

# OAKHILL LENDING CORP.

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## CONFIDENTIAL INVESTMENT MEMORANDUM

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November 21, 2024

This Confidential Investment Memorandum ("Memorandum") is for information purposes only. This Memorandum is being furnished to a limited number of accredited investors in British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, New Brunswick, P.E.I., Nova Scotia, and Newfoundland & Labrador on a confidential basis for the sole purpose of evaluating a possible investment in Oakhill Lending Corp. (the "Company"). This Memorandum may not be reproduced, transmitted or used, at any time, for any other purpose, or otherwise provided to others without the prior written consent of PHL Financial Group Ltd. ("PHL Financial"), the selling agent of the Company. Upon request, this Memorandum must be returned to PHL Financial. By accepting delivery of this Memorandum, each recipient agrees to the foregoing and the following.

This Memorandum does not constitute, and may not be used for or in conjunction with, an offer or solicitation by anyone in any jurisdiction or in any circumstances in which such offer or solicitation is not authorized, or to any person to whom it is unlawful to make such an offer or solicitation. The offering and distribution of the Class A Shares (as defined herein) by PHL Financial on behalf of the Company has not been approved or disapproved by any securities regulatory in Canada, nor has any such authority in any way reviewed this Memorandum or passed on the adequacy or accuracy of this Memorandum. Persons acquiring Class A Shares will not have the benefit of the review of the material by the securities commissions or similar authorities in Canada. This Memorandum is not, and under no circumstances is to be construed as, a prospectus or advertisement for a public offering of the Shares referred to herein. The distribution of this Memorandum and the offer and sale of the Class A Shares in certain jurisdiction may be restricted by law.

You are directed to inform yourself of and observe such restrictions and all legal requirements of your jurisdiction of residence in respect of the acquisition, holding and disposition of the Class A Shares. Subscribers are advised to consult with their professional advisors to assess the business, legal, income tax and other aspects of this investment.

This is a risky investment. See "Risk Factors".

**The Company is a "connected issuer" and a "related issuer" of PHL Financial, as such terms are defined in National Instrument 33-105 – *Underwriting Conflicts* ("NI 33-105"). The Company has determined that it is a connected issuer and a related issuer of PHL Financial by virtue of PHL Financial's role as an exempt market dealer engaged to sell Class A Shares and based on the fact that the Company and PHL Financial have common securityholders, directors and officers. See "Risk Factors – Conflicts of Interest".**

**FORWARD LOOKING STATEMENTS**

Certain statements in this Memorandum as they relate to the Company and its operations are "forward-looking statements". Any statements that express or involve discussions with respect to predictions, expectations, beliefs, plans, projections, objectives, assumptions or future events or performance (often, but not always, using words or phrases such as "expects", "does not expect", "is expected", "anticipates", "does not anticipate", "plans", "estimates", "believes", "does not believe" or "intends", or stating that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or achieved) are not statements of historical fact and may be forward-looking statements. These forward-looking statements include, but are not limited to, statements relating to: the risks relating to the activities of the Company; the Company's expectations of demand for alternative mortgage financing; the Company's investment objectives; the Company's expectations regarding the use of available funds from the Offering; the Company's plans to distribute Class A Shares through PHL Financial as its selling agent; expectations regarding the amount of the Dealer Services Fee (as defined herein); that the Company's investments in mortgage loans will meet the criteria for mortgage investment corporations under the Tax Act (as defined herein) and will qualify for and receive special tax treatment; that a net return on investment in the range of 10-14% may be achieved; the Company's investment strategy and operating policy; the Company expecting tighter conditions in the credit markets to persist for several years into the future and the Company expecting steady growth in terms of new investor deposits and mortgage receivables; the Company's intentions with respect to timing and payment of dividends and redemptions of Class A Shares and the terms and operation of the DRIP (as defined below); and that the Company will invest primarily in first and second and in exceptional cases third mortgages on residential properties and commercial and industrial properties in British Columbia, Alberta & Ontario. Forward-looking statements are based on expectations, estimates and projections at the time the statements are made that involve a number of risks and uncertainties which would cause actual results or events to differ materially from those presently anticipated. For a description of these and other risks associated with an investment in the Class A Shares, see "Risk Factors".

The Company does not undertake any obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

**CURRENCY**

In this Memorandum, unless stated otherwise or unless the context otherwise requires, all dollar amounts are expressed in Canadian dollars. All references to "\$" are to the lawful currency of Canada.

***All inquiries or communications should be directed to one of the following individuals at:***

PHL Financial Corp.  
Suite 316 – 5455 152<sup>nd</sup> Street  
Surrey, British Columbia V3S 5A5  
Attention: Steven Ponte  
Email: [steveponte@phlfinancial.com](mailto:steveponte@phlfinancial.com)  
Telephone: (604) 579-0841  
Fax: (604) 575-7410

## INVESTMENT SUMMARY

Investment:	Class "A" Preferred Non-Voting shares with a par value of \$1.00 in the capital of the Company (the "Class A Shares"), which is a mortgage investment corporation incorporated in British Columbia. Each Class A Share represents a beneficial interest in the profits of the Company. Each Class A Share will have the attributes and characteristics as set out under the heading "Terms of Securities".
Objective:	The Company will seek to generate an internal rate of return to investors of 10 to 14% net of fees and expenses, by investing in first, second and third mortgages in the Province of British Columbia, Alberta & Ontario that do not meet conventional lending requirements.
Investment Strategy:	The Company will invest primarily in first and second and, in exceptional cases, third mortgages in the Province of British Columbia, Alberta & Ontario. The Company intends to finance mezzanine opportunities behind MortEq Lending Corp. ("MLC"), which is an affiliate of the Company and a MIC also managed by the Administrator (as defined herein), or conventional third-party lenders such as banks or credit unions. The Company's fundamental investment objective is to achieve long-term capital appreciation through investments that offer high return potential. The Company will seek to invest in higher ratio mortgages over shorter terms and reduced amortizations.
Investors:	Qualified accredited investors resident in British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, New Brunswick, P.E.I., Nova Scotia, and Newfoundland & Labrador.
Administrator:	PHL Capital Corp. (the "Administrator").
Selling Agent:	The Company intends to distribute Class A Shares through PHL Financial, an exempt market dealer registered in British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, New Brunswick, P.E.I., Nova Scotia, and Newfoundland & Labrador, and an affiliate of the Administrator. No other agent has been appointed by the Company or Administrator to sell the Class A Shares; however, the Company or the Administrator may from time to time pay compensation to sellers and finders at their discretion. See "Compensation Paid to Sellers and Finders" and "Risk Factors – Conflicts of Interest".
Price per Security:	\$1.00 per Class A Share.
Loan Agreement:	Means the loan agreement made among the Agent, the Lender, the Bookrunner and the Company dated September 30th, 2022, as amended
Lenders:	Means Canadian Western Bank
Credit Facility:	Means the \$20,000,000 revolving credit facility, as such amount may be adjusted from time to time, that the Lender has authorized for use by the Company subject to the terms and conditions of the Loan Agreement.
Minimum Investment:	Minimum initial subscription of \$100,000. Existing Class A Shareholders (as defined herein) may make additional investments of a minimum of \$25,000.

The Company reserves the right to change the minimum amount at any time and from time to time.

Proposed closing date(s):

The closing of the sale of Class A Shares offered hereunder will take place at such times as are chosen by the Company (each, a "Closing").

Income tax consequences:

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

Payment terms:

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

Resale restrictions:

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

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## OUR BUSINESS

The Company was incorporated on March 12, 2021 under the *Business Corporations Act* (British Columbia). The head office and principal business address of the Company is Suite 316 – 5455 152nd Street, Surrey, British Columbia. The registered and records office of the Company is 1600 - 925 West Georgia Street, Vancouver, British Columbia V6C 3L2. The Company qualifies as a "mortgage investment corporation" (a "MIC") within the meaning of subsection 130.1(6) of the *Income Tax Act* (Canada), as amended from time to time (referred to herein, together with the regulations promulgated thereunder, as amended from time to time, as the "Tax Act").

The Company intends to distribute the Class A Shares exclusively through PHL Financial, an affiliate of the Administrator.

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

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

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

## INVESTMENT STRATEGY

The Company has been established to round out the Administrator's fund offerings. Without abandoning the Administrator's capital preservation ideals, the Company provides a more aggressive lending

approach to complement that of MLC, an affiliate of the Company and a MIC that is also managed by the Administrator, and further diversify our portfolio. The Company will invest primarily in first and second and, in exceptional cases, third mortgages. The Company intends to finance mezzanine opportunities behind MLC or conventional third-party lenders such as banks or credit unions. The Company's fundamental investment objective is to achieve long-term capital appreciation through investments that offer high return potential. An investment in the Company is intended for investors who are willing to accept an increased degree of risk. The Company will seek to invest in higher ratio mortgages over shorter terms and reduced amortizations.

The Company intends to provide its holders of Class A Shares (the "Class A Shareholders") with the opportunity to participate in a professionally managed and diversified portfolio of residential, commercial, land, land servicing and development, and other mortgage loans secured by real property located within British Columbia, Alberta & Ontario. The Company distributes all of its profits to Class A Shareholders by way of quarterly dividends in cash or in shares of the Company and is not taxed on its earnings.

The investment policy of the Company is designed to allow it to qualify for the special tax treatment afforded to MICs under the Tax Act. The policy requires the Company to invest the majority of its assets in residential and commercial mortgages, cash on hand and deposits. The Company may arrange financing of an operating line of credit at a future date.

By leveraging the capital base of the Company, investing prudently and charging borrowers "user" fees, it is anticipated that a net return on investment (after payment of all expenses of the Company) in the range of 10-14% can be achieved. There can be no assurance or guarantees that such returns will be obtained.

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

The Company's dividends are paid quarterly and not guaranteed. The returns will fluctuate from year to year mainly due to the Company's ability to deploy its capital and avoid losses on its mortgage portfolio. The Company's ability to deploy its capital is influenced by the state of the British Columbia, Alberta & Ontario alternative mortgage market and is influenced by factors such as the price of real estate, interest rates, lending competition for alternative mortgages, employment conditions and general economic activity.

