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## NEW HAVEN MORTGAGE INCOME FUND (1) INC.



### CONFIDENTIAL OFFERING MEMORANDUM

For Residents of Ontario and Saskatchewan

Date: May 22, 2012

#### THE ISSUER

**Name:** NEW HAVEN MORTGAGE INCOME FUND (1) INC. (the “Fund”)

**Head Office:** Suite 106 1200 Sheppard Ave. East  
Toronto, Ontario, M2K 2S5  
Tel. No: 1 -866- 996-8226  
Fax No.: 1-866-784-6385  
Web-page: [www.newhavenmortgageincomefund.com](http://www.newhavenmortgageincomefund.com)

**Currently Listed or Quoted:** These securities do not trade on any exchange or market

**Reporting Issuer:** No

**SEDAR Filer:** No

#### THE OFFERING

**Securities Offered:** Up to 25,000,000 Non-voting Class C Preferred Shares (individually referred to as a “Share” and collectively as the “Shares”)

**Price Per Share:** \$1.00 per Share

**Minimum/Maximum Offering:** Minimum offering of \$500,000/ Maximum offering of \$25,000,000

**Minimum Subscription Amount:** There is a minimum subscription price for these securities if you are an “accredited investor” which amount is \$25,000. If you are not an “accredited investor,” the minimum subscription price is \$150,000. Please see Item 5.3. The maximum investment is limited in order to ensure that the Fund remains a “mortgage investment corporation” for purposes of the *Income Tax Act*

(Canada) (the **Tax Act**) and its securities do not constitute a “prohibited investment” under the Tax Act, all as determined in the sole discretion of the Mortgage Manager.

**Payment Terms:** Bank draft or money order payable to **New Haven Mortgage Income Fund (1) Inc.** accompanied by a fully completed Subscription Agreement, as more particularly described in Item 5, Securities Offered.

**Proposed Closing Dates:** On the 1<sup>st</sup> of each month or as such other times as determined at the sole discretion of the Mortgage Manager.

**Tax Consequences:** There are important tax consequences to these securities. See Item 6, Income Tax Consequences.

**Selling Agent:** The Mortgage Manager is acting as selling agent on behalf of the Fund. The Mortgage Manager may engage financial advisors, brokers or intermediaries to assist in the marketing and distribution of Shares and receive a commission not exceeding 6% of gross proceeds. See Item 7.

**Resale Restrictions:** You will be restricted from selling your securities for an indefinite period. See Item 10, Resale Restrictions.

**Purchaser’s Rights:** If there is a misrepresentation in this Confidential Offering Memorandum, you have the right to sue either for damages or to cancel your agreement to purchase these securities. See Item 11.

**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.**

## **FORWARD-LOOKING INFORMATION**

This Confidential Offering Memorandum may contain “forward-looking information” as such term is defined in the *Securities Act* (Ontario). Forward-looking information is disclosure regarding possible events, conditions or results of operations that is based on assumptions about future economic conditions and courses of action and includes future-oriented financial information (“**FOFI**”) with respect to prospective results of operations, financial position or cash flows that is presented either as a forecast or a projection. FOFI is forward-looking information about prospective results of operations, financial position or cash flows, based on assumptions about future economic conditions and courses of action, and presented in the format of a historical balance sheet, income statement or cash flow statement. Similarly, a “financial outlook” is forward-looking information about prospective results of operations, financial position or cash flows that is based on assumptions about future economic conditions and courses of action that is not presented in the format of a historical balance sheet, income statement or cash flow statement.

Investors are advised that forward-looking information is subject to a variety of risks, uncertainties and other factors that could cause actual results to differ materially from expectations as expressed or implied herein. Although the forward-looking information contained herein reflects the beliefs and expectations of management of the Fund at this time, investors are cautioned not to place undue reliance on such information. Upon receipt of this Confidential Offering Memorandum, each investor will be deemed to have acknowledged and agreed that any forward-looking information contained herein should not be considered material for the purposes of, and may not have been prepared and/or presented consistent with, National Instrument 51-102 *Continuous Disclosure Requirements* (“**NI 51-102**”) and that the investor will not receive any additional information updating such forward-looking information during any period that the Fund is not a “reporting issuer” in any province or territory of Canada, other than as may be required under applicable securities laws and/or as agreed to in contract.

