

Form 45-106F2
OFFERING MEMORANDUM
Residents of British Columbia and Ontario Only
Dated March 31, 2024
for
BANCORP BALANCED MORTGAGE FUND II LTD.

The Issuer

Name: Bancorp Balanced Mortgage Fund II Ltd. (the "Company" or the "Issuer")

Head Office Address: Suite #1420 - 1090 West Georgia Street,
Vancouver, BC., V6E 3V7

Telephone No.: (604) 608-2717

Fax No.: (604) 609-7107

Website address: bancorpfincial.com

E-mail address: bancorp@bancorpfincial.com

Currently Listed or Quoted: No. **These securities do not trade on any exchange or market.**

Reporting Issuer: No. The Company is not a reporting issuer under applicable securities legislation.

SEDAR filer: Yes. The Company files with SEDAR (the System for Electronic Document Analysis and Retrieval).

The Offering

Securities offered: Class A Shares, Class D Shares, Class E Shares and Class F Shares of the Company (collectively, the "Share(s)")

Price per security: \$1.00 per Share

Minimum / Maximum offering: **There is no minimum. You may be the only purchaser.** \$25,000,000 (25,000,000 Shares) maximum. There will be a maximum of 25,000,000 Shares issued under this offering. The Company may issue any proportion of Class A, D, E and/or Class F Shares it decides, up to the foregoing total maximum number of Shares.

Minimum subscription amount: Each new investor subscribing for the first time shall invest a minimum of \$10,000. An existing holder of the Shares must invest a minimum of \$5,000.

Payment terms: The full subscription price is due on closing.

Proposed closing date(s): Closing dates will be determined from time to time by the Company, as subscriptions for the Shares are received by the Company.

Income tax consequences: There are important tax consequences to these securities. See Item 8.

Compensation Paid to Sellers and Finders

A person has received or will receive compensation for the sale of securities under this offering. See Item 9.

Resale Restrictions

You will be restricted from selling your securities for an indefinite period. See Item 12.

Conditions on Repurchases

You will have a right to require the issuer to repurchase the securities from you, but this right is qualified by a specified price, restrictions and fees. As a result, you might not receive the amount of proceeds that you want. See Item 5.1.

Purchaser's Rights

You have 2 business days to cancel your agreement to purchase the securities. If there is a misrepresentation in this Offering Memorandum, you have the right to sue either for damages or to cancel the agreement. See Item 13.

No securities regulatory authority or regulator has assessed the merits of these securities or reviewed this Offering Memorandum. Any representation to the contrary is an offence. This is a risky investment. See Item 10.

The Company's Manager:
BANCORP FINANCIAL SERVICES INC.
(the "Manager")
Suite #1420 1090 West Georgia Street
Vancouver, B.C., V6E 3V7
Telephone: (604) 608-2717
Fax: (604) 609 7107

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

This Offering Memorandum contains statements based on "forward-looking information" within the meaning of Canadian securities legislation (collectively, "forward-looking statements"), including with respect to the jurisdictions in which the Company anticipates it will make investments in, the term of the mortgage loans that the Company will make, the types of loans the Company will make, the rate of return anticipated to be earned by the Company from its mortgage loans, the number of mortgage loans the Company will make, the size of such loans, the continued performance of such loans relative to the Company's history, the benefits of allowing other lenders to participate in the Company's mortgage loans, the frequency of anticipated distributions to be made by the Company in the current fiscal year, and the Company's anticipated expenses with respect to this offering. These forward-looking statements are made as of the date of this Offering Memorandum.

In certain cases, forward-looking statements can be identified by use of words such as "believe," "intend," "may," "will," "should," "plans," "anticipates," "believes," "potential," "intends," "expects," and other similar expressions. Forward-looking statements reflect our current expectations and assumptions as of the date of the statements, and are subject to a number of known and unknown risks, uncertainties and other factors, many of which are beyond the Company's control, which may cause our actual results, performance or achievements to be materially different from any anticipated future results, performance or achievements expressed or implied by the forward-looking statements.

Investors are advised to carefully review and consider the risk factors identified in this Offering Memorandum under Item 10 "Risk Factors" for a discussion of the factors that could cause the Company's actual results, performance and achievements to be materially different from any anticipated future results, performance or achievements expressed or implied by the forward-looking statements.

These risks, uncertainties and other factors include, but are not limited to: risks associated with mortgage loans (including credit risk, market risk, liquidity risk, the lack of mortgage insurance, mortgage defaults, impaired loans), redemption risk with respect to the Shares, competition, the limited marketability of the Shares, risks of leverage, risks with respect to the Company's designation as a "mortgage investment corporation" under the *Income Tax Act* (Canada), conflict of interest, lack of separate counsel as between the Company and its manager, the impact of changes in government regulations on the Company and its business, and risks regarding distributions on the Shares.

Material factors or assumptions that were applied in drawing a conclusion or making an estimate set out in the forward-looking statements include that: the Company will primarily invest in mortgage loans made in British Columbia and Alberta; the mortgage loans will be short term in nature; the mortgage loans will earn a higher rate of return than rates earned by institutional lenders; the performance of the Company's ongoing mortgage portfolio will be consistent with that of its historic investments; that sharing part of mortgage investments with other lenders will provide benefits to the Company both in diversification and the scale of real estate projects in which the Company may invest in. These assumptions should be considered carefully by investors. Investors are cautioned not to place undue influence on the forward-looking statements or assumptions on which the Company's forward-looking statements are based. Investors are further cautioned that the foregoing list of assumptions is not exhaustive and it is recommended that prospective investors consult the more complete discussion of the Company's business and prospectus included in this Offering Memorandum.

Although the Company believes that the assumptions on which the forward-looking statements are made are reasonable, based on information available to the Company on the date such statements were made, no assurances can be made as to whether these assumptions will prove to be correct. Accordingly, readers should not place undue reliance on forward-looking information. The Company does not undertake to update any forward-looking information except as, and to the extent, required by applicable Canadian securities laws. The forward-looking statements contained in this Offering Memorandum are expressly qualified by this cautionary statement.

ITEM 1 USE OF NET PROCEEDS

1.1 *Net Proceeds*

The net proceeds of the offering and the funds which will be available to us after same, are as follows:

		Assuming min. offering	Assuming max. offering
A	Amount to be raised by this offering	\$0	\$25,000,000
B	Selling commissions and fees	\$0	\$0 ⁽¹⁾
C	Estimated offering costs (e.g., legal, accounting, audit.)	\$0	\$25,000
D	Net Proceeds: $D = A - (B + C)$	\$0	\$24,975,000
E	Additional sources of funding required	\$0	\$0
F	Working capital deficiency	\$0	\$0
G	Total: $G = (D+E) - F$	\$0	\$24,975,000

Notes:

(1) The Company has retained Bancorp Investor Services Ltd., a related party by way of having common directors, officers and voting shareholders, to act as a selling agent during the course of this Offering. The Company further reserves the right to retain one or more other selling agents during the course of this offering. Annual trailer fees are generally paid on the Class A Shares by the Manager. A fee is paid at the time of purchase to the registered dealer or sales agent in connection with the sale of Class E Shares. See Item 9.

1.2 *Use of Net Proceeds*

We will use the net proceeds as follows:

Description of intended use of net proceeds listed in order of priority	Assuming min. offering	Assuming max. offering
Investment in mortgages and other permitted investments	\$0	\$ 24,975,000

ITEM 2 BUSINESS OF THE COMPANY

2.1 *Structure*

We are a corporation incorporated under the laws of the Province of British Columbia on July 16, 2009. We are registered as an extra-provincial corporation in the Province of Alberta and will register in other Canadian jurisdictions as may be approved from time to time by our Board of Directors. We are required by law and are registered under the *Mortgage Brokers Act (British Columbia)* or the equivalent legislation of any jurisdiction in which we carry on business.

The Office of the Registrar of Mortgage Brokers at the British Columbia Financial Services Authority (previously known as "Financial Institutions Commission") regulates the mortgage brokering and lending activities of mortgage investment corporations ("MICs") under the *Mortgage Brokers Act*. The Registrar and the *Mortgage Brokers Act* do not regulate the capital raising and investment marketing activities of MICs which are subject to securities legislation and regulation.

2.2 **Our Business**

(a) Overview

The Company is a mortgage investment corporation and is in the business of investing in and managing a diversified portfolio of mortgages with the intent to pay income earned by the Company on its mortgage portfolio to its shareholders on a quarterly basis. The mortgages the Company invests in will be primarily 1st mortgages on properties located in British Columbia and Alberta and will secure loans made to qualified real estate developers and owners for residential, commercial and industrial properties. The mortgages will typically be short term in nature with maturities of between 6 and 30 months and will include constructions loans, bridge loans, land loans and term loans. The Company invests in mortgages that are not the type of mortgages provided by institutional lenders and typically have a higher risk profile. As a result the Company's mortgages are expected to earn a higher rate of return than rates earned by institutional lenders. The mortgages bear interest at a fixed rate of interest or at a specified rate over the prime lending rate of the Company's bank, and are often subject to a minimum rate of interest. The Company uses streamlined administrative processes and flexible lending criteria to offer prompt mortgage approvals to meet qualified borrower's requirements in a manner not offered by institutional lenders.

The Company qualifies as a mortgage investment corporation ("MIC") under the *Income Tax Act (Canada)* (the "Tax Act"). To maintain its status as a MIC, the Company will invest at least 50% of its assets in residential mortgage loans and deposits with Canada Deposit Insurance Corporation - insured institutions. Residential mortgage loans include loans against single family and multiple unit residential projects and loans for residential land for development into housing projects.

The Company may also invest up to 10% of its assets in participating financing, equity or other interests in real estate projects or entities owning or carrying out same, but in so doing, it will not manage or develop such real estate.

(b) The Company's Investments

Because of the Company's flexibility and ability to commit quickly to mortgage applications and because the mortgage investments considered by the Company typically do not meet the criteria of institutional lenders and have a higher risk than institutional loans, such loans will earn a higher rate of return than those of institutional lenders. The Company expects to minimize risk by following the investment criteria described later in subparagraph 2.2(c).

The Company's investments will primarily consist of first mortgage loans advanced for the development of land, residential, commercial and industrial properties. Additional remuneration is sometimes realized through bonus payments and/or profit participation. The Company may also provide second mortgage financing on a select basis which will not exceed 15% of the Company's paid-up capital provided that the total of the 1st mortgage and the Company's 2nd mortgage meet all the loan criteria of the Company and the total of the two loans would be a loan the Company would otherwise fund as a 1st mortgage. All mortgage loans funded and held by the Company shall meet the investment criteria set out in subparagraph 2.2(c) herein.

The Company's mortgage loans will typically fall into the following major mortgage loan categories:

- (i) *Construction Loans* - These loans are advanced to finance the construction, development and re-development of various types of properties on a work-in-place/cost to complete basis.
- (ii) *Bridge Loans* - These loans are advanced to finance completed or substantially completed buildings to allow owners to complete their sales or leasing program and may include additional funds for improvements and upgrades.
- (iii) *Land Loans* - These loans are typically advanced to finance the acquisition and/or the development of land currently zoned or designated by a municipality for a use consistent with the loan application. The development process includes, among other things, land acquisition, zoning and/or development approval, road construction, installation of services and utilities, and other improvements required by the governing municipality and our financing may be for all or any phase of the development process. The funding of progress advances is usually carried out on a work-in-

place/cost-to-complete basis.

- (iv) *Term loans* – These loans are advanced to finance completed properties not for development. Term loans would typically be commercial, residential or industrial income properties. Owner occupied apartments, condominiums, townhouses and single family homes are also classified as term loans.

Loans will generally be for terms of 6 to 30 months and may include the ability to extend the term for further periods subject to the borrower meeting certain criteria. Typically, holdings in the Company range from 25 – 45 mortgages and the loan size is typically in the \$500,000 - \$5,000,000 range but not greater than 10% of paid up capital, though the Company may, at any given time, hold a smaller or larger number of mortgages varying in different amounts. Interest rates for the Company's loans generally vary between Prime +4 to Prime +7 although there may be exceptions from time to time. There can be no guarantee or assurance that the Company will not experience loan losses, though since its inception in July 2009, the Company has not experienced any loan losses.

