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KV MORTGAGE FUND INC. Confidential Offering Memorandum

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

Date:	June 30, 2017
The Issuer:	KV Mortgage Fund Inc. (the “Corporation”) Corporate Office E-mail: info@kvcapital.ca Suite 108, 2627 Ellwood Drive SW Phone: 780-433-1222 Edmonton, Alberta T6X 0P7 Fax: 1-866-229-1295
Currently Listed or Quoted:	No. These securities do not trade on any exchange or market.
Reporting Issuer:	No.
SEDAR Filer:	Yes, to the limited extent prescribed by National Instrument 45-106 <i>Prospectus Exemptions</i> .
The Offering:	
Securities Offered:	Class A Preferred Shares and Class B Preferred Shares (collectively the “Preferred Shares”)
Price per Security:	\$10.00 per Class A Preferred Share and \$10.00 per Class B Preferred Share
Minimum Offering:	There is no minimum. You may be the only purchaser. Funds available under the Offering may not be sufficient to accomplish our proposed objectives.
Maximum Offering:	An aggregate of 1,200,000 Preferred Shares, in any combination of Class A and or Class B Preferred Shares (\$12,000,000)
Minimum Subscription:	New Accounts: 15,000 Class A Preferred Shares (\$150,000.00) 1,000 Class B Preferred Shares (\$10,000.00) There is no minimum subscription for investors with an existing account with the Corporation.
Payment Terms:	The subscription price is payable by certified cheque or bank draft on closing to “KV Mortgage Fund Inc. in trust.”
Proposed Closing Dates:	Closings will take place periodically at the Corporation’s discretion.
Income Tax Consequences:	There are important tax consequences relating to the Preferred Shares. We do not provide individual tax advice. Prospective purchasers should seek independent professional advice based upon their own particular circumstances. See Item 6, “ <i>Certain Canadian Income Tax Consequences And Deferred Plan Eligibility</i> ”.
Connected Issuer:	KV Mortgage Fund Inc. is a connected issuer, and a related issuer of KV Capital Inc. KV Capital Inc. is the Corporation’s manager and adviser pursuant to the Management and Advisory Agreement, a dealing agent in respect of this Offering, and is registered as an Exempt Market Dealer, Restricted Portfolio Manager and Investment Fund Manager in certain jurisdictions of Canada, any of which relationships may result in potential conflicts of interest. KV Capital Inc. is related to the Corporation because Shafin Kanji, Aleem Virani and Jonathan Herman control the voting shares and have the power to elect directors of both entities, because Shafin Kanji and Aleem Virani are officers and directors of both entities and because Scott Alanen is an officer of both entities. See Item 2, “ <i>Business Of The Corporation</i> ”, Item 2.7.3 “ <i>Conflicts of Interest Policy</i> ” and Item 8.16, “ <i>Conflicts of Interest</i> ”.
Selling Agent:	Yes. The Corporation will sell Preferred Shares through Exempt Market Dealers, which includes KV Capital Inc., and will pay a 1.00% annual Trailer Fee in respect of all Preferred Shares sold through an Exempt Market Dealer. In the case of Class A Preferred Shares, Trailer Fees are paid to the Exempt Market Dealer that sold such Preferred Shares. In the case of Class B Preferred Shares, Trailer Fees are paid to KV Capital Inc. irrespective of the Exempt Market Dealer through whom it was sold, and KV Capital will pay the applicable Exempt Market Dealer a sales commission and administrative allowance in amounts equal to 4.00% and 1.00%, respectively, of the proceeds derived from the sale of such Preferred Shares from its own resources. See Item 2.7 “ <i>Material Agreements</i> ”, and Item 7, “ <i>Compensation to be Paid to Sellers and Finders</i> ”.
Resale Restrictions:	You will be restricted from selling the Preferred Shares for an indefinite period. See Item 10, “ <i>Resale Restrictions</i> ”.
Purchaser’s Rights:	You have 2 business days to cancel your agreement to purchase these Preferred Shares. If there is a misrepresentation in this Offering Memorandum, you have the right to either sue for damages or to cancel the agreement. See Item 11, “ <i>Purchaser’s Rights</i> ”.

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

DISTRIBUTION OF THE OFFERING

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

The Corporation is offering Preferred Shares to residents of British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, Nova Scotia, New Brunswick and Northwest Territories (the “Offering Jurisdictions”) pursuant to the “offering memorandum” exemption contained in NI 45-106. Investors are subject to annual investment limits and will be required to acknowledge and confirm in the Subscription Agreement that they have not exceeded applicable annual investment limits as prescribed by regulation. Investment limits vary depending on whether or not an investor is an “Eligible Investor”, “Accredited Investor” (as those terms are defined in NI 45-106) or has received suitability advice in respect of the investment from an Exempt Market Dealer. Prospective Investors should refer to the Subscription Agreement for further information about investment limits and related criteria.

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

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

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

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

FORWARD LOOKING STATEMENTS

Certain statements contained in this Offering Memorandum constitute "forward looking statements" and "forward looking information" within the meaning of applicable securities laws. These forward looking statements relate to future events or the Corporation's future performance. Any statements that express, or involve discussions as to expectations, beliefs, plans, objectives, assumptions or future events or performance are not historical facts and may be forward looking statements. Forward looking statements are frequently, but not always, characterized by words such as "plan", "expect", "project", "intend", "believe", "anticipate", "estimate" or other similar words or statements that certain events or conditions "may" or "will" occur. In particular, but without limitation, this Offering Memorandum contains forward looking statements pertaining to the following:

- the Corporation's business development plans and estimated timing thereof, and affairs following the Offering;
- the Corporation's business strategy and plans;
- anticipated payments of dividends and dividend yields;
- the ability to redeem Preferred Shares from time to time;
- the estimated timing of Closings, and the estimated costs in respect of the Closings;
- the Corporation's intentions and expectations regarding growth of its Portfolio of Investments;
- anticipated rates of interest, fees, expenses, and other terms and conditions with respect to both the Corporation's lending activities and any future credit facilities; and
- expectations about the development of and changes to the mortgage lending business in Canada.

By its nature, forward-looking information, including future orientated financial information, involves numerous assumptions, known and unknown risks and uncertainties, both general and specific, which may cause actual results or even events to differ materially from those anticipated in such forward-looking statements. Although the forward looking statements contained in this Offering Memorandum are based upon assumptions which management of the Corporation believes to be reasonable, the Corporation cannot assure investors that actual results will be consistent with them. Because of the risks, uncertainties and assumptions inherent in forward looking statements, prospective investors should not place undue reliance on them. Examples of risk factors which could cause actual results to differ from those anticipated include, but are not limited to, the following:

- increased competition within the Corporation's industry;
- changes to international, national and regional economic and business conditions;
- fluctuations in interest rates and the Corporation's sensitivity to these changes;
- decreased availability of capital, increased costs associated with raising capital, and less favourable terms under which it can be obtained;
- adverse changes in real estate prices or other changes that negatively impact the real estate market;
- changes in government policies or Applicable Laws, including any increased compliance costs;
- the Corporation's ability to implement its business strategy;
- the availability of investment opportunities to the Corporation;
- risks related to conflicts of interest between the Corporation and KV Capital Inc.;
- risks related to Mortgage defaults, foreclosures and related costs;
- risks related to higher than expected redemption requests and general investor market sentiment; and
- other risk factors set out in this Offering Memorandum.

The foregoing statements expressly qualify any forward-looking statements contained herein. Additional information on these and other factors that could affect the Corporation's operations or financial results are included under the heading "Risk Factors" in this Offering Memorandum, see Item 8. Forward-looking information is based on the estimates and opinions of the Corporation at the time the information is presented. The Corporation assumes no obligation to update forward-looking information should circumstances or the Corporation's estimates or opinions change, except as required by law.

PROSPECTIVE INVESTORS SHOULD THOROUGHLY REVIEW THIS OFFERING MEMORANDUM AND ARE ADVISED TO CONSULT WITH THEIR OWN LEGAL, ACCOUNTING, INVESTMENT AND TAX ADVISORS CONCERNING THIS INVESTMENT.

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GLOSSARY OF TERMS

The following is a glossary of certain terms used in this Offering Memorandum. Certain terms and abbreviations used in this Offering Memorandum are defined separately herein. Where the context requires, words importing the singular include the plural and vice versa and words importing any gender include all genders. All dollar amounts herein are in Canadian dollars, unless otherwise stated:

"ABCA" means the *Business Corporations Act* (Alberta) RSA 2000, c. B-9 and any amendments thereto, and it includes any regulations thereunder.

"Affiliate" has the meaning ascribed thereto in the ABCA.

"Applicable Laws" means all applicable provisions of law, domestic or foreign, including, without limitation, the Securities Policies and the Tax Act.

"Articles" means the Corporation's Articles of Incorporation, as amended from time to time;

"Bank Facility" means the bank facility provided by a chartered Canadian lending institution to the Corporation, through which the Corporation can borrow funds to bridge timing differences resulting from loan maturities and new loan origination, otherwise leverage its investing activities, and for general working capital purposes. See Item 2.2.5, "Leverage".

"Borrower" means a person borrowing from the Corporation under a Bridge Financing Loan, Mortgage Loan or otherwise, as the case may be.

"Bridge Financing Loan" means any short term lending transaction whereby the debt obligation of the Borrower is secured by an irrevocable direction to repay, registered against Real Property by way of a caveat, as security for repayment from the proceeds of a sale of such Real Property.

"Class A Preferred Shares" means the Class A Preferred Shares in the capital of the Corporation, the characteristics of which are set out in the Corporation's Articles, as amended from time to time.

"Class B Preferred Shares" means the Class B Preferred Shares in the capital of the Corporation, the characteristics of which are set out in the Corporation's Articles, as amended from time to time

"Closing" means the day or days upon which Preferred Shares are issued to Purchasers pursuant to this Offering, which may occur in any number of tranches and from time to time.

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

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

"Conflicts of Interest Matter" means a situation where a reasonable person would consider KV Capital Inc., or an entity related to KV Capital Inc., to have an interest that may conflict with such entity's or individual's ability to act in good faith and in the best interests of the Corporation.

"Dividend Reinvestment Plan" or "DRIP" means the dividend reinvestment plan of the Corporation whereby participating shareholders holding Preferred Shares direct the Corporation to reinvest any cash dividends paid on their Preferred Shares into additional Preferred Shares of the same class.

"Exempt Market Dealer" has the meaning ascribed thereto in NI 31-103.

"First Mortgage" means a Mortgage having priority over all other financial interests registered as security against the same Real Property as such Mortgage, and where there is more than one lender secured by a First Mortgage, it includes a first priority position in any such Mortgage that is created by an inter-lender

agreement, or similar type of agreement among such lenders.

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

"Holder" has the meaning set forth in Item 6, "Certain Canadian Income Tax Consequences and Deferred Plan Eligibility".

"Independent" means an individual who has no Material Relationship with the Manager, or any Related Entity of the Manager.

"Investment" means a Mortgage Investment or a Permitted Investment.

"Investment Fund Manager" has the meaning ascribed thereto in NI 31-103.

"KV Capital Inc." means KV Capital Inc., the manager and advisor of the Corporation under the Management and Advisory Agreement, and a party related to the Corporation because Shafin Kanji, Aleem Virani and Jonathan Herman control voting shares and have the power to elect directors of both entities, because Aleem Virani and Shafin Kanji are directors of both entities and because Shafin Kanji, Aleem Virani and Scott Alanen are all officers of both entities. See Item 2.1, "*Business Of The Corporation, Structure*", Item 2.7.3 "*Conflicts of Interest Policy*" and Item 8.16, "*Conflicts of Interest*".

"Lending Review Committee" means a committee formed to review Investments consisting of an officer of KV Capital Inc. and up to five (5) additional parties to be determined by the Board of Directors of the Corporation from time to time.

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

- (a) For non-construction Mortgage Loans:

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

Where:

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

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

- (b) For construction Mortgage Loans:

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

Where:

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

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

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

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

"Management and Advisory Agreement" means the Management and Advisory Agreement entered into between the Corporation and KV Capital Inc. on March 1, 2017, pursuant to which KV Capital Inc. provides services to the Corporation as, among other things, a Restricted Portfolio Manager and Investment Fund Manager. See Item 2.7.1, *"The Management And Advisory Agreement"*.

"Manager" means KV Capital Inc., the Corporation's manager and advisor pursuant to the Management and Advisory Agreement.

"Material Relationship" means a relationship, which could reasonably be perceived to interfere with the individual's judgment regarding a Conflicts of Interest Matter. For greater clarity, ownership of Preferred Shares of the Corporation would not be deemed to be a Material Relationship.

"Mortgage" means the interest in Real Property granted as security for the repayment of a debt obligation, and it includes a First Mortgage, Second Mortgage, Commercial Mortgage, Residential Mortgage, Fractional Mortgage, Syndicated Mortgage, irrevocable direction to (re)pay (registered by way of caveat) and any other form of financial security registered against Real Property.

"Mortgage Investment" means any investment as a lender in a debt obligation that is secured by a Mortgage, and it includes investments as a lender pursuant to a Mortgage Loan, Fractional Mortgage or a Bridge Financing Loan.

"Mortgage Investment Corporation" or "MIC" has the meaning ascribed thereto in the Tax Act.

"Mortgage Loan" means any lending transaction whereby the debt obligation of the Borrower is secured by a Mortgage, but it excludes a Bridge Financing Loan.

"Net Asset Value" has the meaning ascribed to it in the Corporation's Articles. See Item 5.1, *"Terms Of Class A and Class B Preferred Shares"*.

"NI 31-103" means National Instrument 31-103, *Registration Requirements, Exemptions and Ongoing Registrant Obligations*.

"NI 45-106" means National Instrument 45-106, *Prospectus Exemptions*.

"Offering" means the offering of Preferred Shares of the Corporation pursuant to this Offering Memorandum.

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

"Offering Memorandum" means this confidential offering memorandum, including any amendment hereto.

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

"Permitted Investment" means an investment, other than a Mortgage Investment, which is permitted to be

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

"Portfolio" means the portfolio of Mortgages and Permitted Investments of the Corporation.

"Preferred Shares" means any of the Class A Preferred Shares and or the Class B Preferred Shares;

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

"Real Property" means land and any building(s) situated thereon, and anything affixed to the land.

"Redemption Notice" means written instruction from a holder of Preferred Shares and delivered to the Corporation requesting a redemption of issued and outstanding Preferred Shares of the Corporation, all in the form and manner prescribed by the Corporation's Articles of Incorporation, as may be amended from time to time.

"Related Entity" means a person or company that can direct or materially affect the direction of the management and policies of the Manager or an "associate", "affiliate" and/or "subsidiary" (as such terms are defined in the Securities Act (Alberta) as amended and/or supplemented from time to time) or a partner, director or officer of the Manager or any of the foregoing entities.

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

"Restricted Portfolio Manager" has the meaning ascribed thereto in NI 31-103.

"Second Credit Facility" means a second credit facility provided by 579548 Alberta Inc., a third party arm's length lender. The Second Credit Facility is subordinated to the Bank Facility and is for the Corporation to borrow funds in excess of the Bank Facility to bridge timing differences resulting from loan maturities and new loan origination, otherwise leverage its investing activities, and for general working capital purposes. See Item 2.2.5, "*Leverage*".

"Second Mortgage" means a Mortgage having priority over all other financial interests other than any First Mortgage registered as security against the same Real Property as such Mortgage, and where there is more than one lender secured by a First Mortgage, it includes a second priority position in any such Mortgage that is created by an inter-lender agreement, or similar type of agreement among such lenders.

"Securities Policies" means the *Securities Acts* and all applicable securities policies, rules, instruments and legislation of the provinces to which such Securities Acts relate, as such may be amended from time to time.

"Solvency Test" has the meaning set out in Item 2.3, "*Development of the Business*".

"Subscription Agreement" means the subscription agreement (and its exhibits and appendices), which shall be provided by the Corporation, that forms the contract between the Corporation and prospective investors indicating their desire to purchase Preferred Shares detailed in this Offering Memorandum and acknowledging certain rights, limitations and characteristics of their investment in such Preferred Shares, particularly with respect to Securities Policies.

"Syndicated Mortgage" means an undivided interest in a Mortgage that is held in trust by KV Capital Inc., on behalf of a syndicate of lenders, where each lender's proportionate interest therein is based on the portion of the related loan funded by that lender and secured by such Mortgage.

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

and it includes any regulations thereunder.

"Trailer Fees" means the fees paid by the Corporation from time to time following the Closing in respect of Preferred Shares sold under this Offering, as more particularly described in Item 7, *"Compensation to be paid to Sellers and Finders"*.

MARKETING MATERIAL INCORPORATED BY REFERENCE

Information has been incorporated by reference in this Offering Memorandum which means that they legally form part of this document just as if they were printed as part of this document. Investors may obtain a copy of the documents, upon request and at no cost, by calling the Fund's Corporate Secretary toll free at (888) 933-1222.

The following documents, filed with the securities commissions or similar authorities in Canada, are specifically incorporated by reference in and form an integral part of this Offering Memorandum:

- a) the Company's two page overview dated June 1, 2017;
- b) the contents of the www.kvcapital.ca website as at June 1, 2017;

Any statement contained in a document incorporated or deemed to be incorporated by reference in this Offering Memorandum is deemed to be modified or superseded, for the purposes of this Offering Memorandum, to the extent that a statement contained in this Offering Memorandum or in another document which also is or is deemed to be incorporated by reference in this Offering Memorandum, modifies or supersedes such statement. The modifying or superseding statement need not state that it has modified or superseded a statement so incorporated or include any other information set forth in the document containing the statement that it modifies or supersedes. The making of a modifying or superseding statement shall not be deemed an admission for any purposes that the modified or superseded statement, when made, constituted a misrepresentation, an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances in which it was made. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Offering Memorandum.

1. USE OF AVAILABLE FUNDS

1.1 Funds

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

		Assuming Minimum Offering	Assuming Maximum Offering
A	Amount to be raised by this Offering ⁽¹⁾	\$0	\$12,000,000
B	Selling Commissions and Fees ⁽²⁾	\$0	\$120,000
C	Estimated Offering costs (e.g. legal, accounting, audit, etc.)	\$15,000	\$15,000
D	Available funds: $D = A - (B + C)$	(\$15,000)	\$11,865,000
E	Additional sources of funding required	\$0	\$0
F	Working capital deficiency ⁽³⁾	\$0	\$0
G	Total: $G = (D+E) - F$	(\$15,000)	\$11,865,000

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

⁽²⁾ The Corporation will pay a 1.00% annual Trailer Fee in respect of all Preferred Shares sold through an Exempt Market Dealer, including KV Capital Inc. In the case of Class A Preferred Shares, Trailer Fees are paid to the Exempt Market Dealer that sold such Preferred Shares. In the case of Class B Preferred Shares, Trailer Fees are paid to KV Capital Inc. irrespective of the Exempt Market Dealer through whom it was sold, and KV Capital will pay the applicable Exempt Market Dealer a sales commission and administrative allowance in amounts equal to 4.00% and 1.00%, respectively, of the proceeds derived from the sale of such Preferred Shares from its own resources. See Item 2.7 "Material Agreements", and Item 7, "Compensation to be Paid to Sellers and Finders".

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

1.2 Use Of Available Funds

The available funds will be used as follows:

Description of intended use of available funds listed in order of priority	Assuming Minimum Offering	Assuming Maximum Offering
Invest in Mortgage Investments by lending under Mortgage Loans and Bridge Financing Loans, and invest in other Permitted Investments, all as sourced, administered and underwritten by KV Capital Inc. ⁽¹⁾	N/A	\$11,865,000 ⁽⁴⁾
Repayment of Bank Facility and or Second Credit Facility ⁽²⁾	N/A	\$nil
Redemption of Preferred Shares ⁽³⁾	N/A	\$nil
Total: Equal to G in the Funds table above	(\$15,000)	\$11,865,000

⁽¹⁾ See Item 2, "Business of the Corporation" and Item 2.7.1, "The Management And Advisory Agreement".

⁽²⁾ As at June 30, 2017 the Corporation's Bank Facility had a \$4,979,100 balance and the Second Credit Facility had a \$1,000,000 balance. In its normal course of operations, the Corporation expects to draw upon the Bank Facility and the Second Credit Facility and accordingly may use proceeds from this Offering to repay any balance that exists or may exist on the Bank Facility and/or Second Credit Facility as and when Closings are completed. The Manager expects that the Corporation will utilize leverage to bridge timing differences resulting from loan maturities and new loan origination and for general working capital purposes when required. See Item 2.2.5 "Leverage", and Item 8.11, "Borrowing and Leverage".