### ***Operating Policy***

The Company will invest primarily in first and second, and in exceptional cases, third mortgages on residential properties such as single-family dwellings, duplexes, townhouses, condominium units, land or multiple family dwellings such as apartment buildings, including properties under construction, providing that in so doing the Company will continue to qualify as a MIC. The Company will also invest in mortgages on commercial and industrial properties including properties under construction. The Company will invest in mortgages primarily in British Columbia, Alberta & Ontario with terms of up to 2 years and will attempt to stagger the maturities in order to produce an orderly turnover of assets and liabilities.

The Company will generally require a current appraisal, with every mortgage application, prepared by a member of the Accredited Appraisal Canadian Institute or Canadian Residential Appraiser. Mortgage investments generally will not exceed 85% of the appraised value of the subject property at the date of advance. Mortgage investments will be approved by the lending committee (the "Lending Committee") appointed by the directors of the Company (the "Directors"). Mortgage investments will only be made

where appraisals and all other relevant materials, including credit and financial reports, are satisfactory to the Lending Committee. All mortgages must be registered on title to the subject property in the name of the Company forthwith upon funding.

Temporary surplus cash funds not invested in mortgages will be invested in short term deposits, savings accounts or government guaranteed income certificates.

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

## MANAGEMENT & ADMINISTRATION

### *Senior Management*

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

Name and Position with the Company	Principal Occupation
<b>Steven Ponte</b> CEO and Director	<i>Chief Executive Officer of the Administrator</i>
<p>Mr. Ponte, who is the Chief Executive Officer of the Administrator and serves on the Lending Committee, provides over 15 years of combined financing, construction and development experience. Prior to joining the Administrator, he held various senior roles with TD Commercial Bank, focusing on their large commercial business segment.</p> <p>Mr. Ponte is the past President of the BC MIC Managers Association (BCMMA), whose membership includes some of British Columbia's largest and most reputable MICs. He also serves on the board of directors for the Canadian Mortgage Alternative Lenders Association (CAMLTA), which supports the growth of companies that are in the business of alternative mortgage lending across Canada.</p> <p>Mr. Ponte holds a Bachelor of Business Administration degree from Simon Fraser University with a focus on finance and marketing.</p>	
<b>Parminder Purewall</b> Chairman & Founder and Director	<i>Chairman &amp; Founder of PHL Capital Corp. (the "Administrator")</i>
<p>Mr. Purewall, Chairman and Founder of the Administrator, has been a licensed mortgage broker since 2004 and has worked in real estate development and financing for over 20 years. Mr. Purewall is a Director of the Company and serves on the Lending Committee.</p> <p>Prior to establishing the Administrator, Mr. Purewall worked in various roles with TD Commercial Bank, specializing in real estate and commercial lending. He also worked with the Lanyard Group, a real estate investment banking and investment firm.</p>	



Mr. Purewall earned a Bachelor of Business Administration degree from Simon Fraser University with a focus on finance and marketing. He also holds the Chartered Financial Analyst designation.	
<b>Harjit Grewal</b> Director	<i>Accountant</i>
<p>Mr. Grewal worked at PricewaterhouseCoopers for five years before launching his own accounting firm, Grewal &amp; Co. Chartered Accountants, in 2003. Mr. Grewal is one of the owners and part of the management team of Allied Insurance Services, an insurance business with several locations in Metro Vancouver. He also has extensive experience in real estate investments. Mr. Grewal holds a Bachelor of Business Administration (BBA) from Simon Fraser University with a concentration in Accounting. He has also obtained the Chartered Accountant (CA) designation.</p> <p>Mr. Grewal is on the Lending Committee of the Company.</p>	
<b>Sunjeev Bath</b> Director	<i>Businessperson</i>
<p>Mr. Bath worked as a Financial Analyst before founding Western Rugged Tools, a Canadian based manufacturer and distributor of tools and related products in 2002. He is a director and principal of Surrey Cedar and is actively involved in real estate investment and management. Mr. Bath holds a Bachelor of Business Administration (BBA) from Simon Fraser University with a concentration in Finance and Marketing. He has also obtained the Chartered Financial Analyst designation.</p> <p>Mr. Bath is on the Lending Committee of the Company.</p>	
<b>John Tilstra</b> Director	<i>Businessperson</i>
Mr. Tilstra is the Chief Executive Officer of Wesmont Group Ltd., which focuses on commercial and residential land development and project opportunities. He has a diverse range of business and construction experience as the founder of Centra Windows, an employee-owned company. Mr. Tilstra serves on the board for MortEq Lending Corp., Nightshift Street Ministries and Wesmont Foundation, in addition to provide mentorship to business students at Trinity Western University.	

### Advisory Board

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

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

### Administrator

The Administrator provides all mortgage administration and other ancillary services required by the Company and is responsible for execution of the Company's investment strategy, including processing and

administering of mortgage loans on behalf of the Company, providing day-to-day administrative services, providing monthly reports on the operation of the Company, preparing accounting information for the auditors of the Company and providing marketing and business development assistance to the Company.

The Administrator was incorporated under the laws of the Province of British Columbia on July 22, 2011. The head office and principal business address of the Administrator is Suite 316 – 5455 152<sup>nd</sup> Street, Surrey, British Columbia. The registered office of the Administrator is 13401 - 108th Avenue, Suite 1800, Surrey, BC, V3T 5T3. The Administrator has two voting shareholders, PHL Management Corp. and Copper Island Investments Inc. Parminder Purewall and Steven Ponte are Directors and officers of the Company and shareholders of PHL Management Corp. and Copper Island Investments Inc., respectively. Parminder Purewall is the sole holder of the voting shares of the parent company of PHL Management Corp. Steven Ponte is the sole shareholder of Copper Island Investments Inc.

The Administrator also provides mortgage administration and other ancillary services to MLC, which is a MIC and an affiliate of the Company. As a result of the different investment strategies of MLC and the Company, however, it is intended that the Company's investment strategy will complement, and not compete with, that of MLC in respect of mortgage investment opportunities. See "Risk Factors – Conflicts of Interest".

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

The principals of the Administrator are Parminder Purewall and Steven Ponte. For further details regarding their respective summarized biographies, see "Senior Management".

#### ***Administrative and Services Agreement***

The Company does not have and does not expect to have any employees, and therefore, all mortgage administration and other ancillary services relating to the Company's business will be performed by the Administrator pursuant to an Administrative and Services Agreement between the Company and the Administrator, an affiliate of the Company, dated March 19, 2021, as may be amended from time to time (the "Administrative and Services Agreement"). Pursuant to the Administrative and Services Agreement, the Administrator is responsible for processing and administering mortgage loans on behalf of the Company and handling the day-to-day administrative services for the Company's operations.

Pursuant to the Administrative and Services Agreement, the Administrator will be paid an annual administration fee of up to 2.5% of the aggregate outstanding balance of the total assets of the Company (the "Administration Fee"), with such Administration Fee being calculated and payable monthly before the 15<sup>th</sup> day of the following month upon approval of the Directors of the Company. The Company will reimburse the Administrator for all reasonable and necessary out-of-pocket disbursements excluding wages, office space and maintenance of books and records incurred by the Administrator in connection with the administration of the Company's business. The Administrative and Services Agreement may be terminated by the Company or by the Administrator in certain circumstances.

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

## SELLING AGENT

The Company intends to sell Class A Shares through PHL Financial as its selling agent. As selling agent, PHL Financial is responsible for liaising with subscribers of Class A Shares (the "Subscribers") during the course of the offering of Class A Shares (the "Offering"), including distributing this Memorandum and Subscription Agreements (as defined below) to prospective investors and coordinating and processing all subscriptions for Class A Shares. Other than as disclosed in this Memorandum under the heading "Compensation Paid to Sellers and Finders", no fees, commissions or other compensation is payable to PHL Financial as selling agent. The Administrator will, however, reimburse PHL Financial for all operating and overhead expenses, and any reasonable and necessary out-of-pocket disbursements incurred by PHL Financial in connection with the Offering.

PHL Financial is a registered exempt market dealer in the provinces of British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, New Brunswick, P.E.I., Nova Scotia, and Newfoundland & Labrador. PHL Financial has entered into a Dealer Services Agreement among PHL Financial, the Administrator (as manager of the Company) and the Company dated March 19, 2021, as amended effective March 1, 2022, and as may be further amended from time to time, (the "Dealer Services Agreement") pursuant to which the Administrator and the Company engaged PHL Financial to act as sales agent to distribute the Class A Shares.

PHL Financial also acts as the agent in respect of offerings of securities by MLC, which is an affiliate of the Company and a MIC also managed by the Administrator. However, PHL Financial has agreed to use commercially reasonable efforts to perform its duties and responsibilities under the Dealer Services Agreement and in compliance with applicable securities laws.

PHL Financial was incorporated under the laws of the Province of British Columbia on November 9, 2018. The head office and principal business address of PHL Financial is Suite 316 – 5455 152<sup>nd</sup> Street, Surrey, British Columbia. The registered office of PHL Financial is 925 West Georgia Street, Suite 1600, Vancouver, BC V6C 3L2. PHL Financial has common ownership with the Administrator and is not a wholly-owned subsidiary of the Administrator. The officers and directors of PHL Financial are also officers or directors of the Company and the Administrator. See "Risk Factors – Conflicts of Interest".

## CAPITAL STRUCTURE

### Share Capital

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

<b>Description of Security</b>	<b>Number authorized to be issued</b>	<b>Price per security</b>	<b>Number outstanding as at Nov 1, 2024</b>
Common Shares <sup>(1)</sup>	Unlimited	\$1.00	11
Class A Shares <sup>(2)</sup>	Unlimited	\$1.00	122,789,047

### Notes:

- (1) The common shares are voting but non-participating. The issued common shares are not subject to calls, assessments, pre-emptive rights or conversion rights. The common shares are redeemable in

certain circumstances in accordance with the Company's articles. There are no provisions attached to the common shares for surrender, sinking funds or purchase funds. There are 11 holders of the common shares of the Company which include Parminder Purewall, Harjit Grewal, Sunjeev Bath, Steven Ponte and John Tilstra who each hold one common share of the Company. Only the holders of common shares are entitled to vote in respect of each common share held at all meetings of the shareholders of the Company.