As at December 31, 2023:

- the average interest rate payable under the Company's mortgage investments, weighted by the principal amount of such mortgage investments, based on the prime rate at that time was 11.73% (2022: 11.72%);
- the average of the terms to maturity of the Company's mortgage investments, weighted by the principal amount of such mortgage investments, was 0.89 years (2022: 0.99 years);
- the average loan-to-value ratio of the Company's mortgage investments, weighted by the principal amount of each mortgage, was 58.81% (2022: 63.05%);
- the principal amount, and percentage of the total principal amount of all of the Company's mortgage investments, were \$74.08M for first priority mortgage loans (97.8%; 2022: \$70.89M, 97.3%); and \$1.65M for second priority mortgage loans (2.2%, 2022: \$1.96M, 2.7%);
- the principal amount, and percentage of the total principal amount of all of the Company's mortgage investments, attributable to British Columbia is \$70.53M (93.1%; 2022: \$66.72M, 91.6%), and attributable to Alberta is \$5.20M (6.9%; 2022: \$6.13M, 8.4%);
- the principal amount, and percentage of the total principal amount of all of the Company's mortgage investments, attributable to residential properties is \$64.48M (85.1%; 2022: \$59.59M, 81.8%) and \$11.25M (14.9%; 2022: \$13.26M, 18.2%) to commercial properties;
- an aggregate total principal amount of \$60.88M are attributable to mortgages that will mature prior to December 31, 2024, or 80.39% of the total principal amount of all of the Company's mortgage investments (2022: \$41.72M, 57.3%);
- an aggregate total principal amount of \$0.00 is attributable to mortgage(s) that are more than 90 days overdue as at December 31, 2023, or 0.00% of the total principal amount of all of the Company's mortgage investments (2022: \$6.02M, 8.3%);
- an aggregate total principal amount of \$0.00 is attributable to mortgage(s) that have an impaired value, 0.00% of the total principal amount of all of the Company's mortgage investments (2022: \$4.102M, 5.6%);
- the Company has recorded a loss provision of \$500K (2022: \$86K) as a general reserve as an allowance against mortgage losses. The Company has written off \$309K to December 31, 2023 on one loan noted above with a value of \$4.95M. As of the date of this Offering Memorandum, the Company believes the loss provisions are an adequate provision for any potential losses in its portfolio of mortgages and the income returns of the Company are net of these loss provisions; and
- the average credit score of the borrowers of the Company, weighted by the principal amount of

the Company's mortgage investments, was 643.

As an example, the following table provides a description of the Company's current mortgage investments as at March 15, 2024:

Mortgage	Principal O/S	Priority	Municipality	Maturity Date	Type	Sub type	Loan to Value *	Interest Rate **	Other Investors in Loan	Good Standing
1	0.997M	First	Vancouver, BC	2024-11-30	Residential	Single Family	54.74%	13.25%	Yes	Y
2	1.446M	Second	Richmond, BC	2025-01-31	Residential	Multifamily Condominium	49.28%	12.00%	Yes	Y
3	1.150M	First	Victoria, BC	2024-05-31	Residential	Single Family Lots Serviced	59.74%	13.50%	Yes	Y
4	1.698M	First	Edmonton, AB	2024-12-31	Residential	Multifamily Townhouse	62.69%	11.75%	No	Y
5	4.605M	First	Courtenay, BC	2024-08-01	Residential	Apartment Bldg.	66.20%	13.50%	Yes	Y
6	2.750M	First	Coquitlam, BC	2025-10-31	Residential	Land Serviced Residential	65.01%	12.25%	No	Y
7	4.925M	First	Surrey, BC	2024-07-31	Commercial	Land Unserviced Industrial	51.84%	12.25%	Yes	Y
8	3.876M	First	Vancouver, BC	2025-10-31	Residential	Social Housing Apartment	69.96%	13.25%	Yes	Y
9	3.675M	First	North Vancouver, BC	2024-06-01	Residential	Land Serviced Residential	74.46%	15.25%	Yes	Y
10	2.057M	First	Saanich, BC	2024-07-01	Residential	Land Unserviced Multifamily	72.00%	12.25%	Yes	Y
11	0.078M	First	Vancouver, BC	2024-08-31	Residential	Single Family	56.36%	11.50%	Yes	Y
12	1.350M	First	Victoria, BC	2024-07-01	Residential	Land Unserviced Multifamily	75.40%	12.25%	Yes	Y
13	2.126M	First	Vancouver, BC	2024-12-31	Residential	Single Family	43.35%	11.75%	Yes	Y
14	2.255M	First	Langley, BC	2024-05-31	Residential	Land Unserviced Multifamily	65.00%	12.00%	Yes	Y
15	1.749M	First	Maple Ridge, BC	2024-05-31	Residential	Apartment Bldg.	65.01%	11.75%	Yes	Y
16	2.513M	First	Vancouver, BC	2024-06-30	Residential	Multifamily Townhouse	75.52%	11.50%	Yes	Y
17	0.625M	First	Maple Ridge, BC	2024-06-30	Residential	Land Unserviced Multifamily	62.00%	11.75%	Yes	Y
18	3.955M	First	Langley, BC	2024-09-30	Residential	Land Serviced Residential	71.05%	12.50%	Yes	Y
19	2.231M	First	Maple Ridge, BC	2025-03-31	Residential	Land Unserviced Single Family	61.76%	11.75%	Yes	Y
20	2.000M	First	Surrey, BC	2024-05-31	Residential	Land Unserviced Multifamily	63.99%	17.25%	Yes	Y
21	1.690M	First	Surrey, BC	2024-10-31	Residential	Land Unserviced Multifamily	60.87%	12.75%	Yes	Y
22	0.650M	First	Squamish, BC	2024-10-01	Commercial	Land Unserviced Industrial	70.00%	11.50%	Yes	Y
23	1.300M	First	Victoria, BC	2024-09-30	Residential	Land Serviced Residential	48.09%	12.25%	Yes	Y
24	3.910M	First	Calgary, AB	2025-06-30	Residential	Multifamily Townhouse	60.16%	2.00%	No	Y
25	0.750M	First	Victoria, BC	2025-06-01	Residential	Land Unserviced Multifamily	66.67%	12.25%	Yes	Y
26	0.200M	Second	Port Coquitlam, BC	2025-09-30	Commercial	Retail/Commercial	52.30%	9.89%	Yes	Y
27	3.550M	First	Vancouver, BC	2025-04-30	Residential	Single Family	67.57%	11.00%	Yes	Y
28	1.170M	First	Coquitlam, BC	2025-05-31	Commercial	Commercial – other than office or retail	50.00%	11.75%	Yes	Y
29	2.150M	First	Surrey, BC	2024-11-01	Residential	Land Serviced Residential	71.73%	11.50%	Yes	Y

30	2.000M	First	Surrey, BC	2024-12-31	Residential	Land Serviced Residential	72.69%	11.25%	Yes	Y
31	1.925M	First	Langford, BC	2024-11-30	Residential	Land Serviced Residential	65.50%	11.20%	Yes	Y
32	1.375M	First	North Vancouver, BC	2024-11-30	Residential	Land Serviced Residential	66.67%	11.20%	Yes	Y
33	2.253M	First	Vancouver, BC	2025-02-01	Residential	Single Family	68.69%	11.00%	Yes	Y
34	1.150M	First	Courtenay, BC	2025-01-31	Residential	Land Serviced Residential	56.82%	11.50%	Yes	Y
35	0.366M	First	North Vancouver, BC	2025-02-28	Residential	Single Family	64.35%	11.50%	Yes	Y
36	0.570M	First	Coquitlam, BC	2025-04-30	Residential	Multifamily Townhouse	62.63%	11.75%	Yes	Y
37	1.050M	First	Surrey, BC	2025-08-01	Residential	Land Serviced Residential	69.24%	11.50%	Yes	Y

* Loan to value is based on the lower of current management value and the latest appraised value for each loan

** All mortgages are interest only and interest rates are not fixed but are tied to prime rate.

The Company's mortgage portfolio will vary from time to time as the amount owing under each individual mortgage is repaid, as mortgages mature, and as new mortgage investments are added. The information provided in the table above reflects the mortgage portfolio as at the date specified only.

The Company frequently shares part of a mortgage investment with other lenders acceptable to the Company. By limiting its participation in large individual investments, the Company will have the benefits of increased portfolio diversification. It will also enable the Company to participate in the financing of larger real estate projects than would otherwise be possible.

Of the 37 loans described in the table above, 34 are shared with other lenders for whom the Manager administers the loans. Any shared loan is subject to a mortgage participation agreement which requires lender consent to any change in the terms of the applicable mortgage loan (including any renewals).

(c) Investment Criteria

The Company's Directors have established investment criteria for the Company, which currently are the following:

- (i) The Company will make investments so that it maintains its status as a "mortgage investment corporation" under the Tax Act;
- (ii) Mortgage investments will be secured by mortgages and/or other appropriate security interests in favour of the Company, which will be registered in the appropriate land title or land registry office as a charge against the subject real property. The Company may hold beneficial interests in mortgages registered in the land title office in the name of another person or entity which enters into a written trust or agency agreement in favour of the Company in respect of same;
- (iii) The amount advanced by the Company on any one property will not exceed the greater of \$2,000,000 or 10% of the Company's paid-up capital;
- (iv) The amount advanced by the Company to any one borrower group (including affiliates and related parties) will not exceed the greater of \$2,000,000 or 15% of the Company's paid-up capital;
- (v) Loans will be made only to arm's length borrowers not related to Bancorp Financial Services Inc. (the "Manager") or its affiliates, and in particular will not be made to any shareholder or officer of the Manager, or to any member of the Manager's Investment Committee or to any company in which a shareholder of the Manager holds an interest except where a loan is in default and the Manager, or a company related to the Manager, determines to take title to the property over which the loan was made;

- (vi) Loans will not be made to any person (a "Trust Party") who is an annuitant, beneficiary or employee, as the case may be, under a registered retirement savings plan, deferred profit sharing plan or registered retirement income fund as defined under the Tax Act which is a shareholder of the Company, or to any other person who is a relative of or otherwise does not deal at arm's length with the Trust Party, or to anyone else who would cause shares in the Company not to be a qualified investment under Regulation 4900(1)(c) of the Tax Act;
- (vii) The Company may also invest up to 10% of its assets in participating financing, equity or other interests in real estate projects or entities owning or carrying out same, but in so doing, it will not manage or develop such real estate.
- (viii) Mortgage security will include:
 - a. a first financial charge on the mortgaged property in a principal amount not exceeding 75% of its appraised value at the time of loan approval; or
 - b. a second financial charge on the mortgaged property in a principal amount which, when added to the principal amount of the first financial charge, will not exceed 75% of its appraised value at the time of loan approval. No more than 15% of the portfolio can be invested in these 2nd mortgages.
- (ix) The Company's due diligence for each loan includes a full underwriting of mortgage security, the borrower and the guarantees. Prior to funding, the Company will typically obtain appraisal and environmental reports by reputable independent professionals on mortgaged properties and other security interests together with other consultant reports necessary for the type of property and loan being funded. Appraisals may be based on assumptions including but not limited to construction and completion of development of the property and/or improvements and lease-up of the property, all of which would represent improvements to the property to be made from advances under the mortgage by the Company and may include advances by a 1st mortgage.
- (x) Mortgages will generally be for an initial term of 6 to 30 months and any renewals or extensions of such term will be approved in accordance with investment policy guidelines;
- (xi) The Company will only make investments in provinces of Canada in which the Company is lawfully permitted to do business; and
- (xii) Surplus cash amounts will be maintained in government-backed securities, or deposits with Canadian chartered banks or other regulated financial institutions.

Other than paragraphs (i), (v), (vi), (xi) and (xii), the Directors may vary the foregoing investment criteria from time to time to meet changing circumstances or permit particular investment opportunities, provided that in voting to do so, all Directors vote in favour.

(d) Investment Approval

Pursuant to the Management Agreement described in subparagraph 2.8(a), the Manager has established an Investment Committee (the "Manager's Investment Committee") which approves investment opportunities which it considers suitable to the Company and consistent with the Company's investment criteria.

The Manager's Investment Committee consists of directors and/or officers of the Manager. As at the date of this Offering Memorandum, members include:

Douglas H. Bentley	Director and Chairman
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Garry Wong	Director, CEO & President
Richard K. Nicholson	Director and VP
Mark D. Silverwood	Director and VP
Michael Saba	Director and VP
Danny K. Wong	Director and VP

From time to time the Directors may add or appoint other persons experienced and knowledgeable of the region of the proposed investment to serve on the Manager's Investment Committee and may remove members as required.

The Manager's Investment Committee must review and approve all of the Company's proposed loans. Investment proposals are submitted to all members of the Manager's Investment Committee and loan authorizations require the unanimous approval of the Manager's Investment Committee.

(e) Portfolio Administration

Routine day-to-day administration and management of the Company's mortgage portfolio is provided by the Manager under the Management Agreement described in Item 2.8(a) below. The Manager also reviews requests for mortgage draws and takes steps to confirm that all requirements have been met prior to the advance of funds. Material exceptions to the funding requirements in the agreement with the borrower are referred to the Manager's Investment Committee for approval. All funds are handled by the Manager under strict trust conditions and are completely segregated from the Manager's own funds.

In addition to ongoing monitoring and reporting procedures, the Manager provides the Company with quarterly reports on each mortgage. Such reports include full updates on the status of the property secured by each mortgage, current management estimates of property values, recommended reserves for potential losses on mortgage loans and any collection efforts required for mortgage loans in default. The Manager periodically reviews and makes recommendations to the Directors of the Company as to the Company's policies and procedures, administration, share offerings and investment criteria and implements decisions of the Company's Directors.