⁽³⁾ The Corporation may redeem outstanding Class A and Class B Preferred Shares from time to time as and when Redemption Notices are delivered to it. The Corporation does not expect to use proceeds from this Offering to complete requested redemptions but it has the discretion to do so. See Item 5.1, "Terms of Class A and Class B Preferred Shares".

⁽⁴⁾ Amount is net of selling commissions, fees and estimated offering costs. See Item 1.1 "*Funds*".

1.3 Reallocation

The Corporation intends to spend the available funds as stated. The Corporation will reallocate funds only for sound business reasons, which business reasons will relate only to the Corporation's activities as a MIC.

2. BUSINESS OF THE CORPORATION

2.1 Structure

2.1.1 KV Mortgage Fund Inc.

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

Effective January 14, 2013, the Corporation amended its Articles to revise the characteristics of its preferred shares and denominating them as Class A Preferred Shares. The adoption of the amendments were undertaken on the approval of the Board of Directors and were approved by shareholders at a special shareholder meeting held in Edmonton, Alberta on January 14, 2013 in accordance with the requirements of the ABCA.

2.1.2 KV Capital Inc.

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

KV Capital Inc. is the Corporation's manager and adviser pursuant to the Management and Advisory Agreement, and is acting as a dealer in respect of this Offering pursuant to the Dealer Agreement. KV Capital Inc. is registered with the Alberta Securities Commission as an Exempt Market Dealer, Investment Fund Manager and Restricted Portfolio Manager (restricted to advising in Mortgages), with the Ontario Securities Commission as an Exempt Market Dealer and Investment Fund Manager and with the British Columbia Securities Commission as an Exempt Market Dealer. See Item 2.7.1, "*The Management And Advisory Agreement*".

KV Mortgage Fund Inc. is a connected issuer, and a related issuer, of KV Capital Inc. KV Capital Inc. is related to the Corporation because Shafin Kanji, Aleem Virani and Jonathan Herman control voting shares and have the power to elect directors of both entities, Shafin Kanji and Aleem Virani are officers and Directors of both entities and because Scott Alanen is an officer of both entities. KV Capital Inc., in its capacity as an Exempt Market Dealer, has had no involvement in the decision to distribute the Preferred Shares under this Offering, is not underwriting the Offering, and has not been retained as the sole Exempt Market Dealer used by the Corporation for this Offering.

2.2 Our Business

The Corporation is a "Mortgage Investment Corporation" ("MIC") as that term is defined in the Tax Act (See Item 6, "*Certain Canadian Income Tax Consequences And Deferred Plan Eligibility*" for the requirements of a MIC under the Tax Act). As a MIC, the Corporation is in the business of investing in Mortgage Investments by lending pursuant to Bridge Financing Loans and Mortgage Loans to builders, developers and owners of Real Property located in Canada. The Corporation will also invest from time to time in other Permitted Investments. In considering any given Investment, the Corporation considers the overall objectives of its Portfolio given its composition of Investments and the status of those Investments from time to time, as well as its operating policies and investment guidelines. See Item 2.2.1 "*Nature of Lending*".

Activities", Item 2.2.2, "*Portfolio Development and Objectives*" and Item 2.2.3, "*Operating Policies and Investment Guidelines*".

The principal objective of the Corporation in carrying out its business is to provide holders of Preferred Shares with dividend income while preserving capital. The Corporation will seek to achieve this principal objective by investing in Mortgage Investments and other Permitted Investments to generate interest income, and in-turn distributing that income, less all operational costs and expenses (including, among other things, management fees and Trailer Fees paid to KV Capital Inc. under the Management and Advisory Agreement and the Dealer Agreement. See Item 2.7.1, "*The Management And Advisory Agreement*" and Item 2.7.2, "*Dealer Agreement*"), to shareholders of the Corporation as dividends. As a MIC, the Corporation is permitted to deduct from its income all dividends paid by the Corporation to its shareholders. The Corporation intends to pay out all of its taxable income and net realized capital gains as dividends within the time period specified in the Tax Act and as a result does not anticipate paying any Part 1 income tax. See Item 2.4, "*Long Term Objectives*" and Item 2.5, "*Short Term Objectives And How We Intend To Achieve Them*".

In carrying out its business, the Corporation relies on KV Capital Inc. as its manager and adviser, including Investment Fund Manager and Restricted Portfolio Manager, all as more particularly described in the Management and Advisory Agreement. In carrying out its responsibilities, KV Capital Inc. reviews, recommends and advises the Corporation on available Investments, and otherwise sources, administers and underwrites the Bridge Financing Loans, Mortgage Loans and other lending activities through which the Corporation carries out its lending activities and acquires its Investments. In addition, KV Capital Inc. may hold Investments of the Corporation in its name for and on behalf of the Corporation. In respect of Investments in which the Corporation holds a percentage undivided interest along with other investors (i.e., Syndicated Mortgages) KV Capital Inc. may hold the Corporation's interest in trust for and on behalf of the Corporation and these other investors. The other investors may include affiliates of the Corporation or KV Capital Inc., directors or officers of either of them, or any other related person. See Item 8.16, "*Conflicts of Interest*".

KV Capital Inc. is also responsible for: (a) directing and administering the business, operations and affairs of the Corporation generally and on a day to day basis; (b) recommending any changes to corporate structures or reorganizations of the Corporation; (c) managing the Corporation's Portfolio (other than credit adjudication); (d) paying all costs, expenses and overhead relating to the provision of such services, and providing the Corporation with an office within KV Capital Inc.'s office premises free of rent, utilities and basic telephone charges (all other costs with respect to the Corporation shall be for the Corporation's own account including, without limitation, legal, audit and general and administrative costs); and (e) generally acting as an Investment Fund Manager and Restricted Portfolio Manager. See Item 2.7.1, "*The Management And Advisory Agreement*".

In addition to the responsibilities of KV Capital Inc. under the Management and Advisory Agreement, but subject to the legal obligations of the directors of the Corporation, KV Capital Inc. also has broad authorities, including, among other things, the authority to take all actions in relation to the Corporation's Portfolio as it, in its discretion, considers necessary or desirable, including with respect to servicing, renewals, and enforcement action(s).

Given its authority and the broad scope of functions carried out by KV Capital Inc. under the Management and Advisory Agreement, the Corporation does not now have and does not expect to have any employees other than the officers listed under Item 3, "*Interests Of Directors, Management, Promoters And Principal Holders*".

In respect of the Mortgages that are included in the Corporation's Investment Portfolio, KV Capital Inc. makes all financing commitments to the borrowers.

2.2.1 Nature Of Lending Activities

The Corporation primarily invests in Mortgage Investments. In other words, it will lend funds pursuant to

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

The Corporation primarily seeks to lend funds on customized terms to borrowers located in Alberta. Typical borrowers of the Corporation may include those wishing to execute on real estate investment or development opportunities and require funding on relatively short notice, or with terms that are consistent with their investment model cash flows and project budgets. For example, Borrowers in the construction industry may not satisfy the pre-sale requirements of Canadian financial institutions to obtain financing from the institution during the initial phases of development. In these cases, a short term loan or bridge financing from the Corporation with a six month to two year term can bridge their capital requirements until construction financing or other loans can be obtained from the financial institution. Other typical Borrowers of the Corporation may require similar short-term loans or bridge financing for land acquisition, land servicing, construction, property repairs, property redevelopment, restructuring, equity take out/inventory financing or for the purchase of another investment. Again, these short-term loans are typically repaid with financing obtained from other sources, or they may be repaid with proceeds the Borrower obtains from the sale of the related property or other assets.

The Corporation believes that this portion of the Canadian borrower market, particularly in western Canada, is typically under-served by Canadian financial institutions. These institutions are often reluctant to dedicate resources towards smaller, shorter-term loans, or they cannot provide the customization or meet the funding time frames required of the borrower. Consequently, to obtain these sorts of loans borrowers are willing to pay higher interest rates and lender fees than are typically charged by Canadian financial institutions.

KV Capital Inc., as the Corporation's manager under the Management and Advisory Agreement, determines the interest rates and lender fees charged on Mortgage Loans and Bridge Financing Loans advanced by the Corporation. Interest rates typically range from 8% to 13% and lender fees typically range from 1% to 3% of the amount of the loan. In both cases however the rate and fees are largely determined based on both the complexity of the transaction and competition within the market for private financing. Under the terms of the Management and Advisory Agreement, all lender fees paid by Borrowers are for the exclusive benefit of KV Capital Inc. See Item 2.7.1, "*The Management And Advisory Agreement*".

2.2.2 Portfolio Development And Objectives

The composition of the Corporation's Portfolio varies over time depending on the Corporation's assessment of the appropriate strategy given overall market conditions and outlook at any given time. However, the Corporation endeavors to continue to build and maintain a Portfolio of Investments that encompasses the following general characteristics:

- a) Short and intermediate term Mortgage Investments and other Permitted Investments;
- b) Mortgage Investments that are either a First Mortgage or Second Mortgage;
- c) Mortgage Investments that are either a Commercial Mortgage or Residential Mortgage;
- d) Mortgages Investments may be either or both a Fractional Mortgage(s) and Syndicated Mortgage(s);
- e) Second Mortgages that do not exceed 30% of the book value of the Portfolio as of the date any investment in a Second Mortgage is made;
- f) Payment schedules consisting primarily of interest only; and

- g) Investments in Canadian dollars secured on Real Property located in Canada, which may be located in either established or developing areas of Canada.

2.2.3 Operating Policies And Investment Guidelines

In its efforts to develop its Portfolio consistent with its objectives, the Corporation has adopted the following operating policies and investment guidelines, all of which are subject to change from time to time if and to the extent required in order to comply with any changes to the Tax Act or other legislation applicable to the Corporation:

- a) The Corporation may invest only in Mortgage Investments with a Loan-to-Value ratio of 80.00% or less, calculated at the date the investment is made;
- b) Each Investment made by the Corporation will have been reviewed by and received a positive recommendation from KV Capital Inc.;
- c) The Corporation's Lending Review Committee will provide ongoing monitoring of the Portfolio and will pre-approve Investments recommended to the Corporation by KV Capital Inc. in accordance with thresholds and guidelines the Lending Review Committee establishes, as amended from time to time, in its sole discretion. See Item 2.7.3 "*Conflicts of Interest Policy*";
- d) Mortgages may contain clauses permitting the mortgagor, when not in default, to renew the Mortgage for additional terms if agreed to by KV Capital Inc. in its sole discretion;
- e) At the discretion of the Corporation's directors, the Corporation may purchase existing Mortgages;
- f) All lender fees that may be paid in connection with an Investment are for the benefit of KV Capital Inc. See Item 2.2.1, "*Nature Of Lending Activities*";
- g) The Corporation may borrow funds for its Investments in amounts up to 20.00% of the book value of the Portfolio provided the interest rate is less than the interest rate charged by the Corporation on the corresponding Investment(s) made with such borrowed funds;
- h) All Mortgages will be registered on title to the subject Real Property in the name of the Corporation or by a nominee for and on behalf of the Corporation or one or more of its Affiliates;
- i) The Corporation will maintain at least 50.00% of its assets invested in Residential Mortgages and in cash deposits;
- j) All Mortgage Investments made by way of Bridge Financing Loans will be secured by a caveat registered against title to Real Property and/or an irrevocable assignment of proceeds from the sale of Real Property;
- k) The Corporation will not make any investment that would at the time result in it failing to qualify as a MIC;
- l) The Corporation will not invest for the purposes of exercising control over management of any company or other entity;
- m) The Corporation will not make short sales of securities or maintain a short position in any securities;

- n) The Corporation will not guarantee the securities or obligations of any person;
- o) To the extent that funds are not invested in Mortgages from time to time, they will be held in cash deposited with a Canadian chartered bank or will be invested by KV Capital Inc. on behalf of the Corporation in short term deposits, savings accounts or government guaranteed income certificates or treasury bills so as to maintain a level of working capital for the ongoing operations of the Corporation;
- p) Any property obtained in settlement of amounts outstanding will be disposed of for a value that is not less than that property's fair market value. No transfer of such property to KV Capital Inc., Affiliates of the Corporation, or other non-arm's length parties will be made for less than the total amount outstanding on the associated loan at the time of transfer; and
- q) The Corporation will not loan money to, borrow money from or invest in securities of KV Capital Inc., Affiliates of the Corporation or any other non-arm's length party, which, for greater certainty, excludes Syndicated Mortgages in which any such other person may also be an investor, and it excludes debt obligations that may be owing to KV Capital Inc. from time to time under the Management and Advisory Agreement.

KV Capital Inc. will provide the Corporation with assistance from time to time on any revisions to the foregoing policies in order to comply with Applicable Laws. In the event of any change to Applicable Law, KV Capital Inc. would be expected to inform the Corporation of such change or proposed change as soon as reasonably possible and provide assistance to the Corporation such that it complies with and observes such change. See Item 2.2.3, "Operating Policies and Investment Guidelines" and Item 2.7.1, "The Management And Advisory Agreement".

2.2.4 Portfolio Summary

As at June 1, 2017 the non-cash portion of the Corporation's Portfolio consists of the following Mortgages:

Property Type	Project Phase	Location	Status ⁽¹⁾	Interest Rate	Principal	Loan to Value ⁽²⁾	Months to Maturity	Position
Commercial	Construction	AB	Current	9.50%	\$8,590,055	52%	7	First
Industrial	Completed	AB	Current	8.50%	\$7,637,299	65%	11	First
Other	Land	BC	Current	10.00%	\$4,851,223	26%	2	First
Residential	Construction	AB	Current	8.50%	\$4,524,975	59%	8	First
Commercial	Completed	AB	Current	8.00%	\$3,250,000	48%	2	First
Residential	Construction	AB	Current	9.00%	\$3,130,034	65%	4	First
Residential	Land	AB	Current	9.50%	\$2,819,154	63%	4	First
Commercial	Completed	AB	Current	9.25%	\$2,786,480	42%	7	First
Residential	Construction	AB	Current	9.50%	\$2,268,683	57%	6	First
Residential	Construction	AB	Current	9.50%	\$2,250,000	53%	9	First
Residential	Land	AB	Current	10.00%	\$2,110,000	58%	5	First
Residential	Construction	AB	Current	9.50%	\$2,061,191	64%	3	First
Residential	Land	SK	Current	9.50%	\$2,000,000	49%	6	First
Commercial	Construction	AB	Current	9.00%	\$1,850,000	80%	9	First
Commercial	Land	AB	Current	9.50%	\$1,800,000	50%	2	First
Commercial	Construction	AB	Current	10.50%	\$1,651,782	45%	8	First
Residential	Construction	AB	Current	9.50%	\$1,647,604	54%	9	First
Commercial	Completed	AB	Current	9.50%	\$1,620,000	71%	3	First
Residential	Construction	AB	Current	9.75%	\$1,497,953	57%	9	First
Residential	Construction	AB	Current	9.00%	\$1,348,268	69%	1	First
Residential	Construction	AB	Current	9.75%	\$1,329,453	70%	1	First
Residential	Construction	AB	Current	9.50%	\$1,255,000	58%	12	First
Residential	Land	AB	Current	10.25%	\$1,199,209	29%	2	First
Residential ⁽⁴⁾	Completed ⁽⁴⁾	AB ⁽⁴⁾	Current ⁽⁴⁾	9.25% ⁽⁴⁾	\$1,100,000 ⁽⁴⁾	63% ⁽⁴⁾	1 ⁽⁴⁾	First ⁽⁴⁾
Residential	Construction	AB	Current	9.75%	\$1,028,603	70%	1	First

Property Type	Project Phase	Location	Status ⁽¹⁾	Interest Rate	Principal	Loan to Value ⁽²⁾	Months to Maturity	Position
Commercial	Completed	AB	Current	21.13%	\$1,000,000	57%	2	Second
Commercial	Construction	AB	Current	10.00%	\$995,927	42%	7	First
Residential ⁽³⁾	Completed ⁽³⁾	AB ⁽³⁾	Foreclosure ⁽³⁾	10.75% ⁽³⁾	\$976,260 ⁽³⁾	81% ⁽³⁾	0 ⁽³⁾	First ⁽³⁾
Residential	Land	AB	Arrears	11.00%	\$800,000	59%	0	First
Residential	Construction	AB	Current	10.50%	\$777,000	58%	0	First
Commercial	Land	AB	Current	10.00%	\$750,000	30%	6	First
Commercial	Completed	AB	Current	9.75%	\$750,000	48%	11	First
Residential	Completed	AB	Current	9.00%	\$700,000	61%	12	First
Commercial	Completed	AB	Current	9.50%	\$600,000	62%	11	First
Residential ⁽³⁾	Land ⁽³⁾	AB ⁽³⁾	Foreclosure ⁽³⁾	10.75% ⁽³⁾	\$500,000 ⁽³⁾	107% ⁽³⁾	0 ⁽³⁾	First ⁽³⁾
Commercial	Completed	AB	Current	10.50%	\$474,707	28%	3	First
Residential	Land	AB	Current	9.50%	\$450,000	40%	8	First
Residential	Construction	AB	Current	10.00%	\$393,000	70%	6	First
Residential	Completed	BC	Current	12.00%	\$350,000	47%	6	Second
Residential ⁽³⁾	Construction ⁽³⁾	AB ⁽³⁾	Current ⁽³⁾	9.50% ⁽³⁾	\$318,351 ⁽³⁾	58% ⁽³⁾	8 ⁽³⁾	First ⁽³⁾
Residential	Construction	AB	Current	10.50%	\$307,183	61%	0	First
Residential	Construction	AB	Current	9.50%	\$300,000	50%	7	First
Residential	Construction	AB	Current	9.50%	\$294,634	59%	5	First
Residential	Construction	AB	Current	10.00%	\$249,045	57%	11	First
Residential	Completed	AB	Foreclosure	9.50%	\$235,000	89%	0	First
Residential	Construction	AB	Current	8.75%	\$230,000	65%	12	First
Residential	Construction	AB	Current	9.50%	\$227,572	49%	8	First
Residential	Construction	AB	Current	10.00%	\$225,000	60%	0	First
Residential	Construction	AB	Current	10.00%	\$222,810	51%	11	First
Residential ⁽³⁾	Construction ⁽³⁾	AB ⁽³⁾	Current ⁽³⁾	10.00% ⁽³⁾	\$212,619 ⁽³⁾	59% ⁽³⁾	3 ⁽³⁾	First ⁽³⁾
Residential	Land	AB	Current	9.75%	\$212,500	57%	6	First
Commercial ⁽³⁾	Construction ⁽³⁾	AB ⁽³⁾	Current ⁽³⁾	9.00% ⁽³⁾	\$167,500 ⁽³⁾	48% ⁽³⁾	15 ⁽³⁾	Second ⁽³⁾
Commercial	Completed	AB	Current	8.00%	\$163,073	87%	7	First
Residential	Construction	AB	Current	9.50%	\$156,000	49%	11	First
Other ⁽³⁾	Land ⁽³⁾	AB ⁽³⁾	Arrears ⁽³⁾	13.50% ⁽³⁾	\$70,177 ⁽³⁾	81% ⁽³⁾	0 ⁽³⁾	Second ⁽³⁾

Total:	\$78,715,324
Less: Portfolio allowance for loan losses	(225,000)
Net value of Portfolio	\$78,490,324

⁽¹⁾ The Corporation categorizes its Investments for purposes of reporting "Status" using the following definitions:

"**Current**" means interest due under the terms of a Mortgage is not more than 30 days past due.

"**Arrears**" means interest due under the terms of a Mortgage is 30 days or more past due.

"**Foreclosure**" means a demand for repayment of all principal and interest amounts outstanding under the Mortgage has been issued. Typically each demand is made after a borrower has been in arrears for more than 60 days. See Item 8.23 "Risks Related To Mortgage Defaults".

⁽²⁾ Loan-to-Value is calculated in a specified manner. See Glossary of Terms to this Offering Memorandum. Also See Items 8.6, "Investments Of The Corporation Are Secured Against Real Property Whose Value Can Fluctuate", 8.23, "Risks Related To Mortgage Defaults", 8.24, "Foreclosure And Related Costs" and Glossary of Terms, "Loan to Value".

⁽³⁾ A Syndicated Mortgage. Other investors include KV Capital Inc. See Item 8.16, "Conflicts Of Interest".

⁽⁴⁾ A Syndicated Mortgage. Other investors include one of the Officers of KV Capital Inc. and the spouse of an Officer of KV Capital Inc. See Item 8.16, "Conflicts Of Interest".

