

*This Offering Memorandum is confidential. By their acceptance hereof, prospective investors agree that they will not transmit, reproduce or make available to anyone this Offering Memorandum or any information contained herein.*

Form 45-106F2

OFFERING MEMORANDUM FOR NON-QUALIFYING ISSUERS

---

\$100 per Class B Share

---

**Date:** December 31, 2014

**The Issuer**

**Name:** **AP Capital Mortgage Investment Corp.**  
(the “Corporation”)  
**Head office:** 128 West Pender Street, Suite 1601, Vancouver BC V6B 1R8  
Telephone: (778) 328-7401  
E-mail address: admin@apcapital.ca  
Fax: (604) 608-9070  
**Currently listed or quoted?** No. **These securities do not trade on any exchange or market.**  
**Reporting Issuer?** No.  
**SEDAR filer?** No.

**The Offering**

**Securities offered:** Class B Shares  
**Price per security:** \$100 per Class B Share  
**Minimum offering:** There is no Minimum Offering. You may be the only purchaser.  
**Maximum offering:** \$50,000,000 (500,000 Class B Shares)  
**Minimum subscription amount:** Investors must subscribe for a minimum of 100 Class B Shares (\$10,000)  
**Payment terms:** A certified cheque or bank draft payable to “AP Capital Mortgage Investment Corp.” See Item 5.2: “Subscription Procedure”.  
**Proposed Closing Date:** The Initial Closing is anticipated to occur on or about January 15, 2015. Subsequent closings are expected to occur on the 15th and 30th day of each month thereafter, or at such time or times as the Corporation or the Manager considers appropriate.  
**Income tax consequences:** There are important tax consequences to these securities. See Item 6 - “Income Tax Consequences and RRSP Eligibility”.  
**Selling Agent:** The Corporation may pay selling commissions or fees up to 5% of the funds raised and 1% annually as a trailing commission. See Item 7 - “Compensation Paid to Sellers and Finders”.

**Resale Restrictions**

You will be restricted from selling your securities for an indefinite period. See Item 10 - “Resale Restrictions”. However, Class B Shares are redeemable in certain circumstances. See Item 5.1.

**Purchaser’s rights**

You have two (2) business days to cancel your agreement to purchase these securities. If there is a misrepresentation in this offering memorandum, you have the right to sue either for damages or to cancel the agreement. See Item 11 - : “Purchaser’s Rights”.

**No securities regulatory authority has assessed the merits of these securities or reviewed this offering memorandum. Any representation to the contrary is an offence. This is a risky investment. See Item 8 - : “Risk Factors”.**

The Corporation conditionally offers the Class B Shares for sale by way of private placement to qualified investors who are residents of the Provinces of British Columbia, Alberta, Saskatchewan, Manitoba and Ontario. Subscriptions will be received if, as and when accepted, subject to prior sale and satisfaction of the conditions set forth under “Subscription Procedure” and to the right of the Corporation to close the subscription books at any time without notice. Closings will be held from time to time as determined by the Corporation. See “Prior Sales” and “Subscription Procedure”.

No action has been or will be taken to permit a public offering of the Class B Shares in any jurisdiction where action would be required to be taken for such purpose. Accordingly, the distribution or circulation of this Offering Memorandum and the offering and sale of the Class B Shares may be restricted by law in certain jurisdictions. This Offering Memorandum does not constitute, and may not be used for or in conjunction with, an offer or solicitation by anyone in any jurisdiction or in any circumstances in which such offer or solicitation is not authorized or to any person to whom it is unlawful to make such an offer or solicitation. Persons into whose possession this Offering Memorandum may come are directed to inform themselves of and observe such restrictions and all legal requirements of their respective jurisdictions of residence in respect of the acquisition, holding and disposition of the Class B Shares.

**Prospective investors should thoroughly review this Offering Memorandum and are advised to consult with their own legal, investment, accounting, and tax advisors concerning this investment.**

The Class B Shares will be issued only on the basis of information contained in this Offering Memorandum and provided by the Corporation, and no other information or representation has been authorized nor may be relied upon as having been authorized by the Corporation. Any subscription for the Class B Shares made by any person on the basis of statements or representations not contained in this Offering Memorandum or so provided, or inconsistent with the information contained herein or therein, shall be solely at the risk of such person. Neither the delivery of this Offering Memorandum at any time nor any sale of any of the Class B Shares made hereunder shall, under any circumstances, constitute a representation or create any implication that there has been no change in the business and affairs of the Corporation since the date hereof or that the information contained herein is correct as of any time subsequent to the date hereof.

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

**TABLE OF CONTENTS**

**SUMMARY..... 1**

**DEFINITIONS..... 1**

**ITEM 1 - USE OF AVAILABLE FUNDS..... 3**

**ITEM 2 - BUSINESS OF AP CAPITAL MORTGAGE INVESTMENT CORP..... 3**

**ITEM 3 - DIRECTORS, MANAGEMENT, PROMOTERS AND PRINCIPAL HOLDERS ..... 11**

**ITEM 4 - CAPITAL STRUCTURE..... 13**

**ITEM 5 - SECURITIES OFFERED..... 14**

**ITEM 6 - INCOME TAX CONSEQUENCES AND RRSP ELIGIBILITY ..... 17**

**ITEM 7 - COMPENSATION PAID TO SELLERS AND FINDERS ..... 18**

**ITEM 8 - RISK FACTORS ..... 18**

**ITEM 9 - REPORTING OBLIGATIONS..... 21**

**ITEM 10 - RESALE RESTRICTIONS ..... 21**

**ITEM 11 - PURCHASER’S RIGHTS ..... 22**

**ITEM 12 - FINANCIAL STATEMENTS ..... 23**

**ITEM 13 - DATE AND CERTIFICATE..... 25**

**0 – FINANCIAL STATEMENTS**

## SUMMARY

*This is a summary of the more detailed information appearing elsewhere in this Offering Memorandum and is qualified by such information.*

- Offering:** 500,000 Class B Shares for gross proceeds of \$50,000,000
- Price:** \$100 per Class B Share
- Subscription Procedure:** A fully executed Subscription Agreement must be delivered with a bank draft or certified cheque for the full subscription price payable to the Corporation. See Item 5.2 – “Subscription Procedure”.
- Closings:** The Initial Closing is anticipated to occur on or about January 15, 2015. Subsequent closings are expected to occur on the 15th and 30th day of each month thereafter, or at such time or times as the Corporation or the Manager considers appropriate.
- The Corporation:** The Corporation was incorporated on March 27, 2007 under the laws of the Province of British Columbia under the name of Alta Pacific Mortgage Investment Corp. and changed its name to AP Capital Mortgage Investment Corp., effective December 4, 2015 See Item 2 - : “Business of AP Capital Mortgage Investment Corp.”
- Principal Business:** The primary business objective of the Corporation is to originate and manage, for long term income generation, a portfolio of first and second mortgages or interests in mortgages underwritten on residential and commercial properties situated in Canada.
- Subject to any restrictions under the Tax Act that are applicable to mortgage investment corporations, the Corporation may make other permitted investments over time. See Item 2 - : “Business of AP Capital Mortgage Investment Corp.”
- Use of Available Funds:** The net proceeds of the Offering will be principally used to invest in loans secured by mortgages in accordance with the Corporation’s investment practices and restrictions. See Item 1 - : “Use of Net Proceeds”, Item 2 - : “Business of AP Capital Mortgage Investment Corp.”, and Item 8 - : “Risk Factors”.
- Manager:** The Corporation does not have and does not expect to have any employees. In order to obtain ongoing administrative and management services, the Corporation has entered into the Management Contract (as defined herein) with AP Capital MIC Management Corp., a company incorporated under the laws of the British Columbia (the “**Manager**”) and an affiliate of the Corporation, which will be responsible for managing and overseeing the Corporation’s business and affairs, including day-to-day operations such as managing the Corporation’s loan portfolio. The Manager will also provide administrative services for the Company’s operations.
- In exchange for the management services provided under the Management Contract, the Manager will receive a fee from the Corporation equal to 3.0% per annum of the net assets of the Corporation to be dispersed to the Manager on a monthly basis.

**Risk Factors:**

The Class B Shares offered hereunder must be considered highly speculative. Interested parties should carefully consider the following risk factors:

- (a) the indefinite hold periods on the Class B Shares and the lack of market for the Class B Shares;
- (b) no guaranteed return on invested funds;
- (c) no fixed dividend or redemption of the Class B Shares;
- (d) no significant history of operations or earnings;
- (e) availability of capital funding;
- (f) all real property, including the real property against which the mortgages will be secured, is subject to significant fluctuation in value;
- (g) reliance on a non-arm's length manager to determine mortgage investments;
- (h) changes in income tax laws and government incentive programs; and
- (i) conflicts of interest. See Item 8 - "Risk Factors".

**Directors and Officers  
of the Corporation:**

Bradly Unrau, President, Chief Executive Officer, Chairman and Director.  
Ches Hagen, Vice President and Director.  
Steven Froese, Secretary.  
Dan Weiss, Director.  
See Item 3 - "Directors, Management, Promoters and Principal Holders".

**Investors' Rights:**

Each Investor has certain statutory or contractual rights of rescission, withdrawal and damages. See Item 11 - "Purchaser's Rights".

## DEFINITIONS

The following are definitions of certain terms that appear throughout this Offering Memorandum. Care should be taken to read each term in the context of the particular provision of the Offering Memorandum in which such term is used.

<b>Auditors</b>	means the auditors of the Corporation as elected by the Class A shareholders from time to time, currently KNV Accountants LLP, Chartered Accountants of Vancouver, British Columbia.
<b>BCA</b>	means the <i>Business Corporations Act</i> (British Columbia) as may be amended from time to time.
<b>Class B Shares</b>	means the Class B shares in the capital of the Corporation being offered for sale to the public hereunder.
<b>Commercial Mortgages</b>	means mortgages that are principally secured by land developments or income-producing properties that have retail, commercial, service, office and/or industrial uses.
<b>Closing</b>	means one or more closings of this Offering. The Initial Closing is anticipated to occur on or about January 15, 2015. Subsequent closings are expected to occur on the 15th and 30th day of each month thereafter, or at such time or times as the Corporation considers appropriate.
<b>First Mortgage</b>	means a mortgage having priority over all other security interests registered against the same real property used to secure such mortgage for which the principal amount, at the time of commitment, does not exceed 85% of the appraised value of the underlying real property securing the mortgage as determined by a qualified independent appraiser.
<b>GAAP</b>	means Canadian generally accepted accounting principles.
<b>IFRS</b>	means International Financial Reporting Standards.
<b>Initial Closing</b>	means January 15, 2015 or such other date as the Corporation may determine.
<b>Investors</b>	mean those persons who are considering, or have subscribed for Class B Shares under this Offering.
<b>Management Contract</b>	means the agreement dated December 30, 2014 between the Corporation and AP Capital MIC Management Corporation, respecting the provision of financial management services relating to the mortgage investment portfolio of the Corporation.
<b>Manager</b>	means AP Capital MIC Management Corporation, a British Columbia corporation that is non-arm's length to the Corporation.
<b>Offering</b>	means the offering of 500,000 Class B Shares described herein.
<b>Offering Memorandum Exemption</b>	means the exemption from registration and prospectus requirements listed under section 4.1 of National Instrument 45-106 – Capital Raising Exemptions.
<b>Residential Mortgages</b>	means mortgages that are principally secured by single family houses, and multifamily residential properties.

<b>Rules</b>	means the Rules promulgated under the Securities Act.
<b>Second Mortgage</b>	means a second mortgage for which the principal amount, at the time of commitment, together with the principal balance outstanding on any mortgage having priority on the same real property secured by such second mortgage, does not exceed 85% of the appraised value of the underlying real property securing the mortgage as determined by a qualified appraiser.
<b>Securities Act</b>	means the <i>Securities Act</i> (British Columbia) as may be amended from time to time.
<b>Subscription Agreement</b>	means the document signed by interested parties indicating their desire to purchase Class B Shares and acknowledging all of the rights, limitations and characteristics of their investment in the Class B Shares, particularly with respect to applicable securities regulation.
<b>Subscription Price</b>	means \$100 per Class B Share.
<b>Tax Act</b>	means the <i>Income Tax Act</i> (Canada), as amended from time to time.

## ITEM 1 - USE OF AVAILABLE FUNDS

### 1.1 Funds

The net proceeds of the Offering and the funds that will be available to the Corporation after this Offering are as follows:

Sources of Funds		Assuming Minimum Offering <sup>(3)</sup>	Assuming Maximum Offering
A	Amount to be raised by the Offering	\$0	\$50,000,000
B	Estimated Selling Commissions and Fees <sup>(1)</sup>	\$0	\$2,500,000 <sup>(1)</sup>
C	Estimated Offering Costs <sup>(2)</sup>	\$0	\$75,000 <sup>(2)</sup>
D	Available Funds: D = A - (B+C)	\$0	\$47,425,000

<sup>(1)</sup> The Corporation may pay selling commissions or fees up to 5% of the funds raised and 1% annually as a trailing commission. The \$2,500,000 is an estimate of selling commissions.

<sup>(2)</sup> Legal, accounting, and audit.

<sup>(3)</sup> There is no Minimum Offering. The Corporation may raise only a portion of the maximum offering.

### 1.2 Use of Available Funds

Assuming the successful closing of the maximum offering of \$50,000,000, the Corporation intends to use the net proceeds following the Offering as follows:

Use of Available Funds	Maximum Offering
Investment in Mortgages and other permitted investments <sup>(1)</sup>	\$47,425,000
<b>Total</b>	<b>\$47,425,000</b>

<sup>(1)</sup> The Corporation invests available funds in Residential and Commercial Mortgages as more particularly described under Item 2 - : "Business of AP Capital Mortgage Investment Corp."

Until required, the available funds will be invested only in securities of, or those guaranteed by, the Government of Canada or any province of Canada, in certificates of deposit or interest-bearing accounts of Canadian chartered banks or trust companies. The available funds will not be commingled with the accounts of the Manager. The Manager will use its best efforts to make suitable investments of the available funds as soon as possible following each Closing.

### 1.3 Reallocation

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

## ITEM 2 - BUSINESS OF AP CAPITAL MORTGAGE INVESTMENT CORP.

### 2.1 Structure

The Corporation was incorporated under the BCA on March 27, 2007, under incorporation number BC0786612. Its head and principal office is located at 1601-128 West Pender Street, Vancouver BC V6B 1R8 and the registered and



records office is located at 1601-128 West Pender Street, Vancouver BC V6B 1R8. The Class A voting shares, and therefore the controlling interest, in the Corporation are held entirely by holding companies owned and controlled by Bradly Unrau, Ches Hagen, Steve Froese, and Dan Weiss. Each holding company owns 1/4 of the Class A voting shares in the capital of the Corporation. The Corporation has no subsidiaries. See Item 3 - : “Directors, Management, Promoters and Principal Holders”.

The Manager was incorporated under the BCA on November 18, 2014, under incorporation number BC1019378. Its head and principal office is located at 1601-128 West Pender Street, Vancouver BC V6B 1R8 and the registered and records office is located at 900-885 West Georgia Street, Vancouver, BC, V6C 3H1.

## **2.2 Our Business**

### *Overview*

The Corporation is a mortgage investment corporation. It is in the business of investing in mortgages which have been granted by mortgagees to the Manager, as security for loans advanced to builders, developers and owners of commercial, industrial and residential real estate located primarily in the provinces of Alberta and British Columbia and on occasion in the provinces of Saskatchewan, Manitoba and Ontario. These mortgages will be registered against specific parcels of real estate allowing the Corporation and the Manager to be secured creditors of the mortgagors. Subject to limitations and restrictions applicable to mortgage investment corporations that are contained in the Tax Act, the Corporation may make other permitted investments over time, including the direct ownership of real property (including real property acquired by way of foreclosure under mortgages).

The Corporation does not employ resources to actively seek or originate mortgages for investment, and it relies exclusively on the expertise of the Manager to provide mortgage investment opportunities. To the extent that the Corporation’s funds are not invested in its mortgage portfolio, such funds will be held in securities of, or those guaranteed by, the Government of Canada or any province of Canada, in certificates of deposit or interest-bearing accounts of Canadian chartered banks or trust companies so that the Corporation maintains a level of working capital for its ongoing operations considered acceptable by the directors of the Corporation.

The Corporation initially established and conducted its business in the provinces of Alberta and British Columbia. The Corporation intends to expand its business into other provinces. If it does so, the Corporation or the Manager will apply, if necessary, to become registered under corporate and applicable mortgage brokering legislation to carry on business as a mortgage investment corporation in the provinces of Alberta, British Columbia, Saskatchewan, Manitoba and Ontario.

The Manager will work to develop and implement all aspects of the Corporation’s marketing and distribution strategies, will manage the ongoing business and administration of the Company and will monitor the investment portfolio of the Corporation. The terms and conditions of the Management Contract set out this relationship and require the Manager to observe and comply with the Corporation’s investment policies and criteria and all laws that apply to the Corporation, its investments and its securities. The Manager will obtain opinions from counsel as it deems necessary in connection with such compliance.

The Manager will be responsible for ensuring that the available funds are invested as described in Item 1 - : “Use of Available Funds” and in accordance with the investment objectives of the Corporation. Funds of the Corporation will not be commingled with the Manager’s funds, nor with any other funds. The Manager will have the power to borrow money on behalf of the Corporation and to charge the Corporation’s property to secure such borrowed money.

Accordingly, the Corporation does not have and does not expect to have any employees other than the officers described herein. See Item 3 - : “Directors, Management, Promoters and Principal Holders”.