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## ITEM 1 : USE OF NET PROCEEDS

### 1.1 *Net Proceeds*

The net proceeds of the offering and the funds that will be available to the Fund after the offering is as follows:

		Assuming min. offering	Assuming max. offering
A	Amount to be raised by this offering	\$500,000	\$25,000,000
B	Selling commissions and fees	\$30,000	\$ 1,500,000
C	Estimated offering costs (e .g. legal, accounting, audit, website, and printing)	\$40,000	\$ 40,000
D	Net proceeds: $D = A - (B + C)$	\$430,000	\$23,460,000
E	Current working capital (or working capital deficiency) of Issuer as at April 30, 2012	\$100	\$100
F	Available funds: $F = D + E$	\$440,000	\$23,460,100

### 1.2 *Use of Available Funds*

The Fund is a “mortgage investment corporation” as this term is defined by Section 130.1 of the *Income Tax Act* (Canada). It is anticipated that the funds raised from this offering after expenses will be used for funding new mortgage investments.

### 1.3 *Reallocation*

The Fund intends to spend the available funds as stated in section 1.2.

## ITEM 2 : BUSINESS OF THE FUND

### 2.1 *Structure*

The Fund is a corporation which was incorporated under the laws of Ontario on November 27, 2008.

### 2.2 *Industry Overview*

The market in which the Fund operates is referred to as the “alternative mortgage market.” This market is under-serviced in Canada. Servicing the alternative mortgage market is an attractive opportunity for non-bank lenders as this market is in its infancy. Most institutional lenders are not in this segment of the mortgage market.

Alternative borrowers are loosely defined as borrowers who don’t meet the “credit-quality” standards set by traditional mortgage lenders and insurers to qualify for conventional mortgages. Alternative borrowers may include new Canadians who have little or no established credit

history; self-employed small business owners who have fluctuating income; people with bad credit or no credit at all; and persons who have had a history of good credit but for reasons such as illness or loss of employment have experienced temporary credit problems causing them to go into arrears with their credit obligations.

### 2.3 *Our Business*

The Fund currently qualifies, and under its Articles of Incorporation is required to remain qualified, as a “mortgage investment corporation,” or a “MIC”, as mortgage investment corporations are commonly referred to, under the *Income Tax Act* (Canada) (the “**Tax Act**”). This effectively enables the Fund to operate as a tax-free “flow through” conduit of profit to its shareholders, since it does not pay income taxes on net earnings at the corporate level from which dividends are paid. This allows holders of the non-voting Class C Preferred Shares to receive tax-efficient income from the Fund.

The Fund’s business objective is to obtain a secure stream of income by optimizing its investment portfolio within the MIC criteria mandated by the Tax Act. These criteria provide, among other things, that one of the primary investments a MIC may make is making mortgage loans that are secured by residential real estate. The Tax Act’s MIC criteria are discussed in further detail below.

The Fund has appointed New Haven Mortgage Corporation (the “Mortgage Banker”) and New Haven Treasury Management Inc. (the “Mortgage Manager”), to provide the Fund with day to day management and administrative services. See “Material Agreements”, Item 2.11. The Fund’s primary business is earning income through investing in residential and commercial first and second mortgages. As discussed below, there is an established need for real estate mortgage financing that is not readily provided by banks, trust companies, credit unions and other traditional lenders which market is collectively referred to as the “alternative mortgage market.” Short-term mortgage financing is a continuing need of individuals, builders and real estate developers, and, because of their need for flexibility and quick response, they often require the services of private lenders and organizations such as the Fund. The Fund’s primary revenue source will be interest payments received on its mortgage investments. The mortgage portfolio may also generate additional remuneration for the Fund, by way of interest bonuses for early prepayment by the borrower, or late payoff bonuses after maturity of the mortgage.

The Mortgage Banker and the Mortgage Manager have more than 55 years of combined experience (either itself or through its personnel) in the real estate and mortgage industry as mortgage administrators, mortgage brokers and investors. These qualifications and this experience put the Mortgage Banker and the Mortgage Manager in an advantageous position to provide mortgage management, administrative, advisory, development, mortgage brokerage, and financing services to the Fund. The Mortgage Banker’s and the Mortgage Manager’s personnel also have wide networks of established relationships with experienced mortgage brokers and agents, as well as with owners, builders, developers and others active in the real estate industry. The Fund believes the Mortgage Banker and the Mortgage Manager are qualified to locate and recommend investment opportunities for the Fund.