Grouping Category	Percent of Total Non-Cash Portfolio
Residential Mortgage	58%
Commercial Mortgages	30%
Mortgages other than Residential or Commercial Mortgages	12%
First Mortgage	98%
Second Mortgage	2%
Land Project Phase	22%
Development Project Phase	3%
Construction Project Phase	47%
Completed Project Phase	28%
Other Permitted Investments	0%

2.2.5 Leverage

The Corporation may utilize leverage (the borrowing of capital for investing in Mortgages) from time to time at the discretion of the Manager through the Bank Facility and/or the Second Credit Facility. The Manager expects that the Corporation will utilize leverage to bridge timing differences resulting from loan maturities and new loan origination, and for general working capital purposes as and when required. See Item 8.11, "*Borrowing and Leverage*".

As of the date of this Offering Memorandum, the Corporation has the Bank Facility with a chartered Canadian lending institution (the "Bank") and the Second Credit Facility with 579548 Alberta Inc., an arm's length party which is not related to the Corporation.

The terms of the Bank Facility provide the Corporation with a maximum credit facility of \$5,000,000 at the Bank's prime lending rate plus 1.50% (150 basis points). Further, a stand by fee of 0.125% per annum on any unused portion of the Bank Facility up to a maximum of \$2,500,000, calculated on a daily basis and payable monthly applies. The Corporation has granted a General Security Agreement to the Bank, secured against the Corporation's assets in the following manner: the General Security Agreement is a first priority security interest in the cash and securities held by the Corporation, and in all current and future Mortgage Investments contained in the Corporation's Portfolio.

The terms of the Second Credit Facility provide the Corporation with a maximum credit facility of \$5,000,000 subordinated to the Bank Facility at the TD Canada Trust prime lending rate plus 5.50% (550 basis points). The Corporation has granted a second position General Security Agreement to 579548 Alberta Inc., secured against the Corporation's assets in the following manner: the General Security Agreement is a second priority security interest (subordinate to the Bank Facility first priority security interest) in the cash and securities held by the Corporation, and in all current and future Mortgage Investments contained in the Corporation's Portfolio.

This means that the rights of Investors to dividends and to the return of capital via redemption of Preferred Shares, or upon liquidation, wind-up or dissolution, will be subject to the rights of the Bank and 579548 Alberta Inc. (along with the rights of any other creditor of the Corporation) to be repaid amounts owing to them, and to the Solvency Test generally.

2.3 Development Of The Business

The Corporation has been conducting business since January 2009 and since that time to June 1, 2017 has grown its Portfolio of Investments to approximately \$78.7 million worth of Mortgages. As of June 1, 2017, the Corporation had approximately \$73.96 million in Preferred Shares outstanding. To date the Corporation has raised approximately \$84.94 million through the issuance of 5,856,541 Class A Preferred Shares and 2,637,508 Class B Preferred Shares. The Corporation has declared \$14.03 million Class A Preferred Share dividends and \$6.15 million Class B Preferred Share dividends while paying cash dividends of \$8.00 million to Class A Preferred Shareholders and \$3.54 million to Class B Preferred Shareholders. At the request of prior purchasers of Preferred Shareholders, the Corporation returned approximately \$19.62 million to such Preferred Shares by processing redemptions of 1,429,899 Class A Preferred Shares, and 532,322 Class B Preferred Shares. The Corporation has maintained its contractual relationship with KV Capital Inc. since incorporation through the Management and Advisory Agreement, as amended, replaced or renewed from time to time, and has paid all of its ongoing operating costs from its earnings, such that capital invested in the Corporation has been used solely for Investment purposes. As of the date of this Offering the Corporation operates as a going concern, and has achieved the following significant milestones:

- Appointed a board of directors that is comprised of a majority of individuals who are Independent of the Manager;
- Appointed a lending review committee that is comprised of a majority of individuals who are Independent of the Manager;
- Invested over \$289,233,000 of principal into Mortgage Investments; and
- Received principal repayments in excess of \$210,517,000.

The below table documents the Preferred Shares return during the last three (3) years, up to and including June 30, 2017:

Date	Redemption Price	Return Per Dollar Invested ⁽¹⁾	Dividends Declared
June 2014	\$10.00 per Class A and Class B preferred share	0.68%	\$312,975
July 2014	\$10.00 per Class A and Class B preferred share	0.70%	\$333,500
August 2014	\$10.00 per Class A and Class B preferred share	0.70%	\$353,348
September 2014	\$10.00 per Class A and Class B preferred share	0.73%	\$380,967
October 2014	\$10.00 per Class A and Class B preferred share	0.70%	\$382,294
November 2014	\$10.00 per Class A and Class B preferred share	0.68%	\$379,983
December 2014	\$10.00 per Class A and Class B preferred share	0.72%	\$411,034
January 2015	\$10.00 per Class A and Class B preferred share	0.70%	\$403,256
February 2015	\$10.00 per Class A and Class B preferred share	0.69%	\$407,157
March 2015	\$10.00 per Class A and Class B preferred share	0.67%	\$404,458
April 2015	\$10.00 per Class A and Class B preferred share	0.70%	\$423,714
May 2015	\$10.00 per Class A and Class B preferred share	0.73%	\$454,665

June 2015	\$10.00 per Class A and Class B preferred share	0.71%	\$449,948
July 2015	\$10.00 per Class A and Class B preferred share	0.72%	\$468,472
August 2015	\$10.00 per Class A and Class B preferred share	0.71%	\$468,499
September 2015	\$10.00 per Class A and Class B preferred share	0.67%	\$458,387
October 2015	\$10.00 per Class A and Class B preferred share	0.64%	\$454,177
November 2015	\$10.00 per Class A and Class B preferred share	0.72%	\$496,795
December 2015	\$10.00 per Class A and Class B preferred share	0.69%	\$494,773
January 2016	\$10.00 per Class A and Class B preferred share	0.69%	\$492,299
February 2016	\$10.00 per Class A and Class B preferred share	0.55%	\$383,075
March 2016	\$10.00 per Class A and Class B preferred share	0.66%	\$457,750
April 2016	\$10.00 per Class A and Class B preferred share	0.63%	\$443,057
May 2016	\$10.00 per Class A and Class B preferred share	0.66%	\$458,680
June 2016	\$10.00 per Class A and Class B preferred share	0.63%	\$442,756
July 2016	\$10.00 per Class A and Class B preferred share	0.66%	\$457,544
August 2016	\$10.00 per Class A and Class B preferred share	0.66%	\$546,992
September 2016	\$10.00 per Class A and Class B preferred share	0.63%	\$458,037
October 2016	\$10.00 per Class A and Class B preferred share	0.66%	\$474,559
November 2016	\$10.00 per Class A and Class B preferred share	0.56%	\$414,039
December 2016	\$10.00 per Class A and Class B preferred share	0.66%	\$481,347
January 2017	\$10.00 per Class A and Class B preferred share	0.66%	\$481,701
February 2017	\$10.00 per Class A and Class B preferred share	0.68%	\$503,341
March 2017	\$10.00 per Class A and Class B preferred share	0.56%	\$414,981
April 2017	\$10.00 per Class A and Class B preferred share	0.56%	\$416,037
May 2017	\$10.00 per Class A and Class B preferred share	0.63%	\$464,701
June 2017	\$10.00 per Class A and Class B preferred share	0.58%	\$413,311

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

These historical dividends do not guarantee that the Corporation will maintain the same level of dividends

in the future as payment of dividends is subject to a solvency test as set forth in subsection 43 of the ABCA (the "Solvency Test").

The Solvency Test exists in the ABCA in part to act as a safeguard against the erosion of shareholder capital. The directors must have reasonable grounds for believing that the Corporation can meet both arms of the Solvency Test at the time the dividend is declared and paid. In assessing whether there are reasonable grounds for believing the Corporation will meet the Solvency Test, the directors of the Corporation will consider whether it can meet its liabilities as they come due, and they will consider whether the realizable value of the corporation's assets would, by declaring or paying a dividend, be less than the aggregate of its liabilities and stated capital of all classes. In doing so, the directors must first consider if the Corporation is a going concern. If so, they can then establish what they reasonably believe to be a fair value of the Corporation's assets. Provided the Solvency Test can be met, the Corporation is permitted to distribute dividends. If the Corporation cannot meet the Solvency Test then no dividend distribution can be made. See Item 8.22, "*Fluctuations In Distributions*". **Dividends fluctuate and are not guaranteed.**

2.4 Long Term Objectives

The long term objective (beyond the next 12 months) of the Corporation is to continue to grow its Portfolio of Investments to generate interest income from its lending activities and pay out such interest income to Shareholders by way of dividends while preserving capital. Specifically, the Corporation intends to:

- grow its investable assets to at least \$85 million by completing this Offering, subsequent offerings of Class A and Class B Preferred Shares and the Concurrent Offering; and
- deploy its investable assets into Mortgages in accordance with the Corporation's operating policies and investment guidelines. See Item 2.2 "*Our Business*".

2.5 Short Term Objectives And How We Intend To Achieve Them

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

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

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

What the Corporation must do and how it will be accomplished	Target completion date or, if not known, the number of months to complete	The cost to the Corporation of completion
Continue raising funds under this Offering and the Concurrent Offering with the assistance of KV Capital Inc. by sourcing subscriptions from potential Purchasers through the contacts of the Corporation, KV Capital Inc. and other EMDs and third party referral sources	12 Months	\$15,000 ⁽¹⁾
With the assistance of KV Capital Inc., source and invest in Investments.	Ongoing	\$ ⁽²⁾
With the assistance of KV Capital Inc., manage and administer the Corporation's Portfolio.	Ongoing	\$ ⁽³⁾
Generate interest income from Investments such that it can be paid to shareholders through the declaration and payment of dividends	Ongoing	\$
Process redemptions of Preferred Shares as and when received.	Ongoing	\$

⁽¹⁾ Estimated costs for legal, audit and other professional services associated with completion of this Offering. See Item 1, "Use Of Available Funds". The Corporation will sell Preferred Shares through Exempt Market Dealers, which includes KV Capital Inc., and will pay a 1.00% annual Trailer Fee in respect of all Preferred Shares sold through an Exempt Market Dealer. In the case of Class A Preferred Shares, Trailer Fees are paid to the Exempt Market Dealer that sold such Preferred Shares. In the case of Class B Preferred Shares, Trailer Fees are paid to KV Capital Inc. irrespective of the Exempt Market Dealer through whom it was sold, and KV Capital will pay the applicable Exempt Market Dealer a sales commission and administrative allowance in amounts equal to 4.00% and 1.00%, respectively, of the proceeds derived from the sale of such Preferred Shares from its own resources. See Item 2.7 "Material Agreements", and Item 7, "Compensation to be Paid to Sellers and Finders".

⁽²⁾ Costs of originating and underwriting the Investments by the Corporation are born by KV Capital Inc. KV Capital Inc. receives compensation from the Corporation for its services under the Management and Advisory Agreement. All commissions, finder's fees and lender's fees associated with originating and underwriting Investments are paid by the respective Borrowers for the exclusive benefit of KV Capital Inc. without resulting in direct costs to the Corporation. See Item 2.2.1, "Nature of Lending Activities" and Item 2.7.1 "The Management And Advisory Agreement".

⁽³⁾ The Corporation pays KV Capital Inc. compensation for the services it receives under the Management and Advisory agreement (the "Management Fee"). The Management Fee is calculated as follows: (i) On a monthly basis, 0.083% of the total assets of the Corporation (the "Base Fee"); and (ii) On an annual basis, 20% of any portion of the Corporation's net income that exceeds the level of net income required to provide the Corporation with an Internal Rate of Return ("IRR") equal to the average of the 2 year Government of Canada benchmark bond yield (series V122538), plus 450 basis points (the "Performance Fee"). For purposes of calculating the Base Fee, a simple average of the Corporation's opening and closing total assets is calculated using the un-audited monthly statements of financial position. Base Fees include applicable taxes, and are disbursed to KV Capital Inc. on a monthly basis. The Performance Fee is calculated using the Corporation's annual audited statement of comprehensive income, including the Base Fee as an expense in such calculation. Performance Fees include applicable taxes, and are disbursed to KV Capital Inc. on an annual basis. See Item 2.7.1, "The Management And Advisory Agreement".

In the event all of the real estate security of an investment has been monetized and the nominal aggregate cash flows of such investment to the Corporation are negative, the Manager will pay to the Corporation a Reimbursement that is calculated as the lesser of: i) the amount required to bring the Corporations' nominal aggregate cash flows of such Investment to zero; and ii) two times that portion of the associated fees paid to the Manager by the applicable borrower in respect of such Investment by the Corporation. Any amounts recovered from an Investment on which the Corporation has received payment of a Reimbursement will first be paid to the Corporation until such time as its nominal aggregate cash flows, calculated inclusive of the Reimbursement, are zero, then paid to the Manager in an amount equal to the Reimbursement, with any residual amounts paid to the Corporation. See Item 2.7.1, "The

Management And Advisory Agreement”.

2.6 *Insufficient Funds*

The funds available as a result of this Offering either may not or will not be sufficient to accomplish all of the Corporation's proposed objectives over the next twelve (12) months. There are no assurances that alternative financing will be available. See 2.5 “*Short Term Objectives And How We Intend To Achieve Them*”.

2.7 *Material Agreements*

The following summarizes all material agreements to which the Corporation is a party as at the date of this Offering Memorandum, including any material agreements between the Corporation and any of its Affiliates or related parties:

2.7.1 *The Management And Advisory Agreement*

On March 1, 2017, the Corporation entered into the Management and Advisory Agreement with KV Capital Inc. The Management and Advisory Agreement is a related party transaction because Shafin Kanji, Aleem Virani and Jonathan Herman control voting shares in both the Corporation and the Manager and have the power to elect directors of both companies, because Aleem Virani and Shafin Kanji are Officers and Directors of both the Manager and the Corporation and because Scott Alanen is an Officer of both the Manager and the Corporation. See Items 2, “*Business Of The Corporation*”, and 8.16, “*Conflicts Of Interest*”. Pursuant to the Management and Advisory Agreement, KV Capital Inc. is responsible for: (a) directing the business, operations and affairs of the Corporation; (b) recommending the organization or reorganization, as the case may be, of the Corporation; (c) performing a review of each prospective Investment and advising upon and making recommendations to the Corporation in respect of same; (d) managing the Portfolio (other than credit adjudication) and taking such actions in relation thereto as it, in its sole discretion, considers necessary or desirable; (e) providing day to day operations and administrative services for the operations of the Corporation and paying all costs, expenses and overhead relating to the provision of such services; (f) providing the Corporation with an office within KV Capital Inc.'s office premises free of rent, utilities and basic telephone charges; all other costs and expenses with respect to the Corporation shall be for the Corporation's own account including, without limitation, legal, audit, shareholder and Director meetings and shareholder communication costs and expenses; and (g) generally acting as an Investment Fund Manager and Restricted Portfolio Manager. The Corporation and its Manager have developed a Conflicts of Interest Policy (see Item 2.7.3 “*Conflicts Of Interest Policy*”), a copy of which is available upon request by contacting the Manager at info@kvcapital.ca.

Without limiting the generality of the foregoing, KV Capital Inc. will, in connection with Investments acquired by the Corporation: (i) investigate, select and conduct relations with consultants, borrowers, lenders, mortgagors and other mortgage and investment participants, accountants, mortgage loan originators, mortgage managers, technical advisers, lawyers, underwriters, mortgage brokers and dealers, corporate fiduciaries, escrow agents, depositories, custodians, agents for collection, insurers, insurance agents, banks, builders and developers and other such parties; to employ, retain and supervise such persons and the services performed or to be performed by such persons and to substitute any such party or itself for any other such party or for itself; (ii) provide those services as may be required relating to the collection, handling, prosecuting and settling of any claims in respect of the Corporation's Investments, including foreclosing and otherwise enforcing mortgages and other liens and security interest securing our Investments; (iii) act on the Corporation's behalf as nominee or agent in connection with acquisitions or dispositions of Investments, the execution of deeds, mortgages or other instruments in writing for or on the Corporation's behalf and the handling, prosecuting and settling of any claims relating to the Corporation's Investments; and (iv) generally perform such other acts as a commercial mortgage loan administrator would perform in the management of similar Investments including servicing and administering the Investments of the Corporation, holding the Corporation's interest in Investments as nominee and bare trustee for and on the Corporation's behalf, completing progress or other advances under Investments subject to receipt of funds, monitoring Investments, tracking the status of outstanding payments, grace periods (if any) and due dates, calculating and assessing other applicable charges relating to Investments, making reasonable

efforts to collect all payments on account of principal and interest (or other distributions payable on Investments) and to the extent reasonably possible, causing the borrower to perform its obligations under the related loan, maintaining records and accounts in respect of each Investment, remitting to the Corporation all amounts received on account of the Corporation's interest in Investments, and on a monthly basis and from time to time forwarding to the Corporation reports in respect of all of the Corporation's Investments as can be reasonably expected. The Manager has adopted a Conflicts of Interest Policy in connection with its relationship as a related and connected issuer of the Corporation. See Item 2.7.3 *"Conflicts Of Interest Policy"*.

In connection with reviewing each prospective Investment and advising upon and making recommendations to the Corporation in respect of same (as indicated in (c) above), KV Capital Inc. may charge a fee to borrowers in respect of such review, which fee will be the exclusive responsibility of the applicable Borrower without any resulting direct cost to the Corporation. All such fees paid by Borrowers are for the exclusive benefit of KV Capital Inc. In addition to reviewing Investments, KV Capital Inc. may source Investments directly for the Corporation and any commissions, advisor fees, finder's fees or other such fees in relation thereto will also be the exclusive responsibility of the applicable Borrower without any resulting direct cost to the Corporation, and all such fees will be for the exclusive benefit of KV Capital Inc. See Item, 2.2.1 *"Nature Of Lending Activities"*.

The Corporation pays KV Capital Inc. compensation for the services it receives under the Management and Advisory agreement (the "Management Fee"). The Management Fee is calculated as follows:

- (i) On a monthly basis, 0.083% of the total assets of the Corporation (the "Base Fee"); and
- (ii) On an annual basis, 20% of any portion of the Corporation's net income that exceeds the level of net income required to provide the Corporation with an Internal Rate of Return ("IRR") equal to the average of the 2 year Government of Canada benchmark bond yield (series V122538), plus 450 basis points (the "Performance Fee").

For purposes of calculating the Base Fee, a simple average of the Corporation's opening and closing total assets is calculated using the un-audited monthly statements of financial position. Base Fees include applicable taxes, and are disbursed to KV Capital Inc. on a monthly basis.

The Performance Fee is calculated using the Corporation's annual audited statement of comprehensive income, including the Base Fee as an expense in such calculation. Performance Fees include applicable taxes, and are disbursed to KV Capital Inc. on an annual basis.

In the event all of the real estate security of an investment has been monetized and the nominal aggregate cash flows of such investment to the Corporation are negative, the Manager will pay to the Corporation a Reimbursement that is calculated as the lesser of:

- i) the amount required to bring the Corporations' nominal aggregate cash flows of such Investment to zero; and
- ii) two times that portion of the associated fees paid to the Manager by the applicable borrower in respect of such Investment by the Corporation.

Any amounts recovered from an Investment on which the Corporation has received payment of a Reimbursement will first be paid to the Corporation until such time as its nominal aggregate cash flows, calculated inclusive of the Reimbursement, are zero, then paid to the Manager in an amount equal to the Reimbursement, with any residual amounts paid to the Corporation.

KV Capital Inc. has the right to collect, from time to time, all administrative fees, Not Sufficient Funds (NSF) fees and similar fees to applicable Borrowers with respect to the Investments as set out in applicable commitment letters. Historically NSF fees have been charged at the rate of \$250.00 per payment returned NSF. KV Capital Inc. shall endeavor to collect the amount of all costs incurred or advance made from the applicable Borrowers but, in all events, the Corporation (and any other co-lenders as applicable) shall

indemnify KV Capital Inc. for and shall pay to KV Capital Inc. such costs within 30 business days of demand by KV Capital Inc. plus interest at the interest rate payable by the applicable Borrower respecting such Investment. Where amounts are owing by the Corporation to KV Capital Inc., KV Capital Inc. would be considered a creditor of the Corporation. **This means that the rights of Investors to interest income paid via dividends and to the return of capital via redemption of Shares or through liquidation, wind-up and/or dissolution will be subordinate to the right of KV Capital Inc. to be repaid any amounts which may be outstanding.** See Item 8.32, *"Manager Lien Over The Corporation's Assets"*.