- (2) Complete details of the attributes and characteristics of the Class A Shares are set forth under the heading "Securities Offered – Terms of Securities".
- (3) Class A Shares will be issued at a price of \$1.00 per Class A Share.

## **SECURITIES OFFERED**

### **Terms of Securities**

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

#### ***Voting***

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

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

#### ***Dividend Entitlement***

Class A Shareholders will be entitled to receive dividends in respect of Class A Shares owned at the end of each fiscal quarterly period. The Company intends that dividends will be paid within 30 days of each fiscal quarterly end; provided, however, that the quarterly dividend at the Company's fiscal year end will be paid within 90 days of each fiscal year end. Dividends may be taken as cash or reinvested as additional Class A Shares pursuant to the Company's Dividend Reinvestment Plan (the "DRIP"). Dividends reinvested as additional Class A Shares will also qualify for future dividend entitlement. See "Securities Offered – Terms of Securities – Dividend Reinvestment Plan".

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

The Directors of the Company shall, for each and every fiscal year of the Company within 90 days of the end of the fiscal year of the Company, declare and pay a taxable dividend or dividends in an amount which according to their best estimate they determine to equal the maximum amount deductible in computing the income of the Company pursuant to clause 130.1(1)(a)(i) of the Tax Act, and the Directors shall during the period commencing 90 days after the said fiscal year declare and pay a capital gain dividend or dividends in an amount which according to their best estimate they determine to equal twice the amount which, subject to election pursuant to section 130.1(4) of the Tax Act, is deductible pursuant to clause

130.1(1)(a)(ii) of the Tax Act (or such other amounts providing for the aforementioned deduction of dividends in the calculation of the income of a MIC); provided that the Directors may, in settling the amount of such dividends reduce such dividends by any amount which they deem necessary to provide for reserves, liabilities and other contingencies or alternative so as to ensure that the dividends are payable only out of funds properly available for the payment of dividends.

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

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

***Mandatory Redemption on Death of a Shareholder Where No Spouse Survives***

For purposes of the sections of this Memorandum set out under the heading "Securities Offered", the term "Eligible Owner" means: (i) a retirement savings plan registered in accordance with the provisions of the Tax Act held for the benefit of a shareholder who is a human being (a "Person"); (ii) a retirement savings plan registered in accordance with the provisions of the Tax Act held for the benefit of the spouse of a Person; (iii) a trust governed by a deferred profit sharing plan held for the benefit of a Person; (iv) a trust governed by a Registered Pension Plan held for the benefit of a Person; a retirement income fund held for the benefit of a Person; (v) a registered education savings plan held for the benefit of a Person; (vi) a tax free savings account held for the benefit of a Person; and (vii) any savings plan created by either the Government of Canada or a Provincial Government in Canada where the plan is held for the benefit of a Person.

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

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

***Redemption by the Shareholder***

Class A Shares are redeemable by a shareholder, subject to the provisions of the *Business Corporations Act* (British Columbia) and the Company's Articles, provided that the Class A Shareholder gives the Company irrevocable written notice (the "Redemption Notice") that the shareholder wishes to redeem any or all of the Class A Shares held by such shareholder or its Eligible Owner, provided that a shareholder (i) may not give a Redemption Notice in respect of Class A Shares before the date that is at least one year from the date on which such Class A Shareholder or its Eligible Owner acquired such Class A Shares (the

"Issue Date") and (ii) may only be give a Redemption Notice in respect of Class A Shares once in any calendar year.

A Redemption Notice will be valid if sent by registered mail or delivered to the registered office of the Company and so long as such Redemption Notice is received by the Company at least six months before the second and any succeeding one year anniversary of the last day of the calendar quarter in which such Issue Date falls (such date known as the "Withdrawal Date"). The Company shall within 90 days after the Withdrawal Date, pay in full the par value of any Class A Shares specified in the Redemption Notice (the "Redemption Amount"), plus any dividends declared but unpaid by the Company.

A redemption in accordance with the provisions above shall not be effected by the Company if: (a) the Company is insolvent at the time that the redemption is to be effected or if the redemption would render the Company insolvent; (b) such redemption impairs the Company's status as a MIC pursuant to the provisions of the Tax Act; (c) the Company receives, during any one calendar year, Redemption Notices for more than 10% of the Class A Shares outstanding as at the last day of the most recently completed calendar year end prior to the Withdrawal Date; (d) the Company receives, during any one calendar quarter, Redemption Notices for more than 2.5% of the Class A Shares outstanding as at the last day of the most recently completed calendar quarter end prior to the Withdrawal Date; or (e) the Directors determine in their sole discretion that sufficient funds are not available to the Company for the purposes of redemption or that any redemption would be unduly prejudicial to the Company. If the Company receives more than one Redemption Notice in any one calendar quarter and such redemptions are limited as a result of the operation of the foregoing conditions or limitations, then the Company will redeem the Class A Shares for which valid Redemption Notices have been received on a *pro rata* basis up to the applicable limit, or on such other basis as the Directors may determine in their discretion.

The Directors, in their discretion, at any time and from time to time, may suspend the right of Class A Shareholders to submit Redemption Notices if the Directors determine, in their sole discretion, that sufficient funds are not available to the Company for the purposes of redemption or that any redemption would be unduly prejudicial to the Company, and may waive or reduce any or all of the conditions or limitations described above in respect of any Redemption Notice.

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

The Company may enter into a side letter or other similar agreement with a particular Subscriber in connection with its subscription for Class A Shares, which has the effect of limiting such Subscriber's redemption rights in a manner which is more restrictive to such Subscriber than those described herein and applicable to other Subscribers or Class A Shareholders.

Subscribers acknowledge that the Board of Directors of the Company has the authority under the *Business Corporations Act* (British Columbia) and the Company's Articles to determine, in exercising their fiduciary

duties owed to the Company, the order in which validly tendered Redemption Notices will be processed (i.e.: whether *pro rata* based on all then validly tendered Redemption Notices or on a first in/first out basis, and subject to such limitations as the Directors may determine are necessary or appropriate). Without limiting the generality of the foregoing, when determining the order of priority for redemption by the Company or the manner of such redemption, the Directors may consider any factors they deem necessary or appropriate, including, without limitation, the Company's other financial obligations.

### ***Priority on Liquidation or Winding Up***

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

### ***Restrictions on Transfer***

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

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

The Directors of the Company shall not consent to or approve a transfer of shares or cause the Company to allot, issue, sell, purchase or redeem shares unless immediately following the said transfer, allotment, issue, sale, purchase or redemption, no one shareholder of the Company would hold more than 25% of the issued Class A Shares in the capital stock of the Company and the number of Class A Shareholders of the Company would not be reduced to less than 20, except that for the purpose of computing the number of shareholders of the Company only issued Class A Shares shall be counted and that nothing in Article 26.5 of the Company's Articles shall prevent the Directors from giving their consent or approval to any transfer, allotment, issue, sale, purchase or redemption of shares which would not have the effect in the opinion of the Directors of disqualifying the Company as a MIC under the Tax Act or amendments thereto.

### ***Dividend Reinvestment Plan***

The Company has adopted a DRIP under which holders of Class A Shares may elect to reinvest cash dividends received from such Class A Shares to purchase additional Class A Shares ("Dividend Shares") at a price of \$1.00 per share. All registered holders of Class A Shares are eligible to become participants of the DRIP by making a selection under the shareholder information form completed at the time of their initial subscription for Class A Shares or by requesting an enrollment form at any time by contacting the Company, which enrollment form must be received by the Company at least two business days before a

"dividend record date" (which generally occurs on or about the first day of September, December, March and June).

The declaration of dividends is subject to approval by the Company's Directors. At each "dividend payment date" (which generally falls on the last day of February, June, August and November), a participating holder of Class A Shares will be credited with the number of Class A Shares equal to the cash dividend payment divided by a price of \$1.00 per share. Any fractional shares in the DRIP will be held in the DRIP for the benefit of the participant until the next dividend payment date on which a whole share may be purchased. All dividends paid on Class A Shares acquired under the DRIP will be automatically reinvested in additional Class A Shares on each subsequent dividend payment date, in accordance with the terms of the DRIP.

The Company operates a direct registration system that allows its shares to be owned, reported and transferred electronically without using a physical share certificate, therefore no physical share certificates will be issued in respect of Dividend Shares.

Pursuant to the DRIP, the Company has the power to make rules and regulations respecting the administration of the DRIP, the establishment of Internet-based or other electronic mechanisms for enrollment in the DRIP, the communication of information concerning the DRIP and any other aspects of the DRIP. The Company reserves the right to regulate and interpret the DRIP as the Company deems necessary or desirable, and to amend, suspend or terminate the DRIP at any time, in its sole discretion and without providing reasons (in which case the Company will provide all participants with written notice of such amendment, suspension or termination). If the DRIP is terminated, the Company will provide all participants with certificates registered in their name for all Dividend Shares, together with the cash from the sale of any fractions of Dividend Shares. If the DRIP is suspended, subsequent dividends on Dividend Shares will be paid in cash.

A shareholder may terminate participation in the DRIP at any time by written notice to the Company. If such notice is received at least 30 days before a dividend record date, the termination will be effective for the applicable record date, and will otherwise become effective after the next dividend payment date.

DRIP participants whose Class A Shares are registered in a name other than their own (under a deferred income plan or otherwise) may withdraw from the DRIP by making appropriate arrangements with the person who holds such shares to withdraw from the DRIP on their behalf.

### **Subscription Procedure**

The minimum initial investment in the Company is \$100,000. The minimum subsequent investment in the Company for existing Class A Shareholders holding at least 100,000 Class A Shares is \$25,000. The Company reserves the right to change the minimum amount at any time.

Subscribers may purchase Class A Shares from the Company through PHL Financial, the selling agent of the Company, without charge to the Subscriber. Orders may be sent to PHL Financial at its principal office or such other address as specified by the Administrator by courier or telecommunication facilities. The Company will schedule closings on the first of each month, or such other times as decided by the Company.

