

OFFERING MEMORANDUM

This Offering Memorandum constitutes a private offering of securities only in those jurisdictions and to those persons where and to whom they may be lawfully sold and therein only by those entities permitted to sell such securities. This Offering Memorandum is not, and under no circumstances is it to be construed as a prospectus, advertisement or public offering of the securities referred to herein. No securities regulatory authority or regulator has assessed the merits of these securities or reviewed this Offering Memorandum. Any representation to the contrary is an offence. This is a risky investment. See "Risk Factors". Persons who will be acquiring securities pursuant to this Offering Memorandum will not have the benefit of the review of the material by the securities commissions or similar authorities in Canada. The securities offered hereunder will be issued under exemptions from the registration and prospectus requirements of the applicable securities laws of the Province of British Columbia and the rules, regulations and policies thereunder and will be subject to certain resale restrictions. These securities will not be offered for sale in the United States of America.

November 21, 2018

Continuous Offering



Suite 212 – 5455 152nd Street
Surrey, British Columbia V3S 5A5
Email: parmpurewall@phlcapital.com
Telephone: (604) 579-0849
Fax: (604) 575-7410

\$1.00 per Class A Share

Minimum Subscription: \$25,000

MortEq Lending Corp. (the "Company") is a mortgage investment corporation incorporated under the *Business Corporations Act* (British Columbia) on November 16, 2006. The Company is managed by PHL Capital Corp. (the "Administrator").

The Company is offering on a private placement basis an unlimited number of class A redeemable, non-voting preferred shares (the "Class A Shares") in the capital of the Company at an initial price of \$1.00 per Class A Share (the "Offering"). Each Class A Share represents a beneficial interest in the profits of the Company, which will principally be comprised of quarterly dividends paid in cash or in shares of the Company. Class A Shares are distributed exclusively by PHL Financial Group Ltd. ("PHL Financial"), an affiliate of the Administrator.

The Offering is being made with reliance on certain exemptions from the registration and prospectus filing requirements available under the securities laws of the Province of British Columbia. As a result, the Class A Shares offered herein will be subject to the applicable resale restrictions under these laws.

You will be restricted from selling your securities for an indefinite period. See "Resale Restrictions". There are certain risk factors inherent in an investment in the Class A Shares and in the activities of the Company. See "Risk Factors".

Subscriptions will be received if, as and when accepted, subject to prior sale and satisfaction of the conditions set forth under "Subscription Procedure" and to the right of the Company to close the subscription books at any time without notice. The Offering is continuous and Class A Shares will be available for sale in accordance with this Offering Memorandum. Purchasers will have two business days to cancel their agreement to purchase these securities. If there is a misrepresentation in this Offering Memorandum, purchasers will have the right to sue either for damages or to cancel their agreement to purchase these securities. See "Subscription Procedure" and "Purchasers' Rights".

DISCLAIMERS

This Offering Memorandum does not constitute, and may not be used for or in conjunction with, an offer or solicitation by anyone in any jurisdiction or in any circumstances in which such offer or solicitation is not authorized, or to any person to whom it is unlawful to make such an offer or solicitation. You are directed to inform yourself of and observe such restrictions and all legal requirements of your jurisdiction of residence in respect of the acquisition, holding and disposition of the securities offered hereby. Subscribers should thoroughly review this Offering Memorandum and are advised to consult with their professional advisors to assess the business, legal, income tax and other aspects of this investment. The securities offered hereby will be issued only on the basis of information contained in this Offering Memorandum and no other information or representation is authorized or may be relied upon as having been authorized by the Company. Any subscription for the securities offered hereby made by any person on the basis of statements or representations not contained in this Offering Memorandum or so provided, or inconsistent with the information contained herein or therein, will be solely at the risk of such person.

This Offering Memorandum is confidential. By their receipt hereof, prospective Subscribers agree that they will not transmit, reproduce or make available to anyone, other than their professional advisors, this Offering Memorandum or any information contained herein.

FORWARD LOOKING STATEMENTS

Certain statements in this Offering Memorandum as they relate to the Company and its operations are "forward-looking statements". Any statements that express or involve discussions with respect to predictions, expectations, beliefs, plans, projections, objectives, assumptions or future events or performance (often, but not always, using words or phrases such as "expects", "does not expect", "is expected", "anticipates", "does not anticipate", "plans", "estimates", "believes", "does not believe" or "intends", or stating that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or achieved) are not statements of historical fact and may be forward-looking statements. These forward-looking statements include, but are not limited to, statements relating to: the risks relating to the activities of the Company, the Company's expectations of demand for alternative mortgage financing, the Company's investment objectives, the Company having access to the New Line of Credit (as defined herein) and the timing thereof, PHL Financial applying to register as an exempt market dealer and the results and effects thereof, PHL Financial's ability to rely upon the transitional provisions of BCI 32-517 (as defined herein), that the Company's investments in mortgage loans will meet the criteria for mortgage investment corporations under the Income Tax Act (Canada) and will qualify for and receive special tax treatment, that a net return on investment in the range of 7% to 10% can be achieved, the Company's operating policy, the Company expecting tighter conditions in the credit markets to persist for several years into the future and Company expecting steady growth in terms of new investor deposits and mortgage receivables; and that the Company will invest in first, second and in exceptional cases third mortgages on residential properties and commercial and industrial properties in British Columbia. Forward-looking statements are based on expectations, estimates and projections at the time the

statements are made that involve a number of risks and uncertainties which would cause actual results or events to differ materially from those presently anticipated. For a description of these and other risks associated with an investment in the Class A Shares, see "Risk Factors". The Company does not undertake any obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

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Offering Memorandum

Date: November 21, 2018

The Company

Name: MortEq Lending Corp., a mortgage investment company formed under the laws of the Province of British Columbia

Head office: Suite 212-5455 152nd Street
Surrey, British Columbia V3S 5A5

Phone #: (604) 579-0849

E-mail address: parmpurewall@phlcapital.com

Fax #: (604) 575-7410

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

Reporting issuer No

SEDAR filer No

The Offering

Securities offered: An unlimited number of Class A Non-Voting Preferred Shares (the "Class A Shares"). Each Class A Share represents a beneficial interest in the profits of the Company. Each Class A Share will have the attributes and characteristics as set out under the heading "Terms of Securities".

Price per security: \$1.00 per Class A Share.

Minimum/Maximum offering: **There is no minimum. The maximum is \$200,000,000. You may be the only purchaser. Funds available under the Offering may not be sufficient to accomplish our proposed objectives.**

Minimum subscription amount: The minimum number of Class A Shares that may be subscribed for by any one Subscriber is 25,000 Class A Shares at a subscription price of \$1.00 per Class A Share for a total of \$25,000. For subsequent investments by existing Class A Shareholders holding at least 25,000 Class A Shares, the minimum number of Class A Shares that may be subscribed for is 5,000 Class A Shares at a subscription price of \$1.00 per Class A Share for a total of \$5,000. The Company reserves the right to change the minimum amount at any time and from time to time.

Payment terms: The full subscription price is payable upon subscription, by cheque, electronic transfer or by bank draft. No financing of the subscription price will be provided by the Company or the Administrator.

Proposed closing date(s): The closing of the sale of Class A Shares offered hereunder will take place at such times as are chosen by the Company (each, a "Closing"). The Company reserves the right to close the Offering at any time as subscriptions are received.

Income tax consequences: There are important tax consequences to these securities (see "Income Tax Consequences and Eligibility for Investment").

Selling agent: Class A Shares are distributed exclusively by PHL Financial, an affiliate of the Administrator. See "Compensation Paid to Dealers".

Resale restrictions

As there is no market for Class A Shares, it may be difficult or even impossible to sell them. Class A Shares are subject to resale restrictions and you will be restricted from selling your Class A Shares for an indefinite period (see "Trading and Resale Restrictions"). However, you may elect to redeem any or all of your Class A Shares at certain times if you follow the procedures established (see "Terms of Securities").

Purchaser's rights

You have two business days to cancel your agreement to purchase these securities. If there is a misrepresentation in this Offering Memorandum, you have the right to sue either for damages or to cancel the agreement. See "Purchasers' Rights".

No securities regulatory authority has assessed the merits of these securities or reviewed this Offering Memorandum. Any representation to the contrary is an offence. This is a risky investment (see "Risk Factors").

DEFINITIONS

The following terms used in this Offering Memorandum have the meanings set out below:

"Administration Fee"	means the fees to be paid by the Company to the Administrator in respect of the mortgage servicing and administrative services provided by the Administrator in accordance with the Administrative and Services Agreement.
"Administrative and Services Agreement"	means the Administrative and Services Agreement between the Company and PHL Capital Corp. dated February 16, 2016 in respect of mortgage administration and other ancillary services provided by the Administrator to the Company.
"Administrator"	means PHL Capital Corp., a British Columbia company.
"Bank"	means Canadian Western Bank.
"BCI 32-517"	means British Columbia Instrument 32-517 <i>Exemption from Dealer Registration Requirement for Trades in Securities of Mortgage Investment Entities</i> .
"BCSA"	means the <i>Securities Act</i> (British Columbia).
"Class A Shareholder"	means a person who holds directly or indirectly a Class A Share.
"Class A Shares"	means the Class "A" redeemable, non-voting preferred shares with a par value of \$1.00 in the capital of the Company offered pursuant to this Offering Memorandum.
"Company"	means MortEq Lending Corp., a mortgage investment company established under the <i>Business Corporations Act</i> (British Columbia)
"Credit Agreement"	means the credit agreement between the Company and the Bank dated July 27, 2016, in respect of the Line of Credit granted to the Company.
"Directors"	means the board of Directors of the Company.

"Eligible Owner"	means: (i) a retirement savings plan registered in accordance with the provisions of the Tax Act held for the benefit of a Person, (ii) a retirement savings plan registered in accordance with the provisions of the Tax Act held for the benefit of the spouse of a Person (iii) a trust governed by a deferred profit sharing plan (D.P.S.P.) held for the benefit of a Person, (iv) a trust governed by a Registered Pension Plan held for the benefit of a Person, (v) a registered education savings plan (RESP) held for the benefit of a Person, (vi) a tax free saving account for the benefit of a Person; and (vii) any saving plan created by either the Government of Canada or a Provincial Government in Canada where the plan is held for the benefit of a Person.
"Invested Mortgage Portfolio"	means the Company's mortgage portfolio consisting of mainly investments in Mortgages, the composition of which varies over time.
"Lending Committee"	means the lending committee appointed by the Directors of the Company
"Line of Credit"	means the \$50,000,000 secured line of credit the Bank has authorized for use by the Company subject to the terms and conditions of the Credit Agreement.
"LTV"	means the loan to value ratio.
"MIC"	means a "mortgage investment corporation" as defined in the Tax Act.
"Mortgage"	means any residential or commercial mortgage containing a fixed charge over Real Property located in Canada, primarily within British Columbia.
"New Line of Credit"	means the \$100,000,000 secured operating line of credit the Bank and the Royal Bank of Canada have authorized for use by the Company subject to the terms and conditions of the New Loan Agreement, which replaces the Line of Credit.
"New Loan Agreement"	means the syndicated loan agreement with the Bank and the Royal Bank of Canada the Company dated November 21, 2018 in respect of the New Line of Credit granted to the Company.
"NI 45-106"	means National Instrument 45-106 – <i>Prospectus and Registration Exemptions</i> .
"Offering"	means the offering by the Company of Class A Shares pursuant to this Offering Memorandum or in any amendments hereto.
"Person"	means a shareholder who is a human being.
"PHL Financial"	means PHL Financial Group Ltd., a British Columbia company, and the Company's exclusive selling agent.

"Plans"	has the meaning given to it at Item 6.3 hereof.
"Real Property"	means a fee simple or leasehold interest in real property located in Canada, primarily within British Columbia.
"Subscriber"	means a subscriber of Class A Shares pursuant to the Offering.
"Subscription Agreement"	means a subscription agreement for Class A Shares in such form as the Company or the Administrator will prescribe from time to time.
"Tax Act"	means the <i>Income Tax Act</i> (Canada) and the regulations promulgated thereunder, as amended from time to time.
"\$"	means Canadian dollars.

ITEM 1

USE OF AVAILABLE FUNDS

1.1 Funds

The following table describes the net proceeds from the Offering:

		Assuming Minimum Offering	Assuming Maximum Offering
A	Amount to be raised by the Offering	\$0 ⁽¹⁾	\$200,000,000
B	Selling commissions and fees	nil	nil
C	Estimated offering costs (e.g., legal, accounting, audit)	\$20,000	\$20,000
D	Net proceeds: $D = A - (B+C)$	(\$20,000)	\$199,980,000
E	Additional sources of funding required	\$20,000 ⁽²⁾	nil
F	Working capital deficiency	nil	nil
G	Total: $G = (D+E) - F$	\$0	\$199,980,000

Notes:

(1) There is no minimum Offering. The Company may raise only a portion of the maximum Offering.

(2) If necessary the Company will access the Line of Credit with the Bank to provide this additional funding. See "Material Agreements – Credit Agreement".

If necessary, the Administrator may lend and pay on behalf of the Company all costs incurred in connection with the preparation for and completion of the Offering, including legal and accounting fees which are estimated to be \$20,000. All costs in connection with the Offering funded by the Administrator will be repaid, without interest from funds received by the Company from Subscribers or from income generated by the Company.

1.2 Use of Available Funds

The Company will invest the net proceeds of the Offering in Mortgages in accordance with its investment objectives and strategies set out herein.

Description of intended use of net proceeds – order of priority	Assuming Minimum Offering	Assuming Maximum Offering
Investment in Mortgages in compliance with the Tax Act (See "Our Business").	\$0	\$196,980,300
Yearly Administration Fees	\$0	\$2,999,700
Total	\$0	\$199,980,000

1.3 Reallocation

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

ITEM 2

BUSINESS OF MORTEQ LENDING CORP.

2.1 Structure

The Company was incorporated on November 16, 2006 under the *Business Corporations Act* (British Columbia). The Company qualifies as a "mortgage investment corporation" ("MIC") (within the meaning of subsection 130.1(6) of the Tax Act).

2.2 Our Business

The Company currently qualifies as a MIC and anticipates that this should effectively enable the Company to operate as a tax-free "flow through" conduit of profit to its shareholders since it does not pay income taxes on net earnings from which dividends are paid.

The business of the Company is restricted by the Tax Act as follows:

- (a) its activities are passive and of an investment nature;
- (b) its only undertaking is the investing of funds;
- (c) it does not invest its funds in real property or leasehold interests situated outside Canada;
- (d) it does not invest its funds in debts of non-residents, except those secured on Canadian real property;
- (e) it does not invest its funds in shares of non-resident corporations;
- (f) at least 50% of the cost amount of all of its property consists of bank deposits or debts secured on Canadian homes or housing projects;
- (g) no more than 25% of the cost amount of all of its properties consist of real property or leasehold interests herein unless acquired through foreclosure;
- (h) it restricts its net leveraging to 3:1 unless more than two-thirds of its investments are in residential mortgages and bank deposits, in which case it is entitled to 5:1 leveraging;
- (i) no one shareholder of the Company may own, directly or indirectly, at any time more than 25% of the issued and outstanding shares of any class of the Company; and
- (j) there must be, at minimum, 20 non-related shareholders of the Company during each year of its continuance.