Under the Tax Act, a mortgage investment corporation is allowed to deduct dividends that are paid from income. The Corporation intends to pay out all of its net income and net realized capital gains as dividends within the year

earned or within 90 days from the end of the year as specified in the Tax Act. As a result, it is not anticipated that the Corporation will be required to pay any income tax.

#### *The Corporation's Investments*

The Corporation's objective is to maintain a mortgage investment portfolio that encompasses the following general characteristics:

- (a) property type and geographical diversification;
- (b) short and intermediate term loans;
- (c) payment schedules including interest only and longer term amortization (i.e. 25 year); and
- (d) loans in Canadian dollars on Canadian based real estate.

The actual composition of the Corporation's mortgage investment portfolio will vary over time depending on the Manager's assessment of the appropriate strategy given overall market conditions and outlook.

The Corporation has established certain policies respecting how it can invest its funds in mortgages, which include, but are not limited to, the following:

- (a) The Corporation will primarily invest in Residential and Commercial Mortgages. Investments of the Corporation will be made by purchasing interests in mortgages offered for sale by the Manager;
- (b) The Corporation will invest primarily in First Mortgages and Second Mortgages, but may also invest in promissory notes and other caveatable interests;
- (c) No more than 75% of the available funds of the Corporation may be invested in Second Mortgages;
- (d) A First Mortgage may not exceed 85% of the appraised value of the underlying real property securing the mortgage, as determined by a qualified appraiser and calculated at the time of commitment;
- (e) A Second Mortgage may not exceed 85% of the appraised value of the underlying real property securing the mortgage, as determined by a qualified appraiser and calculated at the time of commitment;
- (f) Mortgages may contain clauses permitting the mortgagor, when not in default, to renew the mortgage for additional terms at the sole discretion of the Corporation;
- (g) An investment in, or acquisition of, a mortgage with a single borrower shall not exceed 20% of the value of the Corporation's assets;
- (h) The Corporation may borrow funds in order to acquire or invest in specific mortgage investments or mortgage portfolios in amounts up to 50% of the book value of the Corporation's portfolio of First Mortgages and applicable Second Mortgages; provided, the interest rate is less than the interest rate charged by the Corporation on the corresponding mortgage investment or portfolios acquired with such borrowed funds; and
- (i) The Corporation may participate in mortgages on a syndication basis.

These policies and guidelines are consistent with the provisions of the Tax Act and real estate legislation which apply to mortgage investment corporations generally.

#### *Investment Criteria*

In addition to the above policies, the Corporation has established the following investment criteria, which are consistent with the Corporation's Articles of Incorporation, the provisions of the Tax Act and applicable real estate legislation including, but not limited to, the following:

- (a) All mortgages, promissory notes and caveatable interests will, prior to funding, be registered on the title of the approved property as the Manager shall direct;
- (b) Where investment is made by the Corporation in purchasing an interest in a mortgage offered for sale by the Manager that amounts to less than full acquisition of that mortgage, the purchase agreement will contain a charging clause enabling the Corporation to register a beneficial caveat on title to the subject property in the Corporation's name;
- (c) All mortgage investments will be made primarily in the Provinces of British Columbia and Alberta and on occasion in such other Canadian jurisdictions as the Manager or the Corporation become registered as mortgage brokers in such jurisdictions;
- (d) The Corporation will attempt to maintain at least 50% of the Corporation's assets in investments in mortgages secured by residential real estate;
- (e) The Corporation will attempt to maintain less than 50% of the Corporation's assets invested in mortgages secured by commercial and industrial real estate;
- (f) The Corporation may advance funds on approved loans by way of progress payments upon Manager evaluation and acceptance of completion of specified stages of construction or development;
- (g) The Corporation will not make any investment that would result in the Corporation not qualifying as a mortgage investment corporation pursuant to the Tax Act;
- (h) The Corporation will not invest in securities, guaranteed investment certificates or treasury bills unless they are issued by an arm's length party and are pledged as collateral in connection with Mortgage investments or obtained by realizing on such collateral;
- (i) The Corporation will not cause the Corporation to invest for the purposes of exercising control over management of any issuer of securities; and the Corporation to make short sales of securities or maintain a short position in any securities;
- (j) The Corporation will not act as an underwriter in the capital stock of any corporation;
- (k) The Corporation will not guarantee the securities or obligations of any person;
- (l) The Corporation will not loan money to or invest in securities of the Manager, affiliates of the Corporation or the Manager, or other non-arm's length parties;
- (m) To the extent that the Corporation's funds are not invested in mortgages from time to time, they will be held in securities of, or those guaranteed by, the Government of Canada or any province of Canada, in certificates of deposit or interest-bearing accounts of Canadian chartered banks or trust so as to maintain a level of working capital for ongoing operations considered acceptable by the Corporation's directors;

- (n) The Corporation will not make any investments that would result in the Manager developing or managing real property on the behalf of the Corporation; and
- (o) The Corporation may invest up to 25% of its assets directly in real estate, but may not develop land or engage in construction.

If, due to a change in the provisions of the Tax Act or other legislation applicable to the Corporation, any of the foregoing restrictions require amendment in order to comply with such change in legislation, the Corporation may make such change and such change will be binding on the Corporation. In addition, the foregoing restrictions may be changed at any time (so long as such change complies with applicable legislation) if the change is approved by a special resolution (as such term is defined in the BCA) of the holders of the Corporation's Class A shares and a special resolution of the holders of the Corporation's Class B Shares. It is anticipated that the Manager will provide the Corporation with assistance from time to time on revision of the foregoing restrictions in order to comply with applicable legislation or any shareholder resolution. In the event of any amendment to the foregoing restrictions, the Manager will be required to comply with and observe such change immediately upon such change becoming effective. See also "The Corporation's Investments", "Management Contract" and "The Manager – Corporate Summary".

#### *Management Contract*

Pursuant to a Management/Administration Agreement dated December 30, 2014 between AP Capital Mortgage Investment Corp. and AP Capital MIC Management Corp (the "**Management Contract**"), AP Capital MIC Management Corp was appointed the Manager of the Corporation and of the mortgage investment portfolio of the Corporation under the terms and conditions of the Management/Administration Agreement. The Manager will source, recommend and make available to the Corporation, for investment, in the Corporation's name mortgages or interests in mortgages as and when they become available. The Manager will have the exclusive right to provide the Corporation with these mortgage investments and the Corporation will not seek mortgage investment opportunities from other third parties. Pursuant to the Management Contract, the Manager must carry out its duties in a conscientious and commercially reasonable manner. See Item 2.7: "Material Agreements".

The Manager will oversee the Corporation's day to day operations and the administrative services provided by the Manager for the Corporation's operations. The Manager will pay all of its costs, expenses and overhead relating to the provision of its services. All of the costs with respect to the business of the Corporation shall be on account of the Corporation including, without limitation, legal, audit, shareholder meeting and communication costs.

The Corporation will be responsible for paying the costs, including legal fees and disbursements, of collecting or attempting to collect any amounts owing or in arrears on any of its Mortgage investments, or any portion thereof pro rata, including foreclosure or other court proceedings. The Corporation is also responsible for the payment of director and officer fees for attending formal meetings of the Directors, conference calls and meetings of the committees of the Corporation.

In exchange for the management services provided under the Management Contract, the Manager will receive a fee from the Corporation equal to 3.0% per annum of the net assets of the Corporation to be dispersed to the Manager on a monthly basis.

The Management Contract provides the right for the Manager, or its principals or affiliates, to purchase with their own funds and own as co-lenders, percentage interests in mortgage loans. The Manager may also sell undivided percentage interests in mortgage loans to other co-lenders. The Manager has the right to take such actions as may be necessary or desirable in its discretion to administer the mortgage loans. In the administration or collection or enforcement of any mortgage loan, the Manager may, but shall not be obligated to, retain solicitors, counsel other experts and receivers and advance such funds as it considers reasonable or necessary in order to preserve, protect, defend or improve its interests in any mortgage loan or any real property. The Manager shall endeavour to collect the amount of all costs incurred or advances made from the mortgagor but, in all events, the Corporation and any other co-lenders shall indemnify the Manager for and shall pay to the Manager such co-lender's percentage interest of such costs. See Item 8 - : "Risk Factors". The Management Contract provides that the Manager may, from time to

time, charge lender fees, broker fees, commitment fees, extension fees, renewal fees, NSF fees, administration fees and similar fees to borrowers with respect to any mortgage loan.

The Management Contract is for an indefinite term, and may be terminated by the Corporation in the event that:

- (a) A bankruptcy, receivership or liquidation order is issued against the Manager;
- (b) The Manager makes an assignment for the benefit of creditors or commits any act of bankruptcy within the meaning of the Bankruptcy and Insolvency Act (Canada);
- (c) The Manager assigns the Management Contract or its rights or obligations thereunder to any person who is not an affiliate of the Manager without the prior written consent of the Directors;
- (d) The Manager commits a breach or default under the Management Contract not related to the payment of any money to be paid by the Manager to the Corporation and the same is not cured within 30 days of the Manager receiving notice thereof;
- (e) The Manager commits a breach or default under the Management Contract related to the payment of any money to be paid by the Manager to the Corporation and the same is not cured within 15 days of the Manager receiving notice thereof; or
- (f) The Corporation gives the Manager one year's prior written notice of its intention to terminate the Management Contract.

The Manager may terminate the Management Contract in the event that:

- (a) A bankruptcy, receivership or liquidation order is issued against the Corporation;
- (b) The Corporation makes an assignment for the benefit of its creditors or commits any act of bankruptcy within the meaning of the Bankruptcy and Insolvency Act (Canada);
- (c) The Manager gives the Corporation one year's prior written notice of its intention to terminate the Management Contract;
- (d) The Corporation commits a breach or default under the Management Contract (not related to the payment of any money to be paid by the Corporation to the Manager) and the same is not cured within 30 days of the Corporation receiving notice thereof; or
- (e) The Corporation commits a breach or default under the Management Contract related to the payment of any money to be paid by the Corporation to the Manager and the same is not cured within 15 days of the Corporation receiving notice thereof.

The Management Contract may also be terminated by the mutual consent of the Parties hereto:

- (a) On one hundred twenty (120) days notice in writing; and
- (b) Upon appointment of (a) suitable replacement(s).

The Manager must render its services under the Management Contract honestly and in good faith and must use reasonable commercial efforts to perform its duties and responsibilities under the Management Contract in a conscientious, reasonable and competent manner.

The Corporation has agreed that the Corporation shall not hold the Manager liable for any loss, damages or costs arising out of a failure to collect any amount owing on any particular mortgage after it has been acquired by the Manager for purchase by the Corporation. The Corporation has also agreed under the Management Contract to

indemnify and hold harmless the Manager as well as its officers, directors, employees, shareholders and agents from and against any and all liabilities, losses, claims, damages, penalties, actions, suits, demands, costs and expenses including, without limiting the following, reasonable legal fees and expenses arising from or in connection with any actions or omissions which the Manager takes as Manager under the Management Contract, provided that such action or omission is taken or not taken in good faith and without gross negligence or is taken pursuant to and is in compliance with the Management Contract.

The Manager and its shareholders, directors, officers, agents and employees will have no liability in respect of any act or omission regarding, respecting or relating to the services, duties, and powers performed or to be delivered or performed by those pursuant to the Management Contract, except to the extent such act or omission constitutes gross negligence or willful misconduct. This indemnity survives the removal or resignation of the Manager in connection with any and all of its duties and obligations under the Management Contract.

### *The Manager- Corporate Summary*

The Manager, AP Capital MIC Management Corp, provides mortgage services. AP Capital MIC Management Corp identifies new mortgage investment opportunities through its network of contacts in the builder, developer and mortgage broker industries. The Manager develops its mortgage portfolio through the following activities:

- Direct Origination – The Manager originates mortgages through direct negotiations with borrowers such as real estate builders, developers and property owners;
- Agency Origination – The Manager utilizes various professionals such as lawyers, bankers, mortgage brokers and developers to assist in identifying mortgage investment opportunities.

It is also intended that the Manager will attempt to develop its mortgage portfolio through purchases in the secondary market, which will include purchasing blocks of mortgages at market yields from, among others, financial institutions, mortgage investment corporations, investment dealers and pension funds, all of whom will be at arm's length to the Manager, the Corporation and their respective directors, officers and promoters.

### **2.3 Development of the Business**

The Offering is intended to provide the Corporation with sufficient funds to continue operations and advance further mortgage loans with emphasis on urban centers and growth areas. The Corporation's target return to investors is 7-8.5% per annum, a target that has been reached each year since operations began in 2008. In each of the 2010, 2011, 2012, 2013, and 2014 fiscal years, the Corporation's annual return to its investors has exceeded 8% (12.21%, 11.65%, 9.50%, 8.07%, and 8.15% respectively). Investors have the option to choose monthly cash dividends or to participate in the share re-investment program. Investors choosing the monthly cash dividends receive 7% per annum paid monthly. As at December 31, 2014, the Corporation has 705 Class B shareholders and there has been no change in the four (4) original Class A voting common shareholders of the Corporation. See Item 3.1: "Compensation and Securities Held".

As of December 31, 2014, the Corporation holds two hundred and sixty one (261) mortgages for a total principal of \$30,467,386.88. The outstanding principal on mortgages is secured by residential and commercial mortgages, with residential security holding a higher percentage of mortgage funds. The mortgages are located in British Columbia (204), Alberta (53) and Saskatchewan (2) and Ontario (2) and carry interest rates ranging from between 7-15+%. Of the current mortgages, forty three (43) are in first position and the remaining two hundred and eighteen (218) are in second position. Loan to value ratios are based on independent appraisals performed at the time of funding and all mortgage loans are issued for terms of twenty four (24) months or less. As at December 31, 2014, the overall weighted loan to value ratios for funds is 70.28% with commercial properties at 68.01% and residential properties at 70.31%.

As of December 31, 2014, the Corporation holds one piece of real estate as an asset. The property is a commercial office building in Fort McMurray, Alberta. The building is in the heart of downtown, on the corner of Morrison and Franklin. The building is comprised of mainly medical tenants, and one law firm. The Corporation has a \$2,500,000 investment in this property. The property has a first mortgage registered against it in favour of a conventional lender. Since inception to December 31, 2014, the Corporation has raised a total capital of \$34,109,600 and has redeemed \$11,668,935.57. As at December 31, 2014, three mortgages with a total principal value of \$259,158.34 are in foreclosure (0.87% of mortgage holdings).

## 2.4 Long-Term Objectives

The Corporation's long term objectives are:

- (a) To acquire sufficient investment to provide Class B shareholders with a return that is superior to term deposits, guaranteed investment certificates and money market funds, with due consideration to preservation of their capital;
- (b) To provide Class B Shareholders with sustainable income while preserving capital for distribution or re-investment;
- (c) To establish a pool of high quality loans through prudent investment in Mortgages of real property situated primarily in British Columbia and Alberta and on occasion in the provinces of Saskatchewan, Manitoba and Ontario;
- (d) To distribute income on a monthly basis in the amount of 7% per annum; and
- (e) To continue to qualify as a mortgage investment corporation pursuant to the Tax Act.

The Corporation will seek to achieve these investment objectives by investing primarily in loans secured by Mortgages.

The Corporation expects to complete subscriptions for Class B Shares in the aggregate of approximately \$15,000,000 in subscriptions on an annual basis and to invest the net subscription funds in Mortgages as such funds are received. The Corporation will incur costs in connection with the Offering and in administering and placing Mortgages, which costs are expected to remain consistent with historical costs as shown on the Corporation's financial statements. The Corporation's income will primarily consist of interest received on the Mortgages, less fees paid to the Manager. Subject to future events which may have an impact on the timing of such decisions, it is the current intention of the Manager to continue the Corporation for an indefinite period of time.

## 2.5 Short-Term Objectives and the Intentions to Achieve Them

As a mortgage investment corporation, the principal short-term objectives focus on completing the Offering and investing the net proceeds in mortgages. The following table sets out the objectives, the timelines and the expected costs to complete the short-term objectives for the next twelve months:

What Must Be Done and How It Will Be Accomplished	Target Completion Date	Cost to Complete
Raise investment funds of up to \$50,000,000.	On or before July 1, 2015 or such other date or dates as determined by the Corporation, but no later than the earlier of the Maximum Offering being subscribed for or September 30, 2015	\$75,000 for legal, accounting and audit expense
Commence investment of Available Funds into mortgages.	Upon closing	(1)

- (1) The costs to complete the investment of the Available Funds will vary based on the amount of funds actually invested and the different type of mortgages invested in.

## 2.6 Insufficient Proceeds

If the Corporation is unsuccessful in obtaining subscriptions from a sufficient number of Investors to proceed with a closing under this Offering, then the Corporation may have insufficient investment to proceed with its longer term objectives.

## 2.7 Material Agreements

The following are the material agreements to which the Corporation is currently a party. Copies of these agreements may be inspected prior to thirty (30) days after the final closing of the Offering during ordinary business hours at the head office of the Corporation at 1601-128 Pender Street, Vancouver, BC, V6B 1R8.:

- (a) **Articles of the Corporation** – the Articles of the Corporation set out the rights and restrictions attached to the Class B Shares. See Item 5.1;
- (b) **Subscription Agreements** – each Investor will execute and deliver to the Corporation a Subscription Agreement whereby it agrees to subscribe for Class B Shares on the terms and conditions set out therein and described in this Offering Memorandum; and
- (c) **Management Contract** – dated December 31, 2014 with AP Capital MIC Management Corporation.

## ITEM 3 - DIRECTORS, MANAGEMENT, PROMOTERS AND PRINCIPAL HOLDERS

### 3.1 Compensation and Securities Held

The following are the names and residence of the current directors, officers, promoters and principal holders of the Corporation, their respective management experience and any of their holdings of securities of the Corporation and its affiliates after the Offering.