KV Capital Inc., or its principals or affiliates, may purchase with their own funds and own as co-lenders, interests in the Investments. See Items 2.2.3, *"Operating Policies and Investment Guidelines"*, 2.7.3, *"Conflicts Of Interest Policy"* and 8.16, *"Conflicts Of Interest"*.

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

Under the terms of the Management and Advisory Agreement, the Corporation shall indemnify and hold harmless KV Capital Inc., its directors, officers, employees and agents, from and against any and all Claims (as defined below) resulting from any of the following:

- a) a misrepresentation or breach of any direct or indirect representation or warranty made by the Corporation to its shareholders;
- b) any failure by the Corporation to comply with applicable legislation in connection with the sale of securities in the capital of the Corporation, except to the extent they relate to the obligations of the Manager as Exempt Market Dealer acting on behalf of the Corporation;
- c) any failure or default of a borrower of the Corporation or any failure or defect in the mortgage security or any other security securing any loan, the result of which is that the shareholders suffers any loss; and
- d) any breach of the Management and Advisory Agreement by the Corporation.

The foregoing indemnity does not apply where KV Capital Inc. has been grossly negligent or willfully blind in carrying out its obligations under the Management and Advisory Agreement.

KV Capital Inc. shall indemnify and hold harmless the Corporation, its directors, officers, employees and agents from and against any and all Claims resulting from KV Capital Inc. breaching any of the terms of the Management and Advisory Agreement or in the event KV Capital Inc. breaches the terms of its registration as an Investment Fund Manager, Restricted Portfolio Manager or Exempt Market Dealer (as those terms are defined in NI 31-103).

For the purposes of this section, the term "Claim" means losses or damages (other than losses of profit), claims, actions, suits, proceedings, liabilities, costs and expenses, including all amounts paid in settlement

of any actions, suits, proceedings or to satisfy judgments or awards, and all reasonable fees, disbursements and taxes of counsel in connection with (i) any action, suit, proceeding, investigation or claim that may be made or threatened against any indemnitee; or (ii) the indemnitee enforcing its rights of indemnification or contribution under the Management and Advisory Agreement.

2.7.2 Dealer Agreement

Pursuant to a Dealer Agreement between KV Capital Inc. and the Corporation dated effective March 1, 2017, the Corporation has appointed KV Capital Inc., on a non-exclusive basis to act as a dealer on its behalf in connection with the Offering. KV Capital has agreed to use its reasonable efforts to find Purchasers of the Preferred Shares of the Corporation subject to the terms and conditions of this Offering Memorandum.

In consideration of the services performed by KV Capital Inc. as an Exempt Market Dealer, the Corporation has agreed to pay to KV Capital Inc., Trailer Fees, sales commissions and administrative allowances for the sale of Preferred Shares, all as more particularly set out and referred to in Item 7, "*Compensation To Be Paid To Sellers And Finders*".

The following amounts are payable by the Corporation to KV Capital Inc., from the proceeds of redemption transactions, upon the processing of any redemptions of Class B Preferred Shares: See Item 7.1 "*Trailer Fees*" and Item 7.2 "*Sales Commissions And Trailer Fees Paid By KV Capital Inc. On Class B Preferred Shares*".

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

Under the terms of the Dealer Agreement, the Corporation has agreed to indemnify KV Capital Inc. and each of its directors, officers and employees and save them harmless against all losses, claims, damages or liabilities (the "Losses") arising out of or based upon: i) a misrepresentation or untrue statement contained in the Offering Memorandum or Subscription Agreement or by reason of the omission to state any fact necessary to make any such statements not misleading; ii) any cease trade order made by any regulatory authority based on an allegation of any such untrue statement or misrepresentation; or iii) resulting from any failure by the Corporation to file the Offering Memorandum as required by NI 45-106 or prepare an amendment or supplement to it as required by NI 45-106.

Pursuant to the Dealer Agreement, KV Capital Inc. will in turn indemnify the Corporation and each of its respective directors, officers, agents, consultants and employees and save them harmless against all Losses arising out of or based upon: i) any unauthorized verbal or written communication in connection with the Offering made by KV Capital Inc.; ii) a material breach by KV Capital Inc. of any term, condition, representation, warranty or covenant set forth in the Dealer Agreement; or iii) the failure of any purchaser of Securities connected with KV Capital Inc. to meet the eligibility or accreditation requirements.

2.7.3 Conflicts Of Interest Policy

KV Capital Inc. has developed a proprietary product conflicts of interest policy dated March 1, 2017, as it may be supplemented, amended and/or amended and restated from time to time (the "Conflicts of Interest Policy") since the Corporation is a related and connected issuer of KV Capital Inc. The Conflicts of Interest Policy, as it relates to the Corporation may be amended from time to time with the concurrence of KV Capital Inc. and the approval required from the Corporation's board of directors with respect to Conflicts of Interest Matters.

The Corporation and KV Capital Inc. have implemented the Conflicts of Interest Policy to manage Conflicts of Interest Matters involving an investment product that KV Capital Inc. manufactures, promotes, manages and distributes, such as this Offering (each being a "KV Capital Proprietary Product"). The Conflicts of Interest Policy seeks to identify existing material Conflicts of Interest Matters and those that KV Capital reasonably expects to arise in connection with a KV Capital Proprietary Product, and respond appropriately through avoidance, control and/or disclosure in accordance with Applicable Laws.

The Conflicts of Interest Policy addresses various Conflicts of Interest Matters by building in procedures to provide for, among other things, advance disclosure of conflicts, imposing subscriber investment limits for KV Capital Proprietary Products purchased through KV Capital Inc., encouraging the engagement of third party dealers as selling agents of the Offering, providing fair and balanced product training and compensation to dealer representatives, disclosure protocols involving issuers KV Capital pays or who receive a referral fee and an expense allocation policy to provide for the fair allocation of fees and expenses between KV Capital Inc. as Manager and the Corporation.

The Conflicts of Interest Policy requires the Corporation to maintain a minimum of one (1) Independent director at all times and for all Conflict of Interest Matters to be approved by a majority of the Independent directors. To approve any Conflicts of Interest Matters involving the Corporation and the Manager, a majority of the Independent directors of the Corporation and the requisite number of non-Independent directors must vote favorably. In the event the Corporation is temporarily without the required one (1) Independent director, no Conflicts of Interest Matter can be approved until an Independent director has been appointed and the foregoing requirements have been met. The Board is permitted to pass standing orders with respect to Conflicts of Interest Matters, and has done so with respect to the Corporation's Lending Review Committee (the "LRC") and its review criteria. The Manager cannot approve a Permitted Investment unless it meets the terms of the standing order previously approved by the LRC or receives approval of the Permitted Investment by the LRC. The Corporation and its Manager cannot amend the existing Lending Review Committee standing order and additional review criteria without complying with the above requirements for Conflicts of Interest Matters.

In accordance with the Conflicts of Interest Policy on an annual basis the Corporation will provide to the Preferred Shareholders along with the respective audited annual financial statements, a report of the independent directors regarding any Conflict of Interest Matters during the fiscal year to which the financial statements relate.

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

3.1 Compensation And Securities Held

The following table sets forth information about each Director, Officer and Promoter of the Corporation and each person who directly or indirectly, beneficially owns or controls 10% or more of any class of voting securities of the Corporation as of the date of this offering memorandum (a “Principal Holder”):

Name and municipality of principal residence	Positions held (e.g., director, officer, promoter and/or Principal Holder) and the date of obtaining such position	Compensation paid by issuer or related party in the most recently completed financial year (or since inception if applicable) and the compensation anticipated to be paid in the current financial year	Number, type and percentage of securities of the Corporation held after completion of the minimum offering	Number, type and percentage of securities of the Corporation held after completion of the maximum offering
Shafin Kanji Edmonton, Alberta	Chief Executive Officer, Director, Lending Review Committee Member, Promoter and Principal Holder since January 8, 2009	Fiscal 2017: \$234,408 ⁽¹⁾⁽⁴⁾ Expected fiscal 2018: \$287,884 ⁽¹⁾⁽⁴⁾	100 Class A Common Shares (25%) 41,209.41 Class A Preferred Shares (0.552%)	100 Class A Common Shares (25%) 41,209.41 Class A Preferred Shares (0.476%)
Aleem Virani Edmonton, Alberta	President, Director, Promoter and Principal Holder since January 8, 2009	Fiscal 2017: \$234,408 ⁽¹⁾⁽⁴⁾ Expected fiscal 2018: \$287,884 ⁽¹⁾⁽⁴⁾	100 Class A Common Shares (25%) 20,594.93 Class A Preferred Shares (0.276%)	100 Class A Common Shares (25%) 20,594.93 Class A Preferred Shares (0.238%)
Jonathan Herman Edmonton, Alberta	Promoter and Principal Holder since September 13, 2011	Fiscal 2017: \$195,405 ⁽¹⁾⁽⁴⁾ Expected fiscal 2018: \$207,974 ⁽¹⁾⁽⁴⁾	100 Class A Common Shares (25%) 5,027.92 Class B Preferred Shares (0.067%)	100 Class A Common Shares (25%) 5,027.92 Class B Preferred Shares (0.058%)
Scott Alanen Edmonton, Alberta	Secretary / Treasurer and Chief Financial Officer since July 16, 2016	Fiscal 2017: \$8,333 ⁽¹⁾⁽⁴⁾ Expected fiscal 2018: \$10,288 ⁽¹⁾⁽⁴⁾	n/a	n/a
Farhan Virani Edmonton, Alberta	Principal Holder since September 13, 2011	Fiscal 2017: \$234,408 ⁽¹⁾⁽⁴⁾ Expected fiscal 2018: \$278,884 ⁽¹⁾⁽⁴⁾	100 Class A Common Shares (25%) 20,594.93 Class A Preferred Shares (0.276%)	100 Class A Common Shares (25%) 20, 594.93 Class A Preferred Shares (0.238%)
Marc Prefontaine ⁽⁵⁾ Edmonton, Alberta	Director and Lending Review Committee member since June 1, 2012	Fiscal 2017: \$13,300 Expected fiscal 2018: \$15,378	4,716.75 Class A Preferred Shares (0.063%)	4,716.75 Class A Preferred Shares (0.054%)
Paul Allard ⁽⁵⁾ Edmonton, Alberta	Director and Lending Review Committee member since September 1, 2013	Fiscal 2017: \$14,500 Expected fiscal 2018: \$16,500	46,790.66 Class A Preferred Shares (0.627%)	46,790.66 Class A Preferred Shares (0.540%)

Ralph Young ⁽⁵⁾ Edmonton, Alberta	Director since October 30, 2014 and Lending Review Committee member since December 11, 2014	Fiscal 2017: \$10,500 Expected fiscal 2018: \$7,000	1,928.66 Class A Preferred Shares (0.026%)	1,928.66 Class A Preferred Shares (0.022%)
Guy Scott ⁽⁵⁾ Edmonton, Alberta	Director and Lending Review Committee member since January 18, 2016	Fiscal 2017: \$10,500 Expected fiscal 2018: \$9,250	1,961.95 Class A Preferred Shares (0.026%)	1,961.95 Class A Preferred Shares (0.023%)
KV Capital Inc. ⁽²⁾ Edmonton, Alberta	Promoter since January 8, 2009	Fiscal 2017: \$2,441,683 ⁽³⁾⁽⁴⁾ Expected fiscal 2018: \$3,500,000 ⁽³⁾⁽⁴⁾	3,169.20 Class B Preferred Shares (0.042%)	3,169.20 Class B Preferred Shares (0.037%)

⁽¹⁾ Compensation disclosed includes an allocation of gross revenue earned by KV Capital Inc. on transactions involving the Corporation on the basis of assets under management by KV Capital Inc. (see ⁽³⁾ below), and each individual's beneficial interest in KV Capital Inc.

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

⁽³⁾ Compensation is paid pursuant to the Management and Advisory Agreement and Dealer Agreement and it includes an allocation of revenues earned by KV Capital Inc. that were paid by Borrowers to KV Capital Inc. in respect of lending fees. See Item 2.7.1 "The Management And Advisory Agreement" and 2.7.2 "Dealer Agreement".

⁽⁴⁾ The compensation paid in Fiscal 2017 was provided under a previous version of the Management Agreement. The expected compensation for fiscal 2018 is determined based on the terms of the Management and Advisory Agreement dated March 1, 2017.

⁽⁵⁾ The Director is Independent of KV Capital Inc.

3.2 Management Experience

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

Name	Principal occupations and related experience
Shafin Kanji	Mr. Kanji, a Chartered Accountant and Chartered Business Valuator, is a founding principal of KV Capital Inc., a private mortgage brokerage, Exempt Market Dealer, Restricted Portfolio Manager, Investment Fund Manager and real estate investment company. Previously, Mr. Kanji served as the CEO of a TSX Venture company and the COO and CFO at Matrikon Inc. Mr. Kanji has extensive experience while working with KPMG LLP in the areas of fraud investigation and business valuations as well as in real estate development and construction through his current involvement as a founding principal of Edmonton based Kanvi Homes Inc. Mr. Kanji has served as a Director and Officer of KV Capital Inc. since inception in August of 2006. Mr. Kanji has served as a Director and Chief Executive Officer of the Corporation since inception in January of 2009.
Aleem Virani	Mr. Virani, a Chartered Accountant and Chartered Business Valuator, is a founding principal of KV Capital Inc., a private mortgage brokerage, Exempt Market Dealer, Restricted Portfolio Manager, Investment Fund Manager and real estate investment company. Previously, Mr. Virani held the Controller position for Trans Global Group of Companies (subsidiary of the Brick Group Income Fund) and prior to that was with Kingston Ross Pask LLP specializing in the areas of business valuations and litigation support, and a public accountant at Deloitte LLP. Mr. Virani also has experience in real estate development and construction through his current involvement as a founding principal of Edmonton based Kanvi Homes Inc. Mr. Virani has served as a Director and the President of KV Capital Inc. since inception in August of 2006. Mr. Virani has served as a Director and the President of the Corporation since inception in January of 2009.

Jonathan Herman	Mr. Herman, a Chartered Accountant, is a principal and Officer of KV Capital Inc., a private mortgage brokerage, Exempt Market Dealer, Restricted Portfolio Manager, Investment Fund Manager and real estate investment company. Previously, Mr. Herman was a public accountant with Deloitte LLP, and prior to that served as a Tax Officer with Alberta Finance Tax & Revenue Administration. Mr. Herman served as the Chief Financial Officer of KV Capital Inc. and KV Mortgage Fund Inc. from August 2012 to June 2016, and was Controller of KV Capital Inc. from July of 2011 until July of 2012. From June 2012 to June 2016 Mr. Herman served as the Fund's Secretary and Treasurer. Mr. Herman is now the Chief Operating Officer of KV Private Equity Inc.
Scott Alanen	Scott Alanen, a Chartered Accountant and Chartered Business Valuator has held the office of Chief Financial Officer of KV Mortgage Fund Inc. and KV Capital Inc. since July 2016. Mr. Alanen joined the KV corporate group in June 2016 after successfully operating his own business as a contracted financial executive to various Alberta based companies engaged in the upstream oil and gas and energy service industries. Mr. Alanen has previously held positions as VP Finance and CFO for Point Loma Energy Ltd., Controller for a group of private upstream oil and gas companies, Manager of Financial Reporting for both Ember Resources Inc. & Canexus Corporation and as a public accountant at MNP LLP and Kingston Ross Pasnak LLP.
Marc Prefontaine	Mr. Prefontaine is a Senior Director with MCAP in the Edmonton Real Estate Finance Group, and a founding member of the Edmonton office of MCAP. Mr. Prefontaine has over 15 years of full cycle experience in the Canadian mortgage banking industry that includes originating, underwriting, adjudication, servicing, asset management and default management of mortgages. Mr. Prefontaine has served as a Director of the Corporation since June 1, 2012.
Paul Allard	Mr. Allard holds a Masters degree in Business Administration and is the Vice President of Allard Developments, where he has been actively involved for the last 16 years in executing residential and commercial real estate development projects. During this time, he has also held positions with the Canadian Western Bank Group and sat as a Director of Vero Energy Inc. In addition to his current position as a Director and Chair of the Corporation's Board of Directors, Mr. Allard is also an active Director of the Highbury Foundation (charitable organization). Mr. Allard has served as a Director of the Corporation since September 1, 2013.
Ralph Young	Mr. Young holds a Masters degree in Business Administration and was the 20 th Chancellor of the University of Alberta. He chaired the University of Alberta Senate and served as a member of the Board of Governors during his tenure as Chancellor. Previously Mr. Young held the Chief Executive Officer position with Melcor Developments Ltd., where he retired in July 2013 after a 42 year career in the real estate development industry. Mr. Young has also previously served on the boards of the Winspear Concert Hall Society, the Citadel Theatre, MacEwan University, Alberta College, the Edmonton Eskimos Football Club, the Rotary Club and the City of Edmonton Centennial Committee. He additionally has held positions as a Director or trustee with the Caritas Health Group, Alberta Heritage Foundation for Medical Research and Alberta Innovates – Health Solutions, and he is a past President of the University of Alberta Alumni Council and the School of Business Advisory Council. In addition to his current position as a Director of the Corporation he also currently serves on the Boards of Melcor Development Ltd., Melcor REIT, the Edmonton Regional Airport Authority, ZCL Composites Inc., the Citadel Theatre, the TELUS Edmonton Community Board, and is a member of the Rotary Club of Edmonton and the Association of Professional Engineers of Alberta. Mr. Young has served as a Director of the Corporation since October 30, 2014.
Guy Scott	Mr. Scott holds a Masters of Science in Urban Planning and is a founding partner of WAM Development Group. Mr. Scott is Past Chair of the University of Alberta Hospital Foundation and continues there as an Emeritus member; he is also co-chair of the Brain Center Campaign for the same Foundation. Mr. Scott is a member of the Canadian Institute of Planners and various other industry organizations and his business career has centered on real-estate development and mortgage investments in Western Canada and the United States. In addition to his current position as a Director of the Corporation, Mr. Scott is President of Ventura Interests Inc. a family holding company involved in real estate and mortgage investments. Through The Shelley and Guy Scott Family Foundation Mr. Scott is also actively involved in philanthropic interests. Mr. Scott has served as a Director of the Corporation since January 18, 2016.

3.3 Penalties, Sanctions And Bankruptcy

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

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

3.4 Loans

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

4. CAPITAL STRUCTURE

4.1 Share Capital

Description of Security	Number authorized to be issued	Price per security	Number outstanding as at June 30, 2017	Number outstanding after minimum Offering ⁽²⁾	Number outstanding after maximum Offering ⁽²⁾⁽³⁾
Class A Common Shares ⁽¹⁾	Unlimited	\$2.50 per Class A Common Share	400	400	400
Class A Preferred Shares	Unlimited	\$10.00	5,027,534.02	5,027,534.02	5,867,534.02
Class B Preferred Shares	Unlimited	\$10.00	2,351,079.10	2,351,079.10	2,711,079.10

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

⁽²⁾ Amounts assume no redemptions and no issuances pursuant to the DRIP or the Concurrent Offering between the date of this Offering Memorandum and the completion of the Offering hereunder.

⁽³⁾ Maximum Offering assumes Preferred Shares sold pursuant to the Offering are 70% Class A and 30% Class B, which is proportionate to the current number of shares outstanding for each such class.