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



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

- (a) complete and sign the form of subscription agreement prescribed by the Company from time to time (the "Subscription Agreement") specifying the number and class of Class A Shares being subscribed for (the Company reserves the right to use different forms of Subscription Agreements for different investors);
- (b) complete and sign the accredited investor questionnaire attached to the Subscription Agreement;
- (c) deliver payment of the subscription price for the Class A Shares subscribed for to PHL Financial by certified cheque, bank draft or wire satisfactory to the Company and PHL Financial; and
- (d) deliver to PHL Financial the Subscription Agreement, accredited investor questionnaire and any other forms, declarations and documents as may be required by the Company or PHL Financial to complete the subscription.

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

The aforementioned cash amounts, Subscription Agreements and other documents will be held in trust and released upon closing. Closings will occur on a continuous basis.

### ***Acceptance of Subscriptions***

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

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

### ***Qualified Investors***

The Company is offering for sale, through PHL Financial as the Company's selling agent, Class A Shares on a continuous basis in the Provinces of British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, New Brunswick, P.E.I., Nova Scotia, and Newfoundland & Labrador by way of private placement.

The Offering is being conducted in the Provinces of British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, New Brunswick, P.E.I., Nova Scotia, and Newfoundland & Labrador pursuant to the exemption from the prospectus requirements afforded by Section 2.3 of National Instrument 45-106 – *Prospectus Exemptions* ("NI 45-106"). The exemption pursuant to Section 2.3 of NI 45-106 is available for distributions to Subscribers in British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, New Brunswick, P.E.I., Nova Scotia, and Newfoundland & Labrador purchasing as principal and who are "accredited investors" as defined in NI 45-106.

The foregoing exemption relieves the Company from the provisions of the applicable securities laws of the Provinces of British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, New Brunswick, P.E.I., Nova Scotia, and Newfoundland & Labrador which otherwise would require the Company to file and obtain a receipt for a prospectus. Accordingly, prospective investors for Class A Shares will not receive the benefits associated with a subscription for securities issued pursuant to a filed prospectus, including the review of material by securities regulatory authorities.

### ***Trading and Resale Restrictions***

This offering of Class A Shares is made only on a private placement basis to investors who are eligible to purchase on an exempt basis under, and subject to compliance with, applicable securities laws. **There is no market for the Class A Shares. The transferability of the Class A Shares will also be subject to resale restrictions under applicable securities laws.** The Company will be entitled to require and may require, as a condition of allowing any transfer of any Class A Share, the transferor or transferee, at their expense, to furnish to the Company evidence satisfactory to it in form and substance (which may include an opinion of counsel satisfactory to the Company) in order to establish that such transfer will not constitute a violation of the securities laws of any jurisdiction whose securities laws are applicable thereto.

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

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

## **INCOME TAX CONSEQUENCES AND ELIGIBILITY FOR INVESTMENT**

### **Caution**

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

### **Income Tax Consequences**

The following is a summary of the principal Canadian federal income tax consequences of acquiring, holding and disposing of the Class A Shares by a Subscriber who, at all relevant times and for purposes of the Tax Act, is a resident or deemed to be a resident of Canada, deals with the Company at arm's length, is not affiliated with the Company, and acquires and holds the Class A Shares as capital property (a "Holder"). This summary, which has been reviewed and approved for the current circumstances by Lawson Lundell LLP, only addresses Holders who meet all of the foregoing requirements.

This summary is not applicable to any Holder of Class A Shares: (i) that is a "financial institution" as defined in subsection 142.2(1) of the Tax Act for purposes of the "mark-to-market property" rules; (ii) that is a "specified financial institution" as defined in subsection 248(1) of the Tax Act; (iii) that has elected to determine its "Canadian tax results" in a "functional currency" (which does not include Canadian currency), each as defined in the Tax Act; (iv) that enters into a "derivative forward agreement" as defined

in subsection 248(1) of the Tax Act with respect to the Class A Shares; or (v) an interest in which is a "tax shelter investment" for the purposes of section 143.2 of the Tax Act. This summary assumes that no Class A Shares held by a Holder will constitute a "tax shelter" or a "tax shelter investment" for the purposes of the Tax Act.

This summary is based upon the facts set out in this Memorandum, the current provisions of the Tax Act and the regulations thereunder (the "Regulations"), all specific proposals (the "Tax Proposals") to amend the Tax Act or the Regulations publicly announced by or on behalf of the Minister of Finance (Canada) prior to the date hereof, and our understanding of the current published administrative policies and assessing practices of the Canada Revenue Agency (the "CRA"). This summary assumes that the Tax Proposals will be enacted as currently proposed, although no assurance in this regard can be provided. Except for the Tax Proposals, this summary does not take into account or anticipate any other changes in law or CRA administrative policies and assessing practices, whether by way of legislative, governmental or judicial action, nor does it take into account any other federal or any provincial, territorial or foreign income tax legislation or considerations, which may differ significantly from those described herein.

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

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

- (a) the Company was a Canadian corporation as defined in the Tax Act;
- (b) the Company's only undertaking was the investing of funds and it did not manage or develop any real or immovable property;
- (c) none of the property of the Company consisted of debts owing to the Company secured on real or immovable property situated outside Canada, debts owing to the Company by non-resident persons unless such debts were secured on real or immovable property situated in Canada, shares of the capital stock of corporations not resident in Canada, or real or immovable property situated outside of Canada or any leasehold interest in such property;
- (d) the Company had at least 20 shareholders, and no one shareholder (together with any "related person", as such phrase is understood in section 251 of the Tax Act and as modified in subparagraph 130.1(6)(d)(iv) of the Tax Act, of such shareholder) at any time in the year owned, directly or indirectly, more than 25% of the issued shares of any class of the Company or was otherwise a "specified shareholder" for purposes of the Tax Act, also taking into account certain applicable rules for the purposes of counting shareholders of a MIC that are registered pension plans or deferred profit sharing plans for purposes of the Tax Act;

- (e) all holders of preferred shares of the Company had the right, after payment to them of their preferred dividends and payment of dividends in a like amount per share to the holders of any common shares of the Company, to participate *pari passu* (equally) with the holders of the common shares in any further payment of dividends;
- (f) the cost amount of the Company's property consisting of debts secured (whether by mortgages, hypothecs, or in any other manner) on houses or on property included within a housing project (as those terms are defined in the National Housing Act (Canada)), together with cash on hand and deposits with a bank or any other corporation whose deposits are insured by the Canada Deposit Insurance Corporation, the Régie de l'assurance-dépôts du Québec, or with a credit union (collectively, the "Qualifying Property"), was at least 50% of the cost amount to it of all of its property;
- (g) the cost amount of real or immovable property (including leasehold interests therein but excluding real property acquired as a consequence of foreclosure or default on a mortgage, hypothec or agreement of sale of real property held by the Company) owned by the Company did not exceed 25% of the cost amount to it of all of its property;
- (h) where at any time in the year the cost amount to the Company of its Qualifying Property as defined in (f) above was less than two-thirds (2/3) of the cost amount to it of all of its property, the Company's liabilities did not exceed three (3) times the amount by which the cost amount to it of all of its property exceeded its liabilities; and
- (i) where (h) above did not apply, in that the cost amount of its Qualifying Property was equal to or was greater than two-thirds (2/3) of the cost amount of all the Company's property, the Company's liabilities did not exceed five (5) times the amount by which the cost amount to it of all its property exceeded its liabilities.

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

#### *Taxation of the Company*

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

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

### *Taxation of the Holders of Class A Shares*

Provided that the Company qualifies as a MIC, dividends (other than capital gains dividends) which are paid by the Company on the Class A Shares will be included in Holders' incomes as bond interest, and capital gains dividends will be treated as realized capital gains of Holders and will be subject to the general rules relating to the taxation of capital gains. **AS THE DIVIDENDS (OTHER THAN CAPITAL GAINS DIVIDENDS) ARE TAXED AS BOND INTEREST, THE NORMAL GROSS UP AND DIVIDEND TAX CREDIT RULES WILL NOT APPLY TO DIVIDENDS PAID BY THE COMPANY TO AN INDIVIDUAL AND TRUSTS ON CLASS A SHARES, AND HOLDERS THAT ARE CORPORATIONS WILL NOT BE ENTITLED TO DEDUCT THE AMOUNT OF DIVIDENDS PAID BY THE COMPANY IN COMPUTING TAXABLE INCOME UNDER SECTION 112 OF THE TAX ACT.**

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

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

In general, one-half, or if realized on or after June 25, 2024, two-thirds, of any capital gain realized by a Holder (including capital gains deemed to be realized as a result of a receipt of a capital gains dividend) will be included in the Holder's income under the Tax Act as a taxable capital gain. Subject to certain specific rules in the Tax Act, one-half, or if realized on or after June 25, 2024, two-thirds, of any capital loss realized in a taxation year is to be deducted against any taxable capital gains realized by the Holder in such year and, to the extent not so deductible, may generally be carried back three tax years or forward indefinitely and deducted against taxable capital gains realized in such tax years.

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

### **Eligibility for Investment**

The Class A Shares will be qualified investments under the Tax Act for a trust governed by a Registered Retirement Savings Plan ("RRSP"), Registered Educational Savings Plan ("RESP"), Registered Disability Savings Plan ("RDSP"), Registered Retirement Income Fund ("RRIF"), a Tax Free Saving Account ("TFSA")

(collectively, the "Registered Plans") or Deferred Profit Sharing Plan (together with the Registered Plans, the "Plans") provided that the Company qualifies as a MIC under the Tax Act and further provided that throughout the relevant calendar year, the Company does not hold any indebtedness, whether by way of mortgage or otherwise, of a person who is an annuitant, a beneficiary, an employer, a subscriber under, or holder of, the Plan, or of any other person who does not deal at arm's length with that person. Adverse tax consequences, not discussed herein, would generally result if the Company at any time fails to qualify as a MIC or its shares otherwise fail to constitute qualified investment for Plans.