Name and Municipality of Principal Residence	Positions Held	Actual and Anticipated Compensation by the issuer for the year ended June 30	Number and percentage of securities of the issuer held prior to completion of Offering	Number and percentage of securities of the issuer held after completion of Offering
Bradly Unrau, Vancouver, BC	President, Chief Executive Officer and Director Since March 27, 2007	2014 \$0  Anticipated this year: \$0	400 Class A Shares (25%) held in 0824004 B.C. Ltd.  10 Class B Shares (0.01%)	400 Class A Shares (25%) held in 0824004 B.C. Ltd.  10 Class B Shares (0.01%)
Ches Hagen, Vancouver, BC	Secretary, Vice-President, and Director Since March 27, 2007	2014 \$0  Anticipated this year: \$0	400 Class A Shares (25%) held in 0824016 B.C. Ltd.  1,169.58 Class B Shares (0.6%)	400 Class A Shares (25%) held in 0824016 B.C. Ltd.  1,169.58 Class B Shares (0.6%)
Steve Froese, Edmonton, AB	Principal Holder and Director	2014 \$0	400 Class A Shares (25%) held in 134776 Alberta Ltd.	400 Class A Shares (25%) held in 134776 Alberta Ltd.



Name and Municipality of Principal Residence	Positions Held	Actual and Anticipated Compensation by the issuer for the year ended June 30	Number and percentage of securities of the issuer held prior to completion of Offering	Number and percentage of securities of the issuer held after completion of Offering
		Anticipated this year: \$0	10 Class B Shares (0.01%)	10 Class B Shares (0.01%)
Dan Weiss, Edmonton, AB	Principal Holder and Director	2014 \$0  Anticipated this year: \$0	400 Class A Shares (25%) held in 541461 Alberta Ltd.  1,719.93 Class B Shares (0.8%)	400 Class A Shares (25%) held in 541461 Alberta Ltd.  1,719.93 Class B Shares (0.8%)

The Manager is a Corporation incorporated pursuant to the BCA and its Directors, Bradly Unrau, Ches Hagen, Steve Froese and Dan Weiss are also Directors, Officers and Class A Shareholders in the Corporation.

### 3.2 Management Experience

The following table discloses the principal occupations of the directors and senior officers of the Corporation over the past five years and their relevant experience in businesses similar to the Corporation's.

Name	Principal Occupation and Related Experience
Bradly Unrau, Vancouver, BC	Mortgage Investment Manager and Mortgage broker/owner of Dominion Lending Centres Alta Pacific
Ches Hagen, Vancouver, BC	Mortgage Investment Manager and Co-founder of VendAsta Technologies Inc.
Steve Froese, Edmonton, Alberta	Mortgage Investment Manager and licensed Mortgage Broker
Dan Weiss, Edmonton, Alberta	Mortgage Investment Manager and Licensed Realtor

### 3.3 Penalties, Sanctions and Bankruptcy

No penalty or sanction has been in effect during the last 10 years, no cease trade order has been in effect for a period of more than 30 consecutive days during the past 10 years, and no declaration of bankruptcy, voluntary assignment in bankruptcy, proposal under any bankruptcy or insolvency legislation, proceedings, arrangement or compromise with creditors, appointment of a receiver, receiver manager or trustee to hold assets has been in effect during the last ten years against or with regard to any:

- (a) Director, executive officer or control person of the Corporation, or
- (b) Any issuer of which any person referred to in Item 1 above was a director, senior officer, or control person of at that time.

### 3.4 Loans

There is one loan due to or from the directors, management, promoters or principal holders of the Corporation or the Manager as at December 31, 2014.

### 3.5 Promoter

AP Capital MIC Management Corp, the Manager, is the promoter of the Offering by reason of its taking steps necessary for the public distribution of the Class B Shares. The Manager will not receive any benefits, directly or indirectly from the issuance of the Class B Shares other than as described in this Offering Memorandum.

## ITEM 4 - CAPITAL STRUCTURE

### 4.1 Share Capital

The Corporation is currently authorized to issue an unlimited number of Class A Voting Common Shares and Class B Non-Voting Common Shares. As at the date hereof, there were 1600 Class A Shares and 290,689.00 Class B Shares issued and outstanding.

The holders of the Class A Shares are entitled to one vote for each Class A Share held at any meeting of the shareholders. The Class B Shares are non-voting.

### 4.2 Long-Term Debt

As at the date hereof the Corporation has no long term debt. The Corporation does not contemplate issuing any long-term debt securities under this Offering.

### 4.3 Prior Sales

The following table sets out the prior sales of the Class B Shares of the Corporation in the past 12 months:

Date of Issuance	Type of Security	Number Issued	Price per share	Total Funds Received
January 15, 2014	Class "B" non-voting common shares	909	\$100	\$90,900
January 31, 2014	Class "B" non-voting common shares	6,670	\$100	\$667,000
February 15, 2014	Class "B" non-voting common shares	243	\$100	\$24,300
February 28, 2014	Class "B" non-voting common shares	2,464	\$100	\$246,400
March 15, 2014	Class "B" non-voting common shares	1,094	\$100	\$109,400
March 30, 2014	Class "B" non-voting common shares	2,397	\$100	\$239,700
April 15, 2014	Class "B" non-voting common shares	1,360	\$100	\$136,000
April 30, 2014	Class "B" non-voting common shares	2,075	\$100	\$207,500
May 15, 2014	Class "B" non-voting common shares	1,205	\$100	\$120,500
May 31, 2014	Class "B" non-voting common shares	5,169	\$100	\$516,900

<b>Date of Issuance</b>	<b>Type of Security</b>	<b>Number Issued</b>	<b>Price per share</b>	<b>Total Funds Received</b>
June 15, 2014	Class "B" non-voting common shares	681	\$100	\$68,100
June 30, 2014	Class "B" non-voting common shares	1,917	\$100	\$191,700
July 30, 2014	Class "B" non-voting common shares	613	\$100	\$61,300
August 15, 2014	Class "B" non-voting common shares	281	\$100	\$28,100
August 31, 2014	Class "B" non-voting common shares	11,089	\$100	\$1,108,900
September 15, 2014	Class "B" non-voting common shares	100	\$100	\$10,000
September 30, 2014	Class "B" non-voting common shares	1484	\$100	\$148,400
October 31, 2014	Class "B" non-voting common shares	3206	\$100	\$320,600
November 15, 2014	Class "B" non-voting common shares	2029	\$100	\$202,900
November 30, 2014	Class "B" non-voting common shares	1986	\$100	\$198,600
December 15, 2014	Class "B" non-voting common shares	2195	\$100	\$219,500
December 31, 2014	Class "B" non-voting common shares	1364	\$100	\$136,400

## **ITEM 5 - SECURITIES OFFERED**

### **5.1 Terms of Securities**

We are offering up to 500,000 Class B Shares for sale at a price of \$100.00 per Class B Share. The rights and restrictions attaching to the Class B Shares are as follows:

#### *Non-Voting*

Holders of the Class B Shares shall not be entitled to receive notice of, attend or speak at any meeting of the shareholders of the Corporation, subject to any rights pursuant to the BCA.

#### *Dividend Entitlement*

The Class B Shares are the only class of shares entitled to receive dividends.

Holders of the Class B Shares are entitled to receive dividends as and when declared in the discretion of the Board of Directors, in an amount equal to the profits of the Corporation (as determined in accordance with International Financial Reporting Standards) available for the payment of dividends (as determined by the Board of Directors from time to time).

For those Class B Shareholders that elect the “cash dividend” option, the Corporation intends to target a monthly cash dividend payment of 7% per annum, calculated and payable monthly. However, any dividend payment would remain in the discretion of the Board of Directors and only be declared by the Board of Directors from time to time where the Board of Directors are of the opinion (in their sole discretion) that the monthly and annual net income and available cash of the Corporation can support such dividend payment. Once the year end financial statements of the Corporation are available, the Board of Directors will determine (in their sole discretion) whether there is sufficient additional net income and available cash to support a further “top up” dividend payment to the Class B Shareholders.

For those Class B Shareholders that elect the “Class B Share re-investment” option, the cash dividends that such Class B Shareholders would have otherwise received will be used to acquire Class B Shares for such Shareholders at the subscription price of \$100 per share, with the Class B Share certificates delivered to such Shareholders.

For income tax purposes, the Corporation intends to distribute as dividends substantially all of its net earnings. See Item 6 - : “Income Tax Consequences and RRSP Eligibility”.

#### *Redemption Rights*

Subject to the provisions of the BCA and applicable securities laws (if any), the Corporation may redeem all or any part of the Class B Shares outstanding by giving notice at least 30 days before fiscal year-end to all the holders of record of the outstanding Class B Shares. The redemption price for each Class B Share will be the lesser of:

- (a) \$100 per Class B Share plus any declared but unpaid dividends thereon; or
- (b) The net realizable value attributable to each Class B Share as determined in the Corporation’s audited financial statements prepared for the relevant fiscal year-end in which notice is given

(referred to as the “**Redemption Amount**”).

If upon giving notice that the Corporation intends to redeem a portion of the outstanding Class B Shares, the Corporation receives acceptance of an aggregate number of shares greater than the number for which the Corporation is prepared to accept, then the Class B Shares will be purchased, as nearly as may be, pro rata, to the number of Class B Shares so offered for redemption by each of the holders of the Class B Shares.

#### *Retraction Rights*

Subject to the provisions of the BCA and applicable securities laws (if any), a holder of Class B Shares may with respect to any Class B Shares that have been registered in the name of the holder (“**Retractable Shares**”), by giving written notice at least 60 days before fiscal year-end to the Corporation (the “**Retraction Notice**”), request that the Corporation redeem the whole or any part of the Retractable Shares held by such holder. Upon receipt by the Corporation of the Retraction Notice, the holder of Retractable Shares shall thereafter cease to have any rights with respect to the Retractable Shares tendered for redemption (other than to receive the Redemption Amount which has accrued up to and including the Date of Retraction (as defined below). Class B Shares shall be considered to be tendered for redemption on the date that the Corporation has, to the satisfaction of the Board of Directors, received the Retraction Notice. The Corporation will not, except upon resolution of the Directors in favour of a redemption having regard to the Class B Liquid Assets and any hardship of the Holder, at the end of the applicable Fiscal Quarter, redeem more than five (5%) percent of all Class B Shares which are issued and outstanding on the first day of the Fiscal Quarter in which the Retraction Notice is given to the Corporation or deemed effective, as the case may be. If the Corporation receives Retraction Notices for more than one Shareholder of Class B Shares, the Shareholders who sent such Retraction Notice shall be entitled to the traction of their Class B Shares in priority in accordance with the time and date on which such Retraction Notices are given to the Company on a “first-come, first-served” basis.

Subject to the provisions of the BCA, including the solvency provisions thereof, on the day that is 120 days after the end of the year in which the Retraction Notice is received by the Corporation (the “**Date of Retraction**”), the

Corporation will be required to redeem the Retractable Shares specified in the Retraction Notice. The amount paid per Retractable Share shall be the Redemption Amount calculated as of the Date of Retraction, less a \$350 processing fee, and less a contingent deferred service charge determined as follows:

- (a) If the Retractable Shares have been held for one (1) year or less on the Date of Retraction, \$5.00 per share;
- (b) If the Retractable Shares have been held for two (2) years or less but more than one (1) year on the Date of Retraction, \$4.00 per share;
- (c) If the Retractable Shares have been held for three (3) years or less but more than two (2) years on the Date of Retraction, \$3.00 per share;
- (d) If the Retractable Shares have been held for four (4) years or less but more than three (3) years on the Date of Retraction, \$2.00 per share; or
- (e) If the Retractable Shares have been held for more than four (4) years, there will be no contingent deferred service charge.

The Corporation, at the sole discretion of its directors, may waive the contingent deferred service charge on Retraction requests which are partial Retractions of less than 5% of the total Class B shares held by the Class B shareholder.

The Corporation will not redeem Class B Shares for which Retraction Notices are given, if redemption of the aggregate number of Class B Shares subject to the Retraction Notices would result in the Corporation having a Class B Shareholder during the period of time since the start of the most recent fiscal year, which owns greater than 25% of the Class B Shares issued and outstanding (as at the beginning of the fiscal year during which the last of such Retraction Notices are given).

Retraction of Class B Shares will not be redeemed by the Corporation for which a Retraction Notice is received, if it would result in the Corporation having less than 20 holders of Class B Shares as defined under the Mortgage Investment Corporation provisions of the Tax Act.

#### *Entitlement on Liquidation, Dissolution or Winding-Up*

In the event of a reduction of capital or the liquidation, dissolution or winding-up of the Corporation or other distribution of property or assets of the Corporation among its shareholders for the purpose of winding-up its affairs, the holders of the Class B Shares and the Class C Shares shall be entitled to receive any declared but unpaid dividends on such shares and thereafter the holders of Class B Shares and the Class C Shares shall be entitled to receive an amount equal to the aggregate amount paid up on the Class B and Class C Shares held by them, respectively, and in the event that there is not sufficient property or assets to return the entire amount paid up thereon to all holders, the amount available for distribution shall be distributed to the holders rateably according to a fraction of the numerator of which is the amount paid up on the issued shares of the particular class and the denominator of which is the amount paid up on the issued shares of all classes.

After the Corporation has made the distribution to the holders of the Class B Shares and Class C Shares contemplated above, the holders of the Class A Shares shall be entitled to receive the remaining amount available for distribution.

#### *Constraints on Transferability*

Paragraph 130.1(6)(d) of the Tax Act stipulates that to qualify as a mortgage investment corporation, a corporation must have at least twenty shareholders and no one shareholder may be a Specified Shareholder, as such term is defined in the Tax Act, of the corporation.

The Tax Act states that a trust governed by a registered pension plan or a deferred profit sharing plan is counted as four shareholders for purposes of determining the number of shareholders and one shareholder for purposes of determining if a shareholder is a Specified Shareholder.

The Board of Directors intend to refuse registration of an allotment or any transfer of shares which would result in the Corporation ceasing to meet the qualifications of a mortgage investment corporation.

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

## **5.2 Subscription Procedure**

An Investor may subscribe for Class B Shares by delivering the following documents to the Corporation at the address shown in the Subscription Agreement:

- (a) An executed subscription agreement, including attachments, in the form provided with this Offering Memorandum; and
- (b) A certified cheque or bank draft made payable to the Corporation in the amount of the subscription price for the Class B Shares. The Corporation will hold your subscription funds in trust until midnight on the second business day after the day on which the Corporation received your signed subscription agreement. After this, the Corporation will hold the subscription funds in trust pending closing. See Item 11 - : "Purchaser's Rights".

This Offering is not subject to any minimum subscription level, and therefore any funds received from an Investor are available to the Corporation and need not be refunded to the Investor. The Corporation anticipates that there will be multiple closings. The Corporation anticipates that the Initial Closing of the Offering will occur on October 15, 2014. Subsequent closings are expected to occur on the 15th and 30th day of each month thereafter, or at such time or times as the Corporation or the Manager considers appropriate.

The Corporation reserves the right to accept or reject in whole or in part and the right to close the subscription books at any time without notice. Any investment funds for subscription that the Corporation does not accept will be promptly returned after the Corporation has determined not to accept the investment funds.

At a closing of the Offering, the Corporation will deliver to the Investor the certificates representing fully paid and non-assessable Class B Shares, provided the subscription price has been paid in full. Unless directed otherwise, copies of the original share certificates will be kept in the Corporation's Minute Book.

**An Investor should carefully review the terms of the Subscription Agreement attached hereto for more detailed information concerning the rights and obligations of the Investor and the Corporation. Execution and delivery of the subscription agreement will bind the Investor to the terms thereof, whether executed by the Investor or by an agent on the Investors behalf. The Investor should consult with their professional advisors. See Item 8 - : "Risk Factors".**

## **ITEM 6 - INCOME TAX CONSEQUENCES AND RRSP ELIGIBILITY**

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

As each individual investor has unique income and financial backgrounds, the exact nature of the income tax consequences to you, should you choose to purchase the offered securities, cannot be determined.

The Tax Act stipulates that for a corporation to qualify as a mortgage investment corporation, among other requirements, the corporation must have a minimum of 20 shareholders and no shareholder can own in excess of 25% of the total issued and outstanding shares of any class of the capital of the corporation. A minimum of 50% of

the cost of the corporation's assets must be invested in residential mortgages as defined in the Tax Act include mortgages on multiple unit residential developments and deposits with Canada Deposit Insurance Corporation-insured institutions.

The Corporation intends to maintain its qualification as a mortgage investment corporation under the terms of the Tax Act, which would mean that its shares are an eligible investment for registered retirement savings plans and registered retirement investment funds. However, you should consult your own professional advisers to obtain advice on the RRSP and RRIF eligibility of these securities. As a mortgage investment corporation, if it pays out all of its net income annually in the form of dividends during the year or within ninety (90) days after the end of the year, it may deduct the dividend amount paid as if it was an expense. The dividends received are not subject to usual dividend treatment in the hands of shareholders. Rather, they will be taxable in the hands of shareholders who are subject to tax as if they had received an interest payment.

Accordingly, it is anticipated that for each taxation year of the Corporation throughout which it qualifies as a mortgage investment corporation under the Tax Act, the Corporation will not be required to pay income taxes on the net earnings from which dividends are paid in each year. Income in excess of allowable deductible reserves under the Tax Act, which is not distributed to shareholders within ninety (90) days of each of the Corporation's year-ends, will be subject to ordinary corporate tax under the Tax Act.