Investment Objective

The Company intends to provide its Class A Shareholders with the opportunity to participate in a professionally managed and diversified portfolio of residential and other mortgage loans secured by real property located within British Columbia. The Company distributes all of its profits to Class A Shareholders by way of quarterly dividends in cash or in shares of the Company and is not taxed on its earnings.

The investment policy of the Company is designed to allow it to qualify for the special tax treatment afforded to MICs under the Tax Act. The policy requires the Company to invest the majority of its assets in residential and commercial mortgages, cash on hand and deposits. The Company has arranged financing through the Line of Credit.

By leveraging the capital base of the Company, investing prudently and charging borrowers "user" fees, it is anticipated that a net return on investment (after payment of all expenses of the Company) in the range of 7% to 10% can be achieved. There can be no assurance or guarantees that such returns will be obtained.

The annual rates of return of the dividends paid to the Class A Shareholders since the Company's fiscal year ended August 31, 2008 are as follows:



The types of mortgage loans in which the Company has invested and will invest in, are consistent with the criteria for MICs and for so long as the Company meets these criteria, it will be accorded "flow through" tax treatment and not be taxed on any of its earnings so long as all profits after expenses are paid out in the form of dividends, either in shares or cash.

The relationship between the Company's cash flows from operating activities and profit or loss, and its historical distributed cash amounts can be summarized in further detail as follows:

	Cash Flow:	Accumulated for the year ended August 31, 2018	Previously completed fiscal years	
			(2017)	(2016)
A.	Cash flows from operating activities	(\$57,313,516)	(\$64,018,788)	(\$44,763,314)
	Add back changes in mortgages receivable	<u>\$217,459,384</u>	<u>\$168,847,125</u>	<u>\$90,022,772</u>
		\$160,145,868	\$104,828,337	\$45,259,458
B.	Profit or loss	\$14,490,573	\$9,179,573	\$5,364,048
C.	Actual cash distributions paid or payable relating to the period	\$7,018,702	\$4,589,841	\$2,330,054
D.	Excess (shortfall) of cash flows from operating activities over cash distributions paid (A) – (C)	\$153,127,166	\$100,238,496	\$42,929,404
E.	Excess (shortfall) of profit or loss over cash distributions paid (B) – (C)	\$7,471,871	\$4,589,732	\$3,033,994

The Company's dividends are paid quarterly and not guaranteed. The returns will fluctuate from year to year mainly due to the Company's ability to deploy its capital and avoid losses on its mortgage portfolio. The Company's ability to deploy its capital is influenced by the state of the Greater Vancouver and Fraser Valley alternative mortgage market. The Greater Vancouver and Fraser Valley alternative mortgage market is influenced by factors such as the price of real estate, interest rates, lending competition for alternative mortgages, employment conditions and general economic activity. The Company's annualized return for 2018 was 7.90%.

The Company's annualized rate of return of the dividends paid to the holders of Class A Shares for 2018 was 7.90%, which resulted in a distribution of dividends of \$14,490,573 of which \$7,018,702 was paid in cash from operating activities and the remaining \$7,471,871 was reinvested in Class A Shares through the reinvestment option.

Operating Policy

The Company invests in first, second, and in exceptional cases third mortgages on residential properties such as single family dwellings, duplexes, townhouses, condominium units, land or multiple family dwellings such as apartment buildings, including properties under construction, providing that in so doing the Company continues to qualify as a MIC. The Company also invests in mortgages on commercial and

industrial properties including properties under construction. The Company invests in Mortgages primarily in the Greater Vancouver and Fraser Valley regions of British Columbia with terms of one year or less and attempts to stagger the maturities in order to produce an orderly turnover of assets and liabilities.

The Company generally requires a current appraisal, with every Mortgage application, prepared by a member of the Accredited Appraisal Canadian Institute or Canadian Residential Appraiser. Mortgage investments generally do not exceed 75% of the appraised value of the subject property at the date of advance. Mortgage investments are approved by the lending committee (the "Lending Committee") appointed by the Directors of the Company. Mortgage investments are only made where appraisals and all other relevant materials, including credit and financial reports are satisfactory to the Lending Committee. All Mortgages must be registered on title to the subject property in the name of the Company forthwith upon funding.

Temporary surplus cash funds not invested in Mortgages are invested in short term deposits, savings accounts or government guaranteed income certificates.

The Company does not hold as part of its property any indebtedness, whether by way of mortgage or otherwise, of a person who is an annuitant, beneficiary or an employer, as the case may be, under the governing plan of trust or of any other person who does not deal at arm's length with that person.

Mortgage Portfolio

The Company's assets consist of mortgages secured against real estate. The mortgage portfolio composition as of August 31, 2018 was as follows:

Mortgage Portfolio Composition Data

	2018
Total Mortgages:	273
Residential Mortgages:	92%
Commercial Mortgages:	8%
1st Mortgages:	82%
2nd Mortgages:	18%
Average Mortgage:	\$ 889,000
Average LTV:	54%

Total mortgage investments of \$242,793,093 are based on authorized mortgages; total mortgages funded as of August 31, 2018 were \$231,903,350 with the balance to be funded as construction and/or interest payment draws.

The mortgage portfolio (based on total mortgages funded as of August 31, 2018) can be summarized in further detail as follows:

August 31, 2018								
Location of underlying property	Number of mortgages	Total 1st mortgages	Total 2nd mortgages	Prior encumbrances	Syndicate portion	Total mortgages	Total value	Average LTV
Abbotsford	9	\$ 8,303,591	\$ 95,000	\$ 458,000	\$ -	\$ 8,856,591	\$ 16,300,000	54.33%
Aldergrove	1	\$ 1,225,000	\$ -	\$ -	\$ -	\$ 1,225,000	\$ 2,000,000	61.25%
Burnaby	22	\$ 9,163,750	\$ 10,227,000	\$ 8,937,872	\$ -	\$ 28,328,622	\$ 52,518,400	53.94%
Chilliwack	1	\$ 600,000	\$ -	\$ -	\$ 90,000	\$ 690,000	\$ 952,380	72.45%
Coquitlam	10	\$ 6,330,000	\$ 1,107,500	\$ 1,403,676	\$ -	\$ 8,841,176	\$ 16,100,800	54.91%
Delta	13	\$ 1,960,000	\$ 1,744,500	\$ 5,291,943	\$ -	\$ 8,996,443	\$ 15,765,000	57.07%
East Vancouver	1	\$ 700,000	\$ -	\$ -	\$ -	\$ 700,000	\$ 1,950,600	35.89%
Langley	27	\$ 40,552,000	\$ 1,780,000	\$ 2,717,625	\$ 51,250	\$ 45,100,875	\$ 84,364,000	53.46%
Maple Ridge	5	\$ 973,000	\$ 125,000	\$ 586,496	\$ -	\$ 1,684,496	\$ 2,920,000	57.69%
Mission	3	\$ 737,500	\$ 185,000	\$ 356,000	\$ -	\$ 1,278,500	\$ 2,910,000	43.93%
North Vancouver	6	\$ 2,243,000	\$ 519,000	\$ 1,648,568	\$ -	\$ 4,410,568	\$ 7,113,905	62.00%
Port Coquitlam	4	\$ 1,525,000	\$ 490,000	\$ 1,032,992	\$ -	\$ 3,047,992	\$ 6,660,600	45.76%
Richmond	8	\$ 6,855,000	\$ 445,000	\$ 865,790	\$ -	\$ 8,165,790	\$ 14,119,000	57.84%
Surrey	109	\$ 76,676,752	\$ 13,517,500	\$ 28,761,549	\$ 2,967,077	\$ 121,922,877	\$ 221,997,810	54.92%
Vancouver	36	\$ 25,370,000	\$ 9,653,000	\$ 17,031,197	\$ -	\$ 52,054,197	\$ 97,697,700	53.28%
West Vancouver	11	\$ 7,500,000	\$ 4,238,000	\$ 9,892,736	\$ 300,000	\$ 21,930,736	\$ 51,473,800	42.61%
White Rock	7	\$ 7,325,000	\$ 627,000	\$ 156,000	\$ 3,000,000	\$ 11,108,000	\$ 18,644,200	59.58%
	273	\$ 198,039,593	\$ 44,753,500	\$ 79,140,442	\$ 6,408,327	\$ 328,341,862	\$ 613,488,195	54%

Notes:

- (1) LTV is the acronym for "Loan to Value". The LTV of any specific mortgage is equal to the sum of the Company's mortgage plus any prior mortgages divided by the value the property. The LTV calculations in the above table were completed at the time the mortgages were originally funded. Thus, the above calculations are not an exact indicator of the actual LTV(s) as of August 31, 2018 as the property prices and/or mortgage values may have changed since the time the mortgage was originally funded.

Administrator

To achieve its objectives, the Company will benefit from the Administrator's expertise and experience with respect to residential and commercial real estate investments.

The Administrator provides all mortgage administration and other ancillary services required by the Company and is responsible for execution of the Company's investment strategy, including processing and administering of mortgage loans on behalf of the Company, providing day to day administrative services, providing monthly reports on the operation of the Company, communicating with shareholders of the Company, preparing accounting information for the auditors of the Company and providing marketing and business development assistance to the Company.

The Administrator was incorporated under the laws of the Province of British Columbia on July 22, 2011 under incorporation number BC0916179. The head office and principal business address of the Administrator is Suite 212 – 5455 152nd Street, Surrey, British Columbia. The registered office of the Administrator is 6345 – 197th Street, Langley, British Columbia, V2Y 1K8. The Administrator has two shareholders, PHL Management Corp. and Copper Island Investments Inc. Parminder Purewall and Steven Ponte are Directors of the Company and shareholders of PHL Management Corp. and Copper Island Investments Inc., respectively. Parminder Purewall and Kulvinder Purewall are the sole shareholders of PHL Management Corp. Steven Ponte is the sole shareholder of Copper Island Investments Inc.

Directors, officers and employees of the Administrator, either directly or indirectly, may, from time to time, own Class A Shares directly or indirectly through family members and/or associated entities.

Principals of the Administrator

Parminder Purewall –

Mr. Purewall, who established the Administrator in 2008, has been a licensed mortgage broker since 2004 and has worked in real estate development and financing for over 20 years. He co-manages the Company while serving on the Lending Committee. He is also a Director of the Company.

Prior to establishing the Administrator, Mr. Purewall worked in various roles with TD Commercial Bank, specializing in real estate and commercial lending. He also worked with the Lanyard Group, a real estate investment banking and investment firm.

Mr. Purewall earned a Bachelor of Business Administration degree from Simon Fraser University with a focus on finance and marketing. He also holds the Chartered Financial Analyst designation.

Steven Ponte –

Mr. Ponte, who co-manages the Administrator and serves on the Lending Committee, provides over 15 years of combined financing, construction and development experience. Prior to joining the Administrator, he held various senior roles with TD Commercial Bank, focusing on their large commercial business segment.

Mr. Ponte is the current President of the BC MIC Managers Association (BCMMA), whose membership includes some of British Columbia's largest and most reputable Mortgage Investment Corporations. He also serves on the Board of Directors for Centra Cares Foundation.

Mr. Ponte holds a Bachelor of Business Administration degree from Simon Fraser University with a focus on finance and marketing.

Selling Agent

PHL Financial is the exclusive selling agent of the Company. Subscribers may purchase Class A Shares only through PHL Financial.

As selling agent, PHL Financial is responsible for liaising with Subscribers during the course of the Offering, including distributing this Offering Memorandum and Subscription Agreements to prospective investors and coordinating and processing all subscriptions for Class A Shares. No fees, commissions or other compensation is payable to PHL Financial as selling agent. The Company will, however, reimburse PHL Financial for all operating and overhead expenses, and any reasonable and necessary out-of-pocket disbursements incurred by PHL Financial in connection with the Offering.

PHL Financial distributes the Class A Shares in reliance on BC Instrument 32-517, *Exemption from Dealer Registration Requirement for Trades in Securities of Mortgage Investment Entities* ("BCI 32-517"). PHL Financial was organized for the purpose of aiding in the Company's compliance with applicable securities regulations and does not distribute the securities of any other issuer. It is in the process of applying to the British Columbia Securities Commission for exempt market dealer registration in British Columbia. There is no assurance that such registration will be granted. See "Risk Factors – Reliance on BC Instrument 32-517".

PHL Financial was incorporated under the laws of the Province of British Columbia on November 9, 2018 under incorporation number BC1186255. The head office and principal business address of PHL Financial is Suite 212 – 5455 152nd Street, Surrey, British Columbia. The registered office of the PHL Financial is 212 – 5455 152nd Street, Surrey, BC, V3S 5A5. PHL Financial is a wholly-owned subsidiary of the Administrator.

The officers and directors of PHL Financial are also officers or directors of the Company and the Administrator. See "Risk Factors – Conflicts of Interest".

2.3 Development of Business

The Company was incorporated on November 16, 2006 and commenced operations in May 2007. Since that time, the Company has been qualified as a MIC under the Tax Act and has been solely engaged in raising capital for investment in Mortgages. The Administrator and its principals have significant experience in residential and commercial real estate, investment analysis and property management. See "Our Business – Administrator".

The Company has developed its business steadily since 2007 and expects that demand for alternative mortgage financing should remain high as 'traditional' lenders such as banks, credit unions and trust companies continue to tighten up their lending policies. The result of this reduced lending capacity by the banks has been an increase in the amount and quality of mortgage applications made to the Company as borrowers are forced to seek financing from sources other than traditional lenders. Increased applications have allowed the Company to be very selective with regards to the loans that it approves. The Company continues to restrict its lending area only to those locations that exhibit long term stability, growth and liquidity.

Furthermore, due to the volatility in equity markets over the past several years many investors are looking for investments that offer stable returns from year to year with similar yields to traditional equities. The Company is positioned in the market as it has been able to offer and continues to offer an investment secured by real estate and has shown relatively low volatility in returns year over year while yielding returns similar to traditional equity investments.

The combination of increased mortgage applications and increased investor interest and participation has led to solid growth in terms of new investor deposits and mortgage receivables over recent years. The Company expects tighter conditions in the credit markets to persist for several years into the future and thus expects steady growth in terms of new investor deposits and mortgage receivables.

2.4 Long Term Objectives

The long-term objectives of the Company are to provide Class A Shareholders with consistent returns while preserving capital by maintaining a diversified portfolio of mortgage investments. See "Our Business".

2.5 Short Term Objectives and How We Intend to Achieve Them

- (a) During the next 12 months, the Company intends to invest the proceeds of the Offering in the manner prescribed in this Offering Memorandum.
- (b) It is the intention of the Company and the Administrator that the proceeds of the Offering will be invested as quickly as is reasonably possible pursuant to the mortgage investment criteria in the Tax Act to raise further equity capital and optimize returns (as described in "Our Business"), and continue paying quarterly dividends to the Class A Shareholders. The Company intends to meet the following objectives for the next 12 months as follows:

What we must do and how we will do it	Target completion date or, if not known, number of months to complete	Our costs to complete
Invest net proceeds from Offering in compliance with the Tax Act.	Since the Company has an ongoing investment program, there is no target completion date for its business plan.	Our costs to carry out our investment program generally consist of administrative costs and Administration Fees. See "Use of Net Funds".

2.6 Insufficient Funds

The funds available as a result of the Offering may not be sufficient to accomplish all of the Company's proposed objectives and there is no assurance that alternative financing will be available.