2.3 Development of Business

The Company has been in business since September 2009 and primarily invests in mortgages in British Columbia and Alberta; however, it will consider mortgage investments elsewhere in Canada as its capital permits and lending opportunities present themselves. Emphasis continues to be on urban centres and growth areas in these markets and although there can be no guarantees, the Manager continues to see ongoing new loan opportunities that meet the Company's investment guidelines and long term objectives.

The Manager originates mortgage loans that meet the Company's objectives and performs all loan management, accounting and administrative duties for the Company. The Manager has 13 employees. In addition to the Chairman, Chief Executive Officer and President, the Manager has five full-time licensed Mortgage Brokers responsible for loan origination, underwriting and management of each loan, five staff who manage loan administration and accounting, and one staff member who manages investor relations.

In the two most recently completed financial years of the Company and the subsequent period to the date of this Offering Memorandum, the Company has continued its business in the ordinary course. Through that period, there have been no major events that have occurred or conditions that have influenced, favourably or unfavourably, the business of the Company. A description of each class of the Shares can be found under Item 5 of this Offering Memorandum.

Historical Return

The following table shows the annual rate of return with respect to the Company's Shares as at December 31, 2022 and December 31, 2023. The rates shown are net of all management fees and operating expenses of the Company. Please see Item 5.1 "Terms of Securities" for a discussion of the rights and characteristics of these Shares.

Share Class	Year ended December 31, 2022	Year ended December 31, 2023
	Dividends	Dividends
Class A shares*	No shares outstanding	No shares outstanding
Class D shares	7.77%	8.64%
Class E shares**	N/A	N/A
Class F shares	8.18%	9.15%

* There were no Class A shares issued and outstanding in 2023 or 2022.

** No Class E Shares have been issued to date.

The rates shown above are historic only. There can be no assurance or guarantee that they are indicative of the Company's future performance. The Company will not borrow funds to meet targeted dividend rates. Please see Item 10 "Risk Factors" for further discussion.

2.4 **Long Term Objectives**

The Company's long-term objectives are to:

- (i) maintain and increase a portfolio of well secured and diversified mortgage loans primarily in British Columbia and Alberta;
- (ii) preserve and protect the Company's capital;
- (iii) provide shareholders with a return that is superior to term deposits, GICs and money market funds;
- (iv) maintain profitability on a sustainable basis;
- (v) maintain the Company's status as a "mortgage investment corporation" under the Tax Act; and
- (vi) offer loans to suitable borrowers who seek financing from sources other than institutional lenders.

Since the Company will have an ongoing investment program, there is no target completion date for its business plan. Investments will be made as the Company's available funds permit. The costs to achieve the Company's objectives set out above will vary accordingly.

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

Our business objectives for the next 12 months are:

Actions to be taken	Target completion date or number of months to complete	Cost to complete
The Company intends to continue with its lending activities, to expand its business with the additional capital to be raised pursuant to this offering and to invest same pursuant to its investment program as described in paragraphs 2.2, 2.3 and 2.4.	Since the Company has an ongoing investment program, there is no target completion date for its business plan. Investments will be made as the Company's available funds permit.	N/A

2.6 ***Alternate Sources of Funds***

Bank Line of Credit Agreement

The Company has established a line of credit facility to assist the Company in managing its cash flow. The Credit Agreement currently provides for a \$11,000,000 line of credit facility secured by a general security agreement and assignment of receivables, which allows the Company to borrow at interest rates less than it receives from its mortgage investments. The Company may ask for an increase or decrease as it deems necessary for operational matters. Any borrowings by the Company are payable on demand and bear interest at a variable rate of 1.5% per annum in excess of the bank's prime rate, which interest is payable monthly. The line of credit requires the Company to maintain certain minimum equity and debt/equity requirements, which requirements, as at the date of this Offering Memorandum, the Company meets. The Company must also report to and provide financial statements to the bank on a regular basis. The line of credit is used as a funding bridge to fund new mortgages pending repayment of existing mortgages and offer the ability for the Company's capital to be more fully invested in mortgages. As our loan portfolio is made up of short-term mortgages, through the year it would not be unusual to have a cash position or to have drawn down on the line of credit from time to time during the year as loans fund and repay. As at the date of this Offering Memorandum, there is an indebtedness of \$5.47M.

2.7 ***Not applicable***

2.8 ***Material Agreements***

The following summarizes the material agreements to which the Company is currently a party and any material agreements with a related party:

(a) Management Agreement

The Manager and the Company have entered into an Agreement (the "Management Agreement") dated as of March 31, 2020, under which the Manager provides management services to the Company.

The Manager was incorporated under the British Columbia *Company Act* in 1984. It is a mortgage banking and financial intermediary company with its principal office located in Vancouver, B.C. and additional offices in Victoria, B.C. and Calgary, Alberta.

The Manager reports to the Directors of the Company, and is responsible for all aspects of the Company's organization, business operations including the operation of the Manager's Investment Committee, the retaining of necessary professional advice, making regulatory filings, and seeking sources of share capital for the Company.

The Manager approves investment opportunities to the Company which it considers suitable and consistent with the Company's investment criteria. It also administers and manages the Company's investment portfolio and day-to-day activities and operations. The Management Agreement came into force on March 31, 2020 and has been renewed for an additional term of five years. Pursuant to its terms, the Management Agreement will be automatically renewed for successive one year periods thereafter, unless notice of intention not to renew is given by either party at least 180 days before the end of the term. Also, either party may at any time terminate the Management Agreement upon 180 days written notice to the other.

As compensation for services rendered, the Company will pay to the Manager:

- (i) a management fee equal to 1.50% per annum (1/12 of 1.50% per month) of the outstanding balance of the Class D Shares plus applicable taxes thereon (the "Class D Fee"), a fee equal to 2.00% per annum (1/12 of 2.00% per month) of the outstanding balance of the Class A Shares plus applicable taxes thereon (the "Class A Fee"), a fee equal to 2.00% per annum (1/12 of 2.00% per month) of the outstanding balance of the Class E Shares plus applicable taxes thereon (the "Class E Fee") and a management fee equal to 1.00% per annum (1/12 of 1.00% per month) of the outstanding

balance of the Class F Shares plus applicable taxes thereon (the "Class F Fee"), each such fee paid in monthly installments on the last day of each month. The Company considers such rate to be consistent with management fee rates generally charged in comparable circumstances; and

- (ii) in the event that the annual yield to the Class D Shareholders is greater than the two year Government of Canada benchmark bond yield plus 4.00% per annum (as more fully described in 5.1(a) below), an amount greater than the two year Government of Canada Benchmark Bond yield plus 3.50% per annum to Class A Shareholders, an amount greater than the two year Government of Canada Benchmark Bond yield plus 3.50% per annum to Class E Shareholders and an amount greater than the two year Government of Canada Benchmark Bond yield plus 4.50% per annum to Class F Shareholders, a profit participation (the "Profit Participation") equal to 25% of the annual net income of the Company, after provision for all expenses of the Company and including reserves against potential losses and provision for Priority Dividends and/or Priority Capital Allocations (as such terms are defined in subparagraph 5.1(a)) to the holders of the Shares and Common Shares. This amount will be paid annually based on the net income of the Company as reported in its audited annual financial statements, within 90 days after the Company's fiscal year-end.

From the management fee payable to the Manager on the Shares, the Manager may pay commissions to registered dealers and sales agents in connection with the sale of Shares as described in this Offering Memorandum.

On most mortgage investments, the Manager negotiates with the borrower for payment of a commitment fee, and where appropriate, renewal and discharge fees and these fees will be paid to and retained by the Manager. The Company believes that these fees are fair market fees and reflect the degree of complexity in the types of financing to be undertaken by the Company. The performance incentive amount payable by the Company to the Manager will not be adjusted to reflect any such other fees paid to the Manager.

As noted in the Financial Statements included in this Offering Memorandum, in fiscal 2023 the Company received management fees of \$1.039M and a Profit Participation performance incentive amount of \$87K.

The Manager bears all overhead and other internal expenses incurred by it in providing services under the Management Agreement. The Company bears all third party and other expenses incurred in connection with the Company's investments and operations.

The Manager will be reimbursed by the Company for costs and expenses which are incurred in connection with the Company's investments and operations and are the Company's responsibility under the Management Agreement.

For the purposes of this Offering Memorandum, the Manager is considered to be a party related to the Company. The current Directors and Officers of the Manager, who are also Directors and Officers of the Company, and their principal occupations within the preceding five years are as follows:

Name	Office held with the Company	Office held with the Manager and Principal Occupation
Douglas H. Bentley	Director and Chairman	Chairman and Director of the Manager
Garry Wong	Director, CEO & President	CEO, President & Director of the Manager
Arnold E. Miles-Pickup	Director	Director of the Manager
Wendy Herdin	Director, CFO & Secretary	Vice President of the Manager
Richard K. Nicholson	Director	Vice President and Director of the Manager
Mark D. Silverwood	Director	Vice President and Director of the Manager

Name	Office held with the Company	Office held with the Manager and Principal Occupation
Michael Saba	Director	Vice President and Director of the Manager
Danny K. Wong	Director	Vice President and Director of the Manager

2.9 **Not applicable**

2.10 **Auditors**

Crowe MacKay LLP, 1100-1177 West Hastings Street, Vancouver, B.C., V6E 4T5 are the Company's auditors.

2.11 **Lawyers**

The Company's lawyers in connection with this offering are Richards Buell Sutton LLP, Barristers & Solicitors, #700 - 401 West Georgia Street, Vancouver, B.C., V6B 5A1

ITEM 3 COMPENSATION AND SECURITY HOLDINGS OF CERTAIN PARTIES

3.1 **Compensation and Securities Held** - The following table sets out specified information about each director, officer and promoter of the Company. There are no persons 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 and the date of obtaining that position	Compensation paid by the Company in the most recently completed financial year and the compensation anticipated to be paid in the current financial year	Number and percentage of securities of the Company held before completion of the Offering	Number and percentage of securities of the Company held after completion of maximum offering
Douglas H. Bentley, West Vancouver, BC	Director since July 2009 President & CEO March 2011, CEO March 2019, Chairman since March 2022	NIL	100 Common voting shares (9.09%) 292,217 Class D Shares (0.50%)	100 Common voting shares (9.09%) 292,217 Class D Shares (0.50%)
Wendy Herdin Vancouver, BC	Director since March 2012, CFO March 2012, Secretary March 2018, Secretary & CFO since March 2022	NIL	100 Common voting shares (9.09%) 175,985 Class D Shares (0.30%)	100 Common voting shares (9.09%) 175,985 Class D Shares (0.30%)
Garry Wong Vancouver, BC	Director since March 2015, Secretary March 2015, CFO March 2018, President & CFO March 2019, CEO & President since March 2022	NIL	100 Common voting shares (9.09%) 463,684 Class D Shares (0.80%)	100 Common voting shares (9.09%) 463,684 Class D Shares (0.80%)

Name and municipality of principal residence	Positions and the date of obtaining that position	Compensation paid by the Company in the most recently completed financial year and the compensation anticipated to be paid in the current financial year	Number and percentage of securities of the Company held before completion of the Offering	Number and percentage of securities of the Company held after completion of maximum offering
Arnold E. Miles-Pickup West Vancouver, BC	Director, since July 2009	NIL	100 Common voting shares (9.09%) 784,297 Class D Shares (1.35%)	100 Common voting shares (9.09%) 784,297 Class D Shares (1.35%)
Richard K. Nicholson Victoria, BC	Director since July 2009	NIL	100 Common voting shares (9.09%) 285,892 Class D Shares (0.49%)	100 Common voting shares (9.09%) 285,892 Class D Shares (0.49%)
Mark D. Silverwood Vancouver, BC	Director since March 2012	NIL	100 Common voting shares (9.09%) 206,031 Class D Shares (0.36%)	100 Common voting shares (9.09%) 206,031 Class D Shares (0.36%)
Michael Saba Vancouver, BC	Director since March 2017	NIL	100 Common voting shares (9.09%) 216,749 Class D Shares (0.37%)	100 Common voting shares (9.09%) 216,749 Class D Shares (0.37%)
Danny K. Wong Vancouver, BC	Director since March 2018	NIL	100 Common voting shares (9.09%) 67,863 Class D Shares (0.12%)	100 Common voting shares (9.09%) 67,863 Class D Shares (0.12%)

As described above, the Manager is a related party of the Company by virtue of having common directors and officers. No single person has beneficial ownership of, or direct or indirect control over, or a combination of beneficial ownership and direct or indirect control over, more than 50% of the voting rights of the Manager. For a discussion of the compensation paid to the Manager in the 2023 fiscal year, please see above under “Material Agreements - Management Agreement”. For the 2024 fiscal year, it is estimated that the Manager will receive approx. \$1.39M in management fees and \$87K in performance incentives. The Manager does not hold any securities of the Issuer.

