgement form.

If you want advice about the merits of this investment and whether these securities are a suitable investment for you, contact a registered adviser or dealer.