2.7 Material Agreements

The following agreements are material to this Offering and to the Company:

Administrative and Services Agreement

The following is a summary of the material provisions of the Administrative and Services Agreement, which does not purport to be complete, and at all times is subject to the language of the Administrative and Services Agreement.

The Company does not have and does not expect to have any employees, and therefore, all mortgage administration and other ancillary services will be performed by the Administrator, which will provide ongoing mortgage administration and other ancillary services relating to the Company's business pursuant to an Administrative and Services Agreement between the Company and the Administrator, dated February 16, 2016. The Administrator is responsible for processing and administering mortgage loans on behalf of the Company and handling the day to day administrative services for the Company's operations. The Administrator is an affiliate of the Company.

Pursuant to the Administrative and Services Agreement, the Administrator will be paid an annual Administration Fee equal to 1.5% of the aggregate outstanding balance of the total assets of the Company, with such Administration Fee being calculated and payable monthly before the 15th day of the following month upon approval of the Directors of the Company.

The Administrator will provide mortgage administration and other ancillary services to the Company with such services to be rendered immediately and competently and with professional skill and acumen.

The Administrator is required to and shall:

- (a) process and administer mortgage loans on behalf of the Company within parameters from time to time approved by the Directors;
- (b) undertake and be responsible for the day to day administration of the Company;
- (c) provide financial services to the Company including administering mortgages, general security agreements and other forms of security of the Company;
- (d) provide monthly reports on the operation of the Company to the Directors;

- (e) communicate regularly with shareholders of the Company and answer any such shareholder queries;
- (f) communicate regularly with mortgage brokers engaged in business with the Company and answer any such mortgage broker queries;
- (g) prepare accounting information for the auditors of the Company;
- (h) undertake any accounting task which shall reduce the accounting fees of the auditor;
- (i) maintain the business premises of the Company for the conduct of its business; and
- (j) perform other assignments related to the business and affairs of the Company as directed by its Directors.

The Administrator shall furnish itself with all necessary administrative services including provision of office space, clerical staff and maintenance of books and records to the extent required to perform the duties and services set forth in the Administrative and Services Agreement.

In exercising its powers and discharging its duties under the Administrative and Services Agreement, the Administrator must carry out its duties fairly, honestly and in the best interests of the Company and must exercise the degree of care, diligence and skill that a reasonably prudent person experienced in the business of providing mortgage administration and ancillary services would exercise in comparable circumstances. The Administrator is not liable to the Company for any loss caused by the Administrator in carrying out its duties under the Administrative and Services Agreement unless the loss resulted from the gross negligence, willful misconduct or dishonesty of the Administrator, its officers, employees or agents in the performance of its duties. The Company has agreed, under the terms of the Administrative and Services Agreement, to indemnify and save the Administrator harmless in the event that the Administrator suffers a loss of any nature whatsoever in connection with the performance of its duties under the Administrative and Services Agreement, except where such loss resulted from the Administrator exceeding its authority pursuant to the Administrative and Services Agreement, or from the negligence, willful misconduct or dishonesty of the Administrator or its officers, employees or agents.

The Company will reimburse the Administrator for all reasonable and necessary out-of-pocket disbursements excluding wages, office space and maintenance of books and records incurred by the Administrator in connection with the administration of the business of the Company.

The appointment of the Administrator shall be for a five year period and shall renew automatically for consecutive five year periods unless the Administrative and Services Agreement is otherwise terminated.

The Company may terminate the Administrative and Services Agreement if:

- (a) the Administrator makes an assignment for the benefit of creditors or commences any action of bankruptcy within the meaning of the *Bankruptcy Act* (Canada);
- (b) the Administrator assigns or purports to assign the Administrative and Services Agreement or any rights accruing thereunder to any person who is not an affiliate, corporation or partnership which is directly or indirectly controlled by a shareholder or its trustees or directors of the Administrator without the prior written consent of the Company;
- (c) the Administrator commits a breach or default under the Administrative and Services Agreement provided that such breach or default does not relate to any payment of monies

to be paid by the Administrator to the Company, and the Administrator has not cured such breach or default within thirty (30) days after receiving written notice from the Company stipulating the breach or default;

- (d) the Administrator commits a breach or default under the Administrative and Services Agreement related to the payment of monies to be paid by the Administrator to the Company, and the Administrator has not cured such breach or default within fifteen (15) days after receiving written notice from the Company stipulating the breach or default; or
- (e) by mutual consent in writing of the Company and the Administrator.

The Administrator may terminate the Administrative and Services Agreement if:

- (a) the Company makes an assignment for the benefit of creditors or commences any action of bankruptcy within the meaning of the *Bankruptcy Act* (Canada);
- (b) the Company assigns or purports to assign the Administrative and Services Agreement or any rights accruing thereunder without the prior written consent of the Administrator;
- (c) the Company commits a breach or default under the Administrative and Services Agreement provided that such breach or default does not relate to any payment of monies to be paid by the Company to the Administrator, and the Company has not cured such breach or default within thirty (30) days after receiving written notice from the Administrator stipulating the breach or default;
- (d) the Company commits a breach or default under the Administrative and Services Agreement related to any payment of monies to be paid by the Company to the Administrator, and the Company has not cured such breach or default within fifteen (15) days after receiving written notice from the Administrator stipulating the breach or default;
- (e) at any time during the term of the Administrative and Services Agreement if the Administrator gives the Company one year's prior written notice of its intention to terminate the Administrative and Services Agreement; or
- (f) by mutual consent in writing of the Company and the Administrator.

In the event of termination of the Administrative and Services Agreement, the Administrative and Services Agreement and any agency created thereby shall terminate and be of no further force or effect and all rights or obligations of the Company and the Administrator shall cease. In addition, in the event of termination of the Administrative and Services Agreement, the Administrator shall return and deliver to the Company (or its authorized agent) all trust monies of the Company and all other funds held by it in respect of all mortgages serviced thereunder and all documents, records, tax receipts, insurance policies, appraisals, correspondence, files and other documents in its possession pertaining to the mortgages serviced thereunder.

New Loan Agreement

The following is a summary of the material provisions of the New Loan Agreement, which does not purport to be complete, and at all times is subject to the language of the New Loan Agreement as at the date hereof.

On November 21, 2018, the Company entered into a syndicated loan agreement with the Bank and the Royal Bank of Canada (i.e., the New Loan Agreement) which replaces the Credit Agreement and provides a \$50,000,000 increase over the Line of Credit contemplated thereunder.

Pursuant to the New Loan Agreement, the Company will have access to a \$100,000,000 secured operating line of credit (the "New Line of Credit") at an interest rate of prime plus 0.85% per annum. The amount of credit available, through the New Line of Credit, is based on margined amounts from the Company's underlying Mortgage Portfolio. The main purpose for the Company seeking the increased bank facility was to better manage the timing difference between the Company's cash flows in order to maintain efficient capital deployment through new capital raises, borrower payouts/paydowns, redemptions and new Mortgage investments. The Company anticipates it will have access to the New Line of Credit in the next couple of weeks following the date hereof.

Additional provisions of the New Loan Agreement include the following:

Repayment of outstanding balances of the New Line of Credit is due on the maturity date (being 364 days after closing, as it may be extended pursuant to the terms of the New Loan Agreement), and payment of interest will be due monthly.

The Company must pay customary commitment, administration and annual review fees pursuant to the Credit Agreement, in accordance with industry practice.

The Company is restricted from assigning or encumbering its rights and obligations under the New Line of Credit or the New Loan Agreement without the prior written consent of the Bank and the Royal Bank of Canada.

The Company is bound to certain financial covenants requiring the Company to maintain:

- (a) an interest coverage ratio of not less than 4.00:1.00, tested at certain intervals identified in the New Loan Agreement;
- (b) a tangible net worth of not less than \$100,000,000 plus an amount equal to 80% of the proceeds of the issuance of equity interest of the Company since the first advance under the New Loan Agreement; and
- (c) a debt to tangible worth ratio of not greater than 0.60:1.00, tested at certain intervals identified in the New Loan Agreement.

The New Line of Credit is secured by (i) a general security agreement between the Company and the Bank on all current and future property of the Company, (ii) a general assignment of mortgages, (iii) an assignment of general insurance proceeds; and (iii) an assignment of the Administrative and Services Agreement.

The Company provides certain customary indemnities to the Bank, the Royal Bank of Canada and certain related parties.

Copies of all contracts referred to above may be inspected during normal business hours at the principal office of the Administrator, Suite 212-5455 152nd Street, Surrey, British Columbia, V3S 5A5.

ITEM 3

INTERESTS OF DIRECTORS, MANAGEMENT, PROMOTERS AND PRINCIPAL HOLDERS

3.1 Compensation and Securities Held

The following table provides information about each Director, officer and promoter of the Company and each person who, directly or indirectly, beneficially owns or controls 10% or more of any class of voting securities of the Company:

Name and municipality of principal residence	Positions Held and the date of obtaining that position	Compensation paid by the Company (i) in the most recently completed financial year and (ii) compensation anticipated to be paid in the current financial year	Number, type and percentage of securities of the Company held after completion of minimum Offering	Number, type and percentage of securities of the Company held after completion of maximum Offering ⁽¹⁾
Parminder Purewall ⁽²⁾ Surrey, British Columbia	President & Director (since November 16, 2006)	(i) nil (ii) nil	1 Common Share (9.1%) \$378,670 Class A Shares (0.16%)	1 Common Share (9.1%) \$378,670 Class A Shares (0.09%)
Harjit Grewal ⁽³⁾ Surrey, British Columbia	Director (since January 25, 2007)	(i) nil (ii) nil	1 Common Share (9.1%) \$1,530,168 Class A Shares (0.66%)	1 Common Share (9.1%) \$1,530,168 Class A Shares (0.35%)
Sunjeev Bath ⁽⁴⁾ Langley, British Columbia	Director (since January 25, 2007)	(i) nil (ii) nil	1 Common Share (9.1%) 11,033,359 Class A Shares (4.77%)	1 Common Share (9.1%) 11,033,359 Class A Shares (2.56%)
Steven Ponte ⁽⁵⁾ Langley, British Columbia	Corporate Secretary & Director (since January 25, 2007)	(i) nil (ii) nil	1 Common Share (9.1%) 412,962 Class A Shares (0.18%)	1 Common Share (9.1%) 412,962 Class A Shares (0.10%)

Name and municipality of principal residence	Positions Held and the date of obtaining that position	Compensation paid by the Company (i) in the most recently completed financial year and (ii) compensation anticipated to be paid in the current financial year	Number, type and percentage of securities of the Company held after completion of minimum Offering	Number, type and percentage of securities of the Company held after completion of maximum Offering⁽¹⁾
John Tilstra Langley, British Columbia	Director (since January 4, 2012)	(i) nil (ii) nil	1 Common Share (9.1%) 884,941 Class A Shares (0.38%)	1 Common Share (9.1%) 884,941 Class A Shares (0.21%)
PHL Capital Corp. ⁽⁶⁾ Surrey, British Columbia	Administrator (since August 8, 2011)	(i) 2,891,488 (ii) \$4,500,000	nil	nil

Notes:

- (1) Assuming that a maximum of 200,000,000 Class A Shares are issued under the Offering and that no additional Class A Shares are purchased by the Directors or officers of the Company under the Offering.
- (2) Parminder Purewall is the President and a director of the Administrator, and the Chief Executive Officer and a director of PHL Financial. Mr. Purewall is also a principal of PHL Management Corp. (a private company which is a shareholder of the Administrator) and of PHL Investments Ltd. PHL Investments Ltd. holds 73,895 Class A Shares in the Company.
- (3) Harjit Grewal is a principal of Bobby G Investments Inc. and Grewal Investments Ltd. Bobby G Investments Inc. holds 1,054,663 Class A Shares of the Company. Grewal Investments Ltd. holds 423,577 Class A Shares of the Company. The Administrator paid \$410, 272 in consulting fees to Mr. Grewal for the financial year ended August 31, 2017. It is anticipated that the Administrator will pay approximately \$565,000 in consulting fees to Mr. Grewal for the financial year ending August 31, 2018.
- (4) Sunjeev Bath is a principal of Bath Investments Ltd. Bath Investments Ltd. holds 10,651,694 Class A Shares of the Company. The Administrator paid \$410, 272 in consulting fees to Mr. Bath for the financial year ended August 31, 2017. It is anticipated that the Administrator will pay approximately \$565,000 in consulting fees to Mr. Bath for the financial year ending August 31, 2018.
- (5) Steven Ponte is the Corporate Secretary and a director of the Administrator, and the President and a director of PHL Financial. Mr. Ponte is also a principal of Copper Island Investments Inc. (a private company which is a shareholder of the Administrator).
- (6) PHL Capital Corp. is controlled by Messrs. Purewall and Ponte.

The Company has granted an indemnity to each of the Directors for any claims made against him or her in their capacity as a Director of the Company, provided that such claims are not the result of negligence or wilful misconduct on the part of the Director.

3.2 Management Experience

Senior Management

The senior management of the Company have a broad background of investment and real estate experience which will be brought to bear on the activities undertaken by the Company. The following table discloses the principal occupations and related experience of the Directors and senior officers of the Company for the past five years.

Name	Principal Occupation and Related Experience
Parminder Purewall	<p><i>Mortgage Broker</i></p> <p>Mr. Purewall, who established the Administrator in 2008, has been a licensed mortgage broker since 2004 and has worked in real estate development and financing for over 20 years. He co-manages the Company while serving on the Lending Committee. He is also a Director of the Company.</p> <p>Prior to establishing the Administrator, Mr. Purewall worked in various roles with TD Commercial Bank, specializing in real estate and commercial lending. He also worked with the Lanyard Group, a real estate investment banking and investment firm.</p> <p>Mr. Purewall earned a Bachelor of Business Administration degree from Simon Fraser University with a focus on finance and marketing. He also holds the Chartered Financial Analyst designation.</p>
Steven Ponte	<p><i>Mortgage Broker</i></p> <p>Mr. Ponte, who co-manages the Administrator and serves on the Lending Committee, provides over 15 years of combined financing, construction and development experience. Prior to joining the Administrator, he held various senior roles with TD Commercial Bank, focusing on their large commercial business segment.</p> <p>Mr. Ponte is the current President of the BC MIC Managers Association (BCMMA), whose membership includes some of British Columbia's largest and most reputable Mortgage Investment Corporations. He also serves on the Board of Directors for Centra Cares Foundation.</p> <p>Mr. Ponte holds a Bachelor of Business Administration degree from Simon Fraser University with a focus on finance and marketing.</p>

Name	Principal Occupation and Related Experience
Harjit Grewal	<p><i>Accountant</i></p> <p>Mr. Grewal worked at PricewaterhouseCoopers for five years before launching his own accounting firm, Grewal & Co. Chartered Accountants, in 2003. Mr. Grewal is one of the owners and part of the management team of Allied Insurance Services, an insurance business with several locations in Metro Vancouver. He also has extensive experience in real estate investments. Mr. Grewal holds a Bachelors of Business Administration (BBA) from Simon Fraser University with a concentration in Accounting. He has also obtained the Chartered Accountant (CA) designation.</p> <p>Mr. Grewal is on the Lending Committee of the Company.</p>
Sunjeev Bath	<p><i>Businessperson</i></p> <p>Mr. Bath worked as a Financial Analyst before founding Western Rugged Tools, a Canadian based manufacturer and distributor of tools and related products in 2002. He is a Director and Principal of Surrey Cedar and is actively involved in real estate investment and management. Mr. Bath holds a Bachelors of Business Administration (BBA) from Simon Fraser University with a concentration in Finance and Marketing. He has also obtained the Chartered Financial Analyst designation.</p> <p>Mr. Bath is on the Lending Committee of the Company.</p>
John Tilstra	<p><i>Businessperson</i></p> <p>Mr. Tilstra is the Chairman and founder of Centra Construction Group Ltd. Centra Construction Group Ltd.'s operations include window manufacturing and installation, exterior siding installation and complete restoration services throughout the Province of British Columbia. Mr. Tilstra was also awarded the 2011 Pacific Region Entrepreneur of the Year in real estate and construction by Earnest & Young. He is also an experienced real estate developer having been involved in numerous</p>

<u>Name</u>	<u>Principal Occupation and Related Experience</u>
	commercial industrial and residential projects.