**The Corporation is making the foregoing tax disclosure, but it makes no other warranties or representations, implied or otherwise, with respect to the taxation issues.**

#### **ITEM 7 - COMPENSATION PAID TO SELLERS AND FINDERS**

It is currently contemplated that the offered securities will primarily be sold through arm's length sellers/finders (the "Finders") in connection with this Offering, and the Corporation, or the Manager on the Corporation's behalf, will negotiate terms as follows:

- (a) The Finder will be paid a finder's fee of up to a maximum of 5% of the investment monies raised by the Finder and, potentially, 1% annually as a trailing commission;
- (b) No brokers warrants or agent's options will be issued as a component of the finder's fee; and
- (c) Any finder's fee paid will consist of cash compensation only; no securities will be issued as compensation.

#### **ITEM 8 - RISK FACTORS**

The Offering should be considered highly speculative due to the nature and stage of development of the Corporation's business. The purchase of Class B Shares involves a number of significant risk factors. In addition to the factors set forth elsewhere in this Offering Memorandum, prospective Investors should consider the following risks before purchasing Class B Shares. Any or all of these risks, or other as yet unidentified risks, may have a material, adverse effect on the Corporation's business or the dividends to the holders of Class B Shares.

##### **8.1 Investment Risks**

This Offering Memorandum constitutes a private offering of the Class B Shares by the Corporation only in those jurisdictions where, and to those persons to whom, they may be lawfully offered for sale under exemptions in applicable securities legislation. This Offering Memorandum is not, and under no circumstances is to be construed as a prospectus, advertisement or public offering of these Class B Shares. Subscribers to this Offering Memorandum will not have the benefit of a review of the material by any regulatory authority.

The Class B Shares are also subject to onerous and indefinite resale restrictions under applicable securities legislation. There is no market through which the Class B Shares may be sold and the Corporation does not expect

that any market will develop pursuant to this Offering or in the future. Accordingly, an investment in the Class B Shares should only be considered by Investors who do not require liquidity. See Item 10 - : “Resale Restrictions”.

The Class B Shares are not guaranteed by any other person. Neither the Manager nor any of its affiliates are guaranteeing the obligations of the Corporation.

The Corporation is not a member institution of the Canada Deposit Insurance Corporation and the Class B Shares offered pursuant to this Offering Memorandum are not insured against loss through the Canada Deposit Insurance Corporation. The Class B Shares are retractable at the option of the holder, but only under certain circumstances. See “Securities Offered”.

There is no guarantee that an investment in Class B Shares will earn any positive return. The declaration and payment of dividends on the Class B Shares is in the discretion of the Board of Directors. There is no guarantee that any dividends will be paid on the Class B Shares.

If, for any reason, the Corporation fails to maintain its qualification as a mortgage investment corporation under the Tax Act, dividends paid by the Corporation on the Class B Shares will cease to be deductible from the Corporation’s income and the Class B Shares, unless listed on a prescribed stock exchange for the purposes of the Tax Act, may cease to be qualified investments for Deferred Income Plans. See Item 6 - : “Income Tax Consequences and RRSP Eligibility”.

## **8.2 Issuer Risks**

The Corporation has been in operation for six (6) years with audited statements for 2009, 2010, 2011, 2012, 2013 and 2014.

Investors are relying on the expertise and good faith of the management of the Corporation and the Manager to carry on the business of the Corporation. Some of the directors and officers of the Corporation are engaged part time on activities related to the Corporation. Some of the directors and officers of the Corporation are engaged and will continue to be engaged in other activities. See Item 3 - : “Directors, Management, Promoters and Principal Holders”.

If the Corporation fails to meet all of the conditions required to be a mortgage investment corporation, the dividends paid on the Class B Shares will cease to be deductible in the determination of the Corporation’s taxable income. In addition, the Class B Shares, unless listed on a prescribed stock exchange, which the Corporation has no intentions of such public listing, may cease to be qualified investments for Deferred Income Plans. See Item 6 - : “Income Tax Consequences and RRSP Eligibility”.

The normal gross-up and dividend tax credit rules do not apply to dividends paid on Class B Shares of the Corporation and corporate Investors of the Class B Shares will not be entitled to deduct the amount of any dividends received on their Class B Shares from their taxable income. See Item 6 - : “Income Tax Consequences and RRSP Eligibility”.

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

Although the Corporation will endeavour to maintain a diversified portfolio as disclosed, the composition of the Corporation’s investment portfolio may vary widely from time to time and may be concentrated by type of security, industry or geography, resulting in the Corporation’s portfolio being less diversified than anticipated. There is no assurance that the Corporation’s mortgage portfolio will reflect the Manager’s mortgage portfolio, and in fact, the composition of the Corporation’s mortgage portfolio may render it less profitable than the Manager’s mortgage portfolio.



Some of the Corporation's directors and officers are also directors or officers of the Manager and may act as members of the Manager's credit committee, and accordingly, there may be conflicts of interest if the interests of these companies are inconsistent.

The Manager has entered into the Management Contract with the Corporation and is entitled to management fees for providing services to the Corporation. The Corporation may be subject to various conflicts of interest because of the fact that the directors and officers of the Manager are engaged in a wide range of investing and other business activities, which may include real property financing in direct competition with the Corporation. The Manager intends to and has established other investment vehicles which may involve transactions which conflict with the interests of the Corporation.

The services of the Manager, the directors and officers of the Manager and the members of its credit committee are not exclusive to the Corporation. The Manager, its affiliates, members of its credit committee and their affiliates may, at any time, engage in promoting or managing any other corporation or its investments including those which may compete directly or indirectly with the Corporation.

The Corporation will be dependent on the knowledge and expertise of the Manager for investment advisory and portfolio management services under the Management Contract. There is no certainty that the persons who are currently officers and directors of the Manager or members of its credit committee will continue to be officers and directors of the Manager or members of its credit committee for an indefinite period of time. See "The Manager".

Although none of the directors or officers of the Corporation or the members of its credit committee will devote all of his or her full time to the business and affairs of the Corporation, each will devote as much time as is necessary to supervise the management of, to manage, or to advise on the business and affairs of the Corporation.

### **8.3 Real Estate Industry and Related Risks**

The Corporation's investments in mortgage loans will be secured by real estate. All real property investments are subject to elements of risk. Real property value is affected by general economic conditions, local real estate markets, the attractiveness of the property to tenants, competition from other available properties and other factors. While independent appraisals are a key component of the underwriting process before the Corporation may make any mortgage investments, the appraised values provided therein, even where reported on an "as is" basis are not necessarily reflective of the market value of the underlying real property, which may fluctuate. In addition, the appraised values reported in independent appraisals may be subject to certain conditions, including the completion, rehabilitation or lease-up improvements on the real property providing security for the investment. There can be no guarantee that these conditions will be satisfied and if, and to the extent, they are not satisfied, the appraised value may not be achieved. Even if such conditions are satisfied, the appraised value may not necessarily reflect the market value of the real property at the time the conditions are satisfied.

The value of income producing real property may also depend on the credit worthiness and financial stability of the borrowers. The Corporation's income and funds available for distribution to security holders would be adversely affected if a significant number of borrowers were unable to pay their obligations to the Corporation or if the Corporation were unable to invest its funds in commercial mortgages on economically favourable terms. On default by a borrower, the Corporation may experience delays in enforcing its rights as lender and may incur substantial costs in protecting its investment.

Certain significant expenditures, including property taxes, capital repair and replacement costs, maintenance costs, mortgage payments, insurance costs and related charges must be made through the period of ownership of real property regardless of whether the property is producing income. The Corporation may be required to incur such expenditures to protect its investment, even if the borrower is not making debt service required of it under the mortgage.

Real property mortgage investments tend to be relatively illiquid, with the degree of liquidity generally fluctuating in relation to demand and for the perceived desirability of the investment. Such illiquidity may tend to limit the Corporation's ability to vary its portfolio promptly in response to changing economic or investment conditions. If

the Corporation were required to liquidate its real property mortgage investments, the proceeds to the Corporation might be significantly less than the total value of its investment on a going concern basis.

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

The mortgage business can be significantly affected by the prevailing rates of interest. The interest rate is subject to sudden fluctuations. Substantially increased interest rates could have a materially adverse affect on the Corporation's business.

Although the Corporation intends to generally obtain an evaluation of the property to be subject to the mortgage, in the form of a Phase I Environmental Audit, environmental legislation and policies have become an increasingly important feature of property ownership and management in recent years. Under various laws, the Corporation could become liable for the costs of effecting remedial work necessitated by the release, deposit or presence of certain materials, including hazardous or toxic substances and wastes at or from a property, or disposed of at another location. The failure to affect remedial work may adversely affect an owner's ability to sell real estate or to borrow using the real estate as collateral and could result in claims against the owner.

The Corporation follows the environmental program of the Manager, which includes policies and procedures to review and monitor environmental matters associated with its properties. The Manager's environmental policy usually includes a Phase I Environmental Audit when warranted, conducted by an independent and experienced environmental consultant, before advancing a loan or acquiring a mortgage.

There can be no assurance that income tax laws and government incentive programs relating to the real estate industry will not be changed in a manner which adversely affects the Corporation or distributions received by its security holders.

**For all of the aforesaid reasons and others set forth and not set forth herein, the Class Shares involve a certain degree of risk. Any person considering the purchase of the Class B Shares should be aware of these and other factors set forth in this Offering Memorandum and should consult with his/her legal, tax and financial advisors prior to making an investment in the Class B Shares. The Class B Shares should only be purchased by persons who can afford to lose all of their total investment.**

## **ITEM 9 - REPORTING OBLIGATIONS**

The Corporation is not a "reporting issuer" under the securities laws of any jurisdiction. Accordingly, the Corporation is not subject to the continuous disclosure obligations of reporting issuers. Therefore, Investors will not receive any financial statements or other disclosures regarding the Corporation and its mortgage investments, other than as required by law. **The Company is not required to send you any documents on an annual or ongoing basis.**

Further information about the Corporation, including previous Offering Memorandums and audited financial statements, can be found on the Corporation's website at [www.apcapital.ca](http://www.apcapital.ca).

## **ITEM 10 - RESALE RESTRICTIONS**

These securities will be subject to a number of resale restrictions, including a restriction on trading. Until the restriction on trading expires, you will not be able to trade the securities unless you can comply with an exemption from the prospectus and registration requirements under securities legislation. Class B Shares issued by the Corporation will bear the following legend:

***Unless permitted under securities legislation, you cannot trade the securities before the date that is four (4) months and a day after the date AP Capital***

***Mortgage Investment Corp. becomes a reporting issuer in any province or territory of Canada.***

Unless permitted under securities legislation, you must not trade the securities without the prior written consent of the regulator in Manitoba unless:

- (a) The Corporation has filed a prospectus with the regulator in Manitoba with respect to the Class B Shares purchased by the Investor and the regulator in Manitoba has issued a receipt for that prospectus, or
- (b) The Investor has held the Class B Shares for at least twelve (12) months.

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

**The Corporation has no current intention of becoming a reporting issuer in any jurisdiction and therefore the foregoing restriction on trading will continue indefinitely (subject to the availability of certain limited exemptions which may not apply in the circumstances).**

Securities legislation provides an exemption for redemption of Class B Shares. Notwithstanding this exemption, the right of redemption is limited and may not be available.

#### **ITEM 11 - PURCHASER'S RIGHTS**

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

##### ***Two Day Cancellation Right***

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

##### ***Statutory Rights of Action in the Event of a Misrepresentation for Residents of Alberta and British Columbia***

If there is a misrepresentation in this Offering Memorandum and you are resident in Alberta or British Columbia, you have a statutory right to sue:

- (a) The Corporation to cancel your agreement to buy these securities; or
- (b) For damages against the Corporation, every director of the Corporation at the date of this Offering Memorandum and every person or company who signed this Offering Memorandum.

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

If you intend to rely on the rights described in (a) or (b) above, you must do so within strict time limitations. You must commence your action to cancel the agreement within 180 days after the date of the transaction that gave rise to the cause of action. You must commence your action for damages within the earlier of:

- (a) 180 days after you first had knowledge of the facts giving rise to the cause of action; or
- (b) Three (3) years after the date of the transaction that gave rise to the cause of action.

### ***Statutory Rights of Action for Residents of Saskatchewan***

If there is a misrepresentation in this Offering Memorandum or any advertising or sales literature used in connection with this Offering Memorandum and you are resident in Saskatchewan, you have a statutory right to sue:

- (a) The Corporation to cancel your agreement to buy these securities; or
- (b) For damages against the Corporation, every director and promoter of the Corporation, every person or company whose consent has been filed with this Offering Memorandum (but only with respect to statements made by them) and every person who signed this Offering Memorandum.

This statutory right to sue is available to you whether or not you relied on the misrepresentation. However, there are various defences available to the Corporation and to the other parties you might have the right to sue. In particular, they have a defence if you knew of the misrepresentation when you purchased the securities. Also, the amount recoverable will not exceed the price at which the securities were offered under this Offering Memorandum and any defendant will not be liable for all or any part of the damages that the defendant proves do not represent the depreciation in value of the security as a result of the misrepresentation.

In addition, you have a statutory right to sue any person or company who made verbal representations relating to the Corporation or the Units that contained a misrepresentation.

If you intend to rely on the rights described in (a) or (b) above, you must do so within strict time limitations. You must commence your action to cancel the agreement within 180 days after the date of the transaction that gave rise to the cause of action. You must commence your action for damages within the earlier of:

- (a) One (1) year after you first have knowledge of the facts given rise to the cause of action; or
- (b) Six (6) years after the date of the transaction that gave rise to the cause of the action.

### ***Contractual Rights of Action in the Event of a Misrepresentation for Residents of Manitoba***

If there is a misrepresentation in this Offering Memorandum and you are resident in Manitoba, you have a contractual right to sue the Corporation:

- (a) To cancel your agreement to buy these securities, or
- (b) For damages.

This contractual right to sue is available to you whether or not you relied on the misrepresentation. However, in an action for damages, the amount you may recover will not exceed the price that you paid for your securities and will not include any part of the damages that the Corporation proves does not represent the depreciation in value of the securities resulting from the misrepresentation. The Corporation has a defence if it proves that you knew of the misrepresentation when you purchased the securities.

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

## **ITEM 12 - FINANCIAL STATEMENTS**

The following financial statements are attached as Schedule A to this Offering Memorandum:

- (a) audited annual financial statements for the year ended June 30, 2013; and

(b) audited annual financial statements for the year ended June 30, 2014

**SCHEDULE A**

**ALTA PACIFIC MORTGAGE INVESTMENT CORP.**

**FINANCIAL STATEMENTS**

**JUNE 30, 2013**

**ALTA PACIFIC MORTGAGE INVESTMENT CORP.**

**INDEX TO FINANCIAL STATEMENTS**

**JUNE 30, 2013**

	Page(s)
Auditor's Report	3
Statement of Financial Position	4
Statement of Changes in Equity	5
Statement of Income and Comprehensive Income	6
Statement of Cash Flows	7
Notes to Financial Statements	8 - 22



200 - 15300 Croydon Drive  
Surrey, BC V3S 0Z5

Phone: 604-536-7614  
Toll Free: 1-800-761-7772  
Fax: 604-538-5356

www.knv.com



800 - 1285 West Broadway  
Vancouver, BC V6H 3X8

Phone: 604-736-2571  
Toll Free: 1-800-761-7772  
Fax: 604-736-4280

www.knv.com

## INDEPENDENT AUDITOR'S REPORT

To the Shareholders of:  
Alta Pacific Mortgage Investment Corp.

We have audited the accompanying financial statements of ALTA PACIFIC MORTGAGE INVESTMENT CORP., which comprise the statement of financial position as at June 30, 2013 and the statement of changes in equity, statement of income and comprehensive income and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Financial Statements*

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

### *Auditor's Responsibility*

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

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

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

### *Opinion*

In our opinion, these statements present fairly, in all material respects, the financial position of the Company as at June 30, 2013 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

November 12, 2013

A handwritten signature in dark ink, appearing to read 'KN&amp;V', is written over the printed name of the firm.

Chartered Accountants LLP

**ALTA PACIFIC MORTGAGE INVESTMENT CORP.**  
**STATEMENT OF FINANCIAL POSITION**  
**JUNE 30, 2013 AND 2012**

	2013	2012
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash	\$ 152,775	\$ 463,875
Accounts receivable (Note 9)	144,501	44,232
Mortgages and accrued interest receivable (Note 5)	20,597,920	12,636,948
Property held for sale (Note 6)	367,444	190,132
Total current assets	21,262,640	13,335,187
INVESTMENT IN ASSOCIATE (Note 7)	3,569,699	3,252,012
	\$ 24,832,339	\$ 16,587,199
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable and accrued liabilities	\$ 67,831	\$ 43,884
Deferred revenue	435,700	251,248
Loan payable (Note 9)	21,307	-
Dividends payable	272,634	171,973
Total current liabilities	797,472	467,105
<b>SHAREHOLDERS' EQUITY:</b>		
Share capital (Note 8)	23,884,340	16,131,109
Retained earnings (deficit)	150,527	(11,015)
Total shareholders' equity	24,034,867	16,120,094
	\$ 24,832,339	\$ 16,587,199

The accompanying Notes are an integral part of this statement.