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

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

## **COMPENSATION PAID TO SELLERS AND FINDERS**

The Company plans to sell the Class A Shares through PHL Financial, an exempt market dealer registered in British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, New Brunswick, P.E.I., Nova Scotia, and Newfoundland & Labrador. No fee, commission or other acquisition charge is payable by the Company to PHL Financial in respect of orders to purchase Class A Shares of the Company. No other registered dealer, unregistered agent or finder has been appointed by the Company or the Administrator. Where lawfully permitted, the Company or the Administrator (as manager of the Company) is prepared to pay compensation to finders or third party registered representatives or dealers, subject to negotiation. The Company has not engaged any such party at this time.

For PHL Financial's services, the Administrator (as manager of the Company) will pay to PHL Financial an annual administration fee (the "Dealer Services Fee"), payable monthly in advance. The Dealer Services Fee will: (i) be set annually; (ii) be subject to proration for any period during the term of the Dealer Services Agreement less than one full calendar year; and (iii) be subject to adjustment as necessary to satisfy the amount of certain specified expenses incurred by PHL Financial in connection with performing the services provided under the Dealer Services Agreement. The Dealer Services Fee for the 2024 calendar year is estimated at \$84,000, subject to proration or adjustment as applicable.

No fees are payable on shares issued under the DRIP.

The Company is a "connected issuer" and a "related issuer" of PHL Financial, as such terms are defined in NI 33-105. The Company has determined that it is a connected issuer and a related issuer of PHL Financial by virtue of PHL Financial's role as an exempt market dealer engaged to sell the Class A Shares and based on the fact that the Company and PHL Financial have common securityholders, directors and officers. See "Risk Factors – Conflicts of Interest".

## **RISK FACTORS**

**An investment in the Company involves significant risks. In addition to the other information presented in this Memorandum, the following risk factors should be given special consideration when evaluating an investment in any of our securities. The purchase of Class A Shares involves a number of risk factors and is suitable only for Subscribers who are aware of the risks inherent in the real estate industry and who have the ability and willingness to accept the risk of loss of their invested capital and who have no immediate need for liquidity. There is no assurance of any return on a Subscriber's investment. The risk factors outlined below are not a definitive list of all risk factors associated with an investment in the Company.**

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

### **Investment Risk**

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

#### ***Speculative Investment***

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

#### ***No Market for Class A Shares***

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

#### ***Return on Investment***

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

### ***No Guaranteed Dividends***

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

### ***Prospectus Exemption***

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

### ***The Class A Shares are not Insured***

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

### ***Redemption Liquidity***

The Class A Shares are redeemable, meaning that Subscribers have the right to require the Company to redeem them, upon appropriate advance notice from the Subscriber to the Company. See "Terms of Securities".

The Company gives no assurance that any Subscriber will be able to redeem any or all of their Class A Shares at any time. Redemption of the Class A Shares is subject to certain conditions and limitations, including, among other things, the Company having access to sufficient cash or other liquid assets and being in compliance with applicable corporate and securities legislation, and the terms set out in the Company's Articles, as described in this Memorandum under the heading "Terms of Securities", all as determined solely by the Company. Redemption of the Class A Shares is also subject to the discretion of the Directors to act in the best interests of the MIC under the Tax Act. Accordingly, this investment is unsuitable for those prospective Subscribers who may require liquidity.

### ***Absence of Voting Rights***

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

In assessing the risks and rewards of an investment in Class A Shares, potential Subscribers should appreciate that they are relying solely on the good faith, judgment and ability of the directors, officers and employees of the Company and the Administrator to make appropriate decisions with respect to the management of the Company, and that they will be bound by the decisions of the Company's and the Administrator's directors, officers and employees. It would be inappropriate for Subscribers unwilling to rely on these individuals to this extent to purchase Class A Shares.



***Lack of Separate Legal Counsel***

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

***No Regulatory Review of Memorandum***

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

***Issuer Risk***

Risks that are specific to the Company include the following:

***MIC Tax Designation***

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

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

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

***Tax Matters and Changes in Legislation***

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

***Dilution***

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

result in a dilution of the interest of the Class A Shareholders in the Company and the income or loss from the Company.

### ***Reliance on the Administrator and PHL Financial***

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

In accordance with the terms of the Dealer Services Agreement, PHL Financial has significant responsibility for assisting the Company in selling the Class A Shares. No third party registered dealer has been engaged by the Company or the Administrator to sell Class A Shares. Any inability of PHL Financial to perform competently or on a timely basis could negatively affect the Company.

Each of the Administrative and Services Agreement and Dealer Services Agreement may be terminated in various circumstances, including by the Administrator or PHL Financial, as applicable, upon the requisite prior written notice to the other parties as provided for in each agreement. There is no assurance that the Administrator or PHL Financial will continue to provide services to the Company.

### ***Cyber Security***

The information and technology systems of the Company, the Administrator and PHL Financial may be vulnerable to damage or interruption from computer viruses, network failures, computer and telecommunication failures, infiltration by unauthorized persons and security breaches, usage errors by their respective professionals, power outages and catastrophic events such as fires, tornadoes, floods, hurricanes and earthquakes. Although the Company has implemented, and the Administrator and PHL Financial may maintain, various measures to manage risks relating to these types of events, if these systems are compromised, become inoperable for extended periods of time or cease to function properly, the Company, the Administrator or PHL Financial may have to make a significant investment to fix or replace them. The failure of these systems and/or of disaster recovery plans for any reason could cause significant interruptions in the Company's, the Administrator's or PHL Financial's, as applicable, operations and result in a failure to maintain the security, confidentiality or privacy of sensitive data, including personal information relating to investors (and the beneficial owners of investors). Such a failure could harm the Company's, the Administrator's or PHL Financial's reputation, subject any such entity and their respective affiliates to legal claims and otherwise affect their business and financial performance. Furthermore, the Company cannot control the cyber security plans and systems of the Administrator, PHL Financial and service providers.

### ***Key Personnel***

The operations of the Company, the Administrator and PHL Financial are highly dependent upon the continued support and participation of their key personnel. There is no certainty that the persons who currently comprise the Directors and officers of the Company or the persons who are currently directors, officers or employees of the Administrator or PHL Financial will continue to be available to the Company for the entire period during which it requires the provision of their services. The loss of their services may materially affect the timing or the ability of the Company to implement its business plan.

The Company's, the Administrator's and PHL Financial's management teams consist of several key personnel. In order to manage the Company, the Administrator or PHL Financial successfully in the future

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

### ***Conflicts of Interest***

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

As certain of the Company's Directors and officers are also directors and officers of the Administrator and PHL Financial, and certain of the Company's Directors and officers are also indirect shareholders of each of the Administrator and PHL Financial, there may be conflicts of interest if the interests of these companies are inconsistent. Although the Administrator and PHL Financial will have various obligations to the Company, situations may arise where the interests of the directors, officers, employees and shareholders of the Administrator (being the promoter of the Company) and PHL Financial (being the selling agent of the Company) could conflict with the interests of the Company. Additionally, the employees, directors and officers of the Administrator or PHL Financial may invest their own money in the Company and may, from time to time, have substantial holdings in the Company.

All decisions to be made by the Directors and officers of the Company involving the Company are required by law to be made in accordance with their duties and obligations to act honestly and in good faith with a view to the best interests of the Company. In addition, those Directors and officers are required to declare their interests in, and such Directors are required to refrain from voting on, any matter in which they may have a material conflict of interest. Provided that they so act, interested Directors will not be required to account to the Company for profits earned by such other entities.

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

### ***Administrator***

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

The Administrator also provides mortgage administration and other ancillary services to MLC, which is a MIC and an affiliate of the Company. As a result of the different investment strategies of MLC and the Company, however, it is intended that the Company's investment strategy will complement, and not compete with, that of MLC in respect of mortgage investment opportunities. Specifically, the Company intends to finance mortgage loans having a higher loan-to-value ratio outside MLC's target investment strategy and intends to finance mortgage investment opportunities behind MLC or third-party conventional lenders.

The Administrator has conflicts of interest relating to the Company as a result of the fact that the economic success of the Administrator is tied solely to the management and administration of related

parties and its only source of revenue is the Administration Fee from such related parties and which is not tied to the financial performance of such entities.

The Company is entitled to terminate or vary the terms of the Administrative and Services Agreement. Due to the common mind and management of the Company and the Administrator, it may be difficult for some of the Directors of the Company to exercise independent judgment about this and other matters.

#### *PHL Financial*

The Company is a "connected issuer" and a "related issuer" of PHL Financial, as such terms are defined in NI 33-105. The Company has determined that it is a connected issuer and a related issuer of PHL Financial by virtue of PHL Financial's role as an exempt market dealer engaged to sell Class A Shares and based on the fact that PHL Financial and the Company have common securityholders, directors and officers. Steven Ponte and Parminder Purewall are directors and officers of the Company, the Administrator and PHL Financial. Mr. Ponte and Mr. Purewall each directly or indirectly hold 9.1% of the voting securities of the Company and 50% of the voting securities of each of the Administrator and PHL Financial. PHL Financial is considered a "captive dealer" as defined by CSA Staff Notice 31-343 – *Conflicts of Interest in Distributing Securities of Related or Connected Issuers* because it solely or primarily distributes securities of related or connected issuers.

PHL Financial's relationship with the Company and the Administrator may cause PHL Financial to perform due diligence on the Class A Shares with a less independent view, and PHL Financial may be considered to have an added incentive to sell Class A Shares. The judgement of PHL Financial's dealing representatives, management and supervisory staff may be considered to be affected by these relationships. In light of the conflicts of interest, PHL Financial has adopted policies and procedures for assessing a purchase as suitable for a client and for identifying and responding to conflicts of interest by avoiding, controlling or disclosing conflicts of interest. Additionally, conflicts of interest between PHL Financial and the Company are mitigated in that PHL Financial does not receive a fee, commission or other compensation for capital raised on behalf of the Company.

PHL Financial also acts as the agent in respect of offerings of securities by MLC, which is an affiliate of the Company and a MIC also managed by the Administrator. However, PHL Financial has agreed to use commercially reasonable efforts to perform its duties and responsibilities under the Dealer Services Agreement and in compliance with applicable securities laws.