3.3 Advisory Board

The Company has appointed an Advisory Board comprised of the existing Directors and six additional individuals from various professional backgrounds including, business management, residential and commercial real estate, banking and finance, construction and development, and real estate/commercial law.

The Advisory Board provides ongoing guidance to the Directors on issues of strategy, management, legal matters, processes, conflict resolution, and projections of real estate market conditions

3.4 Penalties, Sanctions and Bankruptcy

Other than as disclosed herein, there are no penalties, sanctions, declarations of bankruptcy, voluntary assignments in bankruptcy, proposals under any bankruptcy or insolvency legislation or proceedings, arrangements or compromises with creditors, appointments of a receiver, receiver manager or trustee to hold assets, that have been in effect during the last ten years, or any cease trade order that has been in effect for a period of more than 30 consecutive days during the last ten years against or in connection with any of the directors, senior officers or control persons of the Company or the Administrator or any issuer of which any director, senior officer or control person of the Company or the Administrator was a director, senior officer or control person.

3.5 Loans

The Company presently has no outstanding loans or debentures due to or from the Directors, management, Administrator or principal holders of the Company.

ITEM 4

CAPITAL STRUCTURE

4.1 Share Capital

The following table provides information about the outstanding securities of the Company:

<u>Description of Security</u>	<u>Number authorized to be issued</u>	<u>Price per security</u>	<u>Number outstanding as at September 1, 2018</u>	<u>Number outstanding after minimum Offering</u>	<u>Number outstanding after maximum Offering</u>
Voting Common Shares ⁽¹⁾	Unlimited	\$1.00	11	11	11
Class A Shares ⁽²⁾	Unlimited	\$1.00	231,563,381 ⁽³⁾	231,563,381 ⁽⁴⁾	431,563,381 ⁽⁴⁾

Notes:

- (1) The common shares are voting but non-participating. The issued common shares are not subject to calls, assessments, pre-emptive rights or conversion rights. There are no provisions attached to such shares for redemption, cancellation, surrender, sinking funds or purchase funds. There are 11 holders of the common shares of the Company which include Parminder Purewall, Harjit Grewal, Sunjeev Bath, Steven Ponte and John Tilstra who each hold one common share of the Company. Only the holders of common shares are entitled to vote in respect of each common share held at all meetings of the shareholders of the Company.
- (2) Complete details of the attributes and characteristics of the Class A Shares are set forth under the heading "Terms of Securities".
- (3) Class A Shares will be issued at a price of \$1.00 per Class A Share.
- (4) Assuming a minimum Offering of nil Class A Shares and a maximum Offering of 200,000,000 Class A Shares.

4.2 Long Term Debt Securities

The Company presently has no long-term debt. The Company does have a Line of Credit with the Bank, which it anticipates will be replaced by the New Line of Credit. See "Material Agreements – Credit Agreement" and "Material Agreements – New Loan Agreement".

4.3 Prior Sales

Within the last 12 months, the Company has issued the following Class A Shares or securities convertible or exchangeable into Class A Shares:

Date of issuance	Type of security issued	Number of securities issued⁽¹⁾	Price per security	Total funds received
December 1, 2017	Class A Shares	30,715,887	\$1.00	\$30,715,887
March 1, 2018	Class A Shares	24,961,228	\$1.00	\$24,961,228
June 1, 2018	Class A Shares	15,877,117	\$1.00	\$15,877,117
September 1, 2018	Class A Shares	25,459,584	\$1.00	\$25,459,584

Notes:

- (1) The Company issued 8,347,352 Class A Shares as a re-investment of \$8,347,352 dividend funds.

Within the last two years, the Company has redeemed the following Class A Shares or securities convertible or exchangeable into Class A Shares:

Date of redemption	Type of security redeemed	Number of securities redeemed	Price per security	Total funds paid
December 1, 2016	Class A Shares	1,564,418	\$1.00	\$1,564,418
March 1, 2017	Class A Shares	2,448,305	\$1.00	\$2,448,305
June 1, 2017	Class A Shares	3,504,547	\$1.00	\$3,504,547
September 1, 2017	Class A Shares	4,650,552	\$1.00	\$4,650,552

Date of redemption	Type of security redeemed	Number of securities redeemed	Price per security	Total funds paid
December 1, 2017	Class A Shares	6,441,031	\$1.00	\$6,441,031
March 1, 2018	Class A Shares	2,693,779	\$1.00	\$2,693,779
June 1, 2018	Class A Shares	4,817,732	\$1.00	\$4,817,732
September 1, 2018	Class A Shares	8,405,802	\$1.00	\$8,405,802

During its most recently completed financial year ended August 31, 2018, the Company received requests to redeem a total of 22,358,343 Class A Shares, of which the Company honored and redeemed a total of 22,358,343 Class A Shares. The Company used funds available from funds raised from share issuances and the Company's Line of Credit to honor the redemptions.

For the financial year-ended August 31, 2017, the Company received requests to redeem a total of 9,136,844 Class A Shares, of which the Company honored and redeemed a total of 9,136,844 Class A Shares. The Company used funds available from funds raised from share issuances and the Company's Line of Credit to honour the redemptions.

ITEM 5

SECURITIES OFFERED

5.1 Terms of Securities

The following is a summary of the material rights and restrictions attaching to the Class A Shares, which does not purport to be complete, and at all times is subject to the language of the Company's Articles:

Voting

Save in respect of such matter as are by law expressly required to be voted upon by the holders of Class A Shares, the holder of Class A Shares shall not be entitled to receive notice of or to attend any general meeting of shareholders of the Company, and if a holder of a Class A Share is present at a general meeting of shareholders of the Company, he/she/it shall not be entitled to vote at meetings of holders of common shares of the Company.

Each Class A Share and fractions thereof will be issued only as fully paid and non-assessable with a par value of \$1.00. There will be no limit to the number of Class A Shares that may be issued, subject to any determination to the contrary made by the Company.

Dividend Entitlement

Class A Shareholders will be entitled to receive dividends in respect of Class A Shares owned at the end of each fiscal quarter. Dividends will be paid within 30 days of each fiscal quarter end. The quarterly dividend at the Company's fiscal year end will be paid within 90 days of the fiscal year end. Dividends may be taken as cash or reinvested as additional Class A Shares. Dividends reinvested as additional Class A Shares will also qualify for future dividend entitlement.

The Class A shares shall rank in priority to the common shares of the Company in respect of the payment of dividends.

The Directors of the Company shall, during each and every fiscal year of the Company within 90 days of the end of the fiscal year of the Company, declare and pay a taxable dividend or dividends in an amount which according to their best estimate they determine to equal the maximum amount deductible in computing the income of the Company pursuant to clause 130.1(1)(a)(i) of the Tax Act, and the Directors shall during the period commencing 90 days after the said fiscal year declare and pay a capital gain dividend or dividends in an amount which according to their best estimate they determine to equal twice the amount which, subject to election pursuant to section 130.1(4) of the Tax Act, is deductible pursuant to clause 130.1(1)(a)(ii) of the Tax Act (or such therefor providing for the aforementioned deduction of dividends in the calculation of the income of a MIC); provided that the Directors may, in settling the amount of such dividends reduce such dividends by any amount which they deem necessary to provide for reserves, liabilities and other contingencies or alternatively so as to ensure that the dividends are payable only out of funds properly available from the payment of dividends.

For greater certainty, the Articles of the Company declare that the Company must distribute all its earnings in a particular fiscal year by the declaration and payment of dividends within 90 days of the end of such fiscal year.

The holders of Class A Shares shall in each year at the discretion of the Directors of the Company but always in preference and priority to any payment of dividends on the common shares of the Company, be entitled, out of any or all profits or surpluses available for dividends, to non-cumulative dividends up to the amount which pursuant to clause 130.1(1)(a)(i) of the Tax Act is deductible in computing the Company's income for the year and up to twice the amount which pursuant to clause 130.1(1)(a)(ii) is deductible in computing the Company's income for the year.

Mandatory Redemption on Death of a Shareholder Where No Spouse Survives

Upon the death of a Class A shareholder if no spouse survives, the Company shall, within 90 days after the end of the fiscal year of the Company in which such death occurred, and subject to the provisions of the *Business Corporations Act* (British Columbia), redeem all the shares owned by such shareholder and by its Eligible Owner at the date of his/her/its death, by paying to the holder of a common share of the Company the par value of such share and to the holder of each Class A Share the par value of such Class A Share owned by that holder.

Upon payment in full of the sum of money referred to in the paragraph above being made by the Company, the common shares of the Company and Class A Shares owned by the estate of the deceased shareholder or held by the Eligible Owner of the deceased shareholder, shall be redeemed and the certificate representing such shares shall be cancelled.

Redemption by the Shareholder

Class A Shares are redeemable by a shareholder, subject to the provisions of the *Business Corporations Act* (British Columbia), provided that the Class A shareholder or its Eligible Owner gives the Company irrevocable written notice (the "Redemption Notice") that the shareholder wishes to redeem any or all of the Class A Shares held by such shareholder, which notice shall be sent by registered mail or delivered to the registered office of the Company and such notice is received 90 days before its fiscal year end in any calendar year (such date known as the "withdrawal date"). The Company shall within 90 days after the withdrawal date, purchase the subject shares at the then book value plus any dividends declared but unpaid by the Company, plus interest for the relevant period prior to the date of payment at the interest rate equivalent to the prime interest rate of the Bank of Canada on the withdrawal date (the "Redemption

Amount"). The Company will use its commercially reasonable best efforts basis to honour all Redemption Notices received 30 days prior to any quarter end at the quarter end.

A redemption in accordance with the provisions above shall only be effected by the Company if the Company is not insolvent at the time that the redemption is to be effected and if the redemption would not render the Company insolvent and if such redemption does not affect the Company's status as a MIC pursuant to the provisions of the Tax Act. The redemption provisions above do not apply if the Redemption Notice does not set out all the Class A Shares owned by the shareholder or its Eligible Owner. A valid Redemption Notice may not be withdrawn and a shareholder who is a Director of the Company and who gives a Redemption Notice to the Company shall be deemed to have resigned as a Director of the Company on the date such Redemption Notice is received by the Company.

Upon payment in full of the Redemption Amount being made by the Company, the Class A Shares specified in the Redemption Notice shall be redeemed and the certificate representing such Class A Shares shall be cancelled. If only a part of the Class A Shares represented by any certificate be redeemed, a new certificate for the balance of Class A Shares shall be issued at the expense of the holder. From and after the date of delivery of the Redemption Notice, the holder of the Class A Shares specified for redemption in the Redemption Notice shall continue to be entitled to dividends and shall continue to be entitled to any other rights in respect of such share until payment in full of the Redemption Amount, at which time all rights in respect of such Class A Shares shall become null and void. If payment in full of the Redemption Amount shall not be made by the Company, the rights of the holder of such Class A Shares shall remain unimpaired.

Priority on Liquidation or Winding Up

The holders of Class A Shares shall, on a winding up or liquidation of the Company, be entitled to receive a sum equal to the par value of each Class A Share held together with all dividends declared and unpaid thereon in priority to any distribution to the holders of any other shares in the capital of the Company. Once such prior distribution to the holders of the Class A Shares and once a distribution equal to the par value of each common share issued and outstanding has been made to the holders of the common shares in accordance with the Company's Articles, the holders of the Class A Shares shall be entitled to participate equally with the holders of the common shares in any further distributions of the assets of the Company pro rata in accordance with the number of Class A Shares held.

Restrictions on Transfer

Except as where necessary to comply with the Company's Articles, no Class A Share may be transferred without the previous consent of the Directors of the Company expressed by a resolution of the Company's board of Directors and the Directors may at any time in their absolute discretion decline to register any proposed transfer and shall not be required to disclose their reasons therefor.

The foregoing paragraph shall not apply in respect of any transfer or transfers by any Person of his/her Class A Shares to an Eligible Owner or the Eligible Owner of a Person's spouse or the transfer of Class A Shares held by his/her Eligible Owner to the Eligible Owner of his/her spouse and no transfer of Class A Shares will be authorized unless the shareholder's common shares of the Company, if any, have been issued, are transferred to or redeemed by the Company.

The Directors of the Company shall not consent to or approve a transfer of shares or cause the Company to allot, issue, sell, purchase or redeem shares unless immediately following the said transfer, allotment, issue, sale, purchase or redemption, no one shareholder of the Company would hold more than 25% of the issued Class A Shares in the capital stock of the Company and the number of Class A shareholders of the Company would not be reduced to less than 20, except that for the purpose of computing the number of shareholders of the Company only issued Class A Shares shall be counted and that nothing in Article 26.5

of the Company's Articles shall prevent the Directors from giving their consent or approval to any transfer, allotment, issue, sale, purchase or redemption of shares which would not have the effect in the opinion of the Directors of disqualifying the Company as a MIC under the Tax Act or amendments thereto.

5.2 Subscription Procedure

The minimum initial investment in the Company is \$25,000. The minimum subsequent investment in the Company for existing Class A Shareholders holding at least 25,000 Class A Shares is \$5,000. The Company reserves the right to change the minimum amount at any time and from time to time.

Subscribers may purchase Class A Shares from the Company through PHL Financial, the exclusive selling agent of the Company, without charge to the Subscriber. Orders may be sent to PHL Financial at its principal office or such other address as specified by the Administrator by courier or telecommunication facilities. The Company will schedule closings quarterly on March 1st, June 1st, September 1st and December 1st or such other times as decided by the Company.

The subscription price is payable upon subscription pursuant to the terms of the applicable subscription agreement(s), by cheque, bank draft or electronic transfer, payable to "MortEq Lending Corp.". No financing of the subscription price will be provided by the Company or the Administrator.

Each prospective and qualified investor who desires to subscribe for Class A Shares must:

- (a) complete and sign the form of subscription agreement prescribed by the Company from time to time (the "Subscription Agreement") specifying the number and class of Class A Shares being subscribed for (the Company reserves the right to use different forms of Subscription Agreements for different investors);
- (b) complete and sign two copies of the Risk Acknowledgement under BCI 32-517 in the form attached to the Subscription Agreement;
- (c) if the Subscriber (i) is not an "accredited investor" as defined in National Instrument 45-106 – *Prospectus and Registration Exemptions* ("NI 45-106"), and (ii) is not purchasing Class A Shares with an acquisition cost to the investor of not less than \$150,000 paid in cash, complete and sign two copies of the Form 45-106F4 — Risk Acknowledgement;
- (d) if the Subscriber is an "accredited investor" as defined in NI 45-106, complete and sign the accredited investor questionnaire attached to the Subscription Agreement;
- (e) deliver payment of the subscription price for the Class A Shares subscribed for to PHL Financial by certified cheque, bank draft or other electronic transfer satisfactory to the Company and PHL Financial; and
- (f) deliver to PHL Financial the Subscription Agreement, Risk Acknowledgment and any other forms, declarations and documents as may be required by the Company or PHL Financial to complete the subscription.