**ALTA PACIFIC MORTGAGE INVESTMENT CORP.**  
**STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEARS ENDED JUNE 30, 2013 AND 2012**

	Share Capital	Retained Earnings (Deficit)	Total Equity
	(Note 8)		
Balances at June 30, 2011	\$ 10,496,810	\$ (106,674)	\$ 10,390,136
Changes in equity for 2012:			
Net income	-	1,333,435	1,333,435
Dividends	-	(1,237,776)	(1,237,776)
Issued - dividends reinvestment	527,488	-	527,488
Issued - cash consideration	8,871,000	-	8,871,000
Redemption of shares	(3,461,964)	-	(3,461,964)
Share issue costs	(302,225)	-	(302,225)
Balances at June 30, 2012	\$ 16,131,109	\$ (11,015)	\$ 16,120,094
Balances at June 30, 2012	\$ 16,131,109	\$ (11,015)	\$ 16,120,094
Changes in equity for 2013:			
Net income	-	2,089,998	2,089,998
Dividends	-	(1,928,456)	(1,928,456)
Issued - dividends reinvestment	598,016	-	598,016
Issued - cash consideration	9,100,989	-	9,100,989
Redemption of shares	(1,615,101)	-	(1,615,101)
Share issue costs	(330,673)	-	(330,673)
Balances at June 30, 2013	\$ 23,884,340	\$ 150,527	\$ 24,034,867

The accompanying Notes are an integral part of this statement.



**ALTA PACIFIC MORTGAGE INVESTMENT CORP.**  
**STATEMENT OF INCOME AND COMPREHENSIVE INCOME**  
**FOR THE YEARS ENDED JUNE 30, 2013 AND 2012**

	2013	2012
<b>REVENUE:</b>		
Commitment fees	\$ 621,749	\$ 362,050
Income from associate (Note 7)	317,687	548,909
Interest	1,702,617	993,981
Other fees	18,133	20,045
	2,660,186	1,924,985
<b>EXPENSES:</b>		
Bank charges	5,549	3,383
Impairment losses on mortgages and accrued interest receivable	46,988	185,414
Financial services fees (Note 9)	405,499	309,441
Office and sundry	21,045	16,731
Professional fees	113,812	76,581
	592,893	591,550
Income from operations	2,067,293	1,333,435
<b>GAIN ON DISPOSAL OF PROPERTY HELD FOR SALE</b>	22,705	-
<b>NET AND COMPREHENSIVE INCOME</b>	<b>\$ 2,089,998</b>	<b>\$ 1,333,435</b>
<b>BASIC AND DILUTED NET INCOME PER SHARE (Note 10)</b>	<b>\$ 8.74</b>	<b>\$ 10.23</b>

The accompanying Notes are an integral part of this statement.



**ALTA PACIFIC MORTGAGE INVESTMENT CORP.**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEARS ENDED JUNE 30, 2013 AND 2012**

	2013	2012
<b>CASH WAS PROVIDED FROM (USED IN):</b>		
Operating Activities:		
Net income	\$ 2,089,998	\$ 1,333,435
Items not affecting cash -		
Impairment losses on mortgages and accrued interest receivable	46,988	185,414
Income from associate	(317,687)	(548,909)
Gain on disposal of property held for sale	(22,705)	-
	1,796,594	969,940
Changes in non-cash working capital:		
Increase in accounts receivable	(100,269)	(44,232)
Increase in accrued interest receivable	(33,065)	(223,772)
Increase (decrease) in accounts payable and accrued liabilities	23,947	(193,292)
Increase (decrease) in deferred revenue	184,452	(147,294)
Increase in dividends payable	100,661	93,130
Net changes	175,726	(515,460)
	1,972,320	454,480
Investing Activities:		
Proceeds from disposal of property held for sale	212,837	-
Acquisition of property held for sale	(367,444)	(190,132)
Mortgages issued, net	(7,974,895)	(6,298,261)
	(8,129,502)	(6,488,393)
Financing Activities:		
Proceeds from loan payable	471,307	-
Repayment of loan payable	(450,000)	-
Redemption of shares	(1,615,101)	(3,461,964)
Shares issued for cash	9,100,989	8,871,000
Dividends	(1,330,440)	(710,288)
Share issue costs	(330,673)	(302,225)
	5,846,082	4,396,523
Decrease in cash	(311,100)	(1,637,390)
CASH, BEGINNING OF YEAR	463,875	2,101,265
CASH, END OF YEAR	\$ 152,775	\$ 463,875

The accompanying Notes are an integral part of this statement.



**ALTA PACIFIC MORTGAGE INVESTMENT CORP.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2013**

---

**1. CORPORATE INFORMATION**

Alta Pacific Mortgage Investment Corp. (the "Company") was incorporated on March 27, 2007 under the laws of British Columbia and is domiciled in Canada with its registered principal business office located in Suite 1 - 306 Water Street, Vancouver, British Columbia. The Company is in the business of investing in financial instruments, principally mortgages.

**2. STATEMENT OF COMPLIANCE**

These financial statements, including comparatives, have been prepared in accordance with International Financial Reporting Standards ("IFRS") using accounting policies consistent with IFRS as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

These annual financial statements for the year ended June 30, 2013 were authorized for issuance by the Board of Directors of the Company on November 12, 2013. The Board of Directors has the power to amend the financial statements after their issuance only in the case of discovery of an error.

**3. BASIS OF PRESENTATION**

(a) Basis of measurement

These financial statements have been prepared on the basis of historical cost, except for financial instruments classified as fair value through profit and loss, which are measured at fair value.

(b) Functional and presentation currency

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

(c) Critical accounting estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period reported. These estimates are reviewed periodically and, as adjustments become necessary, they are reported in the period in which they become known.

The most significant estimates the Company is required to make relate to the impairment of mortgages receivable (Note 5) and property held for sale (Note 6). These estimates may include judgments and assumptions regarding the local real estate conditions, interest rates and availability of credit, cost and terms of financing, the impact of future legislation and regulations, prior encumbrances and other factors affecting the mortgage and underlying security of the mortgage investments.

**ALTA PACIFIC MORTGAGE INVESTMENT CORP.**  
**NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2013 (Continued)**

---

**3. BASIS OF PRESENTATION (Continued)**

(c) Critical accounting estimates and judgments (Continued)

The assumptions are limited by the availability of reliable comparable data, economic uncertainty, ongoing geopolitical concerns and the uncertainty of predictions concerning future events. Illiquid credit markets and volatile equity markets have increased the uncertainty inherent in such estimates and assumptions. As such, by their nature, estimates of impairment are subjective and do not necessarily result in precise determinations. Should the underlying assumptions change, the estimated allowance for impairment losses could vary by a material amount.

**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

(a) Financial instruments

Financial assets consist of cash and mortgages and accrued interest receivable. Financial liabilities consist of accounts payable and accrued liabilities, loan payable and dividends payable.

The Company determines the classification of its financial assets and liabilities at initial recognition. Financial instruments are recognized initially at fair value and in the case of financial assets and liabilities carried at amortized costs, adjusted for directly attributable transaction costs.

The Company has classified its financial assets and liabilities as follows:

- (i) Cash and cash equivalents are classified as held for trading, which is measured at fair value. Cash and cash equivalents include cash on hand and with banks repayable on demand or maturing three months or less from the date of acquisition and which are subject to an insignificant risk of change in value.
- (ii) Mortgages and accrued interest receivable are classified as loans and receivables, which are measured at amortized costs using the effective interest method, less impairment losses.
- (iii) Accounts payable and accrued liabilities and dividends payable are classified as financial liabilities and are measured at amortized costs using the effective interest method.

(b) Mortgages receivable

Mortgages receivable are assessed at each reporting date to determine whether there is objective evidence of impairment. An impairment allowance for mortgage receivables is determined based on management's estimates. Assumptions, based on the current economic environment, has been made which management believes are a reasonable basis upon which to estimate the allowance. Estimates and assumptions made may change if new information becomes available. If information becomes available that the full recovery of a mortgage is unlikely, an allowance is provided for in the profit or loss in the period the new information becomes available.

Specific allowances are established for individual mortgages identified as impaired. These allowances for losses on mortgage loans are based on payment arrears, known risks in the portfolio, historical mortgage loss experience and current economic conditions and trends.

**ALTA PACIFIC MORTGAGE INVESTMENT CORP.**  
**NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2013 (Continued)**

---

**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

(b) Mortgages receivable (Continued)

The Company classifies a mortgage loan as impaired when, in the opinion of management, there is reasonable doubt as to their collectibility, either in whole or in part, of principal and interest, unless the loan is well secured and in the process of collection.

(c) Revenue recognition

Interest on mortgages receivable is recognized as revenue using the effective interest method to the extent it is probable that the Company will receive the interest revenue. Other fees are recognized as revenue when earned.

The Company charges upfront commitment fees, such as lender, broker and renewal fees, based on the gross mortgage values for all mortgages funded. These fees, net of related referral fees paid, are amortized to income using the effective interest method over the contractual terms of the mortgage.

(d) Deferred revenue

Deferred revenue comprises of unearned upfront commitment fees and mortgage interest received in advance from borrowers, which are amortized to income using the effective interest method over the contractual terms of the mortgages.

(e) Property held for sale

Real estate acquired through loan default is classified as property held for sale when its carrying amount will be recovered principally through a sale transaction rather than through continuing use. The criteria for "held for sale" includes management's commitment to a plan to sell the assets and the expectation that such sale will be completed within a twelve month period. Events or circumstances beyond the Company's control may extend the period to complete the sale beyond one year. Such assets continue to be classified as "held for sale" as management remains committed to its plan to sell the assets. Property held for sale is measured at the lower of its carrying amount and its fair value less cost to sell. Impairment losses and subsequent reversals are recognized to net and comprehensive income in the period in which they occur. Property held for sale is not depreciated.

(f) Associates

Associates are those entities in which the Company has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Company holds between 20 and 50 percent of the voting power of another entity.

Investment in associate is accounted for using the equity method. Under the equity method, the investment is initially recognized at cost and is increased by the proportionate share of any post acquisition earnings and is decreased by the proportionate share of any post acquisition losses, dividends received and any accumulated impairment losses.



**ALTA PACIFIC MORTGAGE INVESTMENT CORP.**  
**NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2013 (Continued)**

---

**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

(g) Basic and diluted net income per share

The Company presents basic and diluted net income per share data for its common shares. Basic per share amounts are calculated by dividing the net income attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. As the Company has no dilutive financial instruments that could be converted to common shares, basic and diluted net income per share are identical.

(h) Share capital

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

Dividends are recognized in equity in the period in which they are declared. Dividends on new shares are calculated on a pro-rated daily basis.

(i) Income taxes

The Company is a Mortgage Investment Corporation as defined in Section 130.1(6) of the Canadian Income Tax Act and, as such, is not taxable on income which flows through to the shareholders in the form of dividends paid during the year or within 90 days of the end of the year. It is the Company's policy to flow such dividends out to the shareholders and as such have no taxable income for the year. Accordingly, no provision for corporate income taxes has been made in the accounts.

(j) Standards, Amendments and Interpretations Adopted in the Current Year

The Company has adopted the following accounting standards, amendments, and interpretations for the June 30, 2013 reporting period. Management's assessment of the impact of these new standards and interpretations is set out below:

*IAS 1 - Presentation of Financial Statements*

The Company has adopted amendment to IAS 1 effective July 1, 2012. A requirement has been added to present items in other comprehensive income grouped on the basis of whether they may be reclassified subsequently to profit or loss. This amendment makes clearer the effects items of other comprehensive income may have on profit or loss in the future. There is no impact on the Company's financial statements resulting from the adoption of these amendment.

*IAS 12 - Income Taxes*

The Company has adopted amendments to IAS 12 effective July 1, 2012. These amendments provide a practical approach for the measurement of deferred tax relating to investment properties measured at fair value and property, plant and equipment and intangible assets measured using the revaluation model. The measurement of deferred tax for these specified assets is based on the presumption that the carrying amount of the underlying asset will be recovered entirely through sale, unless the entity has clear evidence that economic benefits of the underlying asset will be consumed during its economic life. There is no impact on the Company's financial statements resulting from the adoption of these amendments.

**ALTA PACIFIC MORTGAGE INVESTMENT CORP.**  
**NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2013 (Continued)**

---

**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*IFRS 7 - Financial Instruments: Disclosures*

The Company has adopted amendments to IFRS 7 effective July 1, 2012. These amendments provide greater transparency around risk exposures relating to transfers of financial assets that are not derecognized in their entirety, and those derecognized in their entirety, but with which the entity continues to have some continuing involvement. The amendments also provide greater transparency about the effect of those risks on an entity's financial position. There is no impact on the Company's financial statements resulting from the adoption of these amendments.

(k) Standards, Amendments and Interpretations Not Yet Effective

Certain new accounting standards and interpretations have been published that are not mandatory for the June 30, 2013 reporting period. Management has decided against early adoption of these standards.

*IFRS 7 - Financial Instruments: Disclosures*

In 2011, IASB amended this standard to provide additional information about offsetting of financial assets and financial liabilities. The amendments require disclosures that will enable users of financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with an entity's recognized financial assets and recognized financial liabilities, on the entity's financial position. These disclosure amendments are required to be adopted retrospectively for periods beginning January 1, 2013. The Company is currently evaluating the impact of these amendments on its financial statements.

*IFRS 9 - Financial Instruments*

This standard and its consequential amendments are applicable to annual reporting periods beginning on or after January 1, 2015. This standard introduces new classification and measurement models for financial assets, using a single approach to determine whether a financial asset is measured at amortized cost or fair value. To be classified and measured at amortized cost, assets must satisfy the business model test for managing the financial assets and have certain contractual cash flow characteristics. All other financial instrument assets are to be classified and measured at fair value. This standard allows an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for-trading) in other comprehensive income, with dividends as a return on these investments being recognised in profit or loss. In addition, those equity instruments measured at fair value through other comprehensive income would no longer have to apply any impairment requirements nor would there be any 'recycling' of gains or losses through profit or loss on disposal. The accounting for financial liabilities continues to be classified and measured in accordance with IAS 39, with one exception, being that the portion of a change of fair value relating to the entity's own credit risk is to be presented in other comprehensive income unless it would create an accounting mismatch. This standard will be adopted on July 1, 2015, but the impact of its adoption is yet to be assessed.

**ALTA PACIFIC MORTGAGE INVESTMENT CORP.**  
**NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2013 (Continued)**

---

**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

(k) Standards, Amendments and Interpretations Not Yet Effective (Continued)

*IFRS 10 - Consolidated financial statements*

This new standard, which is applicable for annual periods beginning on or after 1 January 2013, establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. The principle of control is based on three criteria: power over the investee; exposure to variable returns from involvement in the investee; and the ability of the investor to use its power to affect the amount of its returns. This standard supersedes the requirements relating to consolidated financial statements in IAS 27 *Consolidated and Separate Financial Statements* (as amended in 2008) and SIC-12 *Consolidation — Special Purpose Entities*. This standard will be adopted on July 1, 2013, but the impact of its adoption is yet to be assessed.

*IFRS 11 - Joint Arrangements*

This standard replaces IAS 31 and applies for annual periods beginning on or after January 1, 2013. This new standard introduces new rules which classify joint arrangements as either a joint operation or joint venture. Under the new standard, proportionate consolidation is not allowed and all joint ventures must be equity accounted. All joint arrangements held by the Company will need to be reassessed to determine whether the joint operation or joint venture classification is appropriate and the potential impacts of a change on the presentation of the financial statements. This standard will be adopted on July 1, 2013, but the impact of its adoption is yet to be assessed.

*IFRS 12 - Disclosure of Interests in Other Entities*

This new standard is applicable for annual reporting periods beginning on or after January 1, 2013. This standard clarifies the disclosure requirements for all forms of interests in other entities including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. This standard will be adopted on July 1, 2013, but the impact of its adoption is yet to be assessed.

*IFRS 13 - Fair Value Measurement*

This new standard, which is applicable for annual reporting periods beginning on or after January 1, 2013, sets out in a single standard a framework for measuring fair value and requires disclosures about fair value measurements. IFRS 13 applies when other IFRSs require or permit fair value measurements. This standard will be adopted on July 1, 2013, but the impact of its adoption is yet to be assessed.

*IAS 28 - Investments in Associates and Joint Ventures*

In 2011, the IASB amended this standard to incorporate the accounting for joint ventures because the equity method is now applicable to both joint ventures and associates. The standard is required to be adopted for periods beginning on or after January 1, 2013. The Company is currently evaluating the impact of the amendments on its financial statements.

**ALTA PACIFIC MORTGAGE INVESTMENT CORP.**  
**NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2013 (Continued)**

---

**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

(k) Standards, Amendments and Interpretations Not Yet Effective (Continued)

*IAS 32 - Financial Instruments: Presentation*

In 2011, the IASB issued amendments to IAS 32 to provide additional application guidance for offsetting financial assets and financial liabilities. The amendments are effective for periods beginning on or after January 1, 2014 and may be early adopted. The Company is currently evaluating the impact of the amendments on its financial statements.

*Amendments to IFRS 10, IFRS 12 and IAS 27 Investment Entities*

The amendments to IFRS 10 define an investment entity and require a reporting entity that meets the definition of an investment entity not to consolidate its subsidiaries but instead to measure its subsidiaries at fair value through profit or loss in its consolidated and separate financial statements.

To qualify as an investment entity, a reporting entity is required to:

- obtain funds from one or more investors for the purpose of providing them with professional investment management services.
- commit to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both.
- measure and evaluate performance of substantially all of its investments on a fair value basis.

Consequential amendments have been made to IFRS 12 and IAS 27 to introduce new disclosure requirements for investment entities.

The amendments are effective for periods beginning on or after January 1, 2014. These amendments will be adopted on July 1, 2014, but the impact of its adoption is yet to be assessed.

*Annual Improvements 2009 - 2011*

The annual improvements 2009 - 2011 made minor amendments to a number of IFRSs. The amendments are generally intended to clarify requirements rather than result in substantive changes in current practices. The amendments relevant to the Company are summarised below:

Clarification of the requirements for opening statement of financial position:

- clarifies that the appropriate date for the opening statement of financial position is the beginning of the preceding period (related notes are no longer required to be presented).
- addresses comparative requirements for the opening statement of financial position when an entity changes accounting policies or makes retrospective restatements or reclassifications, in accordance with IAS 8.