As disclosed in this Memorandum, the subscription proceeds from the Offering will not be applied for the benefit of PHL Financial or its related issuers.

#### ***Access to Client Assets***

Due to the common mind and management of the Company, the Administrator and PHL Financial, and the fact that certain registered personnel of PHL Financial are authorized signatories of the Administrator and the Company, certain of PHL Financial's registered personnel have access to client assets. Specifically, certain of PHL Financial's registered personnel have or will have access to client cash in the bank accounts of the Company, to the books and records of the Company's securityholders, and to the Company's mortgage investments. Granting PHL Financial access to the Company's shareholders' assets, even in limited circumstances, exposes our shareholders to potential risk of loss: (i) if there is a breakdown in PHL Financial's information technology systems; or (ii) due to fraud, willful or reckless misconduct, negligence, or error of PHL Financial's personnel who have access. To reduce the risk of loss, PHL Financial provides disclosure to clients with respect to such risk and the Administrator and PHL Financial have strict

operational controls. In addition, PHL Financial is required under securities laws to insure against the risk of loss from any access PHL Financial may have to your assets.

### ***Future Operations and Possible Need for Additional Funds***

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

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

### **Industry Risk**

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

#### ***Insurance***

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

#### ***Priority***

Financial charges for other financing funded by conventional third party lenders may rank in priority to the mortgages registered in favour of the Company. Any subordinate financing which may be carried on by the Company is generally considered a higher risk than primary financing. Mortgages will be secured by a charge which is in a first or subsequent-ranking position upon or in the underlying real estate.

When a charge on a real property is in a position other than first-ranking on a real property, it is possible for the holder of a prior charge on the real property, if the borrower is in default under the terms of its obligations to such holder, to take a number of actions against the borrower and ultimately against the real property in order to realize the security given for his loan. Such actions may include a foreclosure action, or an action forcing the real property to be sold. A foreclosure action may have the ultimate effect of depriving any person having other than a first-ranking charge the security of the real property. If an action is taken to sell the real property and sufficient proceeds are not realized from such sale to pay off all creditors who have prior charges on the property, the holder of a subsequent charge may lose his investment or part thereof to the extent of such deficiency, unless he can otherwise recover such deficiency from other property owned by the debtor. In the event of default by the mortgagor under any prior financial charge, the Company may not recover any or all of the monies advanced.

### ***Senior Lender Market***

Investor returns will be driven not only by deal pricing and risk parameters but by active management of the Company's portfolio of mortgage investments (the "Invested Mortgage Portfolio"). Portfolio management strategies are dependent on institutional lenders continuing to provide capital at traditional levels for institutional quality product. A change in the pricing and or availability of this capital may limit the ability of the Company to generate yields greater than those generated by individual loans.

### ***Default***

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

### ***No Guaranteed Returns***

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

### ***Renewal of Mortgages***

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

### ***Nature of Mortgage Backed Investments***

Investments in mortgages are affected by general economic conditions, local real estate markets, demand for leased premises, fluctuation in occupancy rates and operating expenses, and various other factors.

The value of a real estate property may ultimately depend on the credit and financial stability of the tenants. Investments in mortgages are relatively illiquid. Such illiquidity will tend to limit the Company's ability to change its portfolio promptly in response to changing economic or investment conditions. Investments in mortgages on residential real property projects under development may be riskier than investments in mortgages on already constructed residential real property developments.

### ***Composition of the Invested Mortgage Portfolio***

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

### ***Yield***

The yields on real estate investments, including mortgages, depend on many factors including economic conditions and prevailing interest rates, the level of risk assumed, conditions in the real estate industry, opportunities for other types of investments, legislation, government regulation and tax laws. The Company cannot predict the effect that such factors will have on its operations.

### ***Borrowing***

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

### ***The Company May Invest in Second Mortgages***

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

### ***Competition***

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

Existing competitors may have greater financial, managerial and technical resources, and name recognition than the Company. Competitors may reduce the interest rates they charge, resulting in a

reduction of the Company's share of the market, reduced interest rates on loans and reduced profit margins.

### ***Potential Liability Under Environmental Protection Legislation***

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

### **Loan Agreement**

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

On September 30, 2022, the Company entered into a Loan Agreement, as subsequently amended. Pursuant to the Loan Agreement, the Company has access to \$20,000,000 at an interest rate of Prime plus 1.25% per annum.

The amount of credit available, through the Credit Facilities, is based on margined amounts from the Company's underlying Invested Mortgage Portfolio. The main purpose of the Credit Facilities is to assist the Company to better manage the timing difference between the Company's cash flows in order to maintain efficient capital deployment through new capital raises, borrower payouts/paydowns, redemptions and new Mortgage investments, in addition to increasing returns through leverage.

Additional provisions of the Loan Agreement include the following:

Repayment of outstanding balances of the Credit Facilities is due on demand, and payment of interest will be due monthly.

The Company is restricted from assigning or encumbering its rights and obligations under the Credit Facilities or the Loan Agreement without the prior written consent of the Agent and each Lender.

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

- (a) an interest coverage ratio of not less than 3.00:1.00, tested at certain intervals identified in the Loan Agreement;
- (b) a tangible net worth of not less than \$40,000,000, tested at certain intervals identified in the Loan Agreement;
- (c) a debt to tangible worth ratio of not greater than 0.50:1.00, stepping down to 0.35:1 as of Fiscal year ended 2023 and thereafter. tested at certain intervals identified in the Loan Agreement;

The Credit Facilities are secured by (i) Loan Agreement executed by the Borrower; (ii) General Security Agreement providing a perfected first security interest in all present and after acquired property of the Borrower, to be registered in all appropriate jurisdictions; (iii) Revolving Credit Agreement in the amount of \$20,000,000; (iv) General Assignment of Mortgages Receivable by the Borrower to be registered in all appropriate jurisdictions; (v) General Acknowledgement from MortEq Lending Corp., PHL Capital Corp., PHL Financial Group, or any related party deemed applicable by the Bank's counsel, of the Bank's security



interest in the Borrower; (vi) Acceptance/Waiver of Creditor Life Insurance covering the life of principals of the Borrower; (vii) Acknowledged Assignment of insurance coverage for full insurable values of all assets of the Borrower taken as security by the Bank with first loss payable to the Bank by way of standard mortgage clause. Policies covering all commercial, residential and multi-family residential properties located on Vancouver Island and B.C. Lower Mainland must include specifically scheduled earthquake coverage; (viii) Such additional securities as the Bank may deem necessary or advisable for the purpose of obtaining and perfecting the foregoing security.

The Company provides certain customary indemnities to the Agent and the Lenders and certain related parties.

Copies of all contracts referred to above may be inspected during normal business hours at the principal office of the Administrator, Suite 316-5455 152nd Street, Surrey, British Columbia, V3S 5A5.

## **REPORTING OBLIGATIONS**

The Company is not a "reporting issuer" as that term is defined in applicable securities legislation, nor does it currently intend to become a reporting issuer and therefore obligations of the Company to publicly disclose documents is limited. However, Class A Shareholders will receive quarterly statements reflecting their investment in the Company and quarterly dividend cheques, if applicable, and will receive yearly T5 tax returns for cash investment income.

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

Financial Statements of

**OAKHILL LENDING CORP.**

And Independent Auditor's Report thereon

Year ended August 31, 2024



**KPMG LLP**

PO Box 10426 777 Dunsmuir Street  
Vancouver BC V7Y 1K3  
Canada  
Telephone 604 691 3000  
Fax 604 691 3031

## **INDEPENDENT AUDITOR'S REPORT**

To the Shareholders of Oakhill Lending Corp.

### ***Opinion***

We have audited the financial statements of Oakhill Lending Corp. (the "Entity"), which comprise:

- the statement of financial position as at August 31, 2024
- the statement of income and comprehensive income for the year then ended
- the statement of changes in shareholders' equity for the year then ended
- the statement of cash flows for the year then ended
- and notes to the financial statements, including a summary of material accounting policies (hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at August 31, 2024, and its financial performance and its cash flows for year then ended in accordance with IFRS Accounting Standards.

### ***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 "***Auditor's Responsibilities for the Audit of the Financial Statements***" section of our auditor's report.

We are independent of the Entity 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.

### ***Other Information***

Management is responsible for the other information. Other information comprises:

- the information, other than the financial statements and the auditor's report thereon, included in Management's Discussion & Analysis document.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.



We obtained the information included in Management's Discussion & Analysis as at the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditor's report.

We have nothing to report in this regard.

### ***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, 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 Entity'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 Entity or to cease operations, or has no realistic alternative but to do so.

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

### ***Auditor's 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 auditor's 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 the 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.

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 Entity'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 Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's 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 auditor's report. However, future events or conditions may cause the Entity 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.
- 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.

A handwritten signature in black ink that reads 'KPMG LLP'. The signature is written in a cursive, flowing style. Below the signature is a horizontal line that starts under the 'K' and extends to the right, ending under the 'P'.