Subscriptions will be received subject to prior sale and acceptance of the investor's subscription, in whole or in part (subject to compliance with applicable securities laws), by the Company.

The aforementioned cash amounts, Subscription Agreements and other documents will be held in trust and released upon closing. The subscription amount will be held in trust until midnight on the second business day after the investor signs a Subscription Agreement. Closings will occur on a continuous basis.

Acceptance of Subscriptions

Subscriptions received are subject to rejection or allotment in whole or in part by the Company. PHL Financial, on behalf of the Company, reserves the right to close the subscription books at any time without notice. Confirmation of the acceptance of a subscription will be forwarded by PHL Financial to the Subscriber. The Company is not obligated to accept any subscriptions, and will reject any subscription which the Company considers to be not in compliance with applicable securities laws and regulations. If any subscription is rejected, PHL Financial will notify the investor and will return to the investor the subscription funds comprising such subscription, without interest.

An investor who subscribes for Class A Shares by executing and delivering a Subscription Agreement will become a Class A Shareholder after the Company accepts such subscription and the Company has received the subscription amount.

Qualified Investors

The Company is offering for sale, through PHL Financial, an unlimited number of Class A Shares on a continuous basis in the Province of British Columbia by way of private placement.

The Offering is being conducted in the Province of British Columbia pursuant to the exemptions from the prospectus requirements afforded by Sections 2.9, 2.3 and/or 2.10 of NI 45-106.

- The exemption pursuant to Section 2.9 of NI 45-106 is available for distributions to Subscribers in British Columbia, purchasing as principals, who receive this Offering Memorandum prior to signing the Subscription Agreement and who sign a risk acknowledgement in the prescribed form.
- The exemption pursuant to Section 2.3 of NI 45-106 is available for distributions to Subscribers in British Columbia purchasing as principal and who are "accredited investors" as defined in NI 45-106.
- The exemption pursuant to Section 2.10 of NI 45-106 is available for distributions to Subscribers in British Columbia purchasing as principal, who are not individuals and who are acquiring Class A Shares with acquisition cost to the Subscriber of not less than \$150,000 paid in cash at the time of Closing.

The foregoing exemptions relieve the Company from the provisions of the applicable securities laws of the Province of British Columbia which otherwise would require the Company to file and obtain a receipt for a prospectus. Accordingly, prospective investors for Class A Shares will not receive the benefits associated with a subscription for securities issued pursuant to a filed prospectus, including the review of material by securities regulatory authorities.

PHL Financial is the exclusive selling agent for the Class A Shares. PHL Financial relies on the exemption from the registration requirement contained in BCI 32-517 to offer the Class A Shares for sale to prospective investors in British Columbia without registration.

Trading and Resale Restrictions

This offering of Class A Shares is made only on a private placement basis to investors who are eligible to purchase on an exempt basis under, and subject to compliance with, applicable securities laws. **There is no market for the Class A Shares. The transferability of the Class A Shares will also be subject to resale restrictions under applicable securities laws.** The Company will be entitled to require and may require, as a condition of allowing any transfer of any Class A Share, the transferor or transferee, at their

expense, to furnish to the Company evidence satisfactory to it in form and substance (which may include an opinion of counsel satisfactory to the Company) in order to establish that such transfer will not constitute a violation of the securities laws of any jurisdiction whose securities laws are applicable thereto.

The Company is not a reporting issuer in any of the provinces of Canada and does not intend to become a reporting issuer in any province of Canada. The Class A Shares will be subject to resale restrictions under applicable securities laws which restrict the transfer of Class A Shares. Notwithstanding such resale restrictions, and subject to approval by the Company, investors will be able to transfer Class A Shares to another person pursuant to another exemption from the prospectus and registration requirements of applicable securities laws, or pursuant to an order permitting such trade granted by applicable securities regulatory authorities.

This Offering Memorandum and all subscription documents should be reviewed by prospective Subscribers and their professional advisers prior to subscribing for Class A Shares.

ITEM 6

INCOME TAX CONSEQUENCES AND ELIGIBILITY FOR INVESTMENT

6.1 Caution

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

6.2 Income Tax Consequences

The following is a summary of the principal Canadian federal income tax consequences of acquiring, holding and disposing of the Class A Shares by a Subscriber who, at all relevant times and for purposes of the Tax Act, is a resident solely of Canada, deals with the Company at arm's length, is not affiliated with the Company, and acquires and holds the Class A Shares as capital property (a "Holder"). This summary, which has been reviewed and approved for the current circumstances by Lawson Lundell LLP, only addresses Holders who meet all of the foregoing requirements. This summary is not applicable to any Holder of Class A Shares (i) that is a "financial institution" or a "specified financial institution" for the purposes of the Tax Act, (ii) an interest in which is a "tax shelter investment" for the purposes of the Tax Act, or (iii) that reports its Canadian tax results in a "functional currency" (which excludes Canadian dollars).

This summary is based upon the facts set out in this Offering Memorandum, the current provisions of the Tax Act and the regulations thereunder, all specific proposals (the "Tax Proposals") to amend the Tax Act or the regulations thereunder publicly announced by or on behalf of the Minister of Finance (Canada) prior to the date hereof, and our understanding of the current published administrative practices of the Canada Revenue Agency. This summary assumes that the Tax Proposals will be enacted as currently proposed, although no assurance in this regard can be provided. The summary does not take into account or anticipate any other changes in law, whether by way of legislative, governmental or judicial action and does not take into account tax legislation or considerations of any province, territory or foreign jurisdiction.

The summary contained in this section is of a general nature only and is not exhaustive of all possible Canadian federal income tax consequences. It is not intended to be, and should not be interpreted as, legal or tax advice to any particular Subscriber. You should consult with your own tax advisor regarding the income tax consequences to you of acquiring, holding and disposing of the Class A Shares including the

application and effect of the income and other tax laws of any country, province, state or local tax authority. The discussion below is qualified accordingly.

This summary is based on the assumption that the Company meets and will meet on a continuous basis certain conditions which are imposed by the Tax Act on the Company in order for the Company to qualify as a MIC thereunder. These conditions will generally be satisfied if all of the following conditions are met throughout a taxation year of the Company:

- (a) the Company was a Canadian corporation as defined in the Tax Act;
- (b) the Company's only undertaking was the investing of funds and it did not manage or develop any real or immovable property;
- (c) none of the property of the Company consisted of debts owing to the Company secured on real or immovable property situated outside Canada, debts owing to the Company by non-resident persons unless such debts were secured on real or immovable property situated in Canada, shares of the capital stock of corporations not resident in Canada, or real or immovable property situated outside of Canada or any leasehold interest in such property;
- (d) the Company had at least 20 shareholders, and no one shareholder (together with any "related person", as such phrase is understood in section 251 of the Tax Act, of such shareholder) at any time in the year owned, directly or indirectly, more than 25% of the issued shares of any class of the Company or was otherwise a "specified shareholder" for purposes of the Tax Act, also taking into account certain applicable rules for the purposes of counting shareholders that are registered pension plans or deferred profit sharing plans for purposes of the Tax Act;
- (e) all holders of preferred shares of the Company had the right, after payment to them of their preferred dividends and payment of dividends in a like amount per share to the holders of any common shares of the Company, to participate *pari passu* (equally) with the holders of the common shares in any further payment of dividends;
- (f) the cost amount of the Company's property consisting of debts secured (whether by mortgages, hypothecs, or in any other manner) on houses or on property included within a housing project (as those terms are defined in the *National Housing Act* (Canada)), together with cash on hand and deposits with a bank or any other corporation whose deposits are insured by the Canada Deposit Insurance Corporation, the Régie de l'assurance-dépôts du Québec, or with 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 of real or immovable property (including leasehold interests therein but excluding real property acquired as a consequence of foreclosure or default on a mortgage, hypothec or agreement of sale of real property held by the Company) owned by the Company did not exceed 25% of the cost amount to it of all of its property;
- (h) where at any time in the year the cost amount to the Company of its Qualifying Property as defined in (f) above was less than two-thirds of the cost amount to it of all of its property, the Company's liabilities did not exceed three times the amount by which the cost amount to it of all of its property exceeded its liabilities; and
- (i) where (h) above did not apply, in that the cost amount of its Qualifying Property was equal to or was greater than two-thirds of the cost amount of all the Company's property,

the Company's liabilities did not exceed five times the amount by which the cost amount to it of all its property exceeded its liabilities.

It is intended, and this summary assumes, that these requirements will be satisfied on a continuous basis and that the Company will qualify as a MIC for purposes of the Tax Act at all relevant times. If the Company were not to qualify as a MIC at any relevant time, the income tax consequences would be materially different from (and generally adverse compared to) those described below. Tax considerations applicable where the Company does not so qualify as a MIC at any particular time are not discussed in this summary or elsewhere in the Offering Memorandum.

Taxation of the Company

Provided that the Company qualifies as a MIC throughout a taxation year, the Company will, in computing its taxable income, generally be entitled to deduct the full amount of all taxable dividends (other than capital gains dividends) which it pays during the year or within 90 days after the end of the year to the extent that such dividends were not deductible by the Company in computing its income for the preceding year. In addition, a corporation that qualifies as a MIC throughout a taxation year may declare a capital gains dividend in an amount equal to the gross amount of its capital gains and, by making an election in prescribed manner, is entitled to deduct one-half of such dividend from its taxable income.

The Company will be subject to Part I income tax at the same rate that a Canadian public corporation would be subject to. However, at this time the Company believes that it qualifies and will continue to qualify as a MIC, and intends to declare dividends to the extent necessary to reduce its taxable income each year to nil so that it has no tax payable under Part I of the Tax Act, and intends to elect to have dividends to be capital dividends to the maximum extent allowable.

Taxation of the Holders of Class A Shares

Provided that the Company qualifies as a MIC, dividends (other than capital gains dividends) which are paid by the Company on the Class A Shares will be included in Holders' incomes as bond interest, and capital gains dividends will be treated as realized capital gains of Holders and will be subject to the general rules relating to the taxation of capital gains. **AS THE DIVIDENDS (OTHER THAN CAPITAL GAINS DIVIDENDS) ARE TAXED AS BOND INTEREST, THE NORMAL GROSS UP AND DIVIDEND TAX CREDIT RULES WILL NOT APPLY TO DIVIDENDS PAID BY THE COMPANY TO AN INDIVIDUAL AND TRUSTS ON CLASS A SHARES, AND HOLDERS THAT ARE CORPORATIONS WILL NOT BE ENTITLED TO DEDUCT THE AMOUNT OF DIVIDENDS PAID BY THE COMPANY IN COMPUTING TAXABLE INCOME.**

The cost to a Holder of Class A Shares acquired pursuant to this Offering will equal the purchase price of the Class A Shares plus the amount of any other reasonable costs incurred in connection therewith. Subject to some exceptions, this cost will be averaged with the cost of all other Class A Shares held by the Holder to determine the adjusted cost base of each Class A Share.

A disposition or a deemed disposition of Class A Shares (other than to the Company) will give rise to a capital gain (or capital loss) to the extent that the proceeds of disposition of the Class A Shares exceed (or are exceeded by) the adjusted cost base of the Class A Shares and the disposition costs. Amounts paid by the Company on the redemption or acquisition by it of a Class A Share, up to the paid-up capital thereof, will be treated as proceeds of disposition. Any amount paid by the Company on the redemption or acquisition of a Class A Share which is in excess of the paid-up capital of such Class A Share will be deemed to be a dividend and will be included in the income of a holder of Class A Shares, in accordance with the rules described above.

In general, one-half of any capital gain realized by a Holder (including capital gains deemed to be realized as a result of a receipt of a capital gains dividend) will be included in the Holder's income under the Tax Act as a taxable capital gain. Subject to certain specific rules in the Tax Act, one-half of any capital loss realized in a taxation year is to be deducted against any taxable capital gains realized by the Holder in such year and, to the extent not so deductible, may generally be carried back three tax years or forward indefinitely and deducted against taxable capital gains realized in such tax years.

The taxable capital gains realized by a Holder that is an individual (a natural person or a trust) may give rise to alternative minimum tax depending upon the Holder's circumstances. A Holder that is a "Canadian-controlled private corporation" (as defined in the Tax Act) may be liable to pay an additional tax (refundable in certain circumstances) of 10 $\frac{2}{3}$ % on certain investment income, including amounts in respect of interest and taxable capital gains. Furthermore, the receipt by a "Canadian-controlled private corporation" of investment income, including amounts in respect of interest and taxable capital gains, can reduce the amount of the corporation or an associated corporation's business limit, as that phrase is understood in subsection 125(7) of the Tax Act, in the following year that is taxed at the lower rate of corporate tax described in subsection 125(1.1) of the Tax Act where the investment income earned by the corporation in the year exceeds \$50,000.

6.3 Eligibility for Investment

The Class A Shares will be qualified investments under the Tax Act for a trust governed by a Registered Retirement Savings Plan ("RRSP"), Registered Educational Savings Plan ("RESP"), Deferred Profit Sharing Plan, Registered Retirement Income Fund ("RRIF") or a Tax Free Saving Account ("TFSA") (collectively, the "Plans") provided that the Company qualifies as a MIC under the Tax Act and further provided that throughout the relevant calendar year, the Company does not hold any indebtedness, whether by way of mortgage or otherwise, of a person who is an annuitant, a beneficiary, an employer, or a subscriber under the Plan, or of any other person who does not deal at arm's length with that person. Adverse tax consequences, not discussed herein, would generally result if the Company at any time fails to qualify as a MIC or its shares otherwise fail to constitute qualified investment for Plans.

Notwithstanding that the Class A Shares may be a qualified investment for a TFSA, an RRSP or a RRIF, the holder of a TFSA or the annuitant of an RRSP or RRIF, as the case may be, which acquires Class A Shares will be subject to a penalty tax under the Tax Act if such Class A Shares are a "prohibited investment" (within the meaning of the Tax Act) for the particular TFSA, RRSP or RRIF. The Class A Shares will generally be a prohibited investment for a TFSA, an RRSP or RRIF if the holder of the TFSA, or annuitant of the RRSP or RRIF, as applicable, (i) does not deal at arm's length with the Company for purposes of the Tax Act or (ii) has a "significant interest" (within the meaning of the Tax Act) in the Company. Generally, a holder or annuitant, as the case may be, will not have a significant interest in the Company unless the holder or annuitant, as the case may be, owns directly or indirectly, 10% or more of the issued shares of any class of the capital stock of the Company (or of any related corporation), either alone or together with persons with which the holder or annuitant, as the case may be, does not deal at arm's length. In addition, the Class A Shares will not be prohibited investments if they are "excluded property" as defined in the Tax Act.

Holders and annuitants should consult their own tax advisors to ensure that the Class A Shares would not be a prohibited investment for a trust governed by a TFSA, RRSP or RRIF in their particular circumstances.