Clarification of the requirements for comparative information provided beyond minimum requirements:

- clarifies that additional financial statement information need not be presented in the form of a complete set of financial statements for periods beyond the minimum requirements.
- requires that any additional information presented should be presented in accordance with IFRS and the entity should present comparative information in the related notes for that additional information.

**ALTA PACIFIC MORTGAGE INVESTMENT CORP.**  
**NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2013 (Continued)**

**5. MORTGAGES RECEIVABLE AND ACCRUED INTEREST RECEIVABLE**

Mortgages written by the Company are for terms of one year or less and earn interest at rates ranging from 7.9% to 15.0% per annum. The mortgages are secured by first and/or second charges on real property. There are no, or nominal, principal repayments required during the terms of the mortgages.

	2013	2012
Mortgages and accrued interest receivable		
Interest in first mortgages	\$ 13,587,927	\$ 6,430,561
Interest in non-first mortgages	6,622,274	6,127,750
Allowance for impairment losses	-	(225,000)
	20,210,201	12,333,311
Accrued interest receivable	387,719	354,654
Allowance for impairment losses	-	(51,017)
	387,719	303,637
Mortgages and accrued interest receivable, net of allowances	\$ 20,597,920	\$ 12,636,948

The changes in the allowance for impairment losses are summarized as follows:

	2013	2012
Allowance for impairment losses on mortgages receivable		
Balance at beginning of year	\$ 225,000	\$ 55,000
Increase in provision	-	170,000
Allowance for mortgages settled	(225,000)	-
Balance at end of year	\$ -	\$ 225,000
Allowance for impairment losses on accrued interest receivable		
Balance at beginning of year	\$ 51,017	\$ 35,603
Increase in provision	-	15,414
Allowance for mortgages settled	(51,017)	-
Balance at end of year	\$ -	\$ 51,017

**6. PROPERTY HELD FOR SALE**

The Company was granted legal title to a real property held as security for a non-performing mortgage receivable. The real property is currently listed for sale and the Company expects the sale to occur within the next fiscal year.

It is management's opinion that the carrying amount approximates its fair value less cost to sell. Any net realized gains or losses related to the sale will be recorded in the year it occurs.

**ALTA PACIFIC MORTGAGE INVESTMENT CORP.****NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2013 (Continued)****7. INVESTMENT IN ASSOCIATE**

	2013	2012
Investment, at cost	\$ 2,288,649	\$ 2,500,000
Share of equity since acquisition	1,281,050	752,012
	\$ 3,569,699	\$ 3,252,012

The Company holds an interest in 1576697 Alberta Ltd, which is comprised of 50% of the Class A voting common shares and 100% of the Class F preferred shares, with a total redemption value of \$2,500,000. Certain shareholders and directors own a 33.33% interest in the associate.

The associate owns a commercial office building in Fort McMurray, Alberta, which is rented out to medical and law practices' tenants.

The following table presents a summarized unaudited June 30, 2013 financial information of the associate:

Summarized statement of financial position	2013	2012
Current assets	\$ 6,365,757	\$ 31,620
Non-current assets	-	290,782
Property, plant and equipment and intangibles	15,945,682	15,372,224
Current liabilities	(18,741,740)	(4,025,191)
Non-current liabilities	-	(8,417,423)
Carrying amount of investment accounted for using the equity method	\$ 3,569,699	\$ 3,252,012

Summarized statement of income		
Revenue	\$ 2,298,068	\$ 1,768,989
Expenses	(1,959,793)	(1,176,565)
Income taxes	(20,588)	(43,515)
Net income for the year	317,687	548,909
Share of equity allocated to the holder of preferred shares	\$ 317,687	\$ 548,909

**ALTA PACIFIC MORTGAGE INVESTMENT CORP.**  
**NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2013 (Continued)**

**8. SHARE CAPITAL**

The authorized share capital of the Company consists of unlimited Class A common shares, voting, non-participating, without par value and unlimited Class B common shares, non-voting, participating, without par value. The Company's issued share capital consists of the following:

<i>NUMBER OF SHARES</i>	2013	2012
Class A common shares	1,600	1,600
Class B common shares		
Opening balance	167,137	107,772
Issued - dividends reinvestment	5,980	5,275
Issued - cash consideration	91,010	88,710
Redemption of shares	(16,151)	(34,620)
Closing balance	247,976	167,137
Total share capital	249,576	168,737
<i>AMOUNT</i>	2013	2012
Class A common shares	\$ 1,600	\$ 1,600
Class B common shares		
Opening balance	16,129,509	10,495,210
Issued - dividends reinvestment	598,016	527,488
Issued - cash consideration	9,100,990	8,871,000
Redemption of shares	(1,615,101)	(3,461,964)
Share issue costs	(330,674)	(302,225)
Closing balance	23,882,740	16,129,509
Total share capital	\$ 23,884,340	\$ 16,131,109

The Class B shares are the only class of shares entitled to receive dividends as and when declared at the discretion of the Board of Directors.

Class B shares may be redeemed at their book value plus any declared and unpaid dividends thereon. The Company will not redeem Class B shares for which Retraction Notices are given, if the following would occur:

- Redemption of the aggregate number of Class B shares would result in the Company having a Class B shareholder during the period of time since the start of the most recent fiscal year, which owns greater than 25% of the Class B issued and outstanding shares as at the beginning of the fiscal year which the last of such Retraction Notices are given.
- Redemption would result in the Company having less than 20 holders of Class B shares as defined under the Mortgage Investment Corporation provisions of the Canadian Income Tax Act.



**ALTA PACIFIC MORTGAGE INVESTMENT CORP.**  
**NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2013 (Continued)**

**9. RELATED PARTY TRANSACTIONS**

All related party transactions are recorded at the exchange amount being the amount agreed to by the related parties involved:

- (a) During the year, management fees of \$405,499 (2012 - \$309,441) to the corporate manager, a company controlled by the directors / shareholders, were incurred of which \$144,501 is included in accounts receivable at June 30, 2013 (2012 - \$44,232). The corporate manager is entitled to a management fee equivalent to 3% per annum of the Company's total weighed average net asset value of which \$229,219 was waived in 2013 (2012 - \$82,000).
- (b) In 2012, the Company issued a first mortgage receivable of \$397,298 to a director / shareholder of the Company, bearing interest at 12% per annum. For the year ended June 30, 2013, interest earned on the mortgage total \$17,220 (2012 - \$29,912). The mortgage was repaid during the year.
- (c) In 2012, the Company issued a first mortgage receivable of \$2,250,000 to a company controlled by certain directors / shareholders of the Company, bearing interest at 12% per annum. For the year ended June 30, 2013, interest earned on the mortgage total \$182,546 (2012 - \$72,329). The mortgage was repaid during the year.
- (d) During the year, a shareholder and director and a company in which he owns a 50% interest provided temporary interest-free loans to the Company totalling \$471,307 (2012 - \$383,000) of which \$450,000 were repaid (2012 - \$383,000). The outstanding loan at June 30, 2013 total \$21,307 (2012 - \$Nil). The loans are without fixed terms of repayment.
- (e) During the year, dividends, including dividends reinvested in shares, to the shareholders / directors total \$28,480 (2012 - \$19,453).

**10. BASIC AND DILUTED NET INCOME PER SHARE**

The following table reconciles the numerator and denominator of both the basic and diluted net income per share:

	2013	2012
Numerator for net income per share		
Net and comprehensive income	\$ 2,089,998	\$ 1,333,435
Denominator for net income per share		
Weighted average shares	238,996	130,302
Basic and diluted net income per share	\$ 8.74	\$ 10.23



**ALTA PACIFIC MORTGAGE INVESTMENT CORP.****NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2013 (Continued)****11. AMOUNT AVAILABLE FOR DIVIDEND DISTRIBUTION**

The Company follows the practice of paying a dividend subsequent to the end of the fiscal year in an amount at least sufficient to remain non-taxable under the provisions of the Canadian Income Tax Act related to Mortgage Investment Corporations.

The following table reconciles the numerator and denominator of dividend yield per share:

	2013	2012
Numerator for dividend yield per share		
Net and comprehensive income	\$ 2,089,998	\$ 1,333,435
Less share issue costs deductible for tax purposes	161,542	95,659
Dividends declared	1,928,456	1,237,776
Denominator for net income per share		
Weighted average shares	238,996	130,302
Dividend yield for the year	\$ 8.07	\$ 9.50

**12. SUPPLEMENTARY CASH FLOW INFORMATION**

## (a) Non-cash transactions

The Company issued a total of 5,980.16 (2012 - 5,274.88) Class B common shares at a value of \$100 per share in settlement of dividends of \$598,016 (2012 - \$527,488).

## (b) Interest received

	2013	2012
Interest received, including interest received in advance	\$ 1,793,108	\$ 649,564

**ALTA PACIFIC MORTGAGE INVESTMENT CORP.**  
**NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2013 (Continued)**

---

**13. FAIR VALUE OF FINANCIAL INSTRUMENTS**

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

The fair values of the mortgages receivable are considered to be their amortized cost, net of allowance for credit losses, using the effective interest rate method.

In accordance with IFRS, the Company must classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making fair value measurements. The following hierarchy is used in determining and disclosing fair value of financial instruments:

Level 1 - Unadjusted quoted prices in active markets for identical assets or 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.

Cash is classified using the fair value hierarchy as level 1, accrued interest receivable, accounts payable and accrued liabilities and dividends payable are classified using fair value hierarchy as level 2, and mortgages receivable are classified using the fair value hierarchy as level 3.

**14. SUBSEQUENT EVENT**

Subsequent to June 30, 2013, the Company is negotiating a \$6,000,000 demand revolving loan with HSBC Bank Canada to assist with working capital requirements of investing in additional mortgages receivable.

**ALTA PACIFIC MORTGAGE INVESTMENT CORP.**  
**NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2013 (Continued)**

---

**15. FINANCIAL INSTRUMENTS - FINANCIAL RISKS**

The Company's management actively obtains information that allows them to keep informed of the effectiveness of the Company's risk management.

(a) Credit risk

Credit risk is the risk that the Company will incur a financial loss on a mortgage due to the failure of a borrower to fulfill its obligations with the agreed terms.

Credit risk on the Company's mortgages and interest receivable is mitigated by following the underwriting policies set by the Company's Credit Committee. Prior to issuance, every mortgage is assessed by approval criteria, which include maximum Loan-to-Value ratio, credit checks on the Borrower, and certified appraisals of the property. The Company obtains a first or second charge on the underlying property properly securing the mortgage.

Concentration of credit risk analysis

At June 30, 2013, the Company has three significant mortgages receivable which represent 12.05% (2012 - nil), 12.74% (2012 - nil) and 14.14% (2012 - nil) of total mortgages receivable. The average mortgage amount for the balance of the mortgages receivable was \$206,192 (2012 - \$190,381).

(b) Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Interest rates on the mortgages receivable are fixed until maturity and therefore the interest rate risk associated with mortgages receivable at year-end is not considered significant. The interest rate risk on cash and accounts payable and accrued liabilities are not considered significant.

Sensitivity analysis

At June 30, 2013, if interest rates at that date had been 1% lower or higher, with all other variables held constant, there would be no effect on net and comprehensive income as all mortgages receivable were subject to fixed rates of interest.

(c) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. All of the Company's financial liabilities are classified as current. The Company mitigates liquidity risk by ensuring that it can settle all current liabilities using its positive working capital position.

(d) Foreign exchange risk exposure

The Company's exposure to foreign exchange risk is not significant as it has nominal foreign currency transactions.

**ALTA PACIFIC MORTGAGE INVESTMENT CORP.**  
**NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2013 (Continued)**

---

**16. CAPITAL MANAGEMENT**

The Company's objective when managing capital is to continue operations as a going concern so that it can provide its shareholders with a safe, superior-yielding and liquid investment that qualifies as an eligible investment for Registered Retirement Savings Plans and Registered Retirement Income Funds. Currently, the Company does not have any externally imposed capital requirements. This will change when the Company has successfully obtained external financing as discussed in Note 14.

The Company defines capital as being the funds raised through the issuance of Class B common shares of the Company. The overall objective of capital management is to ensure that the Company has sufficient capital to maintain its operations based on current activities and expected business developments in the future and to provide a return to the shareholders commensurate with the risk of the business and comparable to other similar companies.

The Company's investment guidelines are subject to externally imposed capital requirements to maintain the Company's eligibility as a Mortgage Investment Corporation as defined in Section 130.1(6) of the Canadian Income Tax Act. These guidelines state that i) at least 50% of the Company assets must be residential mortgages and/or cash and insured deposits at Canada Deposit Insurance Corporation member financial institutions, (ii) no more than 25% of its assets must be in real estate, and (iii) that all investments must be within Canada. During the year the Company complied with these requirements.

**ALTA PACIFIC MORTGAGE INVESTMENT CORP.**

**FINANCIAL STATEMENTS**

**JUNE 30, 2014**

**ALTA PACIFIC MORTGAGE INVESTMENT CORP.**

**INDEX TO FINANCIAL STATEMENTS**

**JUNE 30, 2014**

	Page(s)
Auditor's Report	3
Statement of Financial Position	4
Statement of Changes in Equity	5
Statement of Income and Comprehensive Income	6
Statement of Cash Flows	7
Notes to Financial Statements	8 - 25

200 - 15300 Croydon Drive  
Surrey, BC V3S 0Z5

Phone: 604-536-7614  
Toll Free: 1-800-761-7772  
Fax: 604-538-5356

www.knv.com



800 - 1285 West Broadway  
Vancouver, BC V6H 3X8

Phone: 604-736-2571  
Toll Free: 1-800-761-7772  
Fax: 604-736-4280

www.knv.com

## INDEPENDENT AUDITOR'S REPORT

To the Shareholders of:  
Alta Pacific Mortgage Investment Corp.

We have audited the accompanying financial statements of ALTA PACIFIC MORTGAGE INVESTMENT CORP., which comprise the statement of financial position as at June 30, 2014 and the statement of changes in equity, statement of income and comprehensive income and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Financial Statements*

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

### *Auditor's Responsibility*

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


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

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

### *Opinion*

In our opinion, these statements present fairly, in all material respects, the financial position of the Company as at June 30, 2014 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

September 18, 2014

  
Chartered Accountants LLP

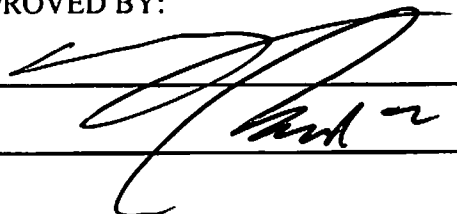
## ALTA PACIFIC MORTGAGE INVESTMENT CORP.

## STATEMENT OF FINANCIAL POSITION

JUNE 30, 2014 AND 2013

	2014	2013
<b>ASSETS</b>		
CASH AND CASH EQUIVALENTS	\$ 3,040,419	\$ 152,775
ACCOUNTS RECEIVABLE (Note 8)	-	144,501
FORECLOSED PROPERTIES HELD FOR SALE (Note 4)	2,764,898	367,444
MORTGAGE INVESTMENTS (Note 5)	21,662,623	20,597,920
INVESTMENT IN ASSOCIATE (Note 6)	3,383,067	3,569,699
	<b>\$ 30,851,007</b>	<b>\$ 24,832,339</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
CREDIT FACILITY (Note 7)	\$ 2,932,804	\$ -
ACCOUNTS PAYABLE AND ACCRUED LIABILITIES (Note 8)	90,958	67,831
DEFERRED REVENUE	369,676	435,700
LOAN PAYABLE	-	21,307
DIVIDENDS PAYABLE	435,609	272,634
Total liabilities	3,829,047	797,472
SHAREHOLDERS' EQUITY:		
Share capital (Note 9)	26,712,521	23,884,340
Retained earnings	309,439	150,527
Total shareholders' equity	27,021,960	24,034,867
	<b>\$ 30,851,007</b>	<b>\$ 24,832,339</b>

APPROVED BY:



The accompanying Notes are an integral part of this statement.



**ALTA PACIFIC MORTGAGE INVESTMENT CORP.**  
**STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEARS ENDED JUNE 30, 2014 AND 2013**

	Share Capital	Retained Earnings (Deficit)	Total Equity
	(Note 9)		
Balances at June 30, 2012	\$ 16,131,109	\$ (11,015)	\$ 16,120,094
Changes in equity for 2013:			
Net income	-	2,089,998	2,089,998
Dividends declared (Note 12)	-	(1,928,456)	(1,928,456)
Issued - dividends reinvestment	598,016	-	598,016
Issued - cash consideration	9,100,989	-	9,100,989
Redemption of shares for cash	(1,615,101)	-	(1,615,101)
Share issue costs	(330,673)	-	(330,673)
Balances at June 30, 2013	\$ 23,884,340	\$ 150,527	\$ 24,034,867
Balances at June 30, 2013	\$ 23,884,340	\$ 150,527	\$ 24,034,867
Changes in equity for 2014:			
Net income	-	2,338,947	2,338,947
Dividends declared (Note 12)	-	(2,180,035)	(2,180,035)
Issued - dividends reinvestment	894,781	-	894,781
Issued - cash consideration	6,309,092	-	6,309,092
Redemption of shares for cash	(4,246,226)	-	(4,246,226)
Share issue costs	(129,466)	-	(129,466)
Balances at June 30, 2014	\$ 26,712,521	\$ 309,439	\$ 27,021,960

The accompanying Notes are an integral part of this statement.