3.2 **Management Experience** - The following table sets out the principal occupations of the directors and executive officers of the Company over the past five years and any relevant experience in a business similar to the Company's:

Name	Principal occupations and related experience
Douglas H. Bentley	Chairman and Director of the Manager since 2022, previously was CEO and Director of the Manager since 2018. From 2011-2018 he was President, CEO & Director of the Manager. From 2009 – 2011 he was Executive Vice President & Chief Operating Officer and Director of the Manager. He has more than 35 years' experience in real estate financing, lending and development and has been with the Manager since 2001.
Garry Wong	CEO, President and Director of the Manager since 2022, previously President and Director of the Manager since 2018. From 2015-2018, he was COO and Director of the Manager. He has more than 25 years' experience in finance, management and real estate development and joined the Manager in March 2015. He is also a CPA, CA.
Arnold E. Miles-Pickup	Director of the Manager since 2018. From 2011-2018, he was Chairman & Director of the Manager. From 2009 – 2011 he was President, CEO and Director of the Manager. He has held executive and management positions in the financial services industry for over 40 years and has been with the manager since 2001.
Wendy Herdin	Vice President Administration since 2019. Vice President Investor Relations and Administration from 2012-2018. From 2009-2012 she was Manager of Administration. She has been engaged in finance and administration activities for over 35 years and has been with the Company since 2007.
Richard K. Nicholson	Vice-President and Director of the Manager since 2009. He has more than 35 years' experience in real estate financing and lending and has been with the manager since 2000.
Mark D. Silverwood	Vice President and Director of the Manager since 2009. He has more than 25 years' experience in real estate financing and lending and has been with the Manager since 2007.
Michael Saba	Vice President since 2015 and Director of the Manager since 2017. He has more than 15 years' experience in real estate financing and lending and has been with the Manager since 2015.
Danny K. Wong	Vice President and Director of the Manager since 2018. He has more than 15 years' experience in real estate financing and lending and has been with the Manager since 2015. From 2015-2018, he was Manager of Mortgage Underwriting.

3.3 **Penalties, Sanctions, Bankruptcy, Insolvency and Criminal or Quasi-Criminal Matters**

- (a) There has been no penalty or other, sanction imposed by a court or by a regulatory body, or a cease trade order that has been in effect for a period of more than 30 consecutive days during the last 10 years against:
 - (i) a director, executive officer or control person of the Company, or
 - (ii) an issuer of which a person referred to in 3.3(a)(i) above was a director, executive officer or control person at the time.
- (b) There has been no declaration of bankruptcy, voluntary assignment in bankruptcy, proposal under any bankruptcy or insolvency legislation, proceedings, arrangement or compromise with creditors or appointment of a receiver, receiver manager or trustee to hold assets that has been in effect during the last 10 years with regard to any:
 - (i) director, executive officer or control person of the Company, or
 - (ii) issuer of which a person referred to in 3.3(b)(i) was a director, executive officer or control person at that time.
- (c) The Company has not, nor have any of its directors, executive officers or control persons, ever pled guilty to or been found guilty of any:

- (i) summary conviction or indictable offence under the *Criminal Code* (Canada);
- (ii) a quasi-criminal offence in any jurisdiction of Canada or a foreign jurisdiction;
- (iii) a misdemeanour or felony under the criminal legislation of the United States of America or any state or territory of the United States of America; or
- (iv) an offence under the criminal legislation of any other foreign jurisdiction.

ITEM 4 CAPITAL STRUCTURE

4.1 **Share Capital** - The following table sets out information with respect to the Company's outstanding securities (including options, warrants and other securities convertible into shares):

Description of security	Number authorized to be issued	Number outstanding as at March 31, 2024	Number outstanding after min. offering	Number outstanding after max. offering
Common voting shares with a par value of \$1.00	Unlimited	1,100	1,100	1,100
Class D Shares with a par value of \$1.00	Unlimited	57,977,745	57,977,745	82,977,745 ⁽¹⁾
Class A Shares with a par value of \$1.00	Unlimited	0	0	25,000,000 ⁽²⁾
Class E Shares with a par value of \$1.00	Unlimited	0	0	25,000,000 ⁽³⁾
Class F Shares with a par value of \$1.00	Unlimited	10,780,681	10,780,681	35,780,681 ⁽⁴⁾
Total Class D, A, E and F Shares		68,758,426	68,758,426	93,758,426 ⁽⁵⁾

Notes:

- (1) Assumes the Company issues only Class D Shares and no Class F, Class E or Class A Shares under this Offering.
- (2) Assumes the Company issues only Class A Shares and no Class D, Class E or Class F Shares under this Offering.
- (3) Assumes the Company issues only Class E Shares and no Class A, Class D or Class F Shares under this Offering.
- (4) Assumes the Company issues only Class F Shares and no Class A, Class D or Class E Shares under this Offering.
- (5) The Company will issue only up to 25,000,000 Shares under this Offering. The respective number of Class D Shares, Class A Shares, Class E Shares and Class F Shares actually issued under this Offering will be decided by the Company, such that the total number of Class D Shares plus the total number of Class A Shares plus the total number of Class E Shares plus the total number of Class F Shares issued under this Offering will be no greater than 25,000,000.

4.2 Long Term Debt

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

Description of long term debt	Interest rate	Repayment terms	Amount outstanding on the date of this Offering Memorandum
Nil	N/A	N/A	Nil

4.3 Prior Sales

During the last 12 months preceding the date of this Offering Memorandum, the Company has not sold any Common Shares, Class A Shares or Class E Shares. The following tables describe the Class D and Class F Shares sold in that period.

Date of issuance	Type of security issued	Number of securities issued	Price per security	Total funds received
April 01, 2023 – Apr 30, 2023	Class D Shares	18,000.00	\$1.00	18,000.00
May 1, 2023 – May 31, 2023	Class D Shares	103,340.50	\$1.00	103,341.50
Jun 1, 2023 – Jun 30, 2023	Class D Shares	650,000.00	\$1.00	650,000.00
Jul 1, 2023 – Jul 31, 2023	Class D Shares	98,000.00	\$1.00	98,000.00
Aug 1, 2023 – Aug 31, 2023	Class D Shares	67,555.78	\$1.00	67,555.78
Sep 1, 2023 – Sep 30, 2023	Class D Shares	0.00	\$1.00	0.00
Oct 1, 2023 – Oct 31, 2023	Class D Shares	73,199.53	\$1.00	73,199.53
Nov 1, 2023 – Nov 30, 2023	Class D Shares	447,273.69	\$1.00	447,273.69
Dec 1, 2023 – Dec 31, 2023	Class D Shares	209,882.87	\$1.00	209,882.87
Jan 1, 2024 – Jan 31, 2024	Class D Shares	185,174.92	\$1.00	185,174.92
Feb 1, 2024 – Feb 29, 2024	Class D Shares	357,983.29	\$1.00	357,983.29
Mar 1, 2024 – Mar 31, 2024	Class D Shares	1,124,248.41	\$1.00	1,124,248.41
		3,334,659.99		3,334,659.99

Date of issuance	Type of security issued	Number of securities issued	Price per security	Total funds received
Apr 1, 2023 – Apr 30, 2023	Class F Shares	0.00	\$1.00	0.00
May 1, 2023 – May 31, 2023	Class F Shares	0.00	\$1.00	0.00
Jun 1, 2023 – Jun 30, 2023	Class F Shares	0.00	\$1.00	0.00
Jul 1, 2023 – Jul 31, 2023	Class F Shares	50,000.00	\$1.00	50,000.00
Aug 1, 2023 – Aug 31, 2023	Class F Shares	0.00	\$1.00	0.00
Sep 1, 2023 – Sep 30, 2023	Class F Shares	0.00	\$1.00	0.00
Oct 1, 2023 – Oct 31, 2023	Class F Shares	66,500.00	\$1.00	66,500.00
Nov 1, 2023 – Nov 30, 2023	Class F Shares	0.00	\$1.00	0.00
Dec 1, 2023 – Dec 31, 2023	Class F Shares	0.00	\$1.00	0.00
Jan 1, 2024 – Jan 31, 2024	Class F Shares	3,200.00	\$1.00	3,200.00
Feb 1, 2024 – Feb 29, 2024	Class F Shares	0.00	\$1.00	0.00
Mar 1, 2024 – Mar 31, 2024	Class F Shares	0.00	\$1.00	0.00
		119,700.00		\$119,700.00

ITEM 5 SECURITIES OFFERED

5.1 *Terms of Securities*

The securities offered are the Shares of the Company which are with a par value of \$1.00 and have the following material terms:

Note: Class D Shares are available to investors on a direct purchase basis. Class A Shares, Class E Shares and Class F Shares are available through registered dealers and financial intermediaries who have entered into a distribution agreement with the Manager.

(a) Dividends

At the end of each fiscal year and after preparation of the Company's financial statements, it is intended that, subject to the *Business Corporations Act* (British Columbia), all of the Company's profits available for dividends will be fully distributed by way of dividends to the holders of the Shares and the Common Shares as described below:

- (i) The holders of the Shares and Common Shares will be entitled to non-cumulative dividends ("Priority Dividends") from the Company's net profits available for dividends. Such dividends will be calculated so as to yield to:
 - (A) the Class D and Common Shareholders, a return equal to the two year Government of Canada Bond Yield (described later) plus 4.00% per annum;
 - (B) to the Class A Shareholders, a return equal to the two year Government of Canada Bond Yield (described later) plus 3.50% per annum;
 - (C) to the Class E Shareholders, a return equal to the two year Government of Canada Bond Yield (described later) plus 3.50% per annum; and
 - (D) to the Class F Shareholders, a return equal to the two year Government of Canada Bond Yield (described later) plus 4.50% per annum.

before any Profit Participation amount as described below is paid to the Manager.

The "two year Government of Canada Benchmark Bond yield" means the effective yield to maturity of a series of non-callable Government of Canada Bonds payable in Canadian dollars and having a maturity date of approximately two years, expressed as a percentage per annum calculated half-yearly not in advance. The yield will be determined by calculating the average yield on the bonds on the first business day immediately after the end of each month in the fiscal year of the Company as quoted by the Bank of Canada as the "Benchmark Bond Yield: two year term" on the Bank of Canada's web site, or if unavailable, as provided by an investment dealer selected by the Company's Directors.

If all or part of the Company's profits for the year are not available for Priority Dividends due to a deficit in the Company's retained earnings account, such an amount (a "Priority Capital Allocation") will be retained in the Company for the benefit of the shareholders to the extent necessary to eliminate the Company's deficit position, and any balance of profits will be paid out as Priority Dividends.

- (ii) The balance of the Company's profits, if any, after payment of the above Priority Dividend will be distributed as follows:
 - (A) 75% of such balance available for dividends will be paid by way of a dividend to the holders of the Shares and Common Shares rateably according to the ratio of the number of shares held and to be prorated in the case of shares not issued for a full fiscal year; and

(B) 25% of such balance will be paid to the Manager as Profit Participation under the Management Agreement. See "Material Contracts" in subparagraph 2.8(a) above.

No dividends will be paid to any class of shareholder in priority to any other class of shareholder and no new class of shares will be issued with a priority to any other class of shares without the consent of the existing classes of shareholders.

The Directors may, in their sole discretion, pay interim dividends before the Company's fiscal year-end.

When subscribing, a holder of the Shares may elect in writing to receive their interim dividends in cash or to reinvest their interim dividends in additional shares.

Capital gains realized by the Company will be distributed at the discretion of the Directors. However, no distribution of income or assets will be made that would impair the ability of the Company to repay borrowings or to meet other commitments and requirements.

In the case of a shareholder holding Shares for less than a full fiscal year, dividends will be prorated according to the portion of that year that such person is a shareholder.

(b) Priority on Liquidation, Dissolution

In the event of the liquidation, dissolution or winding up of the Company or other distribution of its assets among shareholders, distribution of the assets of the Company shall be made:

- (i) first, to the holders of the Shares and Common Shares pro rata in accordance with the number of shares held, \$1.00 per share plus dividends declared but not yet paid, plus pro rata share of any income earned but not declared as dividends;
- (ii) lastly, the balance to the holders of the Shares and Common Shares pro rata in accordance with the number of shares held.

(c) Retraction by a Shareholder

A holder of Shares or Common Shares may at any time require the Company to redeem any or all such holder's Shares by giving at least 60 days written notice of retraction prior to the end of any fiscal quarter of the Company, currently March 31, June 30, September 30 and December 31, with the effective date of redemption being the first business day subsequent to the end of the fiscal quarter in which the Company receives such notice, currently April 1, July 1, October 1 and January 2. If such notice is not received by the Company at least 60 days before the end of the current fiscal quarter, the effective date of redemption shall be the first business day subsequent to the end of the fiscal quarter immediately following that fiscal quarter in which such notice is received.

The redemption price shall be: (i) where the effective date is January 2, the book value of the Shares as determined in the Company's audited financial statements as at such fiscal year end (currently December 31), or (ii) where the effective date is other than January 2, the book value of the Shares as determined in the Company's unaudited financial statements as at the end of the corresponding third, sixth or ninth month of the Company's fiscal year.