ITEM 7

COMPENSATION PAID TO SELLERS AND FINDERS

Class A Shares are distributed by PHL Financial, as selling agent to the Company. No fee, commission or other acquisition charge is payable to PHL Financial in respect of orders to purchase Class A Shares of the Company.

Where lawfully permitted, the Company is prepared to pay compensation to finders or registered representatives, subject to negotiation. The Company has not engaged any such party at this time.

ITEM 8

RISK FACTORS

An investment in the Company involves significant risks. In addition to the other information presented in this Offering Memorandum, the following risk factors should be given special consideration when evaluating an investment in any of our securities. The purchase of Class A Shares involves a number of risk factors and is suitable only for Subscribers 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 Subscriber's investment. The risk factors outlined below are not a definitive list of all risk factors associated with an investment in the Company.

The Company advises that prospective Subscribers should consult with their own independent professional legal, tax, investment and financial advisors before purchasing Class A Shares in order to determine the appropriateness of this investment in relation to their financial and investment objectives and in relation to the tax consequences of any such investment.

8.1 Investment Risk

Risks that are specific to the Class A Shares being offered under this Offering include the following:

Speculative Investment

An investment in the Class A Shares is speculative. Investment in the Class A Shares should be considered only by investors who are able to make a long term investment and are aware of the risk factors involved in such an investment. You should only invest in the Class A Shares if you are able to bear the risk of the entire loss of your investment and have no need for immediate liquidity in such investment.

No Market for Class A Shares

There is no market through which the Class A Shares may be sold, and the Company does not expect that any market will develop pursuant to this Offering or in the future. Accordingly, an investment in Class A Shares should only be considered by Subscribers who do not require liquidity. The Class A Shares are subject to onerous resale restrictions under applicable securities legislation. See "Resale Restrictions", regarding resale restrictions applicable to the Class A Shares.

Return on Investment

There is no assurance that sufficient revenue will be generated by the Company from which dividends can be declared by the Directors and paid to the Class A Shareholders.

No Guaranteed Dividends

The dividends in which the Class A Shareholders are entitled to participate are not cumulative and will not be paid unless such dividends have been declared by the Directors. The Directors have the sole discretion as to whether or not any such dividends are declared. Therefore, there is no guarantee that dividends payable to Class A Shareholders will be declared.

Prospectus Exemption

The Offering is being made pursuant to exemptions from the prospectus and registration requirements of applicable securities legislation (the "Exemptions"). As a consequence of acquiring the Class A Shares offered hereby pursuant to such Exemptions and the fact that no prospectus has or is required to be filed with respect to any of the Class A Shares offered hereby under applicable securities legislation in Canada: (i) you will be restricted from using certain of the civil remedies available under applicable securities legislation; (ii) certain protections, rights and remedies provided in such legislation will not be available to you; (iii) you may not receive information that might otherwise be required to be provided to you under such legislation; and (iv) the Company is relieved from certain obligations that would otherwise apply under such legislation.

The Class A Shares are not Insured

The Company is not a member institution of the Canada Deposit Insurance Corporation and the Class A Shares offered pursuant to this Offering Memorandum are not insured against loss through the Canada Deposit Insurance Corporation.

Retraction Liquidity

The Class A Shares are retractable, meaning that Subscribers have the right to require the Company to redeem them, upon appropriate advance notice from the Subscriber to the Company. If the Subscriber does not provide the Company with the appropriate notice of retraction, the right of retraction is suspended until an additional time period has elapsed. See "Terms of Securities".

The Company gives no assurance that any Subscriber will be able to retract any or all of their Class A Shares at any time. Retraction of the Class A Shares is subject to the Company having access to sufficient cash, or other liquid assets, and being in compliance with applicable corporate and securities legislation, and is subject to the terms in this Offering Memorandum, all as determined solely by the Company. Retraction of the Class A Shares is also subject to the discretion of the Directors to act in the best interests of the MIC under the Tax Act. Accordingly this investment is unsuitable for those prospective Subscribers who may require liquidity.

Absence of Voting Rights

The Class A Shares being sold under this Offering do not carry voting rights, and consequently a Subscriber's investment in Class A Shares does not carry with it any right to take part in the control or management of the Company's business, including the election of Directors.

In assessing the risks and rewards of an investment in Class A Shares, potential Subscribers should appreciate that they are relying solely on the good faith, judgment and ability of the directors, officers and

employees of the Company and the Administrator to make appropriate decisions with respect to the management of the Company, and that they will be bound by the decisions of the Company's and the Administrator's directors, officers and employees. It would be inappropriate for Subscribers unwilling to rely on these individuals to this extent to purchase Class A Shares.

Lack of Separate Legal Counsel

The Subscribers, as a group, have not been represented by separate counsel. Neither counsel for the Company nor counsel for the Administrator purport to have acted for the Subscribers nor to have conducted any investigation or review on their behalf.

No Regulatory Review of Offering Memorandum

Subscribers under the Offering will not have the benefit of a review of this Offering Memorandum by any regulatory authorities.

8.2 Issuer Risk

Risks that are specific to the Company include the following:

Mortgage Investment Company Tax Designation

Under the Company's articles the Company's Directors are required to use their best efforts to ensure that the Company qualifies as a MIC pursuant to the Tax Act. As well, the Company's Articles of Incorporation grant the Directors the discretion to reject any applications for share dividends or share subscriptions, transfers, redemptions or retractions where, in the view of the Directors, such would not be in the Company's best interests as a mortgage investment under the Tax Act.

There can be no assurance, however, that the Company will be able to meet the Tax Act's mortgage investment qualifications at all material times.

As a company qualified as a MIC the Company may deduct taxable dividends it pays from its income, and the normal gross-up and dividend tax credit rules will not apply to dividends paid by the Company on the Class A Shares. Rather, the dividends will be taxable in the hands of shareholders as if they had received an interest payment. If for any reason the Company fails to maintain its MIC qualification in a particular year, the dividends paid by the Company on the Class A Shares would cease to be deductible from the income of the Company for that year and the dividends it pays on the Class A Shares would be subject to the normal gross-up and dividend tax credit rules. In addition, the Class A Shares might cease to be qualified investments for Plans, with adverse tax implications.

Tax Matters and Changes in Legislation

The return on the Class A Shareholders' investment in the Class A Shares is subject to changes in Canadian federal and provincial tax laws, tax proposals, other governmental policies or regulations and governmental, administrative or judicial interpretation of the same. There can be no assurance that tax laws, tax proposals, policies or regulations, or the interpretation thereof, or governmental incentive programs relating to the real estate industry, will not be changed in a manner which will fundamentally alter or adversely affect the tax consequences to Class A Shareholders acquiring, holding or disposing of Class Shares or distributions received by Class A Shareholders.

Reliance on BC Instrument 32-517

PHL Financial distributes the Class A Shares in British Columbia on behalf of the Company without registration with the British Columbia Securities Commission, in reliance on BCI 32-517. BCI 32-517 provides limited relief from the requirement to register as an exempt market dealer in connection with prospectus-exempt distributions. PHL Financial's ability to distribute the Class A Shares without registration is dependent upon its' continued ability to meet the required conditions of BCI 32-517.

On August 15, 2018, the Canadian Securities Administrators announced pursuant to Staff Notice 32-302, that BCI 32-517 will permanently expire on February 15, 2019. However, certain transitional provisions provide that PHL Financial may continue operating in reliance of BCI 32-517 if:

- (a) the British Columbia Securities Commission has received a substantially complete Form 33-109F6 *Firm Registration* of PHL Financial by February 15, 2019, and has been paid the related fees, and
- (b) PHL Financial is in compliance with the terms of BCI 32-517 on February 15, 2019 and on an ongoing basis.

Only those persons properly relying on BC 32-517 before its expiry date (i.e., February 15, 2019) can rely on the transitional provisions of BCI 32-517. Provided PHL Financial meets all the relevant conditions, it may (and intends to) rely on the exempt market dealer registration exemption contained in BCI 32-517 until the British Columbia Securities Commission has accepted or rejected its application for registration.

While the Company anticipates that PHL Financial will seek and qualify for exempt market dealer registration in anticipation of the expiry of BCI 32-517, there are no assurances that registration will ultimately be granted. If for any reason PHL Financial does not successfully obtain exempt market dealer registration on conditions satisfactory to PHL Financial or at all, the Company will need to retain a registered third party selling agent to continue to distribute its Class A Shares. The fees and commissions payable to a third party selling agent could materially adversely impact the financial returns to Class A Shareholders, which in turn could impair the Company's ability to raise funds and, ultimately, its ability to continue to operate its business as currently operated or at all.

Registration with the Financial Institutions Commission

The Company is registered with the Financial Institutions Commission ("FICOM") as a MIC under the *Mortgage Brokers Act* (British Columbia). The Office of the Registrar of Mortgage Brokers at FICOM regulates the mortgage brokering and lending activities of MICs under the *Mortgage Brokers Act* (British Columbia). The Registrar and the *Mortgage Brokers Act* (British Columbia) do not regulate the capital raising and investment marketing activities of MICs which are subject to securities legislation and regulation.

Dilution

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

Reliance on the Administrator

In accordance with the terms of the Administrative and Services Agreement between the Company and the Administrator, the Administrator has significant responsibility for assisting the Company to conduct its affairs. Any inability of the Administrator to perform competently or on a timely basis will negatively affect the Company.

Key Personnel

The operations of the Company and the Administrator are highly dependent upon the continued support and participation of their key personnel. The loss of their services may materially affect the timing or the ability of the Company to implement its business plan.

The Company's and the Administrator's management teams consist of several key personnel. In order to manage the Company and the Administrator successfully in the future it may be necessary to further strengthen their management teams. The competition for such key personnel is intense, and there can be no assurance of success in attracting, retaining, or motivating such individuals. Failure in this regard would likely have a material adverse effect on the Company's business, financial condition, and results of operations.

Conflict of Interest

Conflicts of interest exist, and others may arise, between Subscribers and the directors and officers of the Administrator, PHL Financial and the Company, and their associates and affiliates.

Certain of the directors and officers of the Administrator are also a director and officer of the Company. The directors and officers of PHL Financial are also directors and officers of the Administrator and of the Company. Although the Administrator and PHL Financial will have various obligations to the Company, situations may arise where the interests of the directors, officers, employees and shareholders of the Administrator (being the promoter of the Company) and PHL Financial (being the selling agent of the Company) could conflict with the interests of the Company.

The employees, directors and officers of the Administrator or PHL Financial may invest their own money in the Company and may, from time to time, have substantial holdings in the Company.

Furthermore, the Company pays the Administrator the Administration Fee.

There is no assurance that any conflicts of interest that may arise will be resolved in a manner most favourable to Subscribers. Persons considering a purchase of Class A Shares pursuant to this Offering must rely on the judgment and good faith of the directors, officers and employees of the Administrator and the Company in resolving such conflicts of interest as may arise.

The Company and its shareholders are dependent in large part upon the experience and good faith of the Administrator. The Administrator is entitled to act in a similar capacity for other companies with investment criteria similar to those of the Company. As such, there is a risk the Administrator will not be able to originate sufficient suitable investment opportunities to keep the Company's funds fully invested.

Conflicts of interest between PHL Financial and the Company are mitigated in that PHL Financial distributes only the securities of the Company (and not the securities of any other issuer) and does not receive a fee, commission or other compensation for capital raised on behalf of the Company.

Future Operations and Possible Need for Additional Funds

The Company requires significant funds to carry out its business plan. In the event the Company is unable to raise sufficient funds by this Offering and/or future offerings and/or other debt or equity financing the Company may have insufficient funds available to implement its business plan, and Subscribers may receive no return on their Class A Shares. Certain uninsurable or uninsured events may also occur which can substantially reduce the ability of the Company to carry on business in a profitable manner, including natural or man-made disasters.

The Company anticipates that a substantial portion of the net proceeds of this Offering will be expended by the Company in investing in residential mortgages, and also anticipates that the net proceeds of the Offering and anticipated cash flow from operating revenues will be sufficient to carry out the Company's business plan. There can be no assurances, however, that the Company will generate sufficient cash flow from operations or that it will not encounter unexpected costs in connection with implementing its business plan and, as a consequence, there can be no assurances that the Company will not require additional financing. The Company has no current arrangements with respect to any other additional financing, and there can be no assurance that any such additional financing can be obtained on terms acceptable to the Company, or at all. Failure to obtain additional financing would likely have a substantial material adverse effect on the Company. Moreover, in the event the Company were to obtain such additional financing, it could have a dilutive effect on Subscribers' participation in the revenues generated through the Company's operations.

8.3 Industry Risk

There are also risks faced by the Company because of the industry in which it operates. Real estate investment is subject to significant uncertainties due, among other factors, to uncertain costs of construction, development and financing, uncertainty as to the ability to obtain required licenses, permits and approvals, and fluctuating demand for developed real estate. The anticipated higher returns associated with the Company's mortgage loans reflect the greater risks involved in making these types of loans as compared to long term conventional mortgage loans. Inherent in these loans are completion risks as well as financing risks. In addition, prospective Subscribers should take note of the following:

Insurance

The Company's mortgage loans will not usually be insured in whole or in part. As well, there are certain inherent risks in the real estate industry, some of which the Company may not be able to insure against or which the Company may elect not to insure due to the cost of such insurance. The effect of these factors cannot be accurately predicted.

Priority

Financial charges for construction and other financing funded by conventional third party lenders may rank in priority to the Mortgages registered in favour of the Company. Any subordinate financing which may be carried on by the Company is generally considered a higher risk than primary financing. Mortgages will be secured by a charge which is in a first or subsequent-ranking position upon or in the underlying real estate. When a charge on a real property is in a position other than first-ranking on a real property, it is possible for the holder of a prior charge on the real property, if the borrower is in default under the terms of its obligations to such holder, to take a number of actions against the borrower and ultimately against the real property in order to realize the security given for his loan. Such actions may include a foreclosure action, or an action forcing the real property to be sold. A foreclosure action may have the ultimate effect of depriving any person having other than a first-ranking charge the security of the real property. If an action is taken to sell the real property and sufficient proceeds are not realized from such sale to pay off all creditors who have prior charges on the property, the holder of a subsequent

charge may lose his investment or part thereof to the extent of such deficiency, unless he can otherwise recover such deficiency from other property owned by the debtor. In the event of default by the mortgagor under any prior financial charge, the Company may not recover any or all of the monies advanced.

Default

If there is default on a Mortgage it may be necessary for the Company, in order to protect the investment, to engage in foreclosure or sale proceedings and to make further outlays to complete an unfinished project or to maintain prior encumbrances in good standing. In such cases it is possible that the total amount recovered by the Company may be less than the total investment, resulting in loss to the Company. Equity investments in real property may involve fixed costs in respect of mortgage payments, real estate taxes, and maintenance costs, which could adversely affect the Company's income.

No Guaranteed Returns

Although investments in Mortgages will be carefully chosen by the Company, there is no representation made by the Company that such investments will have a guaranteed return to Class A Shareholders, nor that losses will not be incurred by the Company in respect of such investments. This Offering is not suitable for investors who cannot afford to assume significant risks in connection with their investments.

Renewal of Mortgages

There can be no assurances that any of the Mortgages comprising the Company's Invested Mortgage Portfolio from time to time can or will be renewed at the same interest rates and terms, or in the same amounts as are currently in effect. With respect to each Mortgage comprising the Invested Mortgage Portfolio, it is possible that the mortgagor, the mortgagee or both, will not elect to renew such Mortgage. In addition, if the Mortgages in the Invested Mortgage Portfolio are renewed, the principal balance of such renewals, the interest rates and the other terms and conditions of such Mortgages will be subject to negotiations between the mortgagors and the mortgagees at the time of renewal.