The following licences have been granted by the Financial Services Commission of Ontario (“FSCO”) to the Mortgage Banker and its officers and directors effective July 1, 2008:

David Vyner (Broker/Principal Broker) License No. M08003055

As a general rule, all mortgages held by the Fund will be registered in its name. However the Fund may also hold an interest in syndicated mortgages in which case legal title to the Fund’s

interest in such syndicated mortgages may be held in trust for the Fund. When the Fund's interest is held in trust, the trust arrangements must be approved by the Mortgage Manager, and any trust document must be satisfactory to the Fund's legal counsel.

The Fund may also enter into agreements with third party institutions and other non-bank lenders which may or may not be related or associated with the Mortgage Banker and the Mortgage Manager whereby the Fund will hold a senior or a subordinate position in individual mortgages. The Fund's subordinate position may be subordinated to that of the Mortgage Manager or the Mortgage Banker or a related or associated party. For so doing the Fund will receive a premium return. This is accomplished by the senior lender receiving a lower rate of return to reflect its lower risk position. The directors believe that subordinated lending is an effective risk/return strategy as these mortgages would have been funded in any event by the Fund. If on the other hand the Fund takes a senior position, the Fund will receive a lower rate of return in comparison to the lenders who occupy the subordinated position, reflecting the lower loan-to-value risk assumed by the Fund.

The Mortgage Manager, Mortgage Banker or any of its officers, shareholders, employees or affiliates, may purchase with their own funds and own as a co-lender or co-investor, a percentage interest in any investment that the Mortgage Banker presents to the Fund for acquisition, and the Mortgage Banker may also sell undivided percentage interests in such investments to the other co-lenders.

Syndicated mortgages may initially be funded by the Fund at a specified interest rate, and subsequently a portion of the mortgage may be syndicated to a financial institution or other lender sourced by the Mortgage Banker. For a syndicated loan, the Fund may lend in a prior ranking security position (a senior lender), an equally ranking position (*pari passu*), or in a subordinate position (a junior lender).

In general terms, the rate of return will vary depending on the relative priority position:

- Prior ranking (a senior investor) -- lower loan-to-value, lower risk, lower return
- Equal ranking (*pari passu*) – all members of the syndicate assume the same loan-to-value, equal risk and equal return
- Subordinate ranking (a junior investor) -- higher loan-to-value, higher risk, higher rate of return.

The Fund can advance mortgages for up to 80% of the appraised value of a property. As a general guideline, the Fund's mortgages do not exceed 75% loan to value (sometimes referred to herein as "LTV"). No more than 20% of the net assets of the Fund will consist of mortgages in which the LTV is in excess of 75% (and will in all cases not exceed 80%).

## 2.4 ***Investment Strategy***

The investment goal is to make prudent investments in first and second mortgages against real property located in Canada. The Mortgage Banker will, on behalf of the Fund, originate, underwrite, adjudicate, service and administer each loan, and the Mortgage Manager will provide advisory and management services. **There is no assurance of any return on an investor's investment**, The Mortgage Manager has implemented an investment strategy to minimize the risk of investing in mortgages which strategy has been developed and utilized over the last 29 years by the principals thereof and is described herein. Although future returns cannot be guaranteed,

the Mortgage Banker's experience suggests, and the Fund's objective is, to produce a return on shareholders' equity in excess of 400 basis points over the average one year Government of Canada Treasury bill yields.

In considering a mortgage proposal the Mortgage Manager and the Mortgage Banker adhere to strict investment and operating policies which include:

- obtaining a credit application from all potential borrowers.
- obtaining a credit report on both the borrowers and any guarantor(s).
- obtaining an appraisal prepared by an accredited appraiser in Ontario with the designations of C.R.A. or A.A.C.I., or their successors, or in the alternative from time to time the Mortgage Manager and Mortgage Banker may rely upon an opinion of value furnished by a reputable realtor who may be equally or better equipped to provide an accurate evaluation of a particular property as a consequence of specialized expertise relating to that particular type of property or with respect to the particular geographic area in which the subject property is located.
- obtaining such other information and/or opinions of value as the Mortgage Manager and Mortgage Banker deem appropriate in the circumstances to allow them to make an accurate assessment of value with respect to any particular property.

The appraised value need not be on an "as-is" basis and may be based on stated conditions, including without limitations, completion, rehabilitation, or sale and/or lease-out of improvements of the real property in the case of construction or renovation loans.