Chartered Professional Accountants

Vancouver, Canada  
November 4, 2024

# OAKHILL LENDING CORP.

## Statement of Financial Position

August 31, 2024, with comparative information for 2023

	Notes	2024	2023
<b>Assets</b>			
Cash		\$ 498,981	\$ -
Restricted cash	4	200,000	100,000
Account receivable		2,795,886	63,813
Interest receivable		2,612,229	723,159
Mortgages receivable	5	119,510,248	73,658,058
Prepaid expenses and other assets		9,080	12,895
		<b>\$ 125,626,424</b>	<b>\$ 74,557,925</b>
<b>Liabilities and Shareholders' Equity</b>			
Bank indebtedness	6	\$ 2,786,390	\$ 2,831,588
Accounts payable and accrued liabilities	7	363,241	264,199
Deposits	4	200,000	100,000
Unearned revenue		6,157,342	2,120,179
Dividends payable	8	3,484,064	3,809,312
		12,991,037	9,125,278
Redeemable preferred shares	9	112,635,376	65,432,636
		125,626,413	74,557,914
Shareholders' equity:			
Common shares	10	11	11
		<b>\$ 125,626,424</b>	<b>\$ 74,557,925</b>

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

Approved on behalf of the Board:



Director



Director

# OAKHILL LENDING CORP.

## Statement of Income and Comprehensive Income

Year ended August 31, 2024, with comparative information for 2023

	Notes	2024	2023
Interest income		\$ 13,165,992	\$ 7,547,079
Lender fees and other income		1,372,164	904,291
		\$14,538,156	8,451,370
Expenses:			
Management fees	7	1,671,321	1,404,492
Allowance for credit losses	5	1,178,556	49,064
Professional fees		115,436	84,977
Bank charges and interest		95,960	194,393
Other Expense		36,869	17,858
		3,098,142	1,750,784
Net income from operations		11,440,014	6,700,586
Dividends to preferred shareholders	7, 8, 9	11,440,014	6,700,586
Net income and comprehensive income for the year		\$ -	\$ -

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

# OAKHILL LENDING CORP.

## Statement of Changes in Shareholders' Equity

Year ended August 31, 2024 with comparative information for 2023

	Common shares		Retained earnings		Total shareholders' equity
Balance, August 31, 2022	\$	11	\$	-	\$ 11
Net income and comprehensive income for the year		-		-	-
Balance, August 31, 2023		11		-	11
Net income and comprehensive income for the year		-		-	-
Balance, August 31, 2024	\$	11	\$	-	\$ 11

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



# OAKHILL LENDING CORP.

## Statement of Cash Flows

Year ended August 31, 2024, with comparative information for 2023

	2024	2023
Cash flows from operating activities:		
Net income and comprehensive income for the period	\$ -	\$ -
Items not involving cash:		
Amortization of share issuance costs	12,523	6,495
Allowance for credit losses	1,178,556	49,064
Dividends reinvested in redeemable preferred shares	8,870,982	3,798,556
	10,062,061	3,854,115
Change in restricted cash	(100,000)	880,000
Change in interest receivable	(1,889,070)	(107,372)
Change in mortgages receivable	(47,030,744)	(29,224,204)
Change in accounts receivable, prepaid expenses and other assets	(2,728,259)	45,460
Change in accounts payable and accrued liabilities	99,042	155,456
Change in deposits	100,000	(880,000)
Change in unearned revenue	4,037,163	996,052
Change in dividends payable	(325,248)	1,403,160
	(37,775,055)	(22,877,333)
Cash flows from financing activities:		
Net proceeds from line of credit	(45,198)	2,831,588
Issuance of redeemable preferred shares	39,080,592	15,683,249
Redemption of redeemable preferred shares	(731,221)	-
Share issuance costs	(30,137)	(21,700)
	38,274,036	18,493,137
Net increase (decrease) in cash	498,981	(4,384,196)
Cash and cash equivalents, beginning of year	-	4,384,196
Cash and cash equivalents, end of year	\$ 498,981	\$ -

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

# OAKHILL LENDING CORP.

Notes to Financial Statements

Year ended August 31, 2024

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## 1. Reporting entity:

Oakhill Lending Corp. (the "Company") was incorporated under the British Columbia Corporations Act on March 12, 2021. The address of the registered office is 316-5455 152 Street, Surrey, British Columbia V3S 5A5.

The Company makes investments and operates its business at all times in such a manner, as set out in note 3(c), to qualify as a mortgage investment corporation ("MIC") under the provisions of the Income Tax Act (Canada) and, as such, is able to make distributions to its shareholders on a pre-tax basis. The Company derives its earnings from the receipt of mortgage interest and fees associated with the setup, renewal and discharge of mortgages.

These financial statements were authorized for issuance by the Board of Directors of the Company on November 4, 2024.

## 2. Basis of presentation:

### (a) Statement of compliance:

The financial statements have been prepared in accordance with IFRS Accounting Standards. The material accounting policies applied in the preparation of the financial statements are set out in note 3.

### (b) Basis of measurement:

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

### (c) Functional and presentation currency:

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

### (d) Use of estimates and judgments:

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

The most significant estimates that the Company is required to make relate to the impairment of mortgages receivable and the measurement of expected credit losses (notes 3(b)(iii) and 5).

# OAKHILL LENDING CORP.

Notes to Financial Statements

Year ended August 31, 2024

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### 3. Material accounting policies:

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Effective September 1 2023, the Company adopted amendments to IAS 1 Presentation of Financial Statements, which require the disclosure of 'material' rather than 'significant' accounting policies. Although the amendments did not result in any changes to the accounting policies themselves, they impacted the accounting policy information disclosed in this note in certain instances.

#### (a) Cash and cash equivalents:

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

#### (b) Financial instruments:

##### (i) Classification and Measurement of Financial Assets:

Financial assets are initially recognized when the Company becomes a party to a contract. On initial recognition, the measurement category is determined, based on: (i) the business model under which the asset is held, and (ii) the contractual cash flow characteristics of the instrument.

The returns earned by the Company on its mortgages receivable are interest rates that are set at levels to provide an acceptable profit margin based on the time value of money and credit risk, although other basic lending risks (for example, the location and quality of the underlying collateral) may also be built-in. There are some factors that give rise to variation in the return on the Company's mortgages such as the time value of money, credit risk and other basic lending risks. Interest rates, or the credit spread for variable rate mortgages, are set for the full term of the loan, which is considered solely payments of principal and interest ("SPPI") because the rate is still based on the time value of money and credit risk. The majority of the mortgages receivable can be prepaid after an initial closed period with no/minimal penalty, subject to the borrower providing advance written notice according to the terms of their mortgage so the return therefore represents SPPI. The Company classifies its financial assets between those to be measured subsequently at fair value (either through other comprehensive income, or through profit or loss), and those to be measured at amortized cost.

Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

# OAKHILL LENDING CORP.

Notes to Financial Statements

Year ended August 31, 2024

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### 3. Material accounting policies (continued):

#### (b) Financial instruments (continued):

##### (i) Classification and Measurement of Financial Assets (continued):

Debt instruments are measured at amortized cost if it meets both of the following conditions and is not designated as at fair value through profit or loss (FVTPL):

- It is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- Its contractual terms give rise on specific dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt investment is measured at fair value through other comprehensive income (FVOCI) if it meets both of the following conditions and is not designated as at FVTPL:

- It is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All financial assets not classified as measured at amortized cost or FVOCI as described above are measured at FVTPL.

Cash and mortgages receivables are classified as financial assets at amortized cost, which is consistent with the Company's business model of holding to collect contractual cash flows and the contractual terms giving rise to solely payments of principal and interest.

Mortgages receivable are subsequently measured at amortized cost using the effective interest rate method. The amortized cost is reduced by expected credit losses. Interest income and provision for mortgage losses are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.

##### (ii) Financial liabilities:

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

# OAKHILL LENDING CORP.

Notes to Financial Statements

Year ended August 31, 2024

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### 3. Material accounting policies (continued):

#### (b) Financial instruments (continued):

##### (iii) Impairment:

Loan commitments and letters of credit (collectively commitments) and mortgages receivable are assessed for impairment at the end of each reporting period using an expected credit loss (ECL) model. The ECL model uses a three-stage impairment approach based on changes in the credit risk of the commitment or mortgage receivable since initial recognition. The three stages are as follows:

Stage 1: commitments and mortgages receivable on initial recognition and existing assets that have not shown a significant increase in credit risk since initial recognition.

Stage 2: commitments and mortgages receivable that have experienced a significant increase in credit risk since initial recognition and up to the date of approval of the financial statements.

Stage 3: impaired commitments and mortgages receivable for which there is objective evidence of impairment at the date of approval of the financial statements.

Credit quality is assessed at each reporting period and results in commitments and mortgages receivable being moved between stages, as necessary. Significant judgement is required when assessing evidence of credit impairment and estimating expected credit losses. For commitments and mortgages receivable, the Company considers a number of past events, current conditions and forward-looking information when assessing if there has been a significant increase or subsequent decrease in credit risk. There is a presumption in IFRS 9 that credit risk has increased significantly once payments are 30 days past due. However, the Company's historical experience is that mortgages can become 30 days past due, but be brought up to date by the borrower, therefore another additional risk factor also needs to be identified for the mortgage to move to Stage 2. If the mortgage is over 60 days in arrears in terms of interest payments or past maturity date, the mortgage moves to stage 2. For mortgages that are not 60 days past due, a significant increase in credit risk may still be evidenced by the presence of one or more additional risk factors. For all other mortgages receivable, a significant increase in credit risk is considered to have occurred if payments are greater than 60 days past due or if one or more additional risk factors is present.

The additional risk factors used in assessing credit risk include:

- Changes in the financial condition of the borrower;
- Responsiveness of the borrower;
- Other borrower specific information that may be available, without consideration of collateral;
- Current economic conditions: interest rates, housing prices, real estate market statistics and employment statistics; and
- Supportable forward-looking information: macro-economic factors, such as forecast real estate values and interest rate forecasts.

# OAKHILL LENDING CORP.

Notes to Financial Statements

Year ended August 31, 2024

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### 3. Material accounting policies (continued):

#### (b) Financial instruments (continued):

##### (iii) Impairment (continued):

Determining whether there has been a significant increase in credit risk since initial recognition, or a subsequent reduction in credit risk back to the level at initial recognition, requires the exercise of significant judgement. The Company considers a commitment or mortgage receivable to be impaired when there is objective evidence that one or more events have occurred that have an unfavorable impact on estimated future cash flows such that there is no longer reasonable assurance as to the timely collection of the full amount of principal and interest.

The Company considers a commitment or mortgage receivable to be in default if mortgages are in foreclosure (either past due in interest payments or past maturity date) and there has been no cooperation from the borrower. The Company evaluates no correspondence or cooperation from the borrower as a threshold of default. Additionally, when there is tangible evidence that there has been a deterioration of credit quality of the borrower whereby the Company can no longer have reasonable assurance of timely collection of the full principal and interest and if the Company has commenced foreclosure proceedings available under its contractual agreement. Once the loan is in foreclosure; the significant increase in credit risk is classified as stage 3.