Nature of Mortgage Backed Investments

Investments in Mortgages are affected by general economic conditions, local real estate markets, demand for leased premises, fluctuation in occupancy rates and operating expenses, and various other factors. The value of a real estate property may ultimately depend on the credit and financial stability of the tenants. Investments in Mortgages are relatively illiquid. Such illiquidity will tend to limit the Company's ability to change its portfolio promptly in response to changing economic or investment conditions. Investments in Mortgages on residential real property projects under development may be riskier than investments in Mortgages on already constructed residential real property developments.

Composition of the Invested Mortgage Portfolio

The composition of the Company's Invested Mortgage Portfolio may vary widely from time to time and may be concentrated by borrower, type of security, industry or geography, resulting in the Invested Mortgage Portfolio being less diversified than anticipated. A lack of diversification may result in the Company being exposed to economic downturns or other events that have an adverse and disproportionate effect on particular types of security, industry or geography.

Yield

The yields on real estate investments, including mortgages, depend on many factors including economic conditions and prevailing interest rates, the level of risk assumed, conditions in the real estate industry,

opportunities for other types of investments, legislation, government regulation and tax laws. The Company cannot predict the effect that such factors will have on its operations.

Borrowing

The Company may from time to time borrow funds to increase the mortgage portfolio and the returns of the portfolio. Borrowings would be secured by mortgages in the Company's portfolio. This could increase the risk of the Company's insolvency.

The Company May Invest in Second Mortgages

The Company may invest in second mortgages. Second mortgages are generally considered higher risk than first ranking mortgages because it is possible for the holder of the first mortgage to take a number of actions against the borrower and ultimately against the Real Property in order to realize on the security. Such actions may include a foreclosure action, which may have the result of depriving the Company, which holds the second-ranking charge, the security of the Real Property. If upon a sale of the Real Property, there are insufficient proceeds to pay off the holder of the first mortgage, or the full balance of the second mortgage, the Company may lose all or a portion of its investment, unless it is able to otherwise recover such deficiency by other property owned by the debtor.

Competition

The earnings of the Company depend on the Company's ability, with the assistance of the Administrator, to locate suitable opportunities for the investment and re-investment of the Company's funds and on the yields available from time to time on mortgages and other investments. The investment industry in which the Company operates is subject to a wide variety of competition from private businesses in Canada and the United States, many of whom have greater financial and technical resources than the Company. Such competition, as well as any future competition, may adversely affect the Company's success in the marketplace. There is no assurance that the Company will be able to successfully maintain its business plan or operate profitably.

Existing competitors may have greater financial, managerial and technical resources, and name recognition than the Company. Competitors may reduce the interest rates they charge, resulting in a reduction of the Company's share of the market, reduced interest rates on loans and reduced profit margins.

Potential Liability Under Environmental Protection Legislation

Environmental and ecological legislation and policies have become increasingly important in recent years. Under various laws, as the owner of real estate properties the Company could become liable for the costs of removal or remediation of certain hazardous or toxic substances released on, from or in one or more of the properties. The failure to remove or remediate such substances, if any, may adversely affect the Company's ability to sell such a property or to borrow using a property as collateral.

ITEM 9

REPORTING OBLIGATIONS

The Company is not a "reporting issuer" as that term is defined in applicable securities legislation, nor does it currently intend to become a reporting issuer and therefore obligations of the Company to publicly disclose documents is limited. However, Class A Shareholders will receive quarterly statements reflecting

their investment in the Company and quarterly dividend cheques, if applicable, and will receive yearly T5 tax returns for cash investment income.

The Company's fiscal year commences September 1 in each year and ends August 31 of the following year. The Company will prepare financial statements for each fiscal year in connection with an annual general meeting to be held as required by the *Business Corporations Act* (British Columbia), and provide them to shareholders within 120 days of the Company's fiscal year end.

ITEM 10

RESALE RESTRICTIONS

10.1 These securities will be subject to a number of resale restrictions, including a restriction on trading. Until the restriction on trading expires, you will not be able to trade the securities unless you comply with an exemption from the prospectus and registration requirements under securities legislation.

10.2 Unless permitted under securities legislation, you cannot trade the securities before the date that is four months and a day after the date the Company becomes a reporting issuer in any province or territory of Canada. The Company has no intention or plan to proceed with becoming a reporting issuer. See "Trading and Resale Restrictions".

ITEM 11

PURCHASERS' 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.

The following summary is subject to the express provisions of the securities legislation of each offering jurisdiction and the regulations, rules and policy statements thereunder and reference is made thereto for the complete text of such provisions. Subscribers should refer to those provisions for the particulars of these rights or consult with a legal adviser.

The rights of action described herein are in addition to and without derogation from any other right or remedy that the investor may have at law.

Two Day Cancellation Right for All Investors

You can cancel your agreement to purchase these securities. To do so, you must send a notice to the Company or the Administrator by midnight on the second business day after you sign the Subscription Agreement to buy the securities.

Statutory Rights of Action in the Event of a Misrepresentation

Securities legislation in certain of the provinces and territories of Canada provides purchasers with a statutory right of action for damages or rescission in cases where an offering memorandum or any amendment thereto contains an untrue statement of a material fact or omits to state a material fact that is required to be stated or is necessary to make any statement contained therein not misleading in light of the circumstances in which it was made (a "misrepresentation"). These rights, or notice with respect thereto, must be exercised or delivered, as the case may be, by purchasers within the time limits prescribed and are subject to the defences and limitations contained under the applicable securities legislation.

The following summary is subject to the express provisions of the *Securities Act* (British Columbia) (the "BCSA") and the regulations, rules and policy statements thereunder. Purchasers should refer to the BCSA along with the regulations, rules and policy statements thereunder for the complete text of these provisions or should consult with their legal advisor. The statutory rights of action described in this Offering Memorandum are in addition to and without derogation from any other right or remedy that purchasers may have at law.

If you are a resident of British Columbia, under the BCSA, if there is a misrepresentation in this Offering Memorandum as defined in the BCSA, you have a statutory right to sue:

- (a) the Company to cancel your Subscription Agreement to buy these securities, or
- (b) for damages against the Company, every person who was a Director at the date of this Offering Memorandum and every other person who signed this Offering Memorandum; provided, however, that if you elect to sue the Company to cancel your Subscription Agreement, you will have no right to sue the aforementioned persons for damages.

This statutory right to sue is available to you whether or not you relied on the misrepresentation. If you intend to rely on the rights described in (a) or (b) above, you must do so within strict time limitations. You must commence your action to cancel the Subscription Agreement within 180 days after the date of the transaction that gave rise to the cause of action. You must commence your action for damages within the earlier of (i) 180 days after you first had knowledge of the facts giving rise to the cause of action, and (ii) three years after the date of the transaction that gave rise to the cause of action.

The BCSA provides various defences to the Company and persons that you have a right to sue. In particular, they have a defence if:

- (a) they prove that the purchaser had knowledge of the misrepresentation;
- (b) they prove that this Offering Memorandum was delivered to purchasers without the person's knowledge or consent and that, on becoming aware of its delivery, the person gave written notice to the Company that it was sent without the person's knowledge or consent;
- (c) they prove that on becoming aware of the misrepresentation in this Offering Memorandum, the person withdrew the person's consent to the Offering Memorandum and gave written notice to the Company of the withdrawal and the reason for it; or
- (d) with respect to any part of this Offering Memorandum 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, the person or company proves that the person or company had no reasonable grounds to believe and did not believe that: (i) there had been a misrepresentation; or (ii) the relevant part of this Offering Memorandum: (A) did not fairly represent the report, opinion or statement of the expert; or (B) was not a fair copy of, or an extract from, the report, opinion or statement of the expert.

In addition, a person is not liable for damages with respect to any part of this Offering Memorandum 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 there had been a misrepresentation.

In the case of an action for damages, the defendant is not liable for all or any part of the damages that the defendant proves do not represent the depreciation in value of the security resulting from the misrepresentation. The amount recoverable by a plaintiff in any action for misrepresentation must not exceed the price at which the securities were offered under the Offering Memorandum.

ITEM 12

FINANCIAL STATEMENTS

- 12.1** Audited annual financial statements as at August 31, 2018 are attached.

Financial Statements of

MORTEQ LENDING CORP.

Year ended August 31, 2018



KPMG LLP
PO Box 10426 777 Dunsmuir Street
Vancouver BC V7Y 1K3
Canada
Telephone (604) 691-3000
Fax (604) 691-3031

INDEPENDENT AUDITORS' REPORT

To the Shareholders of MortEq Lending Corp.

We have audited the accompanying financial statements of MortEq Lending Corp., which comprise the statement of financial position as at August 31, 2018, the statements of income and comprehensive income, changes in shareholders' equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

We believe that the audit evidence we have obtained 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 MortEq Lending Corp. as at August 31, 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Professional Accountants

Vancouver, Canada

October 12, 2018

MORTEQ LENDING CORP.

Statement of Financial Position

August 31, 2018, with comparative information for 2017

	Notes	2018	2017
Assets			
Current assets:			
Restricted cash	4	\$ 15,806,899	\$ 3,520,000
Interest receivable		962,083	1,173,025
Mortgages receivable, current portion	5	217,459,384	168,847,125
Prepaid expenses and other assets		31,206	9,488
Prepaid redemptions	4	15,405,802	1,311,461
		249,665,374	174,861,099
Mortgages receivable, non-current portion	5	14,212,371	8,402,797
		\$ 263,877,745	\$ 183,263,896

Liabilities and Shareholders' Equity

Current liabilities:			
Bank indebtedness	6	\$ 27,566,608	\$ 30,703,332
Accounts payable and accrued liabilities	7	437,579	660,173
Deposits	4	15,806,899	3,520,000
Unearned revenue		3,808,300	1,588,499
Dividends payable	7, 8	4,471,557	2,962,228
		52,090,943	39,434,232
Redeemable preferred shares	9	211,786,791	143,829,653
		263,877,734	183,263,885
Shareholders' equity:			
Common shares	10	11	11
		\$ 263,877,745	\$ 183,263,896

The accompanying notes form an integral part of these financial statements.

Approved on behalf of the Board:

"Parminder Purewall" Director

"Steve Ponte" Director

MORTEQ LENDING CORP.

Statement of Income and Comprehensive Income

Year ended August 31, 2018, with comparative information for 2017

	Notes	2018	2017
Interest income		\$ 15,916,755	\$11,076,270
Lender fees and other income		2,197,134	1,531,249
		18,113,889	12,607,519
Expenses:			
Management fees	7	2,891,488	2,290,109
Bank charges and interest		530,448	973,226
Allowance for credit losses		54,403	69,036
Professional fees		135,896	84,050
Insurance		11,081	11,525
		3,623,316	3,427,946
Net income from operations		14,490,573	9,179,573
Dividends to preferred shareholders	7, 8	14,490,573	9,179,573
Net income and comprehensive income for the year		\$ -	\$ -

The accompanying notes form an integral part of these financial statements.

MORTEQ LENDING CORP.

Statement of Changes in Shareholders' Equity

Year ended August 31, 2018, with comparative information for 2017

	Common shares	Retained earnings	Total shareholders' equity
Balance, August 31, 2016	\$ 11	\$ -	\$ 11
Net income and comprehensive income for the year	-	-	-
Balance, August 31, 2017	11	-	11
Net income and comprehensive income for the year	-	-	-
Balance, August 31, 2018	\$ 11	\$ -	\$ 11

The accompanying notes form an integral part of these financial statements.

MORTEQ LENDING CORP.

Statement of Cash Flows

Year ended August 31, 2018, with comparative information for 2017

	2018	2017
Cash flows from operating activities:		
Net income and comprehensive income for the year	\$ -	\$ -
Items not involving cash:		
Amortization of share issuance costs	35,028	11,460
Allowance for credit losses	54,403	69,036
Dividends reinvested in redeemable preferred shares	7,471,871	4,589,732
	7,561,302	4,670,228
Change in restricted cash	(12,286,899)	4,031,062
Change in interest receivable	210,942	(520,275)
Gross change in mortgages receivable	(54,476,237)	(69,193,408)
Change in prepaid expenses and other assets	(21,718)	23,875
Change in accounts payable and accrued liabilities	(222,594)	263,511
Change in deposits	12,286,899	(4,031,062)
Change in unearned revenue	2,219,801	760,375
Change in dividends payable	1,509,329	1,288,367
Change in prepaid redemptions	(14,094,341)	(1,311,461)
	(57,313,516)	(64,018,788)
Cash flows from financing activities:		
Issuance of redeemable preferred shares	79,106,205	70,907,117
Redemption of redeemable preferred shares	(18,590,693)	(9,136,844)
Share issuance costs	(65,272)	(84,992)
	60,450,240	61,685,281
Net increase (decrease) in cash	3,136,724	(2,333,507)
Bank indebtedness, beginning of year	(30,703,332)	(28,369,825)
Bank indebtedness, end of year	\$ (27,566,608)	\$ (30,703,332)

The accompanying notes form an integral part of these financial statements.

MORTEQ LENDING CORP.

Notes to Financial Statements

Year ended August 31, 2018

1. Reporting entity:

MortEq Lending Corp. (the "Company") was incorporated under the British Columbia Corporations Act on November 16, 2006. The address of the registered office is 212-5455 152 Street, Surrey, British Columbia V3S 5A5.

The Company makes investments and operates its business at all times in such a manner as to qualify as a mortgage investment corporation ("MIC") under the provisions of the Income Tax Act (Canada) and, as such, is able to make distributions to its shareholders on a pre-tax basis. The Company derives its earnings from the receipt of mortgage interest and fees associated with the setup, renewal and discharge of mortgages.

These financial statements were authorized for issuance by the Board of Directors of the Company on October 12, 2018.

2. Basis of presentation:

(a) Statement of compliance:

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The significant accounting policies applied in the preparation of the financial statements are set out in note 3.

(b) Basis of measurement:

The financial statements have been prepared on the historical cost basis.

(c) Functional and presentation currency:

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

(d) Use of estimates and judgments:

The preparation of financial statements requires management to make estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income, and expenses. Actual results may differ from these estimates. These estimates are reviewed periodically on a prospective basis, and, as adjustments become necessary, they are reported in earnings in the period in which they become known.

The most significant estimates that the Company is required to make relate to the impairment of mortgages receivable (notes 3(d) and 5).

MORTEQ LENDING CORP.

Notes to Financial Statements

Year ended August 31, 2018

3. Significant accounting policies:

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

(a) Cash:

Cash includes components of cash that are readily available, which is subject to an insignificant risk of changes in value. Cash consists of bank balances, including bank overdrafts with balances that fluctuate from being positive to overdrawn and cash on hand.

(b) Mortgages receivable:

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market.

Mortgages receivable and the related interest receivable are classified as loans and receivables and are recognized on the date that they are originated. Such instruments are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured on an amortized cost basis using the effective interest method, less any impairment losses.

Mortgages receivable are derecognized when the contractual rights to the cash flows from the instrument expire or when it transfers the instrument in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. On derecognition, the difference between the carrying amount of the instrument (or the carrying amount allocated to the portion of the asset transferred), and the consideration received (including any new asset obtained less any new liability assumed) is recognized in net income.