**ALTA PACIFIC MORTGAGE INVESTMENT CORP.**  
**STATEMENT OF INCOME AND COMPREHENSIVE INCOME**  
**FOR THE YEARS ENDED JUNE 30, 2014 AND 2013**

	2014	2013
<b>REVENUE:</b>		
Commitment fees	\$ 418,490	\$ 621,749
Income from associate (Note 6)	263,368	317,687
Interest	2,380,085	1,702,617
Other fees	58,911	18,133
	<b>3,120,854</b>	<b>2,660,186</b>
<b>EXPENSES:</b>		
Bank charges, fees and interest (Note 8)	69,642	5,549
Financial services fees (Notes 8 and 10)	771,217	405,499
Impairment losses (recoveries) on mortgage investments (Note 5)	(95,000)	46,988
Office and sundry	41,350	21,045
Professional fees	58,472	113,812
	<b>845,681</b>	<b>592,893</b>
Income from operations	2,275,173	2,067,293
<b>GAIN ON DISPOSAL OF FORECLOSED PROPERTIES HELD FOR SALE</b>	<b>63,774</b>	<b>22,705</b>
<b>NET AND COMPREHENSIVE INCOME</b>	<b>\$ 2,338,947</b>	<b>\$ 2,089,998</b>
<b>BASIC AND DILUTED NET INCOME PER SHARE (Note 11)</b>	<b>\$ 8.74</b>	<b>\$ 8.74</b>

The accompanying Notes are an integral part of this statement.

**ALTA PACIFIC MORTGAGE INVESTMENT CORP.**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEARS ENDED JUNE 30, 2014 AND 2013**

	2014	2013
(Note 19 (b))		
CASH AND CASH EQUIVALENTS WAS PROVIDED FROM (USED IN):		
Operating Activities:		
Net income	\$ 2,338,947	\$ 2,089,998
Items not affecting cash -		
Impairment losses (recoveries) on mortgage investments	(95,000)	46,988
Income from associate	(263,368)	(317,687)
Gain on disposal of foreclosed properties held for sale	(63,774)	(22,705)
	1,916,805	1,796,594
Changes in non-cash working capital:		
Decrease (increase) in accounts receivable	144,501	(100,269)
Decrease (increase) in accrued interest receivable	175,577	(33,065)
Increase in accounts payable and accrued liabilities	23,127	23,947
Increase (decrease) in deferred revenue	(66,024)	184,452
Increase in dividends payable	162,975	100,661
Net changes	440,156	175,726
	2,356,961	1,972,320
Investing Activities:		
Proceeds from disposal of foreclosed properties held for sale	431,218	212,837
Cash distribution from associate	450,000	-
Costs capitalized on foreclosed properties held for sale (Note 13 (a)(ii))	(93,225)	(16,824)
Funding of mortgage investments	(23,639,370)	(18,225,512)
Discharge of mortgage investments	19,822,417	9,899,997
	(3,028,960)	(8,129,502)
Financing Activities:		
Proceeds from credit facility	2,932,804	-
Proceeds from loan payable	-	471,307
Repayment of loan payable	(21,307)	(450,000)
Redemption of shares	(4,246,226)	(1,615,101)
Issuance of shares (Note 13 (a)(i))	6,309,092	9,100,989
Dividends	(1,285,254)	(1,330,440)
Share issue costs	(129,466)	(330,673)
	3,559,643	5,846,082
Increase (decrease) in cash and cash equivalents	2,887,644	(311,100)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	152,775	463,875
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 3,040,419	\$ 152,775

The accompanying Notes are an integral part of this statement.

**ALTA PACIFIC MORTGAGE INVESTMENT CORP.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

---

## 1. CORPORATE INFORMATION

Alta Pacific Mortgage Investment Corp. (the "Company") was incorporated on March 27, 2007 under the laws of British Columbia and is domiciled in Canada with its registered principal business office located in Suite 1601 - 128 West Pender Street, Vancouver, British Columbia. The Company is in the business of investing in financial instruments, principally mortgages. The Company is managed by Alta Pacific Mortgage Management Corporation ("Manager/Administrator").

## 2. BASIS OF PRESENTATION

### (a) Statement of compliance

These financial statements, including comparatives, have been prepared in accordance with International Financial Reporting Standards ("IFRS") using accounting policies with IFRS as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Reporting Interpretations Committee ("IFRIC").

These annual financial statements for the year ended June 30, 2014 were authorized for issuance by the Board of Directors of the Company on September 18, 2014. The Board of Directors has the power to amend the financial statements after their issuance only in the case of discovery of an error.

### (b) Basis of measurement

These financial statements have been prepared on the basis of historical cost, except for financial instruments classified as fair value through profit and loss, which are measured at fair value.

### (c) Functional and presentation currency

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

### (d) Use of estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period reported. These estimates are reviewed periodically and, as adjustments become necessary, they are reported in the period in which they become known.

In making estimates, management relies on external information and observable conditions where possible, supplemented by internal analysis as required. Those estimates and judgments have been applied in a manner consistent with the prior period and there are no known trends, commitments, events or uncertainties that management believes will materially affect the methodology or assumptions utilized in making those estimates and judgments in these financial statements. The significant estimates and judgments used in determining the recorded amount for assets and liabilities in the financial statements are as follows:

**ALTA PACIFIC MORTGAGE INVESTMENT CORP.**  
**NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2014 (Continued)**

---

**2. BASIS OF PRESENTATION (Continued)**

(d) Use of estimates and judgments (Continued)

*Mortgage investments:*

The Company is required to make an assessment of the impairment of mortgage investments. The mortgage investments are considered to be impaired only if objective evidence indicates that one or more events ("loss events") have occurred after its initial recognition, that have a negative effect on the estimated future cash flows of that asset. The estimation of future cash flows include assumptions about local real estate market conditions, market interest rates, availability and terms of financing, underlying value of the security and various other factors. These assumptions are limited by the availability of reliable comparable data, economic uncertainty, ongoing geopolitical concerns and the uncertainty of predictions concerning future events. Illiquid credit markets and volatile equity markets have increased the uncertainty inherent in such estimates and assumptions. As such, by their nature, estimates of impairment are subjective and do not necessarily result in precise determinations. Should the underlying assumptions change, the estimated allowance for impairment losses could vary by a material amount.

*Foreclosed properties held for sale:*

The Company uses management's best estimate to determine the fair market value of real estate assets in making an assessment of the impairment of the foreclosed properties held for sale. This may involve frequent inspections, engaging realtors to assess market conditions based on previous property transactions or retaining professional appraisers to provide independent valuations. The estimates of realizable value of real estate assets are made at a specific point in time, given current relevant market information. These estimates are subjective and involve uncertainties and judgment. Should the underlying assumptions change, the estimated allowance for impairment losses could vary by a material amount.

*Measurement of fair values:*

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

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

Level 1 - Unadjusted quoted prices in active markets for identical assets or 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 (that is, unobservable inputs).

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

The information about the assumptions made in measuring fair value is included in Note 15.

**ALTA PACIFIC MORTGAGE INVESTMENT CORP.****NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2014 (Continued)**

---

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES****(a) Cash and cash equivalents**

The Company considers highly liquid investments with an original maturity of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value to be cash equivalents. Cash and cash equivalents are classified as loans and receivables and carried at amortized cost.

**(b) Mortgage investments**

The mortgage investments are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, the mortgage investments are measured at amortized cost using the effective interest method, less any impairment losses. The mortgage investments are assessed on each reporting date to determine whether there is objective evidence of impairment. A financial asset is considered to be impaired only if objective evidence indicates that one or more loss events have occurred after its initial loan recognition, that have a negative effect on the estimated future cash flows of the asset.

The Company considers evidence of impairment for mortgage investments at both a specific asset and collective level. All individually significant mortgage investments are assessed for specific impairment. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identifiable at an individual mortgage level. Mortgage investments that are not individually significant are collectively assessed for impairment by grouping together mortgage investments with similar risk characteristics.

In assessing collective impairment, the Company reviews historical trends of the probability of default, the timing of recoveries and the amount of the loss incurred, adjusted for management's judgments as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of specific mortgage investments is calculated as the difference between its carrying amount including accrued interest and the present value of the estimated cash flows discounted at the investment's original effective interest rate. Losses are recognized in profit and loss and reflected in an allowance account against the mortgage investments. When a subsequent event causes the amount of an impairment loss to decrease, the decrease in impairment loss is reversed through profit and loss in the period the new information becomes available.

**(c) Foreclosed properties held for sale**

Real estate acquired through loan default is classified as foreclosed properties held for sale ("FPHFS") when their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. The criteria for "held for sale" includes management's commitment to a plan to sell the assets and the expectation that such sale will be completed within a twelve month period. Events or circumstances beyond the Company's control may extend the period to complete the sale beyond one year. Such assets continue to be classified as "held for sale" as management remains committed to its plan to sell the assets. FPHFS are not depreciated.

**ALTA PACIFIC MORTGAGE INVESTMENT CORP.**  
**NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2014 (Continued)**

---

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

(c) Foreclosed properties held for sale (Continued)

Contractual interest on the mortgage investment is discontinued from the date of transfer from mortgage investments to FPHFS. Any difference between the carrying value of the asset before foreclosure and the initially estimated realizable amount of the asset is recorded in the impairment losses on mortgage investments.

The Company capitalizes all foreclosure, maintenance, pre-development costs and property taxes with the intention of recovering the costs upon subsequent sale of the property.

FPHFS are carried at the lower of carrying amount and fair market value less costs to sell.

(d) Associates

Associates are those entities in which the Company has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Company holds between 20 and 50 percent of the voting power of another entity.

Investment in associate is accounted for using the equity method. Under the equity method, the investment is initially recognized at cost and is increased by the proportionate share of any post acquisition earnings and is decreased by the proportionate share of any post acquisition losses, cash dividend distribution and any accumulated impairment losses.

(e) Deferred revenue

Deferred revenue comprises unearned upfront commitment fees and mortgage interest received in advance from borrowers, which are amortized to income using the effective interest method over the contractual terms of the mortgages.

(f) Share capital

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

Dividends are recognized in equity in the period in which they are declared. Dividends on new shares issued during the year and dividends on shares redeemed during the year are calculated on a pro-rated daily basis.

(g) Revenue recognition

Interest on mortgages receivable is recognized as revenue using the effective interest method to the extent it is probable that the Company will collect the interest revenue. Other fees are recognized as revenue when earned.

The Company charges upfront commitment fees, such as lender, broker and renewal fees, based on the gross mortgage values for all mortgages funded. These fees, net of related referral fees paid, are amortized to income using the effective interest method over the contractual terms of the mortgage.

**ALTA PACIFIC MORTGAGE INVESTMENT CORP.**  
**NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2014 (Continued)**

---

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

(h) Basic and diluted net income per share

The Company presents basic and diluted net income per share data for its common shares. Basic per share amounts are calculated by dividing the net income attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. As the Company has no dilutive financial instruments that could be converted to common shares, basic and diluted net income per share are identical.

(i) Income taxes

The Company is a Mortgage Investment Corporation as defined in Section 130.1(6) of the Canadian Income Tax Act and, as such, is not taxable on income which flows through to the shareholders in the form of dividends paid during the year or within 90 days of the end of the year. It is the Company's policy to flow such dividends out to the shareholders and as such have no taxable income for the year. Accordingly, no provision for corporate income taxes has been made in the accounts.

(j) Financial instruments

Financial assets consist of cash and cash equivalents and mortgage investments. Financial liabilities consist of credit facility, accounts payable and accrued liabilities, loan payable and dividends payable.

The Company determines the classification of its financial assets and liabilities at initial recognition. Financial instruments are recognized initially at fair value and in the case of financial assets and liabilities carried at amortized costs, adjusted for directly attributable transaction costs.

The Company has classified its financial assets and liabilities as follows:

- (i) Cash and cash equivalents and mortgage investments are classified as loans and receivables, which are measured at amortized costs using the effective interest method, less impairment losses.
- (ii) Credit facility, accounts payable and accrued liabilities and dividends payable are classified as financial liabilities and are measured at amortized costs using the effective interest method.

(k) Offsetting financial instruments

Financial assets and financial liabilities where the Company is considered the principal to the underlying transactions are offset and the net amount reported in the financial statements if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.



**ALTA PACIFIC MORTGAGE INVESTMENT CORP.**  
**NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2014 (Continued)**

---

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

(l) Changes in accounting policies

The Company has adopted the following relevant new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of July 1, 2013.

- (i) IFRS 7, Financial Instruments: Disclosure - Offsetting Financial Assets and Financial Liabilities - IFRS 7 Amendments
- (ii) IFRS 12, Disclosure of Interests in Other Entities
- (iii) IFRS 13, Fair Value Measurements
- (iv) IAS 1, Presentation of Items of Other Comprehensive Income (Amendments to IAS 1)
- (v) IAS 28, Investments in Associates and Joint Ventures

With the exception of IFRS 13, Fair Value Measurements, there were no material effects upon adoption of these new standards and amendments to standards.

IFRS 13 establishes a framework for measuring fair value and making disclosures about fair value measurements when such measurements are required or permitted by other IFRSs. It unifies the definition of fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It replaces and expands the disclosure requirements about fair value measurements in other IFRSs, including IFRS 7. As a result, the Company has included additional disclosure in this regard (see Notes 2 (d) and 15).

(m) Future changes in accounting policies

Certain new accounting standards and interpretations have been published that are not mandatory for the June 30, 2014 reporting period. Those which may be relevant to the Company are set out below. Management has decided against early adoption of these standards.

*IFRS 9, Financial Instruments*

The IASB issued a new standard, IFRS 9, which will ultimately replace IAS 39, Financial Instruments - Recognition and Measurement. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment model to be used, replacing the multiple impairment methods in IAS 39. On November 19, 2013, IFRS 9 was formally amended to remove the January 1, 2015 effective date, and the IASB tentatively decided that the mandatory date of IFRS 9 will be no earlier than the annual periods beginning on or after January 1, 2018. The extent of the impact of adoption of these amendments has not yet been determined.

*IAS 32, Financial Instruments: Presentation*

In December 2011, the IASB published Offsetting Financial Assets and Financial Liabilities and issued new disclosure requirements in IFRS 7. The effective date for the amendments to IAS 32 is annual periods beginning on or after January 1, 2014. The Company intends to adopt the amendments to IAS 32 in its financial statements for the annual period beginning July 1, 2014. The Company does not expect the implementation of the new standard to have a significant impact on its financial statements.

**ALTA PACIFIC MORTGAGE INVESTMENT CORP.****NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2014 (Continued)****4. FORECLOSED PROPERTIES HELD FOR SALE**

The Company holds one real estate investment which is FPHFS (2013 - one). This investment is carried at the lower of carrying amount and fair value less estimated costs to sell. The Company assessed the property as at June 30, 2014 and noted that the carrying amount approximates the fair market value less estimated costs to sell. Accordingly, the Company did not recognize a loss during 2014 (2013 - \$nil). The real property is currently listed for sale and the Company expects the sale to occur within the next fiscal year.

	2014	2013
Balance at beginning of year	\$ 367,444	\$ 190,132
Transfer from mortgage investments	2,671,673	350,620
Costs capitalized during the year	93,225	16,824
Disposals during the year	(367,444)	(190,132)
Balance at end of year	\$ 2,764,898	\$ 367,444

**5. MORTGAGE INVESTMENTS**

Mortgages written by the Company are for terms of two years or less and earn interest at rates ranging from 4.9% to 14.8% per annum with a weighted average interest rate of 10.4% (2013 - 11.4%). The mortgages are secured by first and/or second charges on real property. There are no, or nominal, principal repayments required during the terms of the mortgages. A majority of the mortgage investments contain prepayment option, whereby the borrower may repay the principal at any time prior to maturity without penalty or yield maintenance.

	2014	%	2013	%
Interest in first mortgages	\$ 11,259,948	52.49	\$ 14,703,277	72.75
Interest in non-first mortgages	10,190,533	47.51	5,506,924	27.25
	21,450,481	100.00	20,210,201	100.00
Accrued interest receivable	237,142		387,719	
Allowance for impairment losses	(25,000)		-	
	\$ 21,662,623		\$ 20,597,920	

The mortgages are invested as follows:

	2014	%	2013	%
Residential	\$ 20,170,817	94.04	\$ 18,821,901	93.13
Commercial	884,664	4.12	1,388,300	6.87
Agricultural	395,000	1.84	-	-
	\$ 21,450,481	100.00	\$ 20,210,201	100.00

**ALTA PACIFIC MORTGAGE INVESTMENT CORP.**  
**NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2014 (Continued)**

**5. MORTGAGE INVESTMENTS (Continued)**

For the year ended June 30, 2014, the Company received total lender and renewal fees of \$494,958 (2013 - \$616,062) and \$71,959 (2013 - \$19,620), respectively, which are amortized to interest income over the term of the related mortgage investments using the effective interest rate method.

The Company has invested in 28 non-current mortgages receivable (2013 - 5), which mature from July 1, 2015 to June 30, 2016 (2013 - July 1, 2014 to June 30, 2015). Principal repayments, based on contractual maturity dates are as follows:

	2014	2013
Year ending June 30,		
2014	\$ -	\$ 19,106,941
2015	16,549,203	1,103,260
2016	4,901,278	-
<b>Total</b>	<b>\$ 21,450,481</b>	<b>\$ 20,210,201</b>

The changes in the provision for mortgage investments loss was as follows:

	2014	2013
Balance at beginning of year	\$ -	\$ 225,000
Increase in provision	25,000	-
Recoveries (write-off) of mortgage investments	120,000	(225,000)
Discharge of mortgage investments	(120,000)	-
<b>Balance at end of year</b>	<b>\$ 25,000</b>	<b>\$ -</b>

**ALTA PACIFIC MORTGAGE INVESTMENT CORP.****NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2014 (Continued)****6. INVESTMENT IN ASSOCIATE**

	2014	2013
Investment, at cost	\$ 2,500,050	\$ 2,500,050
Share of equity since acquisition	1,333,017	1,069,649
Cash distribution	(450,000)	-
	<b>\$ 3,383,067</b>	<b>\$ 3,569,699</b>

The Company holds an interest in 1576697 Alberta Ltd, which is comprised of 50% of the Class A voting Common shares and 100% of the Class F Preferred shares, with a total redemption value of \$2,500,000. Certain shareholders and directors own a 33.33% interest in the associate.