Where the Shares and Common Shares are being redeemed within 1 year of their issuance, the redemption price will be reduced by an amount equal to 5.00% of the original issuance price of such Shares. Where the Shares and Common Shares are being redeemed after 1 year of their issuance but within 2 years of their issuance, the redemption price will be reduced by an amount equal to 3.50% of original issuance price of such shares. Where the Shares and Common Shares are being redeemed after 2 years of their issuance but within 3 years of their issuance, the redemption price will be reduced by an amount equal to 2.50% of original issuance price of such shares. The Shares and Common Shares being redeemed beyond 3 years of their issuance will receive the full redemption price. Notwithstanding the foregoing, the Company may waive such reductions of the redemption price for

shares for Class A, D and F shares purchased on or before March 31, 2025. The redemption fee is not waived for Class E shares as they are subject to a deferred sales commission (DSC); see Item 9 for further discussion.

The Company will only redeem the Shares or Common Shares, as applicable, from available cash which is defined as cash on hand less accounts payable, outstanding mortgage loan commitments and any other current liabilities of the Company.

Where cash is not available for full redemption of the Shares tendered, subject to 5.1 (d) and (e) the Company will redeem as many shares as can be redeemed with the available cash, on a pro rata basis and continue to redeem shares on a pro rata basis as cash becomes available until all of the Shares and Common Shares tendered in such retraction period have been redeemed.

The Company will redeem those Shares and Common Shares that have been tendered for redemption on a pro rata basis irrespective of the order in which the Company receives the respective retraction notice in the notice period.

In the event that the effective redemption date (described above) is April 1, July 1 or October 1, the redemption price will be payable on the first business day of May, August and November respectively. In the event that the effective redemption date is January 2, the redemption price will be payable on March 1.

The Shares and Common Shares tendered for redemption in subsequent retraction periods will only be redeemed once all of the Shares and Common Shares previously tendered have been redeemed.

The Company may deduct or withhold from all redemption payments payable to any Shareholder any and all amounts required by applicable law to be so withheld.

The Shareholder may, in its sole discretion, provide written notice of its election to revoke its applicable Retraction Notice, and the Shares of such Shareholder shall not be redeemed until such time as such shareholder delivers a new Retraction Notice.

(d) No Redemption in Certain Circumstances

The Company will pay such redemption price of such Shares tendered for redemption, unless:

- i) as a result of such redemption, one holder of the Shares or a related group of holders of any class of the Shares would hold more than 25% of the outstanding Shares of that company;
- ii) as a result of such redemption, the number of Shareholders within any class of shares of the Company would be less than 20 after such redemption; and
- iii) as a result of such redemption, the Company would cease to qualify as a "mortgage investment corporation" as defined in the Tax Act.

In the event of circumstances referred to above, if the Company has elected to make partial redemptions, the Company will make all such partial redemptions on a pro rata basis, and any Shares tendered for redemption but not redeemed shall be returned to the applicable Shareholder and shall not be redeemed until such time as (a) such Shareholder delivers a new Redemption Notice and (b) such above-described conditions no longer exist.

(e) Suspension of Retraction Right

The Company may suspend or continue suspension of the right of the Shareholder to require the Company to redeem the Shares for any period during which the Board of Directors, in its sole discretion, determines that conditions are such that, if the disposal of some or all of the assets of the Company is required to facilitate such redemptions, such disposition is not reasonably practicable or that it is not reasonably practicable to determine fairly the value of the Company's assets or that any such

redemption would be unduly prejudicial to the Company. The Company will not accept subscriptions for the purchase of the Shares during any period in which redemption of its Shares has been suspended.

(f) Voting Rights

The registered holders of the Shares shall not be entitled to have any voting rights for the election of Directors nor for any other purpose and will not be entitled to notice of nor to attend or vote at meetings of the holders of Common Shares, but shall be entitled to vote at meetings of the registered holders of the Shares.

Meetings of the registered holders of the Shares may be called at any time and for any purpose by the Directors.

Registered holders of the Shares holding in aggregate not less than 25% of all of the Shares may requisition the Directors to call a meeting of registered holders of the Shares for the purposes stated in the requisition.

5.2 **Subscription Procedure**

The Company may terminate this offering at any time without notice and in such case the Company will not be required to accept later subscriptions. Closings may occur from time to time as determined by the Company.

This offering is available to residents of British Columbia and Ontario, although the Company reserves the right to accept subscriptions from non-residents of British Columbia and Ontario from time to time.

Residents in Ontario relying on the "Offering Memorandum" prospectus exemption under Canadian Securities Administrators National Instrument 45-106 *Prospectus Exemptions* ("NI 45-106") must meet the following criteria:

- in the case of an "eligible" investor (as such term is defined under NI 45-106) that is an individual, the acquisition cost of all securities acquired by the purchaser under the Offering Memorandum exemption in the preceding 12 months cannot exceed \$30,000;
- in the case of an "eligible" investor that is an individual and that receives advice from a portfolio manager, investment dealer or exempt market dealer that the investment in Shares is suitable, the acquisition cost of all securities acquired by the purchaser under the Offering Memorandum exemption in the preceding 12 months cannot exceed \$100,000; and
- in the case of a "non-eligible" investor that is an individual, the acquisition cost of all Shares acquired by the purchaser under the Offering Memorandum exemption in the preceding 12 months cannot exceed \$10,000.

Investors wishing to purchase the Shares must complete and sign a subscription agreement and risk acknowledgement forms in the form provided by the Company and submit same to the Company at its Head Office address shown at the beginning of page one together with a cheque or bank draft for the full subscription price, made payable to the Company. The subscription price will be held in trust until midnight on the second business day after the day on which we have received your signed subscription agreement.

Such subscriptions will be subject to rejection or acceptance in whole or in part by the Company. The Company will not accept subscriptions from persons whom the Company has made loans to or holds mortgage interests against.

The Company reserves the right to consider subscriptions from investors resident in other provinces, though such investors must qualify a prospectus exemption available in the jurisdiction of their residence.

Upon acceptance, the subscription price for the Shares will be deposited in a designated bank account. Upon the Shares having been issued, the subscription price will be made available to the Company for use in its business, as set out in this Offering Memorandum.

Notwithstanding the above, subscription agreements from Trustees for RRSPs, RRIFs, TFSAs or Deferred Profit Savings Plans under the Tax Act will be accepted by the Company without the accompanying payment, to accommodate their administrative procedures.

5.3 **Costs of Offering**

Costs incurred by the Company in connection with this offering will be borne by the Company. These costs will include legal and accounting fees, share issuance costs, regulatory filing fees, printing, postage and delivery costs and all other out-of-pocket costs, expenses and disbursements. The total of all such costs is not expected to exceed \$25,000 if the Maximum Offering is achieved.

ITEM 6 REPURCHASE REQUESTS

The following tables provides information regarding the Class A, Class D and Class F Shares redeemed in the last two completed fiscal years. Please see Item 5.1 "Terms of Securities" for a discussion of the rights and characteristics of these Shares. Note that the Company's financial year end is December 31.

Description of security	Fiscal Year	No. of Shares with Outstanding Purchase Requests on First Day of Fiscal Year	Number of Shares for which investors made repurchase requests during the year	Number of Shares repurchased during the year	Average price paid for repurchased Shares	Source of Funds Used to Complete Repurchases	Number of Shares with Outstanding Repurchase Requests on Last Day of the Fiscal Year
Class A	2023	0.00	0.00	0.00	\$1.00 per share	The Company's working capital	Nil
	2022	0.00	973,224.72	973,224.72			
Class D	2023	0.00	2,361,176.03	2,361,176.03			
	2022	0.00	1,837,324.37	1,837,324.37			
Class F	2023	0.00	416,061.15	416,061.15			
	2022	0.00	60,000.00	60,000.00			

The following table provides information regarding the Class D and Class F Shares redeemed since the end of the Company's 2023 fiscal year and up to January 31, 2024.

Description of security	Beginning and end dates of period	No. of Shares with Outstanding Purchase Requests on First Day of Period	Number of Shares for which investors made repurchase requests	Number of Shares repurchased during the period	Average price paid for repurchased Shares	Source of Funds Used to Complete Repurchases	Number of Shares with Outstanding Repurchase Requests on Last Day of the Period
Class D	Jan 1, 2024 to Jan 31, 2024	0.00	1,490,000.00	1,490,000.00	\$1.00/share	The Company's working capital	Nil
Class F	Jan 1, 2024 to Jan 31, 2024	0.00	0.00	0.00			

From the beginning of the 2024 fiscal year to the date of this Offering Memorandum, there were no Class A or E Shares outstanding, and thus none to redeem.

ITEM 7 CERTAIN DIVIDENDS OR DISTRIBUTIONS

Not applicable.

ITEM 8 CANADIAN INCOME TAX CONSEQUENCES AND RRSP ELIGIBILITY

8.1 *Investors' Independent Tax Advice*

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

8.2 *Mortgage Investment Corporation Status; Income Tax Consequences*

Under the terms of the Tax Act, shares of a MIC are an eligible investment for RRSPs, RRIFs and TFSA's. The Tax Act stipulates that for a corporation to qualify as a MIC, among other requirements, the corporation must have a minimum of 20 shareholders and no shareholder can own in excess of 25% of the total issued and outstanding shares of any class of the capital of the corporation. A minimum of 50% of the cost of the corporation's assets must be invested in residential mortgages as defined in the Tax Act and deposits with Canada Deposit Insurance Corporation insured institutions. The Company intends to maintain its qualification as a MIC.

As a MIC, if the Company pays out all of its net income annually in the form of dividends during the year or within 90 days after the end of the year it may deduct the dividend amount paid as if it was an expense. **The dividends received by Shareholders are not subject to the normal gross-up and dividend tax credit rules. Rather, they will be taxable in the hands of shareholders who are subject to tax as if they had received an interest payment.**

Accordingly, it is anticipated that for each taxation year of the Company throughout which it qualifies as a MIC under the Tax Act, the Company will receive "flow through" treatment and will not be required to pay income taxes on the net earnings from which dividends are paid in each year. Income in excess of allowable deductible reserves under the Tax Act which is not distributed to shareholders within 90 days of each of the Company's year-ends will be subject to ordinary corporate tax under the Tax Act.

If an investor and related parties own more than 10% of any class of the MIC shares, then any such class of shares of the investor and related parties held in an RRSP, TFSA or RRIF are considered a prohibited investment pursuant to the Canadian income tax rules and will be subject to penalties. For tax purposes, any individuals related by blood or marriage and any non-arm's length persons (including corporations, trusts and partnerships) must aggregate their holdings to determine if the 10% aggregate ownership threshold is exceeded. When calculating the level of ownership of an investment in a MIC one must also consider any investment in the MIC they hold outside their registered plans, and all investments (registered or not) held by related persons and other non-arm's length persons, including corporations.

Purchasers should consult their own tax advisors with respect to whether the Shares would be prohibited investments in their particular circumstances, and with respect to any tax consequences of acquiring Shares pursuant to this offering and receiving dividends that may be paid on those Shares. This summary is not intended to be, nor should it be construed to be, legal or tax advice to any particular holder or prospective holder of Shares, and no representations with respect to the income tax consequences to any holder or prospective holder are made.

ITEM 9 COMPENSATION PAID TO SELLERS AND FINDERS

As at the date of this Offering Memorandum, the Issuer has retained a related company, Bancorp Investor Services Ltd., as a selling agent with respect to the Offering and has not arranged for any other sellers or finders. However, the Issuer reserves the right to retain one or more additional selling agents during the course of the Offering and a purchaser may select their own selling agent if they so choose.

Bancorp Investor Services Ltd. ("Bancorp EMD") is related to the Issuer by reason of common directors and/or officers, including Messrs. Bentley, G. Wong, Silverwood, Saba and D. Wong, as well as Ms. Herdin. Additionally, the voting shareholder of Bancorp EMD is the Manager.

As the Offering is conducted on a continuous basis, the Issuer will be paying a flat fee to Bancorp EMD equal to \$30,000 annually in consideration for its services.

The Manager may also pay annual trailer fees to other unrelated registered dealers and sales agents, from the management fee payable to the Manager, in connection with the sale of Class A Shares. Such trailer fees shall be equal to a percentage estimated not to exceed 1% per annum of the aggregate outstanding amount of (i) the subscription price; plus (ii) any re-invested distributions of Class A Shares sold by such registered dealers or sales agents. The Manager does not pay these fees in connection with the sale of Class D or Class F Shares. The Manager may pay a fee of 1-5% of the subscription price at the time of purchase to the registered dealer or sales agent in connection with the sale of Class E shares. These Class E shares are subject to a deferred sales commission (DSC) as set out in subparagraph 5.1(c) above. Investors acquiring the Shares through registered dealers or sales agents will be responsible for the payment of any additional commissions that may be negotiated between them and such dealers or agents.

ITEM 10 RISK FACTORS

10.1 *Speculative Investment*

The Shares offered by this Offering Memorandum are speculative securities. Investment in the 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.

Shareholders are relying on the good faith and judgement of the Manager and Directors in administering and managing the Company. Class A, D, E and F Shareholders do not have the right to vote on most Company matters including election of Directors and the Manager makes all investments and portfolio management decisions for the Company. Prospective investors should consult with their own independent advisors to consider the market, tax, legal and other risks and factors related to the investment in Shares of the Company.