(c) Financial liabilities:

The Company initially recognizes financial liabilities on the date at which the Company becomes a party to the contractual provisions of the instrument. The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled or expire.

Financial liabilities, defined as bank indebtedness, accounts payable and accrued liabilities, deposits, dividends payable, and redeemable preferred shares have been classified as other financial liabilities, which are accounted for on an amortized cost basis using the effective interest rate method. However, due to the short term nature of these financial liabilities, other than redeemable preferred shares (note 3(f)), their amortized cost is equivalent to amounts expected to be paid.

MORTEQ LENDING CORP.

Notes to Financial Statements

Year ended August 31, 2018

3. Significant accounting policies (continued):

(d) Impairment:

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

Objective evidence that financial assets are impaired can include significant financial difficulty of the borrower or issuer, default or delinquency by a borrower, restructuring of an amount due to the Company on terms that the Company would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.

The Company considers evidence of impairment for mortgages receivable at both a specific mortgage and collective level. All individually significant mortgages receivable are assessed for specific impairment on a regular basis. All individually significant mortgages receivable found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Mortgages receivable that are not individually significant are collectively assessed for impairment by grouping together mortgages receivable with similar risk characteristics.

Mortgages receivables, where interest or principal is contractually past due 90 days, are automatically recognized as impaired, unless management determines that the loan is fully secured or in the process of collection and the collection efforts are reasonably expected to result in either repayment of the loan or to restore the loan to a current status.

In assessing collective impairment, the Company uses analysis of past performance and the level of allowance already in place, adjusted for management's judgment as to whether current economic and credit conditions are such that actual losses are likely to be greater or less than suggested by past performance.

(e) Income taxes:

It is the intention of the Company to qualify as a mortgage investment corporation ("MIC") under section 130.1 of the Income Tax Act (Canada) (the "Tax Act"). A MIC is able to deduct, in computing its income for a taxation year, dividends paid to its shareholders during the year or within 90 days of the end of the year to the extent that those dividends were not deducted previously.

MORTEQ LENDING CORP.

Notes to Financial Statements

Year ended August 31, 2018

3. Significant accounting policies (continued):

(e) Income taxes (continued):

Actual qualification as a MIC will depend upon meeting the various conditions imposed under the Tax Act throughout the year. Management believes that all conditions necessary for qualification as a MIC under the Tax Act have been met in the current and all previous reporting periods. In addition, the Company intends to pay sufficient dividends to its shareholders in the current year and in future years to ensure that it will not be subject to income taxes. Accordingly, no provision for current or deferred income taxes has been made for financial statement purposes.

(f) Redeemable preferred shares:

The Company classifies financial instruments issued as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments. As such, Class A preferred shares, which are redeemable, are presented as a liability of the Company. These preferred shares are redeemable at a price equal to their original issue amounts plus the amount of dividends declared and unpaid and a pro-rata share of retained earnings at the time the redemption is paid out. Incremental costs directly attributable to the issuance of redeemable preferred shares are recognized as a deduction from the liability and amortized over five years.

(g) Common shares:

Common shares are classified as equity and presented at the value of the shares issued. Incremental costs directly attributable to the issue of common shares are recognized as a deduction from equity, net of any tax effects.

(h) Revenue recognition:

Interest income on mortgage investments is recognized using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash receipts through the expected life of the mortgage receivable (or, where appropriate, a shorter period) to the carrying amount of the mortgage receivable. When calculating the effective interest rate, the Company estimates future cash flows considering all contractual terms of the mortgage receivable, but not future credit losses.

The calculation of the effective interest method includes all fees and costs paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition of the mortgage receivable.

Interest income presented in the statement of income and comprehensive income represents interest on mortgages receivable measured at amortized cost, calculated on an effective interest basis.

Other revenue from administration fees relating to the mortgages receivable are recognized when the mortgage agreement is signed and funds are released.

MORTEQ LENDING CORP.

Notes to Financial Statements

Year ended August 31, 2018

3. Significant accounting policies (continued):

(i) Provisions:

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

(j) New standards and interpretations issued but not yet adopted:

The Company has reviewed new and revised accounting pronouncements that have been issued but are not yet effective. The Company has not early adopted any of these standards and is currently evaluating the impact, if any, that these standards might have on its financial statements.

IFRS 9, *Financial Instruments*, will replace the guidance in IAS 39, *Financial Instruments: Recognition and Measurement*, and consists of three separate phases, which include classification and measurement of financial assets and liabilities, impairment of financial assets and hedge accounting.

IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, and therefore will be in effect for the Company for the year ending August 31, 2019.

IFRS 15, *Revenue from Contracts with Customers*, provides a comprehensive five-step revenue recognition model for all contracts with customers and requires management to exercise significant judgment and make estimates that affect revenue recognition. IFRS 15 is effective for annual periods beginning on or after January 1, 2018, and therefore will be in effect for the Company's year ending August 31, 2019.

4. Restricted cash, deposits, and prepaid redemptions:

Restricted cash represents amounts received in advance and held in trust for purchasers of Class A preferred shares in respect of the September 1, 2018 offering. The corresponding liability of the proceeds received is included in deposits. Prepaid redemptions consist of preferred share redemptions paid in advance related to the September 1, 2018 offering.

MORTEQ LENDING CORP.

Notes to Financial Statements

Year ended August 31, 2018

5. Mortgages receivable:

Mortgages receivable of \$14,212,371 (2017 - \$8,402,797) have a maturity date of more than one year and are classified as a long-term asset.

	2018	2017
Residential mortgages	\$ 210,511,505	\$ 163,087,992
Commercial mortgages	21,391,923	14,339,200
Allowance for credit losses	(231,673)	(177,270)
	<u>\$ 231,671,755</u>	<u>\$ 177,249,922</u>

Total mortgages receivable are carried at the unpaid principal amount. On a periodic basis, management reviews the mortgage portfolio and the overall general real estate market to determine whether it is necessary to record an allowance for mortgage losses.

Conventional first mortgages are loans secured by a first priority mortgage charge with loan-to-value ratios not exceeding 75% when issued. Conventional non-first mortgages are loans with specific charges not registered in first priority and with loan-to-value ratios not exceeding 75%. The portfolio of mortgages receivable earn interest at a weighted average rate of 7.99% (2017 - 7.48%).

As at August 31, 2018, twelve (2017 - fifteen) mortgages with an aggregate principal of \$14,249,750 (2017 - \$20,494,000) were past due.

Principal repayments of past due mortgages based on contractual maturity dates are as follows:

	2018	2017
30 days or less	\$ 8,465,000	\$ 3,760,000
31 to 60 days	-	795,000
60 to 90 days	-	4,020,000
Over 90 days	5,784,750	11,919,000
	<u>\$ 14,249,750</u>	<u>\$ 20,494,000</u>

As of the date of these financial statements, \$2,295,000 of past due mortgages have been repaid. As at August 31, 2018, nil (2017 - nil) mortgages were impaired.

6. Bank indebtedness:

The Company has an operating line of credit available in the amount of \$50,000,000 (2017 - \$50,000,000) at a rate of prime plus 0.85% (2017 - 0.85%) per annum. Balances outstanding are due on demand. As at August 31, 2018, the balance outstanding on the line of credit was \$27,566,608 (2017 - \$30,703,332).

MORTEQ LENDING CORP.

Notes to Financial Statements

Year ended August 31, 2018

6. Bank indebtedness (continued):

This loan is secured by a general security agreement on any current and future property of the Company, a general assignment of interest and principal payments due on mortgages receivable, a general assignment of mortgages receivable and an assignment of creditor and general insurance proceeds. The Company's interest coverage ratio under the agreement may not exceed a ratio of less than 2.0:1 at the end of each fiscal year. The Company must also maintain a tangible net worth of no less than \$50,000,000, a debt to equity ratio no greater than 1.0:1 and a current ratio no less than 2.0:1 measured monthly and at the end of each fiscal year. The Company was in compliance with all debt covenants as at August 31, 2018.

7. Related party transactions:

The following transactions are in the normal course of operations and are measured at the amount of consideration established and agreed to by the related parties.

- (a) During the year, the Company paid management fees of \$2,891,488 (2017 - \$2,290,109) to a company in which two directors, who are also common shareholders, hold a controlling interest. As at August 31, 2018, \$304,373 (2017 - \$473,644) is due to this related company and is included in accounts payable and accrued liabilities.
- (b) Directors, close-related family members and companies under common control with common shareholders, who own Class A preferred shares in the Company, received \$1,090,303 (2017 - \$563,953) in dividend income during the year. These dividends were paid in the normal course of business consistent with all Class A preferred shares.

There are no commitments or guarantees attributed to the Company from the related parties at August 31, 2018.

8. Dividends:

The Company has declared dividends to the holders of Class A preferred shares, in accordance with the provisions for MICs in the Income Tax Act (Canada), where dividends paid within 90 days from the end of the fiscal period are deductible from the taxable income of the Company. For the preferred shareholders, however, these dividends are taxed as interest income.

During the year, the Company declared dividends of \$14,490,573 (2017 - \$9,179,573), which represents a dividend of \$0.08 per share (2017 - \$0.08 per share) based on a time-weighted average number of shares issued and outstanding. Of these, \$7,471,871 (2017 - \$4,589,732) were reinvested in Class A preferred shares during the year.

MORTEQ LENDING CORP.

Notes to Financial Statements

Year ended August 31, 2018

9. Redeemable preferred shares:

The Company has authorized unlimited Class A, non-voting, participating, redeemable preferred shares. At year-end the issued and outstanding shares were \$211,936,395 and \$211,786,791 (2017 - 143,949,024 and \$143,829,653).

The Class A preferred shares are redeemable at the option of the holder or at the option of the Company at a redemption price equal to \$1 per share, their original issue amount, plus the amount of dividends declared and unpaid and a pro-rata share of retained earnings at the time notice of redemption is received. During the year the following share transactions occurred:

	2018	2017
Opening preferred share liability	\$ 143,829,653	\$ 77,543,180
Subscriptions - cash	79,106,205	70,907,117
Subscriptions - dividend reinvestments	7,471,871	4,589,732
Redemptions	(18,590,693)	(9,136,844)
Adjustment for share issuance costs	(30,245)	(73,532)
	<u>\$ 211,786,791</u>	<u>\$ 143,829,653</u>

As at August 31, 2018, 14,240,100 (2017 - 14,438,790) of the Class A preferred shares are held by related parties of the Company at a cost of \$1 per share.

10. Common shares:

The Company's common shares consists of the following:

Authorized:

Unlimited common shares without par value

	2018	2017
Issued:		
11 common shares	\$ 11	\$ 11

11. Financial instruments:

(a) Fair value measurement:

The carrying values of cash, cash held in trust, interest receivable, current portion of mortgages receivable, bank indebtedness, accounts payable and accrued liabilities, deposits and dividends payable approximate their fair values due to the short-term nature of these instruments. The fair value of long-term mortgages receivable are approximately equal to the carrying amounts.

MORTEQ LENDING CORP.

Notes to Financial Statements

Year ended August 31, 2018

11. Financial instruments (continued):

(a) Fair value measurement (continued):

The Company's financial instruments are measured at fair value on a recurring basis and in periods subsequent to initial recognition are measured at fair value using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Level 1 - Unadjusted market prices in active markets for identical assets and liabilities;
- Level 2 - Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 - Inputs that are not based on observable market data.

The level in the fair value hierarchy within which the fair value is categorized shall be determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety.

As at August 31, 2018, the Company had no financial instruments measured at fair value (2017 - nil).

(b) Financial risk management:

The Company is exposed to various risks of holding financial instruments. These risks have been categorized as interest rate risk, credit risk and liquidity risk. The following analysis enables users to evaluate the nature and extent of the risks as at August 31, 2018:

(i) Interest rate risk:

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's earnings are subject to fluctuations in interest rate and the degree of volatility of these rates. The Company's interest rate risk exposure arises due to its available operating line of credit. The Company attempts to minimize and monitor its exposure to interest rate risk through quantitative analysis of its net positions of short term borrowings.

An increase of 100 basis points (1%) in interest rates, sustained throughout the year, would have an immaterial impact on the shareholders' equity of the Company at August 31, 2018.

Cash management is based on the Company's cash flow needs in order to optimize its interest income and reduce its interest expense. Mortgages receivable bear a fixed rate of interest until renewal and are held in a mix of long- and short-term maturities to enable the Company to respond to changes in market rates. The line of credit held by the Company bears a variable rate of interest based on the prime rate. Derivative instruments are not used to reduce exposure to interest rate risk.

MORTEQ LENDING CORP.

Notes to Financial Statements

Year ended August 31, 2018

11. Financial instruments (continued):

(b) Financial risk management (continued):

(ii) Credit risk:

Credit risk is the risk that arises from the possibility that an entity to which the Company provides funding may not be able to repay their financial obligation. Credit risk arises from cash held with financial institutions, as well as credit exposures to clients, including outstanding interest and mortgages receivable. The maximum exposure is equal to the carrying value of the financial assets as at the statements of financial position date. The Company's cash is held with reputable financial institutions and cash balances are insured by the Canada Deposit Insurance Corporation up to the CDIC limits. Interest and mortgages receivable are collateralized by a claim against the title of the underlying properties.

(iii) Liquidity risk:

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash. The Company's objective in managing liquidity risk is to maintain sufficient cash balances in order to meet its operational requirements at any point in time. Based on current assets, operating cash on hand, mortgages receivable within the next fiscal year and available operating line of credit, management believes that sufficient liquidity exists to satisfy current obligations.

12. Capital management:

The Company's objectives when managing capital are to:

- (a) Maintain financial flexibility in order to preserve its ability to meet its financial commitments, including possible obligations;
- (b) Maintain a capital structure that allows it to finance its growth strategy with cash flows from its operations and its debt capacity; and
- (c) Optimize the use of its capital to provide an appropriate return on investment to its shareholders and to maintain sufficient liquidity in the company to distribute dividends to shareholders quarterly throughout the fiscal year and within 90 days thereafter to reduce its taxable income to a negligible amount.

The Company defines capital as the sum of its assets, net of its current liabilities, which approximates the sum of shareholders' equity and redeemable preferred shares.

The Company's financial strategy is developed and adapted on the basis of market conditions to maintain a flexible capital structure consistent with the objectives stated above and to respond to the risk characteristics of the underlying assets. In order to maintain or adjust its capital structure, the Company may refinance an existing debt, take out new borrowings, repurchase preferred shares for cancellation pursuant to normal course issuer bids or issue new preferred shares.

MORTEQ LENDING CORP.

Notes to Financial Statements

Year ended August 31, 2018

12. Capital management (continued):

The Company's financial strategy and objectives are reviewed annually. The Company believes that its current ratios are satisfactory, given its size, capital management objectives and growth strategy.

ITEM 13

DATE AND CERTIFICATE

Dated: November 21, 2018

This Offering Memorandum does not contain a misrepresentation.

MORTEQ LENDING CORP.

Per: "Parminder Purewall"
Name: Parminder Purewall
Title: President

Per: "Steven Ponte"
Name: Steven Ponte
Title: Corporate Secretary

Per: "Harjit Grewal"
Name: Harjit Grewal
Title: Director

Per: "Sunjeev Bath"
Name: Sunjeev Bath
Title: Director