4.2 Long Term Debt

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

Description of long term debt (including whether secured)	Interest Rate	Repayment terms	Amount outstanding at June 30, 2017
Nil	N/A	N/A	N/A

4.3 Prior Sales

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

Date of issuance	Type of security issued⁽¹⁾	Number of securities issued (redeemed)	Price per security	Total funds received
July 04, 2016	Class A Preferred Shares	(6,000)	\$10.00	(\$60,000)
July 04, 2016	DRIP Class A Preferred Shares	(3,031.8)	\$10.00	(\$30,318)
July 04, 2016	Class B Preferred Shares	(2,200)	\$10.00	(\$22,000)
July 04, 2016	DRIP Class B Preferred Shares	(6,089.7)	\$10.00	(\$60,897)
August 02, 2016	Class A Preferred Shares	(32,500)	\$10.00	(\$325,000)
August 02, 2016	Class B Preferred Shares	(1,200)	\$10.00	(\$12,000)
September 09, 2016	Class B Preferred Shares	(6,300)	\$10.00	(\$63,000)
September 09, 2016	DRIP Class B Preferred Shares	(8,374.8)	\$10.00	(\$83,748)
October 31, 2016	Class A Preferred Shares	85,500	\$10.00	\$855,000
October 31, 2016	Class B Preferred Shares	9,000	\$10.00	\$90,000
October 31, 2016	Class A Preferred Shares	(1,500)	\$10.00	(\$15,000)
October 31, 2016	Class B Preferred Shares	(10,250)	\$10.00	(\$102,500)
November 16, 2016	Class A Preferred Shares	189,500	\$10.00	\$1,895,000
November 16, 2016	Class B Preferred Shares	23,000	\$10.00	\$230,000
November 22, 2016	Class A Preferred Shares	50,000	\$10.00	\$500,000
November 29, 2016	Class A Preferred Shares	24,600	\$10.00	\$246,000
November 29, 2016	Class B Preferred Shares	20,490	\$10.00	\$204,900
December 1, 2016	Class A Preferred Shares	(72,500)	\$10.00	(\$725,000)
December 1, 2016	Class B Preferred Shares	(243,699.6)	\$10.00	(\$2,436,996)
December 1, 2016	DRIP Class B Preferred Shares	(18,882.9)	\$10.00	(\$188,829)
December 2, 2016	Class B Preferred Shares	10,000	\$10.00	\$100,000
December 14, 2016	Class A Preferred Shares	22,597	\$10.00	\$225,970
December 14, 2016	Class B Preferred Shares	9,500	\$10.00	\$95,000
December 20, 2016	Class B Preferred Shares	31,000	\$10.00	\$310,000
December 23, 2016	Class A Preferred Shares	25,000	\$10.00	\$250,000
December 23, 2016	Class A Preferred Shares	(45,500)	\$10.00	(\$455,000)
December 23, 2016	DRIP Class A Preferred Shares	(5,408.6)	\$10.00	(\$54,086)
January 9, 2017	Class A Preferred Shares	27,900	\$10.00	\$279,000
January 9, 2017	Class B Preferred Shares	3,000	\$10.00	\$30,000
January 24, 2017	Class A Preferred Shares	(68,300)	\$10.00	(\$680,300)
January 24, 2017	Class B Preferred Shares	(5,720)	\$10.00	(\$57,200)
January 24, 2017	DRIP Class B Preferred Shares	(1,960.8)	\$10.00	(\$19,608)
February 1, 2017	Class A Preferred Shares	40,000	\$10.00	\$400,000
February 3, 2017	Class B Preferred Shares	1,500	\$10.00	\$15,000
February 21, 2017	Class B Preferred Shares	550	\$10.00	\$5,500
February 27, 2017	Class B Preferred Shares	(14,350)	\$10.00	(\$143,500)
February 27, 2017	DRIP Class B Preferred Shares	(345.6)	\$10.00	(\$3,456)
March 24, 2017	Class A Preferred Shares	(8,400.0)	\$10.00	(\$84,000)
March 24, 2017	DRIP Class A Preferred Shares	(883.5)	\$10.00	(\$8,835)
March 24, 2017	Class B Preferred Shares	(7,289.0)	\$10.00	(\$72,890)
March 24, 2017	DRIP Class B Preferred Shares	(622.5)	\$10.00	(\$6,225)
April 12, 2017	Class B Preferred Shares	5,200.0	\$10.00	\$52,000
April 28, 2017	Class A Preferred Shares	(42,000.0)	\$10.00	(\$420,000)

April 28, 2017	DRIP Class A Preferred Shares	(213.9)	\$10.00	(\$2,139)
April 28, 2017	Class B Preferred Shares	(12,988.0)	\$10.00	(\$129,880)
April 28, 2017	DRIP Class B Preferred Shares	(1,242.1)	\$10.00	(\$12,421)
May 5, 2017	Class A Preferred Shares	16,500.0	\$10.00	\$165,000
May 5, 2017	Class B Preferred Shares	22,250.0	\$10.00	\$222,500
May 17, 2017	Class A Preferred Shares	31,770.0	\$10.00	\$317,700
May 17, 2017	Class B Preferred Shares	13,675.0	\$10.00	\$136,750
May 30, 2017	Class A Preferred Shares	1,000.0	\$10.00	\$10,000
May 30, 2017	Class A Preferred Shares	(28,000.0)	\$10.00	(\$280,000)
May 30, 2017	Class B Preferred Shares	500.0	\$10.00	\$5,000
May 30, 2017	Class B Preferred Shares	(8,000.0)	\$10.00	(\$80,000)
June 2, 2017	Class A Preferred Shares	30,000.0	\$10.00	\$300,000
June 2, 2017	Class B Preferred Shares	5,000.0	\$10.00	\$50,000
June 29, 2017	Class A Preferred Shares	60,000.0	\$10.00	\$600,000
June 30, 2017	Class A Preferred Shares	(33,200.0)	\$10.00	(\$332,000)
June 30, 2017	DRIP Class A Preferred Shares	(8,281.0)	\$10.00	(\$82,810)
June 30, 2017	Class B Preferred Shares	(7,861.0)	\$10.00	(\$78,610)
June 30, 2017	DRIP Class B Preferred Shares	(354.9)	\$10.00	(\$3,549)

- (1) "DRIP" or "Dividend Reinvestment Plan" refers to the option provided to Preferred Shareholders whereby they may direct the Corporation to reinvest their dividends into additional Class A or Class B Preferred Shares of the Corporation.
- (2) For the twelve (12) months ended June 30, 2017 the Corporation issued 4,032.32 Class A Preferred Shares with a value of \$40,323 in exchange for services by the Independent Directors and Lending Review Committee Members of the Corporation.

5. OFFERED SECURITIES

5.1 Terms Of Class A And Class B Preferred Shares

The Corporation is offering for sale **1,200,000** Preferred Shares at a price of **\$10.00** per Preferred Share. **The holders of the Preferred Shares are entitled to dividends as and when declared by the Directors. The holders of the Preferred Shares are not entitled to receive notice of or to attend and vote at any meeting of the shareholders of the Corporation, except as required under the ABCA.** All of the Preferred Shares to be outstanding on completion of the Offering will be fully paid and non-assessable. The holders of the Corporation's Class A and Class B Preferred Shares shall rank senior to the Common Shares and pari passu with each other in respect to priority in the payment of dividends and in the distribution of assets upon liquidation or dissolution of the Corporation or upon return of capital of the Corporation.

Each Preferred Share of the Corporation is redeemable by the Corporation on 30 days' notice. Redemption of any Preferred Shares of the Corporation is at the option of the Corporation, in its absolute discretion. The redemption price (the "Redemption Price") for Preferred Shares will be an amount equal to: (i) Net Asset Value divided by the aggregate number of Class A Preferred Shares and Class B Preferred Shares outstanding as calculated using the un-audited monthly balance sheet of the Corporation; plus (ii) the aggregate of all dividends on the Preferred Shares which are then declared but unpaid. The Directors may elect, in their discretion, to redeem any number of Preferred Shares from particular holders to the exclusion of any other holders of Preferred Shares. Holders of Preferred Shares have no right to require the Corporation to redeem their Preferred Shares.

Requests by shareholders of the Corporation for their Preferred Shares to be redeemed shall be handled at the discretion of the Directors having regard to legislative requirements, current financial conditions and other relevant circumstances. In processing redemptions of the Corporation's Preferred Shares within each individual account, the Corporation will redeem Preferred Shares in the following order: i) outstanding

Preferred Shares purchased through DRIP where Preferred shares issued at the earliest date under the DRIP are redeemed in priority to subsequent issuances under the DRIP, and ii) all other outstanding Preferred Shares where Preferred Shares issued at earliest date are redeemed in priority to subsequent issuances.

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

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

Preferred Shareholders that normal course redemptions under the Management Policy are suspended. Issuance of a suspension notice by the Corporation will have the effect of canceling all pending redemption requests. At the end of the suspension period normal course redemptions will resume; or

- (3) Redeem all properly Tendered Preferred Shares.

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

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

No redemption or retraction of Preferred Shares shall occur if it would result in a violation of any provision of the ABCA. The ABCA contains a test similar to the Solvency Test but with respect to the redemption or retraction of shares. Where the directors are considering if the Corporation can redeem Preferred Shares, they must apply this similar test analysis before doing so, as set out in Part 5 of the ABCA.

Constraints On Transferability

The Tax Act stipulates that to qualify as a MIC, a corporation must have 20 or more shareholders and no person would have been a "specified shareholder" (as such term is defined in the Tax Act and modified for the purposes of a MIC) of the corporation at any time in the year. The Tax Act states that a trust governed by a registered pension plan or a deferred profit sharing plan is counted as four shareholders for purposes of determining the number of shareholders of the Corporation and one shareholder for purposes of determining if a shareholder of the corporation is a specified shareholder. The Articles of the Corporation restrict the transfer of any securities of the Corporation unless approved by the Directors. The Directors intend to refuse redemptions and registrations of any transfer of shares which would result in the Corporation ceasing to meet the qualifications of a MIC.

As the Corporation is not currently a reporting issuer in the selling jurisdictions or in any other jurisdiction, the Preferred Shares are subject to resale restrictions pursuant to applicable securities law. See Item 10, "*Resale Restrictions*".

5.2 Subscription Qualification

The Corporation is currently offering the Preferred Shares for sale to qualified persons in British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, Nova Scotia, New Brunswick and Northwest Territories. The Preferred Shares are being sold under the "Offering Memorandum" Exemption (the "OM Exemption") provided for in NI 45-106 to qualified Purchasers in British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, Nova Scotia, New Brunswick, and Northwest Territories. Such exemption relieves the Corporation from the requirement to prepare and file a prospectus. As such, Purchasers will not receive the benefits associated with purchasing the Preferred Shares pursuant to a filed prospectus, including the review of the material by the securities commissions or similar regulatory authority in any such jurisdiction.

In order for the Corporation to rely on the OM Exemption to sell the Preferred Shares, Purchasers must, among other things, purchase the Preferred Shares as principal and sign a "Risk Acknowledgement Form" in the prescribed form. In addition, at the time of or before signing an agreement to purchase Preferred Shares, the Corporation must deliver the potential purchaser a copy of this Offering Memorandum. These requirements are set out in the accompanying subscription agreement and may vary depending upon the Purchaser's province of residence.

Investors resident in the Offering Jurisdictions wishing to purchase more than \$10,000 worth of Preferred Shares must each be an "eligible investor" as defined in NI 45-106 because the Corporation is an Alberta

based issuer. Potential investors should refer to the subscription agreement for further information about the requirements for qualification as an “eligible investor” and will be required to certify that they are “eligible investors” in their subscription agreement. In addition to the “eligible investor” requirement, investors may be subject to annual investment limits and will be required to acknowledge and confirm in the subscription agreement that they have not exceeded applicable annual investment limits as prescribed by regulation. **Please carefully review the accompanying subscription agreement to determine the exemption requirement that applies to you.**

On an ongoing basis, the Corporation requires Purchasers to maintain a minimum investment of 1,000 Preferred Shares per account and at the date of each subscription, additionally requires that:

- (a) Purchasers of Class A Preferred Shares either (i) have an existing holding of the Corporation’s Class A Preferred Shares; (ii) have a spouse or common-law partner that has an existing holding of the Corporation’s Class A Preferred Shares; or (iii) together with any accounts registered in the name of a spouse, common-law partner, or controlled legal entity have a concurrent minimum subscription of 15,000 Class A Preferred Shares.
- (b) Purchasers of Class B Preferred Shares either (i) have an existing holding of the Corporation’s Class B Preferred Shares; or (ii) purchase a minimum of 1,000 Class B Preferred Shares.

5.3 Subscription Procedure

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

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

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

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

6. CERTAIN CANADIAN INCOME TAX CONSEQUENCES AND DEFERRED PLAN ELIGIBILITY

This summary has been prepared by KPMG LLP who has been advised by the Corporation that the Corporation will qualify as a MIC throughout its current taxation year and all future taxation years.

Holders should consult their own professional tax advisors to obtain advice on the income tax consequences that apply, having regard to their own particular circumstances.

6.1 General

The following is a summary of the principal Canadian federal income tax consequences of acquiring, holding and disposing of the Preferred Shares by a person who, for the purposes of the Tax Act and at all relevant times, is resident or deemed to be resident in Canada, deals at arm's length, and is not affiliated, with the Corporation, and who acquires and holds the Preferred Shares as capital property (a "**Holder**").

Generally, the Preferred Shares will be considered to be capital property provided that such Holder does not hold the Preferred Shares in the course of carrying on a business of buying and selling securities and has not acquired them in one or more transactions considered to be an adventure in the nature of trade. Holders who may not hold the Preferred Shares as capital property may elect, in certain circumstances, to have such shares and any other "Canadian securities" (as defined in the Tax Act) treated as capital property by making the irrevocable election permitted by subsection 39(4) of the Tax Act.

This summary is based upon the current provisions of the Tax Act and the regulations thereunder, proposed amendments to the Tax Act and the regulations thereunder publicly announced by or on behalf of the Minister of Finance (Canada) prior to the date hereof, a general understanding of the published administrative practices of the Canada Revenue Agency (the "**CRA**") that have been made publicly available prior to the date hereof, and a certificate provided by an officer of the Corporation. This summary assumes that proposed amendments to the Tax Act and the regulations thereunder will be enacted as currently proposed but does not take into account or anticipate any other changes in law of any nature and does not take into account tax legislation or considerations of any province, territory or foreign jurisdiction.

This summary is not applicable to any Holder that: (i) is a "financial institution", as defined in the Tax Act for the purposes of the mark-to-market rules; (ii) is a "specified financial institution" (as defined in the Tax Act); (iii) has an interest which is a "tax shelter investment" as defined in the Tax Act; (iv) enters into a "derivative forward agreement" (as defined in the Tax Act); or (v) has elected to report its "Canadian tax results" (as defined in the Tax Act) in a currency other than Canadian dollars.

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

6.2 Qualification As A Mortgage Investment Corporation ("**MIC**")

This summary is based on the assumption that the Corporation will qualify as MIC throughout its current taxation year and all future taxation years. The Tax Act imposes certain conditions in order for a corporation to qualify as a MIC in a taxation year. These conditions will generally be satisfied if, throughout a taxation year:

- (a) the Corporation was a Canadian corporation as defined in the Tax Act;
- (b) the Corporation's only undertaking was the investing of its funds of and it did not manage or develop any real or immovable property;

- (c) none of the property of the Corporation consisted of (i) debts owing to the Corporation that were secured on real or immovable property situated outside Canada; (ii) debts owing to the Corporation by non-resident persons except any such debts that were secured on real or immovable property situated in Canada; (iii) shares of corporations not resident in Canada; or (iv) real or immovable property situated outside Canada, or any leasehold interest in such property;
- (d) there were 20 or more shareholders of the Corporation and no person would have been a "specified shareholder" (as such term is defined in the Tax Act and modified for the purposes of a MIC) of the Corporation at any time in the taxation year;
- (e) any holders of preferred shares of the Corporation had a right, after payment to them of their preferred dividends, and payment of dividends in a like amount per share to the Holders of the common shares of the Corporation, to participate *pari passu* with the holders of common shares in any further payment of dividends;
- (f) the cost amount of the Corporation's property represented by Mortgages that were secured on houses or on property included within a housing project (as those terms are defined in the *National Housing Act*), together with cash on hand and deposits with a bank or any other corporation whose deposits are insured by the Canada Deposit Insurance Corporation or a credit union (collectively, the "**Qualifying Property**") was at least 50% of the cost amount to it of all of its property;
- (g) the cost amount to the Corporation of all real or immovable property of the Corporation (including leasehold interests in such property but excluding real or immovable property acquired as a consequence of foreclosure or default on a Mortgage held by the Corporation) did not exceed 25% of the cost amount to it of all of its property;
- (h) the Corporation's liabilities did not exceed 3 times the amount by which the cost amount to it of all of its property exceeded its liabilities, where at any time in the year the cost amount to it of its Qualifying Property was less than 2/3 of the cost amount to it of all of its property; and
- (i) the Corporation's liabilities did not exceed 5 five times the amount by which the cost amount to it of all of its property exceeded its liabilities, where paragraph (h) above is not applicable.

An officer of the Corporation has certified, and this summary assumes, that these requirements will be satisfied so that the Corporation will qualify as a MIC at all relevant times. **If the Corporation were not to qualify as a MIC, the income tax consequences would be materially different from those described herein.**

6.3 Taxation Of The Corporation

The Corporation will, in computing its income for a taxation year, generally be entitled to deduct the full amount of all taxable dividends (other than capital gains dividends) which it pays to Holders during the year or within 90 days after the end of the year to the extent that such dividends were not deductible by the Corporation in computing its income for the preceding year. A MIC is deemed to be a public corporation for the purposes of the Tax Act, with the result that no capital dividends can be paid by the Corporation. However, a MIC may elect to treat a dividend paid by the Corporation to Holders during the period commencing 91 days after the start of the taxation year and ending 90 days after the end of that year as a capital gains dividend as provided for in the Tax Act, and the Corporation will be permitted to deduct ½ of all capital gains dividends from its income. The Corporation must elect to have the full amount of a dividend qualify as a capital gains dividend.

As discussed below, a capital gains dividend is taxed as a capital gain to the Holder arising from a deemed disposition of capital property.

Given that the Tax Act deems a MIC to be a public corporation, the Corporation will be subject to tax at the full corporate rate on its taxable income. However, an officer of the Corporation has certified that the Corporation intends to declare taxable dividends and capital gains dividends each year in sufficient amounts to reduce its Part I income tax liability to \$nil.

6.4 Taxation Of Holders

Ordinary taxable dividends, (other than capital gains dividends and including dividends deemed to be received by a Holder on redemption) paid by the Corporation on the Preferred Shares, whether paid in cash or reinvested in Preferred Shares, are deemed by the Tax Act to be included in the Holder's income as interest income. Holders will therefore be required to include in their income, as interest, all amounts received as, or on account of, any ordinary dividends. Capital gains dividends received by a Holder (whether paid in cash or reinvested in Preferred Shares) will be treated as a capital gain of the Holder from the disposition in the year of capital property for the year in which the dividend is received.

SINCE TAXABLE DIVIDENDS (OTHER THAN CAPITAL GAINS DIVIDENDS) RECEIVED FROM THE CORPORATION ARE DEEMED TO CONSTITUTE INTEREST INCOME IN THE HANDS OF THE HOLDER (AND NOT DIVIDEND INCOME), THE NORMAL GROSS-UP AND DIVIDEND TAX CREDIT RULES WILL NOT APPLY TO DIVIDENDS PAID BY THE CORPORATION TO INDIVIDUALS AND TRUSTS ON THE PREFERRED SHARES AND CORPORATE HOLDERS WILL NOT BE ENTITLED TO DEDUCT THE AMOUNT OF DIVIDENDS RECEIVED FROM THE CORPORATION FROM THEIR TAXABLE INCOME. SIMILARLY, THE PROVISIONS OF PART IV OF THE TAX ACT WILL NOT BE APPLICABLE TO THE RECEIPT OF ORDINARY DIVIDENDS BY A CORPORATE HOLDER.

A disposition or deemed disposition of Preferred Shares by Holders (other than to the Corporation by way of redemption of Preferred Shares) will give rise to a capital gain (or capital loss) to the extent that the proceeds of disposition of the Preferred Shares exceed (or are exceeded by) the adjusted cost base of the Preferred Shares and any reasonable disposition costs. For the purpose of determining the adjusted cost base to a Holder of Preferred Shares, when Preferred Shares are acquired, the cost to a Holder of the newly-acquired Preferred Shares will equal the purchase price of the Preferred Shares plus the amount of any other reasonable costs incurred in connection therewith. This cost will be averaged with the cost of all other Preferred Shares held by the Holder as capital property immediately before the acquisition to determine the adjusted cost base of each Preferred Share.

In general, one-half of a capital gain ("**taxable capital gains**") realized in the year on the disposition of Preferred Shares will be included in the Holder's income for the year, and one-half of a capital loss ("**allowable capital losses**") realized in the year on such disposition of Preferred Shares will be deducted from the Holder's taxable capital gains, if any, realized in such year. Allowable capital losses in excess of taxable capital gains for a particular taxation year may generally be carried back three years or forward indefinitely and deducted against taxable capital gains realized in such years, subject to the detailed rules in the Tax Act.

Amounts paid by the Corporation to the Holder on the redemption by the Corporation of a Preferred Share in excess of the paid-up capital of such Preferred Share will be deemed to be a dividend and will be included in the income of a Holder of Preferred Shares as a dividend in accordance with the rules contained in the Tax Act. This deemed dividend will be treated in the same manner as other dividends received by the Holder from the Corporation (*i.e.* as interest income or a capital gain depending on whether the Corporation elects that the entire dividend be a capital gains dividend). The balance of the purchase price, if any, will constitute proceeds of disposition of the Preferred Shares for purposes of the capital gains rules, as described above.