10.2 *Risks Associated with Mortgage Loans*

Real estate investment contains elements of risk and is subject to uncertainties such as costs of operation and financing and fluctuating demand for developed real estate. In addition to factors and risks set out elsewhere in this Offering Memorandum, the following is a summary of risks inherent in investment in Shares of the Company:

(a) Investment Risk

- (i) **Credit Risk:** As with most mortgage investment corporations, we provide financings to borrowers who may typically not meet financing criteria for conventional mortgages from institutional sources and, as a result, these investments generally have a higher risk and earn a higher rate of return than what institutional lenders may receive. Credit risk is inherent in the industry; however, the Company carefully monitors the loan portfolio to ensure credit risk and concentrations of risk are minimized. The risk is managed by the Company's overall risk management framework, including monitoring credit exposures, obtaining appropriated security, conducting third party appraisals of the security obtained, and assessing the credit worthiness of counterparties, prior to committing to the investment. The Company's Credit Committee must unanimously approve each loan prior to funding.
- (ii) **Market Risk:** Investment in mortgages secured on real estate are subject to market valuation risks that may be caused by changing economic conditions and local market conditions. The Company obtains independent appraisals from professional appraisers to substantiate value at the time of funding each loan. While every effort is made by such appraisers to be accurate in their estimates of value, the values may not fully represent current market value. There may also be conditions to the valuation such as completion of development of the property that must still occur. There is also a risk that economic conditions or local market conditions will change and impact the value of mortgage loans held by the Company. The Company tries to partially offset these risks by limiting

mortgage loan exposure on funding to 75% of the current or completed value of the mortgaged property depending on the purpose of the mortgage loan.

- (iii) Default: In case of 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.
- (iv) Impaired Loans: The Company may from time to time have one or more impaired loans in its portfolio, particulars of which can be obtained by contacting the Company. The Company defines loans as being impaired where full recovery is considered at risk. The Company reviews mortgages for impairment and will maintain an allowance as appropriate to reduce the carrying value of any mortgages identified as impaired to their estimated realizable amounts. The estimated realizable amounts are the principal amount of the mortgages less expected credit losses. The expected credit losses, if any, are determined based on historical loan collection experience, payments history of individual mortgages, mortgages past their maturity dates and the value of the security underlying the mortgages. Specific allowance is established for individual mortgages identified as impaired and elected to measure loss allowances at an amount equal to lifetime expected credit losses.
- (v) Priority: 2nd mortgages are limited to 15% of the paid up capital of the Company but for any such 2nd mortgage financial charges funded by 1st mortgage lenders will rank in priority to any 2nd mortgages registered in favour of the Company and such 1st mortgage lenders will receive all proceeds from sale or refinancing in priority to the Company.
- (vi) Development Risk: Mortgage investments by the Company may include financing for construction of new projects and/or improvements to existing properties which include risks related to timely completion or budget. Typically, these financings also include risk related to sale and/or lease-up on completion. The Company tries to limit these risks by obtaining third party appraisals for the completed value however these appraisals assume future values which may or may not be accurate when the project is completed. The Company also engages qualified quantity surveyors to review budgets and monitor construction however there are risks of cost overruns and construction delays. While the Company tries to lend to qualified borrowers who have sufficient expertise to manage and complete projects being financed there is no guarantee that they will be able to do so.
- (vii) Portfolio Diversification: The typical mortgage to be held by the Company is short term in nature (6-30 months) and as such the portfolio of mortgages held will continuously change. Also, the Company limits its markets to the major centres in B.C. and Alberta. The focus of new mortgage investment is targeted on short term opportunities and as such, the Company's mortgages may be highly concentrated in limited areas within its target markets depending on economic trends and opportunities presented to the Company.
- (viii) Environmental: The Company obtains independent environmental reports on any property to be financed. While every effort is made to ensure they are accurate, environmental policies are subject to interpretation and change. Also, some properties may require remediation. The Company as a mortgagee may be required to complete this remediation before the property can be sold. The Company's policy is to not finance any real property that requires significant remediation and where the remediation required is limited in nature, the Company typically requires that a portion of the financing sufficient to effect remediation be set aside to do so.

(b) Issuer Risk

- (i) Liquidity Risk: All of the Company's financial liabilities, with the exception of shares which are classified as long-term, are classified as current and are anticipated to mature within the next fiscal period. The Company intends to settle these with funds from its positive working capital position. We have a line of credit to hedge the liquidity risk, as set out in subparagraph 2.6 above.

- (ii) Mortgage Insurance: The Company's mortgage loans will not be insured by CMHC or any other mortgage insurer in whole or in part.
- (iii) Redemption Risk: The mortgages held by the Company are contractual obligations and may not be scheduled for repayment at the same time as a redemption request. Further the ability of the Company to redeem shares in accordance with the proof herein is subject to the availability of capital. The ability of the Company to sell the mortgages or realize on the underlying security can take a lengthy period of time. As such, the Shares have limited liquidity and are appropriate investments when considered as investment vehicles to be held for the longer term.

In addition, although Shareholders may tender their Shares for redemption pursuant to the terms and conditions hereto, certain restrictions apply to such redemption. As such, the Company cannot guarantee that redemptions will be made on a timely basis. Further, as the redemption price to be paid in respect of any Shares and Common Shares tendered for redemption will be determined at the Board of Director's discretion, such redemption price cannot be known with certainty prior to the Board of Directors exercising its discretion.

- (iv) Risks of Leverage: The Company has negotiated a bank line of credit as described in subparagraph 2.6 and it is intended to be used for managing the cash flow of the Company however leverage increases exposure to potential losses.
- (v) Income Tax Designation: Under the Management Agreement, the Manager is responsible for ensuring that the Company's operations are conducted in a manner that will not jeopardize its designation as a mortgage investment corporation under the Tax Act. **As a mortgage investment corporation, the normal gross-up and dividend tax credit rules will not apply to dividends paid on the Shares. Rather, the dividends will be taxable in the hands of shareholders who are subject to tax as if they had received an interest payment.** If for any reason the Company fails to maintain its designation, the dividends paid by the Company on the Shares would cease to be deductible from the income of the Company. In addition, the Shares would cease to be qualified investments for trusts governed by RRSPs, deferred profit sharing plans and RRIFs with the effect that a penalty tax of 1% per month of the value of the Shares would be payable.
- (vi) Conflict of Interest: The Company and its shareholders are dependent in large part upon the experience and good faith of the Manager. The Manager 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 Manager will not be able to originate sufficient suitable investment opportunities to keep the Company's funds fully invested. Also, the majority of the directors of the Company and the Manager are employed by or act in other capacities for other companies and investors involved in mortgage and lending activities.

Accordingly, there may be instances in which an investment opportunity may be suitable for the Company as well as other mortgage lenders or investors with whom they have business relations. In such case, the Manager has the right to take such action as it sees fit.

Except as noted in 2.2(c) above, the Directors of the Company may by unanimous resolution vary the Company's investment criteria. The Directors are also entitled to terminate the Management Agreement. It may be difficult for some of the Directors to exercise independent judgement about these and other matters.

Additionally, the Issuer and Bancorp EMD share common directors, officers and voting shareholders. As such, there is an inherent conflict of interest for such individuals. To mitigate against such conflict, Bancorp EMD has implemented certain controls and procedures to address same.

- (vii) Lack of Separate Counsel: Counsel for the Company in connection with this offering is also counsel to the Manager. The Company and the Manager have not been represented by their own legal counsel and have not each had the benefit of independent legal advice.
- (viii) Distributions Are Not Guaranteed: Although the Company anticipates that it will be able to distribute income earned by it on a quarterly basis, the actual frequency and amounts of distributions, if any, paid in respect of the Shares will depend on numerous factors, all of which are susceptible to a number of risks and other factors beyond the control of the Company. Accordingly, there can be no assurance regarding the actual levels or frequency of distributions by the Company.
- (ix) Sale through Registered Dealers: The Company is required to sell the Shares through a registered dealer or adviser, which may charge fees or commissions that the Company cannot anticipate at this time. In such event, the cost of this offering will be higher than anticipated.

(c) Industry Risk

- (i) Competition: The earnings of the Company depend on the ability of the Manager to recommend suitable opportunities for the investment of the Company's funds and on the yields available from time to time on mortgages as well as the cost of borrowings. A variety of competing lenders and investors are active in the areas of investment in which the Company will operate. The yields on real estate investments, including mortgages, depend on many factors including economic conditions, the level of risk assumed, conditions in the real estate industry, opportunities for other types of investments, and tax laws. The Company cannot predict the effect which such factors will have on its operations.

- (ii) Marketability: There is no market for resale of the Shares and consequently it may be difficult or even impossible for Investors to sell them. In addition, the Shares may not be readily acceptable as collateral for loans.

There are restrictions on resale of the Shares by Investors. Such restrictions on resale may never expire and Investors should consult with their professional advisors in respect of resale of the Shares. See Item 12 in this regard.

The Company does not presently intend to qualify its securities for sale to the public by way of prospectus.

- (iii) Impact of Changes in Government Regulations: If government legislation or regulation increases or changes this may impact the status, costs of doing business or otherwise impact the Company. If there are such changes that affect the Company in a material way, the Company will take such steps as available to it in order to mitigate the effects of such changes.

ITEM 11 REPORTING OBLIGATIONS

11.1 Documents provided to Shareholders annually or on an ongoing basis

The Company is not a reporting issuer in any Canadian province or territory. The Company provides a quarterly report to shareholders within 60 days after the end of the first, second and third fiscal quarter. The quarterly report will include an analysis of operations and results for the period in question together with unaudited financial statements prepared by management consisting of a Statement of Financial Position and a Statement of Comprehensive Income. Audited financial statements will also be provided to the shareholders with the fiscal year-end reports within 120 days after the fiscal year-end.

11.2 Sources of Information about the Company

Information about the Company's incorporation, amendments to its constating documents, directors, officers, annual corporate filings and other corporate information can be obtained from the British Columbia Registrar of

Companies, 2nd Floor – 940 Blanshard Street, (PO Box 9431 Stn. Prov. Govt.) Victoria, B.C., V8W 9V3 (telephone number 250.356.8658, fax 250.356.9422).

ITEM 12 RESALE RESTRICTIONS

12.1 *General Statement re Resale Restrictions*

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.

12.2 *Restricted Period for Resales*

Unless permitted under securities legislation, you cannot trade the securities before the earlier of 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.

After such period, the Shares may be transferable, subject to restrictions on transfer required in order to comply with certain provisions of the Tax Act. Section 130.1(6)(d) of the Tax Act stipulates that a mortgage investment corporation may not have fewer than 20 shareholders and no one shareholder may hold more than 25% of the total issued and outstanding shares of any class of the Company's capital. Accordingly, the Articles of the Company provide that the Directors of the Company may prohibit the transfer of shares in any case where as a result of the transfer the Company would no longer meet the requirements of a mortgage investment corporation under the Tax Act.

A fee shall be payable to the Company by a shareholder requesting a transfer or change in registered holder of the Shares, the amount of which is currently \$75 plus applicable taxes. The Company shall have the right to deduct any such unpaid fees from dividends payable to the shareholders who are party to such transfer or change.

ITEM 13 PURCHASERS' RIGHTS

Securities legislation in British Columbia and Ontario requires you as a purchaser of securities to be provided with a remedy for rescission or damages, or both, in addition to any other right that you may have at law, where this Offering Memorandum and any amendment to it contains a misrepresentation. These remedies must be exercised by you within the time limits prescribed by the applicable securities legislation. You should refer to the applicable provisions of the securities legislation for the complete text of these rights.

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

(a) *Two Day Cancellation Right*

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

(b) *Statutory Rights of Action in the Event of a Misrepresentation*

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

- (i) the Company to cancel your agreement to buy these securities; or
- (ii) for damages against the Company and, for residents of British Columbia, against the directors of the Company as at the date of this Offering Memorandum and every person or company who signed this Offering Memorandum.

This statutory right to sue is available to you whether or not you relied on the misrepresentation. However, there are various defenses available to the persons or companies that you have a right to

sue. In particular, they have a defense if you knew of the misrepresentation when you purchased the securities.

If you intend to rely on the rights described in (i) or (ii) above, you must do so within strict time limitations. You must commence your action to cancel the agreement no later than 180 days after the day of the transaction that gave rise to the cause of action. You must commence your action for damages no later than the earlier of: (A) 180 days after the day you first had knowledge of the facts giving rise to the cause of action; or (B) 3 years after the day of the transaction that gave rise to the cause of action.

Reference is made to the *Securities Act* (British Columbia) and the *Securities Act* (Ontario) for the complete text of the respective provisions under which these rights are respectively conferred and this summary is subject to the express provisions of those statutes.

ITEM 14 FINANCIAL STATEMENTS

Attached to this Offering Memorandum are the audited statements of Operations and Changes in Equity and Cash Flows for the most recently completed financial year that ended before the date of this Offering Memorandum and an audited Statement of Financial Position dated as at the last day of such financial year are attached to this Offering Memorandum.

Bancorp Balanced Mortgage Fund II Ltd.