The associate owns a commercial office building in Fort McMurray, Alberta, which is rented out to medical and law practice tenants.

The following table presents the summarized unaudited June 30, 2014 and 2013 financial information of the associate:

Summarized statement of financial position	2014	2013
Current assets	\$ 6,708,988	\$ 6,365,757
Property and equipment and intangibles	15,428,336	15,945,682
Current liabilities	(3,089,392)	(18,741,740)
Non-current liabilities	(15,401,497)	-
Non-controlling interest	(263,368)	-
Carrying amount of investment accounted for using the equity method	<b>\$ 3,383,067</b>	<b>\$ 3,569,699</b>

Summarized statement of income		
Revenue	\$ 2,348,219	\$ 2,298,068
Expenses	(1,758,384)	(1,959,793)
Income taxes	(63,098)	(20,588)
Net income for the year	526,737	317,687
Share of net income	<b>\$ 263,368</b>	<b>\$ 317,687</b>

**ALTA PACIFIC MORTGAGE INVESTMENT CORP.****NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2014 (Continued)**

---

**7. CREDIT FACILITY**

On August 14, 2013, the Company entered into a credit facility ("Facility") with the HSBC Bank Canada for an amount of up to \$6,000,000. The Facility renews annually and bears an annual interest equal to the bank's prime rate plus 1.5%. The Facility is secured by a general security agreement, creating a first fixed charge over all present and after acquired personal property of the Company and assignment of all mortgage investments and related all risk insurance showing the bank as the first loss payee. As at June 30, 2014, \$2,932,804 (2013 - \$nil) was outstanding on the Facility and is due on demand.

The Company is required to meet certain financial covenants, including debt to tangible net worth, current to non-current liabilities and debt service coverage ratios.

**8. RELATED PARTY TRANSACTIONS AND BALANCES**

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

- (a) During the year, financial services fees of \$771,217 (2013 - \$405,499) to the Manager/Administrator, a company controlled by the directors/shareholders, were incurred of which \$21,217 is included in accounts payable as at June 30, 2014 (2013 - accounts receivable of \$144,501). No financial services fees were waived in 2014 (2013 - \$229,219 fees were waived).
- (b) During the year, the Manager/Administrator provided temporary loans totalling \$200,000 to the Company, bearing interest at 7% per annum, which were fully repaid during the year. Interest of \$3,989 (2013 - \$nil) was paid on these loans.
- (c) During the year, shareholders/directors and their 100% owned companies provided temporary loans totalling \$339,000 to the Company, bearing interest at 7% per annum, which were fully repaid during the year. Interest of \$6,155 (2013 - \$nil) was paid on these loans.
- (d) During the year, dividends, including dividends reinvested in shares, to the shareholders/directors total \$109,303 (2013 - \$28,480).

**ALTA PACIFIC MORTGAGE INVESTMENT CORP.**  
**NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2014 (Continued)**

**9. SHARE CAPITAL**

The authorized share capital of the Company consists of unlimited Class A Common shares, voting, non-participating, without par value and unlimited Class B Common shares, non-voting, participating, without par value. The Company's issued share capital consists of the following:

<i>NUMBER OF SHARES</i>	2014	2013
Class A Common shares	1,600	1,600
Class B Common shares		
Opening balance	247,976	167,137
Issued - dividends reinvestment	8,948	5,980
Issued - cash consideration	63,091	91,010
Redemption of shares for cash	(42,462)	(16,151)
Closing balance	277,553	247,976
Total share capital	279,153	249,576
<i>AMOUNT</i>	2014	2013
Class A Common shares	\$ 1,600	\$ 1,600
Class B Common shares		
Opening balance	23,882,740	16,129,509
Issued - dividends reinvestment	894,781	598,016
Issued - cash consideration	6,309,092	9,100,990
Redemption of shares for cash	(4,246,226)	(1,615,101)
Share issue costs	(129,466)	(330,674)
Closing balance	26,710,921	23,882,740
Total share capital	\$ 26,712,521	\$ 23,884,340

The Class B shares are the only class of shares entitled to receive dividends as and when declared at the discretion of the Board of Directors.

Class B shares may be redeemed, at the option of the Company or the holder of the Class B shares. The Company will not, except upon resolution of the directors in favour of such redemption, redeem more than 5% of all Class B shares which are issued and outstanding at the particular time.

**ALTA PACIFIC MORTGAGE INVESTMENT CORP.****NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2014 (Continued)****10. FINANCIAL SERVICES FEES**

The Manager/Administrator is responsible for the day-to-day operations, including administration of the Company's mortgage investments. Pursuant to the Management/Administration Agreement dated June 30, 2013, the Company shall pay to the Manager/Administrator, an annual financial service fee ("Financial Services fee") equal to 3% per annum of the Company's weighted net assets, calculated and payable quarterly.

On most mortgage investments, the Manager/Administrator will negotiate with the borrower for payment of a Brokerage Fee. On all loans originating with the Manager/Administrator, the full amount of such fee will be payable to the Manager/Administrator less a Lender Fee, payable to the Company of a minimum of 1% of the gross mortgage amount. The Lender Fee will be determined by the Manager/Administrator, in consultation with the Company, by determining an appropriate yield based on risk and market competition. On any loan that does not originate with the Manager/Administrator, the Manager/Administrator will receive 70% of all brokerage related fees less the Lender Fee.

The Manager/Administrator bears all overhead and other internal expenses incurred by it in providing the services under the Management/Administration Agreement. The Company bears all third party and other expenses incurred in connection with the Company's mortgage investments and operations, including, without limitation, legal, audit, referral fees, travel, marketing, advertising and communication costs as well as directors' and officers' fees for attending formal meetings of the Company.

**11. BASIC AND DILUTED NET INCOME PER SHARE**

The following table reconciles the numerator and denominator of both the basic and diluted net income per share:

	2014	2013
Numerator for net income per share		
Net and comprehensive income	\$ 2,338,947	\$ 2,089,998
Denominator for net income per share		
Weighted average shares	267,505	238,996
Basic and diluted net income per share	\$ 8.74	\$ 8.74

**ALTA PACIFIC MORTGAGE INVESTMENT CORP.****NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2014 (Continued)****12. AMOUNT AVAILABLE FOR DIVIDEND DISTRIBUTION**

The Company follows the practice of paying a dividend subsequent to the end of the fiscal year in an amount at least sufficient to remain non-taxable under the provisions of the Canadian Income Tax Act related to Mortgage Investment Corporations.

The following table reconciles the numerator and denominator of dividend yield per share:

	2014	2013
Numerator for dividend yield per share		
Net and comprehensive income	\$ 2,338,947	\$ 2,089,998
Add financing costs, net of amount deductible for tax purposes	28,816	-
Less share issue costs deductible for tax purposes	(187,728)	(161,542)
Dividends declared	\$ 2,180,035	\$ 1,928,456
Denominator for net income per share		
Weighted average shares	267,505	238,996
Dividend yield for the year	\$ 8.15	\$ 8.07

**13. SUPPLEMENTARY CASH FLOW INFORMATION****(a) Non-cash transactions**

- (i) The Company issued 8,947.81 (2013 - 5,274.88) Class B Common shares at a value of \$100 per share in settlement of dividends of \$894,781 (2013 - \$527,488).
- (ii) The Company transferred \$2,671,673 (2013 - \$350,620) from mortgage investments to FPHFS, being the carrying amount of the mortgage less any individual impairment allowance prior to the time of foreclosure.

**(b) Interest received and paid**

	2014	2013
Interest received, including interest received in advance	\$ 2,335,369	\$ 1,793,108
Interest paid	28,982	-

**14. CAPITAL MANAGEMENT**

The Company defines its capital structure to include Class B common shares and Credit Facility. The overall objective of capital management is to ensure that the Company has sufficient capital to maintain its operations based on current activities and expected business developments in the future and to provide a return to the shareholders commensurate with the risk of the business and comparable to other similar companies.

The Company reviews its capital structure on an ongoing basis and adjusts its capital structure in response to mortgage investment opportunities, the availability of capital and anticipated changes in general economic conditions. The Company's capital management objectives and strategies are unchanged from prior years.



**ALTA PACIFIC MORTGAGE INVESTMENT CORP.****NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2014 (Continued)****14. CAPITAL MANAGEMENT (Continued)**

The Company's investment guidelines are subject to externally imposed capital requirements to maintain the Company's eligibility as a Mortgage Investment Corporation as defined in Section 130.1(6) of the Canadian Income Tax Act. These guidelines state that (i) at least 50% of the Company assets must be residential mortgages and/or cash and insured deposits at Canada Deposit Insurance Corporation member financial institutions, (ii) no more than 25% of its assets must be in real estate, and (iii) that all investments must be within Canada. During the year the Company complied with these requirements.

**15. FAIR VALUE OF FINANCIAL INSTRUMENTS**

The following table shows the carrying amounts and fair values of assets and liabilities:

June 30, 2014	Carrying Value		Fair Value
	Loans and receivable	Other financial liabilities	
Assets not measured at fair value			
Mortgage investments	\$ 21,662,623	\$ -	\$ 21,662,623
Foreclosed properties held for sale	2,764,898	-	2,764,898
Investment in associate	3,383,067	-	3,383,067
Cash and cash equivalents	3,040,419	-	3,040,419
Liabilities not measured at fair value			
Dividends payable	-	435,609	435,609
Deferred revenue	-	369,676	369,676
Accounts payable and accrued liabilities	-	90,958	90,958
Credit facility	-	2,932,804	2,932,804

June 30, 2013	Carrying Value		Fair Value
	Loans and receivable	Other financial liabilities	
Assets not measured at fair value			
Mortgage investments	\$ 20,597,920	\$ -	\$ 20,597,920
Foreclosed properties held for sale	367,444	-	367,444
Investment in associate	3,569,699	-	3,569,699
Accounts receivable	144,501	-	144,501
Cash and cash equivalents	152,775	-	152,775
Liabilities not measured at fair value			
Dividends payable	-	272,634	272,634
Loan payable	-	21,307	21,307
Deferred revenue	-	435,700	435,700
Accounts payable and accrued liabilities	-	67,831	67,831

**ALTA PACIFIC MORTGAGE INVESTMENT CORP.**  
**NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2014 (Continued)**

**15. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)**

The valuation techniques and inputs used for the Company's financial and non-financial assets and liabilities are as follows:

(a) Mortgage investments

There is no quoted price in an active market for the mortgage investments. The Manager/Administrator makes its determination of fair value based on its assessment of the current lending market for mortgage investments of same or similar terms. Typically, the fair value of these mortgage investments approximate their carrying values given the amounts consist of short-term loans that are repayable without yield maintenance or penalties. As a result, the fair value of mortgage investments is based on level 3 inputs.

(b) Other assets and liabilities

The fair values of cash and cash equivalents, accrued interest receivable, credit facility, accounts payable and accrued liabilities, deferred revenue and dividends payable approximate their carrying amounts due to their short-term maturities.

(c) Foreclosed properties held for sale

The Manager/Administrator makes its determination of fair value based on frequent inspections, engaging realtors to assess market conditions based on previous property transactions or retaining professional appraisers to provide independent valuations for mortgage investments of same or similar terms. As a result, the fair value measurements have been categorized as a level 3 fair value based on inputs to the valuation techniques used. The key valuation technique used in measuring the fair value of the foreclosed properties held for sale is set out in the following table:

<b>Valuation technique</b>	<b>Significant unobservable inputs</b>	<b>Inter-relationship between key unobservable inputs and fair value measurement</b>
Direct sales comparison	The fair value is based on comparison to recent sales of properties of similar types, locations and quality.	The significant unobservable input is adjustments due to characteristics specific to each property that could cause the fair value to differ from the property to which it is being compared.

**ALTA PACIFIC MORTGAGE INVESTMENT CORP.**  
**NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2014 (Continued)**

**15. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)**

(d) Investment in associate

The Manager/Administrator makes its determination of fair value based on the adjusted net asset method. The key valuation technique used in measuring the fair value of the investment in associate is set out in the following table:

Valuation technique	Significant unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurement
Adjusted net asset method	The fair value is based on measuring the fair value of the recognized and unrecognized liabilities of the associate.	The significant unobservable input is adjustments due to characteristics specific to each asset and liability that could cause the fair value to differ from the estimates.

There were no transfers between level 1, level 2 and level 3 during the years ended June 30, 2014 and 2013.

**16. RISK MANAGEMENT**

The Company is exposed to the symptoms and effects of global economic conditions and other factors that could adversely affect its business, financial condition and operating results. Many of these factors are beyond the Company's direct control. The Manager/Administrator and Board of Directors play an active role in monitoring the Company's key risks in determining the policies that are best suited to manage these risks. There has been no change in the process since the previous year.

The Company's business activities, including its use of financial instruments, expose the Company to various risks, the most significant of which are interest rate risk, credit risk and liquidity risk.

(a) Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Interest rates on the mortgages receivable are fixed until maturity and therefore the interest rate risk associated with mortgages receivable at year-end is not considered significant. The interest rate risk on cash and cash equivalents, accounts payable and accrued liabilities are not considered significant.

Sensitivity analysis

The Company is exposed to interest rate risk on the Credit Facility. Based on the outstanding balance of \$2,932,804 on the Credit Facility as at June 30, 2014, a 0.50% decrease in the bank's prime rate, keeping other variables constant, would result in an annual increase in net income of \$14,664 (2013 - \$nil) as a result of lower interest payable on the Credit Facility. A 0.50% increase in the bank's prime rate would have an equal but opposite effect on the net income of the Company.

**ALTA PACIFIC MORTGAGE INVESTMENT CORP.**  
**NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2014 (Continued)**

**16. RISK MANAGEMENT (Continued)**

(b) Credit risk

As with most mortgage investment corporations, the Company provides financing to borrowers who may not meet financing criteria for conventional mortgages from institutional sources and, as a result, these investments generally earn a higher rate of return than what institutional lenders may receive. Credit risk is the possibility that the mortgagor may fail to discharge the obligation causing the Company to incur a financial loss. The Company minimizes its credit risk primarily by ensuring that the collateral value of the security fully protects first, second and subsequent mortgage advances and that there is a viable exit strategy for each loan. In addition, the Company limits concentration of risk by diversifying its mortgage portfolio by way of location, property type, maximum loan amount on anyone property and maximum loan amount to one borrower.

The maximum exposure to credit risk at June 30, 2014 is the carrying values of its mortgage investments, including accrued interest receivable, which total \$21,687,623 (2013 - \$20,597,920). The Company has recourse under these investments in the event of default by the borrower; in which case, the Company would claim against the underlying collateral.

Concentration of credit risk analysis

At June 30, 2014, the Company has one significant mortgage receivable (2013 - three) which represents 9.32% (2013 - 38.93%) of total mortgages receivable. The average mortgage amount for the balance of the mortgage receivable was \$124,605 (2013 - \$206,192).

(c) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations as they become due. This risk arises in normal operations from fluctuations in cash flow as a result of the timing of mortgage investment advances and repayments and the need for working capital. Management routinely forecasts future cash flow sources and requirements to ensure cash is efficiently utilized.

The following are the contractual maturities of financial liabilities as at June 30, 2014, including expected interest payments:

	Carrying values	Contractual cash flows	Within a year
Credit facility	\$ 2,932,804	\$ 2,932,804	\$ 2,932,804
Accounts payable and accrued liabilities	90,958	90,958	90,958
Dividends payable	435,609	435,609	435,609
	\$ 3,459,371	\$ 3,459,371	\$ 3,459,371

**ALTA PACIFIC MORTGAGE INVESTMENT CORP.****NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2014 (Continued)**

---

**17. COMMITMENTS AND CONTINGENCIES**

In the ordinary course of business activities, the Company may be contingently liable for litigation and claims arising from investing in mortgages. Where required, management records adequate provisions in the accounts.

Although it is not possible to accurately estimate the extent of potential costs and losses, if any, management believes that the ultimate resolution of such contingencies would not have a material adverse effect on the Company's financial position.

**18. KEY MANAGEMENT PERSONNEL COMPENSATION**

The compensation to the senior management of the Manager/Administrator is paid through the financial services fees paid to the Manager/Administrator (Note 10).

**19. COMPARATIVE INFORMATION**

- (a) The comparative balance sheet has been declassified to conform with the current year's balance sheet presentation.
- (b) The funding and discharge of mortgage investments and costs capitalized on foreclosed properties held for sale have been separately disclosed in the comparative statement of cash flows.
- (c) The comparative figure for the cost of the investment in associate was corrected to reflect the actual cost of the shares held. There was no effect on the investment in associate total of \$3,569,699 and on the net and comprehensive income and retained earnings.

**DATE AND CERTIFICATE**

Dated this 31 day of December 31, 2014.

**This Offering Memorandum does not contain a misrepresentation.**


**Issuer:**

**AP CAPITAL MORTGAGE INVESTMENT CORP.**

"Bradly Unrau"   
Bradly Unrau, Chief Executive Officer and Director

**Manager/Promoter:**

**AP CAPITAL MIC MANAGEMENT CORP**

"Bradly Unrau"   
Bradly Unrau, Director

"Ches Hagen"   
Ches Hagen, Director