In general terms, capital gains dividends received, or deemed to be received, by a Holder who is an individual or trust, and capital gains realized on the disposition of Preferred Shares by such Holder, may increase the Holder's liability for alternative minimum tax in certain circumstances.

A Holder that is a "Canadian-controlled private corporation" (as defined in the Tax Act) may be liable to pay

an additional tax, a portion of which is refundable, on certain investment income for the year, including interest income and amounts in respect of taxable capital gains.

6.5 Eligibility For Investment

The Preferred Shares will be qualified investments for a trust governed by a Registered Retirement Savings Plan (“RRSP”), Registered Education Savings Plan (“RESP”), Registered Retirement Income Fund (“RRIF”), Deferred Profit Sharing Plan, Registered Disability Savings Plan, Tax-Free Savings Account (“TFSA”) each as defined in the Tax Act (each, a “Deferred Plan”) provided that the Corporation qualifies at all times as a MIC under the Tax Act and 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, a subscriber, or a Holder, as the case may be, of the relevant Deferred Plan or of any other person who does not deal at arm’s length with that person.

Depending on the type of Deferred Plan, the acquisition of a non-qualified investment, or an investment that was a qualified investment on acquisition but ceases to remain qualified, may result in unfavorable tax consequences as provided in the Tax Act.

Notwithstanding that the Preferred Shares may be a qualified investment, the Holder or annuitant of a TFSA, RRSP or RRIF, as the case may be, which acquires the Preferred Shares will be subject to a penalty tax under the Tax Act if such Preferred Shares are a “prohibited investment” (within the meaning of the Tax Act) for the particular TFSA, RRSP or RRIF. Preferred Shares will generally be a “prohibited investment” if the Holder or annuitant, as applicable, does not deal at arm’s length with the Corporation for purposes of the Tax Act or has a “significant interest” (within the meaning of the Tax Act) in the Corporation. Preferred Shares will not be prohibited investments if they are “excluded property” (as defined in the Tax Act) for RRSPs, RRIFs and TFSAs.

Not all securities are eligible for investment in Deferred Plans. Holders should consult their own tax advisors with respect to the eligibility of the Preferred Shares given their particular circumstances.

7. COMPENSATION TO BE PAID TO SELLERS AND FINDERS

7.1 Trailer Fees

Class A Preferred Shares

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

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

Assuming the Maximum Offering is sold entirely through Class A Preferred Shares, the aggregate Trailer Fees payable by the Corporation to Exempt Market Dealers on a yearly basis will be **\$120,000**.

Class B Preferred Shares

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

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

Assuming the Maximum Offering is sold entirely through Class B Preferred Shares, the aggregate Trailer Fees payable by the Corporation to KV Capital Inc. on a yearly basis will be **\$120,000**.

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

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

Other than Trailer Fees, the Corporation does not pay sales commission in respect of the Offering. For sales of Class B Preferred Shares, KV Capital Inc. will pay sales commissions and an administrative allowance to any one or more Exempt Market Dealers. Sales commissions and the administrative allowance paid by KV Capital Inc. are funded from KV Capital Inc.'s own resources (including amounts the Corporation is required to pay it under the Management and Advisory Agreement and Dealer Agreement), such commissions and allowances are in amounts calculated at 4.00% and 1.00% respectively of the proceeds from the sale of Class B Preferred Shares. See Item 2.7.2 "*Dealer Agreement*".

KV Capital Inc. also pays ongoing Trailer Fees to Exempt Market Dealers. Trailer Fees paid by KV Capital Inc. are:

- funded from KV Capital Inc.'s own resources;
- equal to 1.00% per annum of the Paid Up Capital invested into Class B Preferred Shares with respect to those Preferred Shares sold through Exempt Market Dealers;
- paid on Class B Preferred Shares issued under the DRIP, provided the dividend is in respect of Class B Preferred Shares sold through Exempt Market Dealers, if any;
- start after the fifth anniversary of the Closing Date on which the applicable Class B Preferred Share was issued and continue for as long as the Class B Preferred Shares remain outstanding; and
- paid on Class B Preferred Shares outstanding as at each of the Corporation's fiscal quarters.

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

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

8. RISK FACTORS

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

8.1 *The Preferred Shares Are Highly Speculative*

An investment in the Preferred Shares is highly speculative. Purchasers should buy them only if able to bear the risk of the entire loss of their investment and have no need for immediate liquidity in their investment. An investment in the Preferred Shares should not constitute a major portion of a Purchaser's Portfolio.

8.2 *No Liquidity*

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

8.3 *The Preferred Shares Are Not Insured*

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

8.4 *No Guaranteed Return On Investment*

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

Moreover, the interest rates being charged for Mortgages reflect interest rates in general, and as interest

rates fluctuate, management of the Corporation expects that the aggregate yield on Investments will fluctuate accordingly. See Item 8.21, "*Sensitivity to Interest Rates*".

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

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

In order for the Corporation to maintain its qualification as a MIC, no shareholder of the Corporation, or any "related persons" to any such shareholder, is permitted at any time to hold more than 25% of any class of the issued shares of the Corporation. The Corporation intends to monitor major holdings of Preferred Shares to ensure that no one shareholder of the Corporation exceeds this 25% maximum ownership limit set by the Tax Act. The Corporation will exercise its right to redeem the Preferred Shares if necessary for purposes of staying within this limit.

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

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

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

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

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

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

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

8.7 *Concentration And Composition Of The Portfolio And Exposure To Alberta Economy*

As of June 1, 2017, 91% of the Mortgages contained in the Corporation's Portfolio are to Alberta borrowers, secured by Mortgages registered on Alberta Real Property. See Item 2.2.4, "*Portfolio Summary*". This leaves the Corporation susceptible to both positive and negative economic trends which may affect the Alberta economy and the real estate market in particular. The Alberta economy is currently experiencing a downward economic cycle primarily attributed to the low price of crude oil. The pressures of the current economic environment in Alberta may negatively impact the Corporation's Mortgages and it may have a corresponding effect on the Corporation's lending activities. For example, there may be a greater number of Mortgage defaults as a result of the economic downturn, which could tie up capital available to the Corporation and negatively affect the value of the Preferred Shares.

The investment objectives and investment restrictions of the Corporation permit the assets of the Corporation to be invested in First Mortgages, Second Mortgages and Permitted Investments. Therefore, the composition of the Portfolio may vary widely from time to time. The Portfolio will be comprised of and may from time to time be concentrated with Mortgages where the underlying Real Property is of a similar type or in a similar location, or have other similar features or characteristics resulting in the Portfolio being less diversified than at other times. As a result, the returns generated by the Portfolio and the risks associated with its Mortgages may change as its composition changes.

8.8 *The Corporation May Be Unable To Make Investments*

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

8.9 *The Corporation May Be Unable To Fund Investments*

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

8.10 *The Corporation Will Be Competing with Others For Mortgage Loans*

The performance of the Corporation depends, in large part, on the Corporation's ability to invest in Mortgages that provide favourable returns. The Corporation will be competing for investment in Mortgage Loans with individuals, corporations and institutions (both Canadian and foreign) which are seeking or may seek Mortgage investments similar to those desired by the Corporation. Many of these investors will have greater financial resources than those of the Corporation, or operate without the investment or operating restrictions of the Corporation or according to more flexible conditions. An increase in the availability of funds for investment in Real Property, and an increase in interest in Mortgage investment opportunities, may increase competition for Mortgage investments, thereby increasing purchase prices and reducing the return on the Investments.

8.11 Borrowing And Leverage

The Corporation may utilize leverage (the borrowing of capital for investing in Mortgages) from time to time at the discretion of the Manager through the Bank Facility arranged by the Manager with the Bank and the Second Credit Facility arranged by the Manager with 579548 Alberta Inc. Subject to complying with the rules to maintain its qualifications as a MIC, under the Bank Facility the Corporation may borrow up to a maximum amount of \$5,000,000 and under the Second Credit Facility the Corporation may borrow up to a maximum amount of \$5,000,000 that, combined with the Bank Facility, would be equal to or less than 20.00% of the book value of the Portfolio. The Manager expects that the Corporation will utilize leverage to bridge timing differences resulting from loan maturities and new loan origination and for general working capital purposes as and when required. The Bank Facility will bear interest at the Bank's prime lending rate plus 1.5% per annum and the Second Credit Facility, will bear interest at the TD Canada Trust prime lending rate plus 5.5% per annum. As of the date of this Offering Memorandum, the Bank's and TD Canada Trust's prime lending rate is 2.70% per annum. Further, a stand by fee of 0.125% per annum on any unused portion of the Bank Facility up to a maximum of \$2,500,000 calculated on a daily basis and payable monthly will apply. Interest on any outstanding principal amount under the Bank Facility and Second Credit Facility will be calculated daily and payable monthly in arrears on the first business day of each month.

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

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

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

8.12 No Guarantee Of Diversification Of The Investment Portfolio

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

Given the concentration of the Corporation's exposure to the mortgage lending sector, the Corporation will be more susceptible to adverse economic or regulatory occurrences affecting that sector than an investment fund that is not concentrated in a single sector. Investments in Mortgages are relatively illiquid. Such illiquidity will tend to limit the Corporation's ability to vary its Portfolio of Investments promptly in response to changing economic or investment conditions.

8.13 Changes In Legislation May Adversely Affect Profitability

There can be no assurance that Applicable Laws will not change in a manner that will adversely affect the Corporation, the returns generated on an investment in Preferred Shares or fundamentally alter the tax consequences to holders of Preferred Shares.

8.14 Performance May Be Affected By Environmental And Other Regulatory Matters

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

8.15 Knowledge And Expertise Of KV Capital Inc.

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

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

8.16 Conflicts Of Interest

Certain Directors and Officers of the Corporation may face actual or potential Conflicts of Interest Matters due to their positions as directors or officers of KV Capital Inc., and/or their direct or indirect ownership interest in KV Capital Inc. Messrs. Kanji and Virani are directors and officers of the Corporation and are also directors and officers of KV Capital Inc., in addition Mr. Alanen is an officer of the Corporation and of KV Capital Inc. These directors and officers may have a conflict of interest in allocating their time between the respective businesses and interest of KV Capital Inc. and the Corporation, and other businesses and projects in which they may become involved. Messrs. Kanji, Virani and Herman are also direct or indirect shareholders of the Corporation and KV Capital Inc. See Item 2.7.1, "*The Management And Advisory Agreement*" and Item 2.7.3 "*Conflicts Of Interest Policy*".

KV Capital Inc. has entered into the Management and Advisory Agreement with the Corporation and is entitled to earn fees for providing services to the Corporation and is also entitled to earn fees from Borrowers pursuant to the terms and conditions of Mortgage Loans. The Corporation may be subject to various conflicts of interest because of the fact that the Directors and Officers of KV Capital Inc. are engaged in a wide range of investing and other business activities which may include real property financing in direct competition with the Corporation. KV Capital Inc. has established other investment vehicles which may

involve transactions which conflict with the interests of the Corporation.

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

The Corporation will rely upon KV Capital Inc. to manage the business of the Corporation and to provide managerial skill. The directors and officers of KV Capital Inc. may have a conflict of interest in allocating their time between the respective businesses and interest of KV Capital Inc. and the Corporation, and other businesses or projects in which they may become involved. KV Capital Inc. has mitigated this risk by requiring its directors and officers that are engaged in activities that could cause an actual or potential conflict with KV Capital Inc. or its clients to abstain from receiving or reviewing any information provided on potential real estate opportunities and the related investment decisions which may create the actual or potential conflict. Further, the terms of the Management and Advisory Agreement provide that KV Capital Inc. is contractually obligated to devote sufficient time and attention to the business and affairs of the Corporation. Pursuant to the Management and Advisory Agreement, KV Capital Inc. must render its services honestly and in good faith and must use reasonable commercial efforts to perform its duties and responsibilities in a conscientious, reasonable and competent manner.

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

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

8.17 *Dilution*

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

8.18 *No Assurance Of Achieving Investment Objective Or Paying Distributions*

There is no assurance that the Corporation will be able to achieve its investment objectives or be able to pay dividend distributions consistent with historical dividend distributions. The funds available for distribution to holders of Preferred Shares will vary according to, among other things, the interest and principal payments received in respect of the Mortgage Loans comprising the Corporation's Portfolio and the realizable value of the Corporation's assets. There is no assurance that the Corporation's Portfolio will earn any return. There is a risk that the Corporation may not be in a position to pay dividend distributions,

particularly if the Corporation cannot meet the test governing the payment of dividends set forth in section 43 of the ABCA. Section 43 of the ABCA prohibits the payment of dividends where, after the payment of the dividend, either the Corporation cannot meet its liabilities as they become due, or the realizable value of the Corporation's assets would, by declaring or paying the dividend, be less than the aggregate of its liabilities and stated capital of all share classes. An investment in the Corporation is appropriate only for investors who have the capacity to absorb a loss on their investment and who can withstand the effect of distributions not being paid in any period or at all.

8.19 *No Guarantees Or Insurance*

There can be no assurance that Mortgage Loans of the Corporation will result in a guaranteed rate of return or any return to holders of Preferred Shares or that losses will not be suffered on one or more Mortgage Loans. Moreover, at any point in time, the interest rates being charged for Mortgages are reflective of the general level of interest rates and, as interest rates fluctuate, it is expected that the aggregate yield on Mortgage Loans will also change. A Borrower's obligations to the Corporation or any other person are not guaranteed by the Government of Canada, the government of any province or any agency thereof nor are they insured under the *National Housing Act* (Canada). In the event that additional security is given by the Borrower or a third party or that a private guarantor guarantees the Borrower's obligations, there is no assurance that such additional security or guarantee will be sufficient to make the Corporation whole if and when resort is to be had thereto. Further, Preferred Shares are not "deposits" within the meaning of the *Canadian Deposit Insurance Corporation Act*.

8.20 *Subordinated Mortgages*

Second Mortgages are riskier than First Mortgages. Second Mortgages are subordinate to first Mortgages in terms of recourse against the Borrower and to the underlying Real Property securing the Mortgage Loan. First Mortgages have priority in foreclosure actions, which may result in the deprivation of amounts otherwise collectable by Second Mortgage holders. If an action is taken to sell the Real Property and sufficient proceeds are not realized from such sale to pay off Second Mortgage holders, the Second Mortgage holders may lose their entire investment or part thereof to the extent of such deficiency unless the Second Mortgage holder can otherwise recover such deficiency from other property owned by the Borrower. As of June 1, 2017, the Corporation has four Mortgages in its Portfolio which are Second Mortgages.

8.21 *Sensitivity To Interest Rates*

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

8.22 *Fluctuations In Distributions*

The funds available for distributions will vary according to, among other things, the value of the Portfolio and the interest earned thereon. Fluctuations in the market value of the Portfolio may occur for a number of reasons beyond the control of KV Capital Inc. or the Corporation. The Corporation will depend on revenue generated from the Portfolio. There can be no assurance regarding the amount of revenue that will be generated by the Investments comprising the Portfolio. The amount of distributions will depend upon numerous factors, including the ability of borrowers to make applicable payments under Mortgages, interest rates, unexpected costs, and other factors which may not now be known by or which may be beyond the

control of the Corporation or KV Capital Inc. If the directors of the Corporation determine that it would be in the best interests of the Corporation, they may reduce or suspend for any period, or altogether cease indefinitely, payment of dividends to Preferred Shareholders.

Payment of dividends is also subject to the Solvency Test. The Solvency Test exists in the ABCA in part to act as a safeguard against the erosion of shareholder capital. The directors must have reasonable grounds for believing that the Corporation can meet both arms of the Solvency Test at the time the dividend is declared and paid. In assessing whether there are reasonable grounds for believing the Corporation will meet the Solvency Test, the directors of the Corporation will consider whether it can meet its liabilities as they come due, and they will consider whether the realizable value of the corporation's assets would, by declaring or paying a dividend, be less than the aggregate of its liabilities and stated capital of all classes.

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

8.23 Risks Related To Mortgage Defaults

As part of KV Capital Inc.'s active management of the Portfolio, among other strategies, KV Capital Inc. may from time to time deem it appropriate to extend or renew the term of a Mortgage past its maturity, or to accrue the interest on a Mortgage or Bridge Financing Loan, rather than enforce its security. KV Capital Inc. will generally do so if it believes the benefits outweigh the risks to the Corporation of not being repaid the full principal and interest owing on such loan, taking into account the cost of enforcement proceedings and other Mortgage opportunities, among other things. In these circumstances, however, the Corporation is subject to the risk that the principal and/or accrued interest of such Mortgage or Bridge Financing Loan may not be repaid in a timely manner or at all, which could impact the cash flows of the Corporation during the period in which it is exercising such remedies. The higher the number of Mortgages in default contained in the Portfolio the higher the risk to the investor, since this risk can affect interest income and can tie up capital (or result in a loss of capital) which could otherwise be used by the Corporation to invest in performing Mortgages, honour redemption requests made by the shareholders and/or pay dividends.

There is also increased risk to the investor with a Mortgage in default as a Mortgage in default may ultimately result in a foreclosure and/or overall loss to the Corporation. Further, in the event that the valuation of the real property secured by a Mortgage has fluctuated substantially due to market conditions, there is a risk that the Corporation may not recover all or the entire principal and interest owed to the Corporation in respect of such Mortgage Investment in default. As of June 1, 2017, the Corporation's Portfolio includes two Mortgages in the aggregate amount of approximately \$870,000 which are in default for being over 60 days in arrears. The aggregate amount of the loss provision taken is \$225,000. Where losses are incurred or loss provisions are taken the dividends that the Corporation otherwise intended to pay its shareholders are reduced.

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

unable to recover all or substantially all of the principal and interest owed to the Corporation in respect of such Mortgages as well as costs, the overall value of such Mortgages would be reduced, and the returns, financial condition and results of operations of the Corporation could be adversely impacted.

8.24 Foreclosure And Related Costs

One or more Borrowers could fail to make payments according to the terms of their loan, and the Corporation could therefore be forced to exercise its rights as mortgagee. The recovery of all or a portion of the Corporation's investment in any given Mortgage may not be possible for an extended period of time during this process and there are circumstances where there may be complications in the enforcement of the Corporation's rights as mortgagee. There is no assurance legal fees and expenses and other costs incurred by the Corporation in enforcing its rights as mortgagee against a defaulting Borrower will be recoverable from the Borrower. In the event that these expenses are not recoverable they will be borne by the Corporation. As a consequence, this can negatively affect the Corporation's interest income stream and capital. Furthermore, where the Corporation becomes the owner of Real Property through foreclosure proceedings, certain significant expenditures, including property taxes, capital repair and replacement costs, maintenance costs, mortgage payments on priority Mortgages, insurance costs, administration costs and related charges must be made through the period of ownership regardless of whether the property is producing income. The Corporation may therefore be required to incur such expenditures to protect its investment, which can also negatively affect the Corporation in the same manner as described above. As of June 1, 2017, the Corporation's Portfolio includes three Mortgages in the aggregate amount of approximately \$1,711,000 which are in foreclosure.

8.25 Litigation Risks

The Corporation may, from time to time, become involved in legal proceedings in the course of its business, including, without limitation, foreclosure proceedings. The costs of litigation and settlement can be substantial and there is no assurance that such costs will be recovered in whole or at all. During litigation, the Corporation is not receiving payments of interest on the Mortgage that is the subject of litigation, thereby impacting cash flows. The unfavourable resolution of any legal proceedings could have a material adverse effect on the Corporation, its financial position and the results of its operations.

8.26 Allocation

It is the general policy of KV Capital Inc. that all of its managed accounts that have investment objectives and restrictions that are compatible with a particular investment opportunity should, when practicable, participate pro rata in that investment opportunity based upon, among other things, the relative amount of assets under management in each such account and the relative importance of the investment opportunity to the fulfillment of each such account's investment objective. Accordingly, KV Capital Inc. will generally present to the Corporation any investment opportunity available to KV Capital Inc. that is consistent with the investment objectives and restrictions of the Corporation based upon, and subject to: i) the amount of assets under management on behalf of the Corporation relative to the amount of assets under management on behalf of all other accounts of KV Capital Inc. that have investment objectives and restrictions that are compatible with the investment opportunity; and ii) the importance of the investment opportunity to the fulfillment of the investment objectives of the Corporation relative to the importance of the investment opportunity to the fulfillment of the investment objectives of such other entities to which KV Capital Inc. provides services. An assessment of the relative importance of an investment opportunity to the fulfillment of a client account's investment objective is dependent upon a number of factors that include the availability of the resources that are required to make the investment, alternative investment opportunities, the composition of the client account's portfolio at the time, the geographic and industry sector exposure associated with the investment opportunity and the liquidity of the account.