Financial Statements

December 31, 2023

Bancorp Balanced Mortgage Fund II Ltd.
Financial Statements

December 31, 2023

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Independent Auditors' Report

To the Shareholders of Bancorp Balanced Mortgage Fund II Ltd.

Opinion

We have audited the financial statements of Bancorp Balanced Mortgage Fund II Ltd., which comprise the statement of financial position as at December 31, 2023, and the statements of operations and changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of material accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2023, and its financial performance and its cash flows for the year then ended in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board, 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.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

Independent Auditors' Report (continued)

We also:

- ◆ Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- ◆ Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- ◆ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- ◆ Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- ◆ Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Vancouver, Canada
March 19, 2024

Crowe Mackay LLP
Chartered Professional Accountants

Bancorp Balanced Mortgage Fund II Ltd.**Statement of Operations and Changes in Equity**

For the year ended December 31,	2023	2022
Revenue (note 5)	\$ 8,440,131	\$ 6,723,606
Expenses		
Management and director fees (notes 8 and 13)	1,038,544	1,010,044
Write-off of mortgages receivable (note 5)	309,067	-
Interest and bank charges	544,444	338,687
Provision for mortgage losses (note 5)	414,072	85,928
Accounting and legal	152,848	33,864
Performance incentive (notes 8 and 13)	87,125	163,075
Office	25,168	23,877
Non-voting common share issue costs	7,703	18,702
	2,578,971	1,674,177
Income before other item	5,861,160	5,049,429
Other item		
Dividends declared on Non-voting common shares (note 12)	5,861,160	5,049,429
Net income and comprehensive income	-	-
Shareholders' equity, beginning of year	-	-
Shareholders' equity, end of year	\$ -	\$ -

Bancorp Balanced Mortgage Fund II Ltd.

Statement of Financial Position

December 31, 2023 2022

Assets

Current

Prepaid expenses	\$ 36,463	\$ 18,091
Interest receivable (note 5)	770,666	833,263
Current portion of mortgages receivable (note 5)	60,381,879	41,551,333

61,189,008 42,402,687

Mortgages receivable (note 5) **14,848,639** 31,207,441

\$ 76,037,647 \$ 73,610,128

Liabilities

Current

Bank indebtedness (note 6)	\$ 5,223,264	\$ 4,376,850
Accounts payable and accrued liabilities	36,583	44,280
Dividends payable (note 7)	2,810,699	2,619,436
Due to fund manager (note 8)	175,753	251,590

8,246,299 7,292,156

Common shares (notes 9 and 11) **1,100** 1,100
Non-voting common shares (notes 10 and 11) **67,790,248** 66,316,872

67,791,348 66,317,972

\$ 76,037,647 \$ 73,610,128

Commitments (note 14)

The financial statements were approved on March 19, 2024.

Approved on behalf of the Board:

"Douglas H. Bentley" Director

"Garry Wong" Director

Bancorp Balanced Mortgage Fund II Ltd.

Statement of Cash Flows

For the year ended December 31,	2023	2022
Cash provided by (used for)		
Operating activities		
Net income and comprehensive income	\$ -	\$ -
Items not affecting cash		
Non-cash dividends issued in the year	2,248,234	1,631,415
Change in non-cash dividends payable	262,017	410,743
Provision for mortgage losses	414,072	85,928
Write-off on mortgages receivable	309,067	-
	3,233,390	2,128,086
Change in non-cash working capital items		
Prepaid expenses	(18,372)	20,517
Interest receivable	62,597	(262,952)
Accounts payable and accrued liabilities	(7,697)	10,517
Cash dividends payable	(70,754)	716,912
Due to fund manager	(75,837)	(173,195)
	3,123,327	2,439,885
Financing activities		
Change in bank indebtedness	846,414	(2,374,053)
Transfer to BGMF II fund	(158,344)	-
Redemption of Non-voting common shares	(2,777,237)	(2,870,549)
Issuance of non-voting common shares	2,160,723	9,491,962
	71,556	4,247,360
Investing activities		
Mortgage advances	(40,873,374)	(53,964,733)
Mortgages rerepayments	37,678,491	47,277,488
	(3,194,883)	(6,687,245)
Increase in cash	-	-
Cash, beginning of year	-	-
Cash, end of year	\$ -	\$ -
Supplemental cash flow information		
The Company had the following cash transactions:		
Dividends paid	\$ 3,410,194	\$ 2,281,456

Bancorp Balanced Mortgage Fund II Ltd.

Notes to the Financial Statements

December 31, 2023

1. Nature of operations

Bancorp Balanced Mortgage Fund II Ltd. ("the Company") was incorporated on July 16, 2009 under the Canada Business Corporations Act. Business operations commenced effective September 21, 2009. The Company operates as a Mortgage Investment Corporation ("MIC") as defined in the Canadian Income Tax Act.

The address of the Company's corporate office and principal place of business is #1420 – 1090 West Georgia Street, Vancouver, BC, V6E 3V7.

2. Basis of Preparation

(a) Statement of Compliance

These financial statements have been prepared in accordance with IFRS Accounting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") effective for the Company's reporting for the year ended December 31, 2023.

(b) Basis of Measurement

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

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

The preparation of financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 4.

3. Material accounting policies

These financial statements are prepared in accordance with IFRS. The significant accounting policies are detailed as follows:

(a) Revenue recognition

The Company's main source of revenue is interest from its mortgages. Interest revenue is calculated using the effective interest method by applying the effective interest rate to the carrying amount of financial assets at amortized cost. For credit-impaired financial assets, the effective interest rate is applied to the amortized cost, net of any impairment, of those financial assets.

Interest income on mortgage loans is recognized on the accrual basis except for certain impaired mortgages. Interest income on impaired mortgages will continue to be recognized on the accrual basis when there is no doubt as to the collectability of the principal amount and accrued interest, otherwise interest income is recognized on the cash basis.

Bancorp Balanced Mortgage Fund II Ltd.

Notes to the Financial Statements

December 31, 2023

3. Material accounting policies (continued)

(b) Non-voting common shares

Non-voting common shares have been classified as a liability because they are retractable at the option of the holder. Share issue costs are expensed in the year incurred. Dividends paid on Non-voting common shares are recorded in the statement of operations as an expense.

(c) Common shares

Common shares have been classified as a liability because they are retractable at the option of the holder. Share issue costs are expensed in the year incurred. Dividends paid on Common shares are recorded in the statement of operations as an expense.

(d) Income taxes

Income taxes are accounted for using the deferred income tax method. Under this method income taxes are recognized for the estimated income taxes payable for the current year and deferred income taxes are recognized for temporary differences between tax and accounting bases of assets and liabilities and for the benefit of losses available to be carried forward for tax purposes that are probable to be realized.

Under the terms of the Canadian Income Tax Act ("Act"), for each year that the Company qualifies as a mortgage investment corporation, no income taxes will be payable on net earnings from which dividends will be paid. Income in excess of allowable deductible reserves under the Act which is not distributed to shareholders within ninety days of the fiscal year-end will be subject to corporate taxation.

(e) Earnings per share

Quarterly dividends are paid based on the outstanding number of shares of each class at the end of the quarter. Earnings per share is calculated based on the weighted average number of Common and Non-voting common shares outstanding during the year.

Bancorp Balanced Mortgage Fund II Ltd.

Notes to the Financial Statements

December 31, 2023

3. Material accounting policies (continued)

(f) Financial Instruments

Financial assets and financial liabilities classified at amortized cost are initially recognized at fair value and subsequently measured using the effective interest method.

Interest receivable and mortgages receivable are measured at amortized cost.

Bank indebtedness, accounts payable and accrued liabilities, dividends payable, due to fund manager, common shares and non-voting common shares are measured at amortized cost.

Financial assets measured at amortized cost are assessed for impairment at the end of each reporting period using the expected credit loss ("ECL") model. The measurement options for the ECLs are lifetime ECLs or 12 months ECLs, depending on whether credit risk has increased significantly since initial recognition on the financial asset.

(i) Mortgages and interest receivable

Mortgages receivable is carried at the unpaid principal amount plus capitalized charges less loss allowances. Interest receivable is carried at the amount earned based on the effective interest rate of the mortgage less loss allowances. The Company establishes a loss allowance on the basis of a 12-month ECL, unless there has been a significant decrease in the credit risk of the mortgage, in which case, the loss allowance is measured at the amount of the lifetime ECL. Loss allowances write down mortgages and interest receivable to their estimated recoverable value when full recovery is considered in doubt.

(ii) Allowance for mortgages and interest receivable losses

The Company reviews mortgages and interest receivable for impairment and will maintain an allowance when required to reduce the carrying value of any mortgages identified as impaired to their estimated realizable value. The estimated realizable value is the principal amount of the mortgage and accrued interest less ECLs. The ECLs, if any, are determined based on historical loan collection experience, payments history of individual mortgages, mortgages past their maturity dates and the value of the security underlying the mortgages.

Allowances are established for individual mortgages and interest accruals as well as groups of mortgages identified as credit impaired, which the Company has elected to measure at an amount equal to lifetime ECLs.

Credit risk

Financial instruments that potentially subject the Company to a significant concentration of credit risk consist primarily of interest receivable and mortgages receivable.

Credit risk is inherent in this industry, however, the Company carefully monitors the loan portfolio to ensure credit risk and concentrations of risk are minimized. The risk is managed by the Company's overall risk management framework, including monitoring credit exposures, obtaining appropriate security, conducting third party appraisals of the security obtained, and assessing the credit worthiness of counterparties, prior to committing to the

Bancorp Balanced Mortgage Fund II Ltd.

Notes to the Financial Statements

December 31, 2023

3. Material accounting policies (continued)

investment. The Company's Credit Committee must unanimously approve each loan prior to funding. Refer to note 5 for further information on the credit risk related to the Company's mortgages receivable.

Liquidity risk

The Company's current financial liabilities are anticipated to mature within the next fiscal period. The Company intends to settle these with funds from its positive working capital position.

(g) Capital disclosures

The Company manages its capital to ensure that it will be able to continue as a going concern while maximizing the return to stakeholders through a suitable debt and share capital balances appropriate for an entity of the Company's size and status. The Company's overall strategy remains unchanged from the prior year. The capital structure of the Company consists of Common and Non-voting common shares, and bank indebtedness. The Company has externally-imposed restrictions on share capital and bank indebtedness. Refer to disclosures in note 11 and note 6 respectively.

(h) New accounting standards and interpretations

Amendments to IAS 1 and IFRS Practice Statement 2 – Disclosure of Accounting Policies

These amendments continue the IASB's clarifications on applying the concept of materiality. These amendments help companies provide useful accounting policy disclosures, and they include: requiring companies to disclose their material accounting policies instead of their significant accounting policies; clarifying that accounting policies related to immaterial transactions, other events or conditions are themselves immaterial and do not need to be disclosed; and clarifying that not all accounting policies that relate to material transactions, other events or conditions are themselves material. These amendments were effective for the reporting period beginning on January 1, 2023.

The adoption of these amendments reduced the Company's disclosure of its accounting policies.

Classification of Liabilities as Current or Non-current and Non-current Liabilities with Covenants (Amendment to IAS 1)

The amendments to IAS1 provide a more general approach to the classification of liabilities based on the contractual arrangements in place at the reporting date and clarify how conditions with which an entity must comply within twelve months after the reporting period affect the classification of a liability. These amendments are effective for reporting periods beginning on or after January 1, 2024.

There are no expected impacts on the Company's financial statements upon adoption.

Bancorp Balanced Mortgage Fund II Ltd.

Notes to the Financial Statements

December 31, 2023

4. Critical Accounting Estimates and Judgments

Mortgage investment corporations make estimates and assumptions about the future that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions.

The effect of a change in an accounting estimate is recognized prospectively by including it in comprehensive income in the period of the change, if the change affects that period only, or in the period of the change and future periods, if the change affects both. Information about critical judgments and estimates in applying accounting policies that have the most significant risk of causing material adjustment to the carrying amounts of assets and liabilities recognized in the financial statements within the next financial year are discussed below:

(a) **Critical Accounting Judgements**

Critical accounting judgments are accounting policies that have been identified as being complex or involving subjective judgments or assessments. The determination by management as to whether a mortgage and interest receivable is impaired has been identified as a critical judgment.

(b) **Critical Accounting Estimates**

Expected credit losses for mortgages receivable and interest receivable are created based on the Company's estimates. Assumptions are based on the current economic environment and historical repayment history and circumstances of particular borrowers. Estimates and assumptions made may change if new information becomes available. If information becomes available that the recovery of the mortgage is unlikely, an impairment is recorded in the profit or loss in the period the new information becomes available.

5. Mortgages receivable

	2023	2022
Residential mortgages	\$ 64,475,518	\$ 59,584,702
Commercial mortgages	11,255,000	13,260,000
Less: allowance for mortgage losses	(500,000)	(85,928)
Total mortgages receivable	75,230,518	72,758,774
Less		
Current portion mortgages receivable	60,381,879	41,551,333
Non-current mortgages receivable	\$ 14,848,639	\$ 31,207,441

Bancorp Balanced Mortgage Fund II Ltd.