The gross carrying amount of mortgages receivable are written off (either partially or in full) to the extent that there is no reasonable prospect of recovery. This typically occurs when the company assesses that the debtor lacks assets or income streams capable of covering the outstanding amounts. Nevertheless, written-off mortgages receivable may still undergo enforcement actions as part of the company's efforts to collect the outstanding amounts in accordance with established recovery procedures.

#### (c) Income taxes:

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

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

# OAKHILL LENDING CORP.

Notes to Financial Statements

Year ended August 31, 2024

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### 3. Material accounting policies (continued):

(d) Redeemable preferred shares:

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

(e) Common shares:

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

(f) Revenue recognition:

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

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

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

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

(g) Provisions:

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

# OAKHILL LENDING CORP.

## Notes to Financial Statements

Year ended August 31, 2024

#### 4. Restricted cash and deposits:

Restricted cash represents amounts received in advance for purchasers of Class A preferred shares in respect of the September 1, 2024 offering. The corresponding liability of the proceeds received is included in deposits. Subsequent to the reporting date, \$200,000 (2023 - \$100,000) preferred shares were issued in settlement of the restricted cash.

#### 5. Mortgages receivable:

(a) Mortgages receivable:

	2024	2023
Residential mortgages	\$ 96,949,117	\$ 57,678,080
Commercial mortgages	23,866,833	16,107,125
Allowance for credit losses	(1,305,702)	(127,147)
	<u>\$ 119,510,248</u>	<u>\$ 73,658,058</u>

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

Conventional non-first mortgages are loans with specific charges not registered in first priority and with loan-to-value ratios not exceeding 85%. The portfolio of mortgages receivable earn interest at a weighted average rate of 13.77% (2023 - 13.61%).

As at August 31, 2024, 19 (2023 - 17) mortgages with an aggregate principal of \$5,113,830 were past due. (2023- \$3,358,178).

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

	2024	2023
30 days or less	\$ 392,000	\$ 314,368
31 to 60 days	1,099,000	1,000,000
60 to 90 days	200,000	-
Over 90 days	3,422,830	2,043,810
	<u>\$ 5,113,830</u>	<u>\$ 3,358,178</u>

As of the date of these financial statements, \$895,547 of past due mortgages have been repaid, \$592,000 of past due mortgages have been renewed.

As at August 31, 2024, \$4,234,830 (2023 - \$2,665,810) of past due mortgages were included in Stage 3. Subsequent to year end \$895,547 of the mortgages in Stage 3 have been repaid.



# OAKHILL LENDING CORP.

Notes to Financial Statements

Year ended August 31, 2024

## 5. Mortgages receivable (continued):

(b) Provision for mortgage losses:

	2024				
	Stage 1	Stage 2	Stage 3	Unadvanced Loans	Total
Mortgages receivable	\$ 115,839,620	\$ 515,000	\$ 4,461,330	\$ -	\$ 120,815,950
Provisions for mortgage losses	(199,927)	(1,582)	(1,104,193)	-	(1,305,702)
Mortgages receivable	\$ 115,639,693	\$ 513,418	\$ 3,357,137	\$ -	\$ 119,510,248

Continuity of the provision for mortgage losses:

	2024				
	Stage 1	Stage 2	Stage 3	Unadvanced Loans	Total
Balance, September 1, 2023	\$ 127,147	\$ -	\$ -	\$ -	\$ 127,147
Transfers to (from) Stage 1	(5,785)	444	5,341	-	-
Transfers to (from) Stage 2	-	-	-	-	-
Transfers to (from) Stage 3	-	-	-	-	-
Net remeasurement	(4,949)	513	1,098,852	-	1,094,416
Mortgage advances	163,496	625	-	-	164,121
Mortgage repayments	(79,982)	-	-	-	(79,982)
Balance, August 31, 2024	\$ 199,927	\$ 1,582	\$ 1,104,193	\$ -	\$ 1,305,702

	2023				
	Stage 1	Stage 2	Stage 3	Unadvanced Loans	Total
Mortgages receivable	\$ 70,730,395	\$ -	\$ 3,054,810	\$ -	\$ 73,785,205
Provisions for mortgage losses	(127,147)	-	-	-	(127,147)
Mortgages receivable	\$ 70,603,248	\$ -	\$ 3,054,810	\$ -	\$ 73,658,058

Continuity of the provision for mortgage losses:

	2023				
	Stage 1	Stage 2	Stage 3	Unadvanced Loans	Total
Balance, September 1, 2022	\$ 43,892	\$ -	\$ 33,500	\$ 691	\$ 78,083
Transfers to (from) Stage 1	(3,055)	-	3,055	-	-
Transfers to (from) Stage 2	-	-	-	-	-
Transfers to (from) Stage 3	-	-	-	-	-
Net remeasurement	6,844	-	(3,055)	(691)	3,098
Mortgage advances	107,534	-	-	-	107,534
Mortgage repayments	(28,068)	-	(33,500)	-	(61,568)
Balance, August 31, 2023	\$ 127,147	\$ -	\$ -	\$ -	\$ 127,147

# OAKHILL LENDING CORP.

Notes to Financial Statements

Year ended August 31, 2024

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## 5. Mortgages receivable (continued):

### (b) Provision for mortgage losses (continued):

The Stage 3 loans are assessed individually and their expected current book value (mortgage exposure) is evaluated against the current fair market value of the associated property. As at August 31, 2024 credit losses of \$1,104,193 are anticipated on the Stage 3 loans.

During the period ended August 31, 2024, the Company identified Nil (2023 - nil) irrecoverable amounts for which a write-off was necessary.

## 6. Bank indebtedness:

The Company has an operating line of credit available in the amount of \$10,000,000 (2023 - \$10,000,000) at a rate of prime plus 1.25% (2023 - 1.25%) per annum. Balances outstanding are due on demand. As at August 31, 2024, the balance outstanding on the line of credit was \$2,786,390 (2023 - \$2,831,588).

The operating line of credit is secured by a general security agreement on any current and future property of the Company, a general assignment of interest and principal payments due on mortgages receivable, a general assignment of mortgages receivable and an assignment of creditor and general insurance proceeds. The Company's interest coverage ratio under the agreement may not exceed a ratio of less than 3.00:1.00 at the end of each fiscal year. The Company must also maintain a tangible net worth of no less than \$40,000,000, a debt-to-equity ratio no greater than 0.35:1.00. The Company was in compliance with all debt covenants as at August 31, 2024.

## 7. Related party transactions:

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

(a) During the period, the Company incurred management fees of \$1,671,321 (2023 - \$1,404,492) to a company in which two directors, who are also common shareholders, hold a controlling interest. As at August 31, 2024, \$266,984 (2023 - \$173,922.64) is due to this related Company the amounts are included in accounts payable and accrued liabilities. As at August 31, 2024, \$815,000 is due from this related Company the amounts are included in accounts receivable.

(b) Directors, close-related family members and companies under common control with common shareholders, who own Class A preferred shares in the Company, received \$668,792 (2023 - \$378,727) in dividend income during the year. These dividends were paid in the normal course of business consistent with all Class A preferred shares.

There are no commitments or guarantees attributed to the Company from the related parties at August 31, 2024.

# OAKHILL LENDING CORP.

Notes to Financial Statements

Year ended August 31, 2024

## 8. Dividends:

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

During the year, the Company declared dividends of \$11,440,013 (2023 - \$6,700,586), which represents a dividend of \$0.12 per share (2023 - \$0.12 per share) based on a time-weighted average number of shares issued and outstanding. Of these, \$8,870,982 (2023 - \$3,798,556) were reinvested in Class A preferred shares during the year and as at August 31, 2024, \$3,484,064 (2023 - \$3,809,312) is payable to investors.

## 9. Redeemable preferred shares:

The Company has authorized unlimited Class A, non-voting, participating, redeemable preferred shares. At period-end the issued and outstanding shares were \$112,635,376 (2023 - \$65,432,636).

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

	2024	2023
Opening preferred share liability	\$ 65,432,636	\$ 45,966,036
Subscriptions - cash	39,080,592	15,683,249
Subscriptions - dividend reinvestments	8,870,982	3,798,556
Redemptions	(731,221)	-
Adjustment for share issuance costs	(17,613)	(15,205)
	\$ 112,635,376	\$ 65,432,636

As at August 31, 2024, \$4,732,943 (2023 - \$4,092,529) of the Class A preferred shares are held by related parties of the Company at a cost of \$1 per share.

## 10. Common shares:

The Company's common shares consist of the following:

Authorized:

Unlimited common shares without par value

	2024	2023
Issued:		
11 common shares	\$ 11	\$ 11

# OAKHILL LENDING CORP.

## Notes to Financial Statements

Year ended August 31, 2024

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### 11. Financial instruments:

#### (a) Fair value measurement:

The carrying values of cash and cash equivalents, restricted cash, accounts receivable, interest receivable, mortgages receivable, accounts payable and accrued liabilities and dividends payable approximate their fair values due to the short-term nature of these instruments.

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

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

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

As at August 31, 2024, the Company had no financial instruments measured at fair value.

#### (b) Financial risk management:

The Company is exposed to various risks of holding financial instruments. These risks have been categorized as interest rate risk, credit risk and liquidity risk. The following analysis enables users to evaluate the nature and extent of the risks as at August 31, 2024:

##### (i) Interest rate risk:

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

An increase of 50 basis points (0.5%) in interest rates, sustained throughout the year, would increase the interest income by 85,000 for year ended August 31, 2024. A decrease of 50 basis points (0.5%) in interest rates, sustained throughout the year, would decrease the interest income by 8,000 for year ended August 31, 2024.

# OAKHILL LENDING CORP.

Notes to Financial Statements

Year ended August 31, 2024

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## 11. Financial instruments (continued):

### (b) Financial risk management (continued):

#### (i) Interest rate risk (continued):

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

#### (ii) Credit risk:

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

#### (iii) Liquidity risk:

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

## 12. Capital management:

The Company's objectives when managing capital are to:

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

# OAKHILL LENDING CORP.

Notes to Financial Statements

Year ended August 31, 2024

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## **12. Capital management (continued):**

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

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

The Company's financial strategy and objectives are reviewed annually.