As a result of this allocation policy, the Corporation may, from time to time, be presented with, but yet be precluded from participation in, an investment opportunity available to KV Capital Inc. that would otherwise be compatible with the Corporation's investment objectives and restrictions based upon KV Capital Inc.'s assessment of the relative importance of the investment opportunity to each of the accounts to which KV

Capital Inc. has been engaged to provide services, including the Corporation. In addition, a substantial portion of the assets of the Corporation may be co-invested, either directly or indirectly, in mortgage loans that have been syndicated by KV Capital Inc. among the Corporation and one or more other accounts that are managed or advised by KV Capital Inc.

8.27 Restrictions On Ownership And Redemption Risks

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

Subject to certain limitations and in compliance with the provisions of the Articles of Incorporation of the Corporation, each holder of Preferred Shares is entitled to present a retraction request for all or any part of the Preferred Shares registered in the name of that holder. The Corporation provides no assurance that any Shareholder will be able to retract any or all of the Preferred Shares at any time. Retraction of the Preferred Shares is subject to the Corporation maintaining its status as a MIC and is subject to the Management Policy on redemptions as established by the Directors of the Corporation and as described in Item 5.1, "*Terms of Class A and Class B Preferred Shares*". If a significant number of Preferred Shares are redeemed: i) the Corporation may be required to sell Portfolio assets in order to satisfy redemption payment obligations and may not be able to complete such Portfolio asset sales on favourable terms or at all; and ii) the expenses of the Corporation would be spread among fewer Preferred Shares.

8.28 Ability To Manage Growth

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

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

Construction Mortgages generally require more active and ongoing management oversight than that required for non-construction Mortgages that are registered on and secured against Real Property that has been fully developed. The rules under the Tax Act governing MICs prohibit the Corporation from managing or developing real or immovable property, and therefore there are restrictions on the Corporation being able to complete the development of properties that the Corporation assumes ownership or control of by taking enforcement steps against defaulting borrowers. Accordingly, construction Mortgages generally involve a higher degree of risk for a MIC lender than non-construction Mortgages. As of June 1, 2017, construction Mortgages (inclusive of development and construction project phases) represent approximately 47% of the Corporation's Portfolio, as indicated in Item 2.2.4 "*Portfolio Summary*."

8.30 Unsecured Investments

The Corporation is a MIC and as such it is in the business of investing in Mortgages as described previously in Item 2 "*Business of the Corporation*". As a MIC, the Corporation is permitted under the Tax Act to invest in a wide range of investments (i.e., Permitted Investments) other than Mortgage Loans. The Corporation may invest in debt or equity instruments which are not secured by any land collateral or personal property collateral. There is a risk that in the event the borrower defaults in repayment of these unsecured obligations, the Corporation may never collect any amounts owed to it pursuant to the terms of the obligations. This can affect interest income revenue and can tie up cash flow which could otherwise be

used by the Corporation to invest in performing mortgages and honour redemption requests made by the shareholders. As of the date of this Offering Memorandum the Corporation has no Permitted Investments.

8.31 Reliance On The Manager And The Lending Review Committee

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

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

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

8.32 Manager Lien Over The Corporation's Assets

Under the terms of the Management and Advisory Agreement the Corporation has granted KV Capital Inc. an unsecured lien over the Corporation's assets for unpaid costs. See Item 2.7.1 "*The Management And Advisory Agreement*". This unsecured lien ranks ahead of the interests of Investors but is subordinate to the Bank Facility and Second Credit Facility (See Item 8.11 "*Borrowing And Leverage*" for a description of the Bank Facility and Second Credit Facility). **This means that the rights of Investors to interest income paid via dividends and to the return of capital via redemption of Shares or through wind-up and dissolution will be subordinate to the right of KV Capital Inc. to be repaid any amounts which may be outstanding under the Management and Advisory Agreement.**

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

9. REPORTING OBLIGATIONS

9.1 Disclosure Of Documents And Information

The Corporation is not a reporting issuer in any jurisdiction and as such is not subject to most of the continuous reporting obligations imposed on reporting issuers by securities legislation. Pursuant to the ABCA, it is required to hold an annual general meeting of shareholders not less than 18 months after the date of incorporation, and thereafter, not later than 15 months after holding each last preceding annual general meeting. It is also required to forward financial statements and proxy materials to all of its shareholders not less than 21 days prior to each annual general meeting or unanimous signing of a consent

resolution in lieu thereof. The Preferred Shareholders will not be given notice of any meetings of the shareholders of the Corporation and subject to the rights of shareholders under the ABCA holders of Preferred Shares will generally not be able to vote at such meetings (see Item 5.1, “*Terms of Class A and Class B Preferred Shares*”).

Pursuant to recently amended Securities Policies, in Alberta, Saskatchewan and Ontario the Corporation is obligated to file, within 120 days after the end of each of its financial years, annual audited financial statements with the securities regulatory authorities, along with a notice disclosing in reasonable detail the use of the aggregate gross proceeds raised by the Corporation pursuant to this Offering, and make them reasonably available to Investors. Investors will receive copies of the annual audited financial statements and the notice in regards to the use of proceeds in their annual reporting package. In addition to the foregoing, in Ontario, the Corporation must make reasonably available to each Investor a notice of a discontinuation of the Corporation’s business, a change in the Corporation’s industry or a change of control of the Corporation should any such event occur. Financial or other information relating to the Corporation and provided to you in the future may not by itself be sufficient for you to assess the performance of your investment.

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

9.2 Disclosure Of Corporate And Securities Information

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

10. RESALE RESTRICTIONS

10.1 General Statement

First trades of Preferred Shares will be subject to a number of resale restrictions, including a restriction on trading. Until the restriction on trading expires, you will not be able to trade the Preferred Shares unless you comply with an exemption from the prospectus and registration requirements under Securities Policies. The restriction on trading may never expire.

10.2 Restricted Period

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

For trades in Manitoba, unless permitted under applicable securities legislation, you must not trade the Preferred Shares without the prior written consent of the regulator in Manitoba unless: (i) the Corporation has filed a prospectus with the regulator in Manitoba with respect to the Preferred Shares you have purchased and the regulator in Manitoba has issued a receipt for that prospectus, or (ii) the purchaser has held the Preferred Shares for at least 12 months. The regulator in Manitoba will consent to your trade if the regulator is of the opinion that to do so is not prejudicial to the public interest.

11. PURCHASER'S RIGHTS

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

(A) Two Day Cancellation Right

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

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

Purchasers Resident In Alberta And British Columbia

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

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

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

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

Purchasers Resident In Saskatchewan

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

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

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

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

Purchasers Resident In Manitoba

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

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

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

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

Purchasers Resident In Ontario

In addition to any other right or remedy available to you at law, if there is a misrepresentation in this Offering Memorandum, you have a statutory right to sue in Ontario:

- the Corporation to cancel your agreement to buy the Preferred Shares; or
- for damages against the Corporation and a selling security holder on whose behalf the distribution is made.

This statutory right to sue is available to you whether or not you relied on the misrepresentation. If you choose to rescind your purchase, you cannot then sue for damages. In addition, in an action for damages, the defendant will not be liable for all or any portion of damages that it proves do not represent the depreciation in value of your Preferred Shares as a result of the misrepresentation. Furthermore, the amount recoverable in an action for damages will not exceed the price at which the Preferred Shares were offered. There are various defenses available to the persons or companies that you have a right to sue. For example, they have a defense if they prove that you knew of the misrepresentation when you purchased the Preferred Shares.

In Ontario, the defendant will not be liable for a misrepresentation in forward-looking information if the Issuer proves that:

- this Offering Memorandum contained, proximate to the forward-looking information, reasonable cautionary language identifying the forward-looking information as such, and identifying material factors that could cause actual results to differ materially from a conclusion, forecast or projection in the forward-looking information, and a statement of material factors or assumptions that were applied in drawing a conclusion or making a forecast or projection set out in the forward-looking information; and
- the Corporation has a reasonable basis for drawing the conclusion or making the forecasts and projections set out in the forward-looking information.

However, in Ontario, the above defense does not relieve a person of liability respecting forward-looking information in a financial statement.

In Ontario, you must commence your action to cancel the agreement to purchase Preferred Shares within 180 days after the transaction or commence your action for damages within the earlier of: (i) 180 days after learning of the misrepresentation; or (ii) three years after the transaction.

Purchasers Resident In Nova Scotia

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

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

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

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

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

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

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

Purchasers Resident In New Brunswick

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

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

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

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

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

Purchasers Resident In Northwest Territories

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

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

who signed the Offering Memorandum.

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

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

12. FINANCIAL STATEMENTS

The Corporation's annual financial statements for the years ended February 28, 2017 and comparative year February 29, 2016 are attached to, and form part of this Offering Memorandum on the following pages.

Financial Statements of
KV MORTGAGE FUND INC.

Years ended February 28, 2017 and February 29, 2016

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Management's Responsibility

The accompanying financial statements for KV Mortgage Fund Inc. (the "Fund") are the responsibility of management and have been approved by the Board of Directors. In management's opinion, these financial statements have been prepared within reasonable limits of materiality in accordance with International Financial Reporting Standards.

Management is responsible for ensuring that these financial statements, which include amounts based on estimates and judgments, are complete and reliable in all material respects. These financial statements reflect all information available to April 26, 2017.

In addition, management is responsible for establishing and maintaining an adequate system of internal control over financial reporting. The integrity and reliability of the Fund's reporting systems are achieved through the use of policies and procedures, and the appropriate delegation of authority and division of responsibilities. Management maintains a system of internal controls to provide reasonable assurance that assets are safeguarded and that reliable financial records are maintained.

The independent auditors, KPMG LLP, whose report on their examination follows, have audited the financial statements in accordance with Canadian generally accepted auditing standards. The auditors' report outlines the nature of their examination, and their opinion on the Fund's financial statements.

The directors of the Fund are responsible for review and final approval of the financial statements, and for ensuring that management fulfills its responsibilities for financial reporting and internal controls.

Original signed by

Aleem Virani, CA, CBV
President

April 26, 2017

Original signed by

Scott Alanen, CA, CBV
Chief Financial Officer



KPMG LLP
2200, 10175 - 101 Street
Edmonton AB T5J 0H3
Canada
Telephone (780) 429-7300
Fax (780) 429-7379

INDEPENDENT AUDITORS' REPORT

To the Shareholders of KV Mortgage Fund Inc.

We have audited the accompanying financial statements of KV Mortgage Fund Inc., which comprise the statements of financial position as at February 28, 2017 and February 29, 2016, the statements of comprehensive income, changes in equity and cash flows for the years 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 audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of KV Mortgage Fund Inc. as at February 28, 2017 and February 29, 2016, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Chartered Professional Accountants

April 26, 2017
Edmonton, Canada

KPMG LLP is a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. KPMG Canada provides services to KPMG LLP.

KV Mortgage Fund Inc.
Statements of Financial Position

As at		February 28, 2017	February 29, 2016
Assets			
Cash and cash equivalents		\$ 119,587	\$ 494,513
Accrued interest receivable	Note 4	793,803	815,152
Mortgage loan investments	Note 4	76,625,181	71,446,378
Prepaid expenses		29,025	29,563
Total assets		\$ 77,567,596	\$ 72,785,606
Liabilities and equity			
Due to Fund Manager	Note 9	\$ 268,728	\$ 192,344
Accounts payable and accrued expenses		89,744	64,514
Dividends payable	Note 7	320,771	266,590
Bank indebtedness	Note 6	3,492,848	-
Total liabilities		4,172,091	523,448
Shareholders' equity			
Class A preferred shares	Note 7	50,156,020	47,240,436
Class B preferred shares	Note 7	23,229,743	25,020,722
Common shares	Note 7	1,000	1,000
Retained earnings		8,742	-
Total Shareholders' equity		73,395,505	72,262,158
Total liabilities and shareholders' equity		\$ 77,567,596	\$ 72,785,606

See accompanying notes to financial statements.

Approved by the board of directors:

Original signed by Paul Allard _____ Director

Original signed by Aleem Virani _____ Director

KV Mortgage Fund Inc.
Statements of Comprehensive Income

Years ended		February 28, 2017	February 29, 2016
Income:			
Interest		\$ 7,375,406	\$ 6,886,844
Expenses:			
Service fees	Note 9	736,826	700,350
Management fees	Note 9	392,245	364,471
Provision for non-collectible interest	Note 4	192,734	21,000
Interest on loan payable	Note 6	110,869	10,671
Impairment loss on mortgage loan investments	Note 4	108,324	150,000
Insurance expense		71,043	52,264
Legal fees		35,149	29,863
Audit fees		27,455	29,373
Lending review committee fees	Note 9	25,991	17,914
Other operating		23,548	42,984
Director fees	Note 9	22,901	18,746
		1,747,085	1,437,636
Net income and comprehensive income		\$ 5,628,321	\$ 5,449,208
Earnings per share - basic and diluted			
Class A and Class B preferred shares	Note 8	\$ 0.77	\$ 0.79

See accompanying notes to financial statements.

KV Mortgage Fund Inc.

Statements of Changes in Equity

Years ended February 28, 2017 and February 29, 2016

	Class A preferred shares	Class B preferred shares	Class A common shares	Retained earnings	Total
February 28, 2017					
Shareholders' equity, beginning of year	\$ 47,240,436	\$ 25,020,722	\$ 1,000	\$ -	\$ 72,262,158
Net income and comprehensive income for the year	-	-	-	5,628,321	5,628,321
Dividends to shareholders	-	-	-	(5,619,579)	(5,619,579)
Net proceeds from issuance of shares	4,404,328	1,076,400	-	-	5,480,728
Issued under share based compensation plan	29,642	-	-	-	29,642
Issuance of shares from dividend reinvestment plan	1,127,107	804,698	-	-	1,931,805
Share issuance costs	(29,851)	(13,856)	-	-	(43,707)
Redemption of shares	(2,615,642)	(3,658,221)	-	-	(6,273,863)
Shareholders' equity, end of year	\$ 50,156,020	\$ 23,229,743	\$ 1,000	\$ 8,742	\$ 73,395,505

	Class A preferred shares	Class B preferred shares	Class A common shares	Retained earnings	Total
February 29, 2016					
Shareholders' equity, beginning of year	\$ 40,111,495	\$ 20,098,298	\$ 1,000	\$ -	\$ 60,210,793
Net income and comprehensive income for the year	-	-	-	5,449,208	5,449,208
Dividends to shareholders	-	-	-	(5,449,208)	(5,449,208)
Net proceeds from issuance of shares	8,945,827	5,113,204	-	-	14,059,031
Issued under share based compensation plan	12,659	-	-	-	12,659
Issuance of shares from dividend reinvestment plan	1,566,954	792,089	-	-	2,359,043
Redemption of shares	(3,396,499)	(982,869)	-	-	(4,379,368)
Shareholders' equity, end of year	\$ 47,240,436	\$ 25,020,722	\$ 1,000	\$ -	\$ 72,262,158

See accompanying notes to financial statements.

KV Mortgage Fund Inc.
Statements of Cash Flows

Years ended	February 28, 2017	February 29, 2016
Cash provided by (used in):		
Operating activities:		
Net income and comprehensive income	\$ 5,628,321	\$ 5,449,208
Change in non-cash operating items:		
Accrued interest receivable	21,338	(314,516)
Prepaid expenses	538	(20,475)
Due to Fund Manager	76,385	(19,542)
Accounts payable and accrued expenses	25,229	2,459
Share based compensation	29,642	12,659
Impairment loss on mortgage loan investments	108,324	150,000
Funding of mortgage loan investments	(72,127,943)	(73,240,160)
Discharge of mortgage loan investments	66,840,815	58,962,923
	602,649	(9,017,444)
Financing activities:		
Change in subscription proceeds receivable	-	170,170
Proceeds from issuance of Class A preferred shares	4,404,328	8,945,827
Proceeds from issuance of Class B preferred shares	1,076,400	5,113,204
Share issuance costs paid on Class A preferred shares	(29,851)	-
Share issuance costs paid on Class B preferred shares	(13,856)	-
Redemption of Class A preferred shares	(2,615,642)	(3,396,499)
Redemption of Class B preferred shares	(3,658,221)	(982,869)
Proceeds from loan payable	8,000,000	3,500,000
Repayment of loan payable	(8,000,000)	(3,500,000)
Proceeds from bank indebtedness	3,492,848	-
Cash dividends paid	(3,633,581)	(3,042,212)
	(977,575)	6,807,621
Decrease in cash and cash equivalents	(374,926)	(2,209,823)
Cash and cash equivalents, beginning of year	494,513	2,704,336
Cash and cash equivalents, end of year	\$ 119,587	\$ 484,513
Supplemental cash flow on non-cash financing activities:		
Class A preferred shares issued under dividend reinvestment plan	Note 7	\$ 1,127,107
Class B preferred shares issued under dividend reinvestment plan	Note 7	\$ 804,698
		\$ 1,566,954
		\$ 792,089
Cash flows from operating activities:		
Interest received	\$ 7,396,755	\$ 6,572,328

See accompanying notes to financial statements.

KV MORTGAGE FUND INC.

Notes to Financial Statements

Years ended February 28, 2017 and February 29, 2016

1. Nature of operations:

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

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

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

2. Basis of presentation:

(a) Statement of compliance:

The financial statements of the Fund have been prepared by management in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

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

These financial statements were approved by the Board of Directors on April 26, 2017.

(b) Use of estimates and judgments:

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

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

3. Significant accounting policies:

(a) Cash and cash equivalents:

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

KV MORTGAGE FUND INC.

Notes to Financial Statements

Years ended February 28, 2017 and February 29, 2016

3. Significant accounting policies (continued):

(b) Mortgage loan investments:

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

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

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

(c) Revenue recognition:

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

(d) Income taxes:

It is the intention of the Fund to qualify as a mortgage investment corporation ("MIC") for Canadian income tax purposes. As such, the Fund is able to deduct, in computing its income for the taxation year, dividends paid to its shareholders during the year or within 90 days of the end of the year. The Fund intends to maintain its status as a MIC and pay dividends to its shareholders in the year and in future years to ensure that it will not be subject to income taxes. Accordingly, for financial statement reporting purposes, no provision for current or deferred income taxes has been recorded given the Fund has distributed all taxable income as dividends. As of February 28, 2017 and February 29, 2016, the Fund does not have any significant temporary differences between the tax and accounting bases of assets and liabilities.

(e) Preferred share compensation plan:

The Fund has an equity-settled preferred share compensation (the "PSC") plan for independent directors and members of the independent lending review committee ("LRC") in respect of their service to the Fund.

KV MORTGAGE FUND INC.

Notes to Financial Statements

Years ended February 28, 2017 and February 29, 2016

3. Significant accounting policies (continued):

(e) Preferred share compensation plan (continued):

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

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

This PSC plan expired as at February 28, 2017 with a new plan made effective as at March 1, 2017. The fair value of the PSC plan is determined by the issue price at the grant date of \$10 multiplied by the number of preferred shares issued. The expense is recognized into income over the same period that the preferred shares vest.

(f) Financial assets and liabilities:

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

Recognition and measurement of financial instruments

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

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

The Fund had neither available-for-sale, nor held-to-maturity instruments as at or during the years ended February 28, 2017 and February 29, 2016.

(g) Share capital:

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

KV MORTGAGE FUND INC.

Notes to Financial Statements

Years ended February 28, 2017 and February 29, 2016

3. Significant accounting policies (continued):

(h) New standards and interpretations not yet adopted:

In July 2014, the International Accounting Standards Board ("IASB") issued IFRS 9, Financial Instruments, to replace IAS 39, Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on classification and measurement of financial instruments. In addition, IFRS 9 includes a single expected-loss impairment model and a reformed approach to hedge accounting. This standard is effective for annual reporting periods beginning on or after January 1, 2018, with early adoption permitted. The Fund intends to adopt IFRS 9 in its financial statement for the annual period beginning March 1, 2018. The extent of the impact of adoption of the standard has not yet been determined.

4. Mortgage loan investments:

The following is a breakdown of the mortgage loan investments held by the Fund as at February 28, 2017 and February 29, 2016 by mortgage position:

		February 28, 2017		February 29, 2016
Interest in:				
First mortgages	95.4%	\$ 73,205,004	90.8%	\$ 64,976,201
KV second mortgages	2.0%	1,570,177	2.2%	1,570,177
Non-KV second mortgages	2.6%	2,000,000	7.0%	5,050,000
	100.0%	\$ 76,775,181	100.0%	\$ 71,596,378
Impairment loss provision		(150,000)		(150,000)
		\$ 76,625,181		\$ 71,446,378

Interest in KV second mortgages refers to the Fund's interest in second mortgages behind first position mortgages that are originated and serviced by the Fund Manager. Interest in Non-KV second mortgages refers to the Fund's interest in second mortgages behind first position mortgages that are not originated and serviced by the Fund Manager.