Notes to the Financial Statements

December 31, 2023

5. Mortgages receivable (continued)

The majority of the mortgages receivable have interest charges determined based on the higher of a specified floating interest rate or fixed interest rate and mature within 21 months. The floating interest rates range from 3.80% to 8.05% plus the Canadian Bank Prime rate and the fixed interest rates range from 8.25% to 15.00%.

As at December 31, 2023, the mortgage receivable balance consists of 85% (2022 – 82%) residential and 15% (2022 – 18%) commercial properties which are 93% (2022 – 92%) located in British Columbia and 7% located in Alberta (2022 – 8%). As at December 31, 2023, \$1,646,111 (2022 – \$1,960,000) of the principal outstanding is associated with mortgages that have second charge on the security, and \$74,084,407 (2022 - \$70,884,702) is associated with mortgages that have first charge on the security.

There are no mortgages in collection at December 31, 2023 (2022 – two mortgages were in collection with a principal outstanding of \$4,102,178).

As at December 31, 2023, no mortgages receivable is past their maturity date (2022 – four mortgages with total outstanding principal of \$7,442,778).

As at December 31, 2023, management has recorded a credit loss allowance on mortgages receivable of \$500,000 related to the portfolio of credit impaired mortgages (2022 - \$85,928 related to a single mortgage). As at December 31, 2023, \$14,911 (2022 - \$1,439,373) of gross interest receivable is past due, of which \$nil revenue (2022 - \$1,319,039 related to two non-performing mortgages) was not recorded as the amounts were deemed not collectible.

	2023	2022
Interest receivable	\$ 770,666	\$ 2,152,302
Less: credit loss allowance	-	(1,319,039)
	<u>\$ 770,666</u>	<u>\$ 833,263</u>

During the year ended December 31, 2023, there was a write-off of \$309,067 (2022 - \$nil) relating to mortgages principal that had previously been identified as non-performing.

The outstanding principal balances and accrued interest on the mortgages represents the maximum credit exposure. At this time, management is of the opinion that the loss provision recorded is appropriate. In determining the loss provision, management assesses the value of security and different scenarios with respect to collection of the mortgages and interest receivable balance owing and determines the provision amount required.

Bancorp Balanced Mortgage Fund II Ltd.

Notes to the Financial Statements

December 31, 2023

6. Bank indebtedness

The Company has a facility with CIBC for the provision of a demand revolving operating loan with a borrowing limit of \$11,000,000 that bears interest at bank prime plus 1.5% per annum on the daily balance of the principal advanced. A stand-by fee calculated at 0.5% per annum on the undrawn portion of the loan is also charged.

The loan is secured by a fixed first charge over its present and future acquired personal property, including its mortgages receivable and interest receivable, an assignment of insurance proceeds relative to its mortgages, and all bank deposit balances. As at December 31, 2023, there was \$5,223,264 (2022 - \$4,376,850) drawn on the facility.

The Company is subject to capital requirements imposed by CIBC. The bank requires the Company to ensure that its covenants are met to continue to hold the loan; if they are not met, then the bank has the right to call the loan at any time. The covenants in place are:

- (i) The maximum amount of the loan shall not exceed the aggregate of 25% of eligible mortgages that are secured by a first financial charge on real property; and
- (ii) The Company must maintain a tangible net worth of no less than \$30,000,000 at all times. Tangible net worth is defined as the sum of retained earnings and Common and Non-voting common share capital.

The Company was in compliance with its covenants as at December 31, 2023 and 2022.

7. Dividends payable

	2023	2022
Cash dividends	\$ 1,505,561	\$ 1,576,315
Reinvested dividends	1,305,138	1,043,121
	\$ 2,810,699	\$ 2,619,436

8. Related party transactions

- (a) During the year, the Company entered into transactions with the following related party:

Bancorp Financial Services Inc. ("BFSI"), fund manager under common control

- (b) Transactions

These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

Bancorp Balanced Mortgage Fund II Ltd.

Notes to the Financial Statements

December 31, 2023

8. Related party transactions (continued)

	2023	2022
Expenses		
Management fees	\$ 1,034,544	\$ 1,010,044
Performance incentive	87,125	163,075
Directors fee	4,000	-
	\$ 1,125,669	\$ 1,173,119

The management fees and performance incentives are paid to BFSI, and are in accordance with management agreement discussed in note 13. In addition to the management fee calculated in accordance with the management agreement, an Exempt Market Dealer ("EMD") fee of \$31,500 (2022 - \$31,500) was charged to the Company during the year that is included in the management fees.

- (c) The balance due to the fund manager represents unpaid management fees at year end, which are due within 15 days of month end, and performance incentive fees at year end, which are due within 90 days of year end. The balance due to the fund manager is unsecured and non-interest bearing. As at December 31, 2023, the balance due to fund manager is \$175,753, (2022 - \$251,590).

9. Common shares

	2023 Issued	2023 Amount	2022 Issued	2022 Amount
Ending balance, December 31	1,100	\$ 1,100	1,100	\$ 1,100

Bancorp Balanced Mortgage Fund II Ltd.

Notes to the Financial Statements

December 31, 2023

10. Non-voting common shares

Authorized

Unlimited Class A redeemable, non-voting, participating shares with par value of \$1.00
Unlimited Class D redeemable, non-voting, participating shares with par value of \$1.00
Unlimited Class E redeemable, non-voting, participating shares with par value of \$1.00
Unlimited Class F redeemable, non-voting, participating shares with par value of \$1.00

	2023 Issued	2023 Amount	2022 Issued	2022 Amount
-				
<hr/>				
Class A Non-voting common shares				
Balance beginning of year	-	\$ -	1,171,149	\$ 1,171,149
Issued for cash	-	-	20,000	20,000
Issued as stock dividend	-	-	65,619	65,619
Redeemed	-	-	(973,225)	(973,225)
Transferred to Class D and F	-	-	(283,543)	(283,543)
	-	-	-	-
<hr/>				
Class D Non-voting common shares				
Balance beginning of year	55,965,300	55,965,300	47,408,298	47,408,298
Issued for cash	1,984,223	1,984,223	9,152,462	9,152,462
Issued as stock dividend	1,662,876	1,662,876	1,135,053	1,135,053
Redeemed	(2,361,176)	(2,361,176)	(1,837,324)	(1,837,324)
Transferred from Class A	-	-	106,811	106,811
Transfer to BGMF II fund	(158,344)	(158,344)	-	-
	57,092,879	57,092,879	55,965,300	55,965,300
<hr/>				
Class F Non-voting common shares				
Balance beginning of year	10,351,572	10,351,572	9,484,597	9,484,597
Issued for cash	176,500	176,500	319,500	319,500
Issued as stock dividend	585,358	585,358	430,743	430,743
Redeemed	(416,061)	(416,061)	(60,000)	(60,000)
Transferred from Class A	-	-	176,732	176,732
	10,697,369	10,697,369	10,351,572	10,351,572
	67,790,248	\$ 67,790,248	66,316,872	\$ 66,316,872

Bancorp Balanced Mortgage Fund II Ltd.

Notes to the Financial Statements

December 31, 2023

11. Share capital

The Common shares and Non-voting common shares are retractable on at least 60 days written notice before the end of any fiscal quarter of the Company. The shares will be redeemed at the book value of the shares plus any unpaid dividends as determined by the Company's year-end audited or quarter-end unaudited financial statements.

Where shares are being redeemed within one year of their issuance, the redemption price will be reduced by an amount equal to 5% of the original issuance price of such shares. Where shares are being redeemed after one year of their issuance but within two years of their issuance, the redemption price will be reduced by an amount equal to 3.5% of original issuance price of such shares. Where shares are being redeemed after two years of their issuance but within three years of their issuance, the redemption price will be reduced by an amount equal to 2.5% of original issuance price of such shares. Shares being redeemed beyond three years of their issuance will receive the full redemption price.

Notwithstanding the foregoing, the Company has waived such reductions of the redemption price for shares for Class A, D and F shares purchased on or before March 31, 2024. The redemption fee is not waived for Class E shares.

The Common shares and Non-voting common shares will be redeemed unless:

- (i) as a result of such redemption, one holder of the shares or a related group of holders of any class would hold more than 25% of the outstanding shares of that class;
- (ii) the number of holders within any class of shares would be less than 20; or
- (iii) as a result of such redemption the Company would cease to qualify as a "mortgage investment corporation" as defined in the Tax Act.

Where cash is not available for full redemption of the shares, the Company will redeem as many shares as can be redeemed with the available cash, on a pro rata basis and continue to redeem shares on a pro rata basis as cash becomes available until all of the Common shares and Non-Common shares have been redeemed.

The Company will redeem those Common shares and Non-voting common shares on a pro rata basis irrespective of the order in which the Company receives retraction notice from its shareholders.

In the event of liquidation, dissolution or wind-up of the Company, the distribution of the assets of the Company shall be made on a pro-rata basis to the Common and Non-voting common shareholders.

As a result of the redemption notification provisions and restrictions noted above, the Common shares and Non-voting common shares have been recorded as liabilities.

Bancorp Balanced Mortgage Fund II Ltd.

Notes to the Financial Statements

December 31, 2023

12. Income distribution

The holders of Non-voting Common Shares ("Non-voting") and Common shares are entitled to non-cumulative dividends ("Priority Dividends") from the Company's net profits available for dividends. Such dividends will be calculated as follows:

- (a) the Class A Non-voting shareholders, a return equal to the average of the Benchmark two-year Government of Canada Bond Rate plus 3.5% per annum as determined on the first business day of the week following the end of each month in the fiscal period;
- (b) the Class D Non-voting and Common shareholders, a return equal to the average of the Benchmark two-year Government of Canada Bond Rate plus 4.0% per annum as determined on the first business day of the week following the end of each month in the fiscal period;
- (c) the Class E Non-voting shareholders, a return equal to the average of the Benchmark two-year Government of Canada Bond Rate plus 3.5% per annum as determined on the first business day of the week following the end of each month in the fiscal period; and
- (d) the Class F Non-voting shareholders, a return equal to the average of the Benchmark two-year Government of Canada Bond Rate plus 4.5% per annum as determined on the first business day of the week following the end of each month in the fiscal period

Or such lesser amount as is available for dividends (such amount to be pro-rated in the case of shares not issued for full fiscal year), before any Performance Incentive as described in note 13 is paid to the Fund Manager.

If all or any part of the Company's profits for the year are not available for Priority Dividends due to a deficit in the Company's retained earnings, such amount (a "Priority Capital Allocation") will be retained in the Company for the benefit of the shareholders to the extent necessary to eliminate the Company's deficit position, and any balance of profits will be paid out as Priority Dividends.

After payment of the Priority Dividends, and/or after any Priority Capital Allocation, the balance of the Company's profits will be distributed as follows:

- (a) 75% will be paid by way of a dividend to the holders of the Non-voting common and Common shares; and
- (b) 25% will be paid to the Fund Manager as profit participation under the management agreement (note 13).

The Company has determined that \$5,861,160 (2022 - \$5,049,429), being net income before other item, is to be distributed as dividends to Non-voting and Common shareholders, representing weighted average earnings per share of \$0.09 (2022 \$0.08). Shareholders have the right to select payment of dividends in cash or the Common share or Non-voting share equivalent.

Bancorp Balanced Mortgage Fund II Ltd.

Notes to the Financial Statements

December 31, 2023

13. Management agreement

The Company has entered into an agreement for the provision of management services with a company controlled by the directors and common shareholders involving the Company's business operations, under the terms of which the Company is committed to pay:

- (a) a monthly management fee of 1.0% per annum of the total paid up capital, as defined, of the Company's Class F Non-voting common shares, plus 2.0% per annum of the total paid up capital, as defined, of the Company's Class A Non-voting common shares, plus 2.0% per annum of the total paid up capital, as defined, of the Company's Class E Non-voting common shares and 1.5% per annum of the total paid up capital as defined, of the Company's Class D Non-voting common shares, calculated as of the last day of each calendar month and payable within fifteen days after the end of each such calendar month; and
- (b) a performance incentive of 25% of annual net income after provisions for all expenses including provision of reserves against potential losses and provision for Priority Dividends and/or Priority Capital Allocations to the shareholders of the Company. This incentive will be paid annually based on the net income of the Company, as reported in its audited annual financial statements, within ninety days after the Company's fiscal year-end.

The agreement, effective March 31, 2020, has a five year term and will automatically be renewed for successive one year periods thereafter unless notice of intention not to renew is given by either party at least 180 days before the end of the term.

14. Commitments

As at December 31, 2023, outstanding commitments to fund mortgages over the next 12 months totaled \$9,833,794 (2022 - \$14,931,607). The funding commitments are contingent upon completion of certain milestones by the borrowers.

ITEM 15 DATE AND CERTIFICATE

This Offering Memorandum does not contain a misrepresentation.


DATED as of this 31st day of March 2024

BANCORP BALANCED MORTGAGE FUND II LTD.

per:



Chief Executive Officer



Chief Financial Officer



Director



Director