The following is a breakdown of the mortgage loan investments held by the Fund as at February 28, 2017 and February 29, 2016 by zoning of the mortgaged property:

		February 28, 2017		February 29, 2016
Interest in mortgages secured against:				
Residential zoned property	55.7%	\$ 42,739,746	53.8%	\$ 38,538,651
Commercial zoned property	33.6%	25,800,526	27.7%	19,826,175
Industrial zoned property	9.9%	7,637,299	16.4%	11,751,552
Mixed use property	0.8%	597,610	0.0%	-
Farmland	0.0%	-	2.1%	1,480,000
	100.0%	\$ 76,775,181	100.0%	\$ 71,596,378
Impairment loss provision		(150,000)		(150,000)
		\$ 76,625,181		\$ 71,446,378

KV MORTGAGE FUND INC.

Notes to Financial Statements

Years ended February 28, 2017 and February 29, 2016

4. Mortgage loan investments (continued):

Mortgage loan investments are secured on the real property located within Canada to which they relate and bear interest at a weighted average interest rate of 9.67% (February 29, 2016 – 10.09%). As at February 28, 2017, 90.6% of mortgage loan investments are secured by real property located within Alberta, 6.5% of mortgage loan investments are secured by property located in British Columbia, and 2.9% of mortgage loan investments are secured by property located in Saskatchewan (February 29, 2016 – all mortgage loan investments are secured by real property located within Alberta).

The Fund has recognized an impairment loss provision in the amount of \$150,000 (February 29, 2016 – \$150,000) representing management's estimated impairment on mortgage loan investments as at February 28, 2017. Changes in impairment loss provision on mortgage loan investments during the years ended February 28, 2017 and February 29, 2016 were as follows:

	February 28, 2017	February 29, 2016
Balance, beginning of year	\$ 150,000	\$ -
Prior year provisions recognized in net income	(150,000)	-
Current year provision	150,000	150,000
Balance, end of year	\$ 150,000	\$ 150,000

Principal repayments based on contractual maturity dates were as follows:

	February 28, 2017	February 29, 2016
Matured	\$ 2,346,437	\$ 1,274,855
Within one year	69,002,863	56,536,100
After one year but less than two years	5,425,881	13,785,423
	\$ 76,775,181	\$ 71,596,378

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

As at February 28, 2017, the Fund had three (February 29, 2016 – one) mortgage loan investments outstanding with a contractual maturity date past due.

As at February 28, 2017 the Fund, through the Fund Manager, was engaged in enforcement remedies against three (February 29, 2016 – three) mortgage loan investments as described in Note 11.

KV MORTGAGE FUND INC.

Notes to Financial Statements

Years ended February 28, 2017 and February 29, 2016

4. Mortgage loan investments (continued):

The aging of accrued interest receivables was as follows:

	February 28, 2017	February 29, 2016
Not past due	\$ 593,490	\$ 613,305
Past due 0-30 days	104,316	175,774
Past due 31-90 days	36,068	26,133
Past due more than 90 days	122,637	20,940
	856,511	836,152
Allowance for non-collectable interest	(62,708)	(21,000)
	\$ 793,803	\$ 815,152

Changes in the allowance for non-collectable interest on mortgage loan investments during the years ended February 28, 2017 and February 29, 2016 were as follows:

	February 28, 2017	February 29, 2016
Balance, beginning of year	\$ 21,000	\$ -
Prior year provisions recognized in net income	(21,000)	-
Current year provision	62,708	21,000
Balance, end of year	\$ 62,708	\$ 21,000

5. Loan payable:

During the year ended February 28, 2017, the Fund closed a \$6,000,000 (February 29, 2016 - \$3,000,000) revolving line of credit agreement with an arm's length party which it used to manage cash flow from time to time. The line of credit required payments of interest only on any outstanding principal balance. The agreement allowed for principal repayments on the line of credit at any time without penalty and matured on February 28, 2017. The Fund made five draws on the line of credit since the agreement's inception during the year-ended February 28, 2017 and the line of credit was repaid in full. Interest on the line of credit varied with the prime interest rate of a Chartered Canadian Bank plus a fixed interest rate component of 5.50% per annum.

6. Bank indebtedness:

On February 28, 2017, the Fund entered into a \$5,000,000 revolving operating line of credit facility agreement with a Chartered Canadian Bank. Bank indebtedness is used to manage cash flow when timing differences arise between mortgage loan investment advances, borrower repayments, and issuance and redemption of preferred shares.

The credit agreement requires monthly payments of interest only and a minimum of at least one full loan repayment prior to February 28, 2018. Amounts borrowed under the credit facility are due on demand and bear interest at a variable rate per annum of 1.50% above the bank's prime interest rate. Bank indebtedness is secured by a general security agreement.

KV MORTGAGE FUND INC.

Notes to Financial Statements

Years ended February 28, 2017 and February 29, 2016

7. Shareholders' equity:

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

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

The Class A common shares have a nominal value and are owned by certain shareholders and officers of the Fund Manager. Number of preferred and common shares issued and outstanding changed as follows:

Year ended February 28, 2017	Class A preferred shares	Class B preferred shares	Class A common shares
Shares outstanding, March 1, 2016	4,724,044	2,502,072	400
Issued for cash	440,433	107,640	-
Issued under share based compensation plan	2,964	-	-
Redeemed	(261,564)	(365,822)	-
Issued under dividend reinvestment plan	112,711	80,470	-
Shares outstanding, February 28, 2017	5,018,588	2,324,360	400

Year ended February 29, 2016	Class A preferred shares	Class B preferred shares	Class A common shares
Shares outstanding, March 1, 2015	4,011,150	2,009,830	400
Issued for cash	894,583	511,320	-
Issued under share based compensation plan	1,266	-	-
Redeemed	(339,650)	(98,287)	-
Issued under dividend reinvestment plan	156,695	79,209	-
Shares outstanding, February 29, 2016	4,724,044	2,502,072	400

(a) Redemptions:

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

KV MORTGAGE FUND INC.

Notes to Financial Statements

Years ended February 28, 2017 and February 29, 2016

7. Shareholders' equity (continued):

(a) Redemptions (continued):

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

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

(b) Dividends:

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

For the year ended February 28, 2017, the Fund declared dividends on Class A preferred shares of \$3,727,996 (2016 - \$3,600,815) on the issued and outstanding preferred shares. As at February 28, 2017 \$232,971 (February 29, 2016 - \$189,910) was payable to the Class A preferred shareholders.

For the year ended February 28, 2017, the Fund declared dividends on Class B preferred shares of \$1,891,583 (2016 - \$1,848,393) on the issued and outstanding preferred shares. As at February 28, 2017, \$87,800 (February 29, 2016 - \$76,680) was payable to the Class B preferred shareholders.

(c) Dividend reinvestment plan:

The Fund has a dividend reinvestment plan ("DRIP") available to Class A and Class B preferred shareholders. Under the DRIP, shareholders may enroll to have their dividends reinvested to purchase additional preferred shares of the same class. The preferred shares are issued from treasury at an amount of \$10.00 per share. For the year ended February 28, 2017, 112,711 (2016 - 156,695) Class A preferred shares were issued under the DRIP, resulting in reinvested dividends of \$1,127,107 (2016 - \$1,566,954). For the year ended February 28, 2017, 80,470 (2016 - 79,209) Class B preferred shares were issued under the DRIP, resulting in reinvested dividends of \$804,698 (2016 - \$792,089). Dividend reinvestments are recorded on a monthly basis.

KV MORTGAGE FUND INC.

Notes to Financial Statements

Years ended February 28, 2017 and February 29, 2016

8. Earnings pershare:

The following table reconciles the numerators and denominators of the basic and diluted earnings per share for the years ended February 28, 2017 and February 29, 2016.

February 28, 2017	Class A preferred shares	Class B preferred shares	Total
Net Income	\$ 3,741,100	\$ 1,887,221	\$ 5,628,321
Basic weighted average number of shares	4,828,402	2,435,716	7,264,118
Dilutive effect of potential shares	-	-	-
Diluted weighted average number of shares	4,828,402	2,435,716	7,264,118
Earnings per share - basic and diluted	0.77	0.77	0.77

February 29, 2016	Class A preferred shares	Class B preferred shares	Total
Net Income	\$ 3,599,998	\$ 1,849,210	\$ 5,449,208
Basic weighted average number of shares	4,538,981	2,331,536	6,870,517
Dilutive effect of potential shares	-	-	-
Diluted weighted average number of shares	4,538,981	2,331,536	6,870,517
Earnings per share - basic and diluted	0.79	0.79	0.79

For the years ended February 28, 2017 and February 29, 2016, the Fund had no outstanding convertible instruments that would trigger conversation of potential preferred shares to preferred shares.

9. Related party balances and transactions:

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

(a) Syndicate mortgage loan investments:

As at February 28, 2017, the Fund was co-invested as a syndicate with two (February 29, 2016 – three) related parties in four (February 29, 2016 – six) separate mortgage loan investments secured by real estate that was owned by third parties. As at February 28, 2017, the Fund's share in the mortgage loan investments totaled \$7,078,884 (February 29, 2016 - \$8,831,013).

KV MORTGAGE FUND INC.

Notes to Financial Statements

Years ended February 28, 2017 and February 29, 2016

9. Related party balances and transactions (continued):

(b) Preferred shareholders:

The following is a breakdown of Class A and B preferred shares held by related parties as at February 28, 2017 and February 29, 2016:

	February 28, 2017	February 29, 2016
Class A preferred shares		
Other key management and related corporations	\$ 964,977	\$ 774,093
Independent directors and LRC members	571,913	494,016
Non-independent directors and immediate family	-	640,294
Class B preferred shares		
Other key management and related corporations	21,088	32,685
Non-independent directors	50,343	50,266
Total shares held by related parties	\$ 1,608,321	\$ 1,991,354

(c) Transactions during the period:

(i) Service fees:

Service fees equal to 1% per annum of the paid up capital for outstanding preferred shares are paid by the Fund as compensation for capital raised. The Fund pays each registered dealer, including the Fund Manager, service fees in respect of outstanding Class A preferred shares that are held by clients of that registered dealer. In respect of outstanding Class B preferred shares, the Fund pays service fees to the Fund Manager. Service fees are calculated and paid at the end of each fiscal quarter. For the year ended February 28, 2017, the Fund incurred service fees to the Fund Manager of \$498,060 (2016 - \$460,850) with \$126,481 (February 29, 2016 - \$119,873) of this amount included in accounts payable at February 28, 2017.

(ii) Management fees paid to Fund Manager:

The Fund Manager is responsible for the day-to-day operations, including administration of the Fund's mortgage loan investments. In respect of these services, the Fund pays to the Fund Manager a management fee. For the year ended February 28, 2017 the Fund incurred management fees of \$392,245 (2016 - \$364,471) with \$140,832 (February 29, 2016 - \$72,471) of this amount included in accounts payable at February 28, 2017.

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

KV MORTGAGE FUND INC.

Notes to Financial Statements

Years ended February 28, 2017 and February 29, 2016

9. Related party balances and transactions (continued):

(ii) Management fees paid to Fund Manager (continued)

Subsequent to year end, on March 1, 2017 the Fund entered into a new Management Agreement with the Fund Manager. Under the new agreement, the Fund Manager will be paid as follows: (i) On a monthly basis, 0.083% of the total assets of the Fund (the "Base Fee"); and (ii) on an annual basis, 20% of any portion of the Fund's net income that exceeds the level of net income required to provide the Fund with an internal rate of return ("IRR") equal to the average of the 2 year Government of Canada benchmark bond yield (series V122538), plus 450 basis points (the "Performance Fee"). For purposes of calculating the Base Fee, a simple average of the Fund's opening and closing total assets is calculated using the un-audited monthly statements of financial position. Base Fees include applicable taxes, and are disbursed to the Fund Manager on a monthly basis. The Performance Fee will be calculated using the Fund's annual audited statement of comprehensive income, including the Base Fee as an expense in such calculation. Performance Fees include applicable taxes, and will be disbursed to the Fund Manager on an annual basis. Further, in the event all of the real estate security of a mortgage loan investment has been monetized and the nominal aggregate cash flows of such investment to the Fund are negative, the Fund Manager will pay to the Fund a reimbursement that is calculated as the lesser of: i) the amount required to bring the Fund's nominal aggregate cash flows of such mortgage loan investment to zero; and ii) two times that portion of the associated fees paid to the Fund Manager by the applicable borrower in respect of such mortgage loan investment by the Fund. Any amounts recovered from a mortgage loan investment on which the Fund has received payment of a reimbursement will first be paid to the Fund until such time as its nominal aggregate cash flows, calculated inclusive of the reimbursement, are zero, then paid to the Fund Manager in an amount equal to the reimbursement, with any residual amounts paid to the Fund.

(iii) Compensation to directors:

As at February 28, 2017, the Fund has four directors that are independent of the Fund Manager on its board of directors. In respect of their services during the year, independent directors were provided compensation under the PSC plan as described in Note 3, or alternatively elected to receive annual cash compensation in the form of a \$5,000 and \$2,500 retainer for director and chair offices, respectively. For directors whose appointments were less than a full year, the cash retainer was prorated based on the number of months served.

For the year ended February 28, 2017, the Fund paid remuneration fees to directors of \$19,375 (2016 – \$13,750). The Fund has issued 1,500 Class A preferred shares under the PSC at February 28, 2017 (February 29, 2016 – 708). During the year ended February 28, 2017, \$15,401 (2016 – \$7,496) of share based payments was included in director fees.

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

KV MORTGAGE FUND INC.

Notes to Financial Statements

Years ended February 28, 2017 and February 29, 2016

9. Related party balances and transactions (continued):

(iv) Compensation to LRC members:

As at February 28, 2017, the Fund has four independent members of the LRC. In respect of their services during the year, independent LRC members were provided compensation under the PSC plan as described in Note 3, or alternatively elected to receive annual cash compensation in the form of a \$2,000 and \$1,000 retainer for independent LRC member and chair offices, respectively. In addition to annual compensation amounts, members of the LRC that were independent of the Fund Manager were provided compensation of \$250 for each meeting they attended during the year.

For the year ended February 28, 2017, the Fund paid remuneration fees to independent LRC members' of \$14,500 (2016 - \$12,750). The Fund has issued 1,400 Class A preferred shares under the PSC at February 28, 2017 (February 29, 2016 - 492). During the year ended February 28, 2017, \$14,241 (2016 - \$5,164) of share based payments was included in LRC fees.

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

(i) Due to Fund Manager:

Amounts due to the Fund Manager by the Fund were comprised of \$140,832 (February 29, 2016 - \$72,471) of management fees, \$126,481 (February 29, 2016 - \$119,873) of service fees and \$1,415 (February 29, 2016 - \$nil) for the reimbursement of Fund operating expenses paid by the Fund Manager for the fiscal quarter ended February 28, 2017.

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

10. Fair value of financial instruments:

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

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

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

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

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

KV MORTGAGE FUND INC.

Notes to Financial Statements

Years ended February 28, 2017 and February 29, 2016

10. Fair value of financial instruments (continued):

(a) Mortgage loan investments:

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

(b) Bank indebtedness:

The fair value of bank indebtedness approximates its carrying value as the facility is due on demand (level 3 of the fair value hierarchy).

(c) Other financial assets and liabilities:

The fair value of cash and cash equivalents are determined on level 1 inputs.

The fair value of accrued interest receivable, amounts due to Fund Manager, accounts payable and accrued expenses, and dividends payable approximate their carrying values due to their short-term maturities (level 3 of the fair value hierarchy).

During the year ended February 28, 2017, there were no transfers between levels 1, 2 and 3 inputs (February 29, 2016 – none).

11. Risk management:

(a) Interest rate risk:

Interest rate risk is the risk that the fair value or future cash flows of the financial assets or liabilities will fluctuate because of changes in market interest rates.

At February 28, 2017, no mortgage loan investments (February 29, 2016 - nil) bear interest at variable rates. Further, the Fund does not have material fair value risk on its mortgage loan investment portfolio primarily as a result of the short term nature of the maturity dates of the mortgage loan investments.

At February 28, 2017, the Fund's bank indebtedness (February 29, 2016 - nil) bears interest at a variable rate which creates cash flow risk as changes in the bank's prime interest rate will cause fluctuations in interest payments.

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

(b) Credit risk:

The Fund's maximum exposure to credit risk is represented by the recorded values of mortgage loan investments and the accrued interest receivable on mortgage loan investments.

KV MORTGAGE FUND INC.

Notes to Financial Statements

Years ended February 28, 2017 and February 29, 2016

11. Risk management(continued):

(b) Credit risk (continued):

Counterparties to mortgage loan investments may be unable to honour their debt commitments. Any instability in the real estate sector and/or an adverse change in economic conditions in Canada or other conditions impacting specific mortgage borrowers could result in financial difficulty for borrowers. Financial difficulty experienced by these borrowers could leave them unable to fulfill their obligations.

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

As of February 28, 2017 the Fund, through the Fund Manager, was engaged in enforcement remedies in relation to three (February 29, 2016 – three) mortgage loan investments. As of February 28, 2017 mortgage loan investments engaged in enforcement remedies totaled \$1,711,260 (February 29, 2016 - \$2,454,855) in gross principal and \$177,770 (February 29, 2016 - \$42,778) in gross accrued interest receivable. As at February 28, 2017, the Fund recognized an impairment loss and provision for non-collectable interest in the amounts of \$150,000 and \$62,708 (February 29, 2016 - \$150,000 and \$21,000), respectively.

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

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

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

(c) Liquidity risk:

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

KV MORTGAGE FUND INC.

Notes to Financial Statements

Years ended February 28, 2017 and February 29, 2016

11. Risk management(continued):

(c) Liquidity risk (continued):

Contractual obligations as of February 28, 2017 and February 29, 2016 were due as follows:

	February 28, 2017		
	Total	Less than 1 year	Greater than 1 year
Due to Fund Manager	\$ 268,728	\$ 268,728	\$ -
Accounts payable and accrued expenses	89,744	89,744	-
Dividends payable	320,771	320,771	-
Bank indebtedness	3,492,848	3,492,848	-
Liabilities and obligations	\$ 4,172,091	\$ 4,172,091	\$ -

	February 29, 2016		
	Total	Less than 1 year	Greater than 1 year
Due to Fund Manager	\$ 192,344	\$ 192,344	\$ -
Accounts payable and accrued expenses	64,514	64,514	-
Dividends payable	266,590	266,590	-
Liabilities and obligations	\$ 523,448	\$ 523,448	\$ -

(d) Capital risk management:

The Fund defines its current capital structure to include common shares, Class A preferred shares, Class B preferred shares and retained earnings.

The calculation of total capital was as follows:

	February 28, 2017	February 29, 2016
Class A preferred shares	\$ 50,156,020	\$ 47,240,436
Class B preferred shares	23,229,743	25,020,722
Class A common shares	1,000	1,000
Retained earnings	8,742	-
Total capital	\$ 73,395,505	\$ 72,262,158

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

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

KV MORTGAGE FUND INC.

Notes to Financial Statements

Years ended February 28, 2017 and February 29, 2016

11. Risk management(continued):

(d) Capital risk management (continued):

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

In addition, the asset allocation model dictates the allocation of the mortgage loan investments based upon geographical, borrower, zoning, term, security position and loan-to-appraised value criteria.

Bank indebtedness covenants require that certain thresholds are not violated for cash flow coverage ratio, indebtedness to tangible net worth ratio, and current ratio. Further, bank indebtedness covenants require that the Fund maintain a minimum tangible net worth.

As at February 28, 2017, the Fund was in compliance with its investment restrictions, the allocation model parameters and bank indebtedness covenants.

12. Comparative information:

The comparative information in these financial statements have been reclassified, where applicable, to conform to the current period presentation.

13. DATE AND CERTIFICATE

DATED JUNE 30, 2017

THIS OFFERING MEMORANDUM DOES NOT CONTAIN A MISREPRESENTATION.

signed "Shafin Kanji"

signed "Aleem Virani"

SHAFIN KANJI

ALEEM VIRANI

Chief Executive Officer, Director and Promoter

President, Director and Promoter

signed "Scott Alanen"

SCOTT ALANEN

Chief Financial Officer