The investment strategy of the Mortgage Banker is to invest in first and second mortgages with superior yield, secured against properties located in cities, towns, villages, hamlets and rural routes, where the borrowers and their financing needs are for the most part not being met by institutional lenders. The Mortgage Manager concentrates its resources on niches in the mortgage market that have been created by:

- standardization of institutional mortgage underwriting;
- the liquidity difficulties experienced in the commercial paper securitization market in Canada; and
- stringent income or credit requirements being imposed by Canadian institutional lenders.

The criteria for qualification in this 'niche' mortgage market focuses principally on the value and quality of the real estate being offered as security (the loan-to-value ratio) but also takes into consideration the exit strategy, and to a lesser degree, the borrower's credit score. To maintain a stable interest yield on the mortgage portfolio, the Mortgage Manager manages risk through the maintenance of appropriate diversification, the application of consistent and prudent underwriting criteria, and diligent and proactive mortgage servicing.

When deemed necessary and where appropriate, the Mortgage Banker will establish and manage property tax escrow accounts in respect of the real property provided as security for the Fund's mortgage investments.

The Mortgage Manager intends to create a loan loss reserve account over time from earnings realized over and above amounts paid out as monthly dividends. The funds in this account from an accounting point of view will have been taken as an expense by the Fund in a prior fiscal period in anticipation that losses may be realized on the mortgage portfolio in the future. The size of this account relative to the overall size of the mortgage portfolio will be determined in the Mortgage Manager's sole and unfettered discretion.

## 2.5 *Investment and Operations Policies*

In summary form, the Mortgage Banker intends to follow the guidelines below in assessing individual mortgage investment opportunities:

- One hundred percent of the Fund's invested capital is to be invested in 1st and 2nd mortgages to be registered against real property located in Canada;
- No greater than 20% of the Fund's capital to be invested with any one borrower;
- No greater than 20% of the Fund's capital to be invested in any single mortgage investment;
- When not invested in mortgages, excess funds will be placed in CDIC insured investments including investments guaranteed by the Government of Canada, a province or territory of Canada, or interest-bearing cash deposits, deposit notes, certificates of deposit notes, certificates of deposit acceptance notes or other similar instrument issued, endorsed or guaranteed by a schedule 1 or schedule 2 Canadian chartered bank;
- Repayment schedules will consist primarily of 15 to 35 year amortization periods, and from time to time, interest-only mortgages, paid monthly;
- Although the term of any single mortgage may be longer, mortgages will generally be written for terms of two years or less;
- Mortgage investments will be denominated in Canadian Dollars;
- Mortgages will be syndicated when it is deemed appropriate to minimize risk;
- Collateral mortgages in second and third position will not be included in the computation of the 80% LTV lending threshold; and
- Any loan advances representing in excess of 75% LTV shall be on select real estate in select locations.

Construction and major rehabilitation loans are funded after receipt and review of an appraisal based on the "as-is" and "completed value" of the property. The loan is advanced in progress draws as predetermined by the Mortgage Banker and agreed to by the borrower. Prior to each loan advance, the property is reinspected by an appraiser who will provide a written detailed progress report. In addition, all construction loans will be funded in compliance with the *Construction Lien Act* of Ontario, and are subject to the approval process otherwise required in connection with the Fund's investments as outlined above.

The maximum loan-to-value for any particular mortgage investment will vary depending on a number of factors including the location and marketability of the property, and the condition of



the property. In any event, the Fund will not lend greater than 80% of the value of a particular property as established by appraisal or opinion of value.

In order to renew or extend a mortgage loan, the Fund may increase the loan amount to cover, among other items, renewal fees, extension fees, or legal fees, so long as any increase in the amount of the loan does not result in the total loan amount exceeding 80% of the original valuation of the property.

Loans will not be made to the Mortgage Manager, Mortgage Banker, or associated and/or affiliated companies, and in particular will not be made to any shareholder, officer or director of the Mortgage Manager or Mortgage Banker, or to any company in which a director or shareholder of the Mortgage Manager or Mortgage Banker holds an equity interest.

Notwithstanding any loan-to-value limits stated herein or other general underwriting criteria outlined above, for risk management purposes only, the Fund may increase a given investment of the Fund's capital in order to remedy the default by a borrower of its obligations in respect of a prior ranking security, or to satisfy the indebtedness secured by a prior ranking security, or for any other reason if such action is required to protect the Funds security position in a particular investment provided such proposed increases in the Fund's investment are approved by the Mortgage Manager.

The following lists the types of properties that the Fund intends to accept as security:

- Residential detached and semi-detached homes
- Residential townhouse or highrise condominiums
- Cottages and recreational property
- Properties where funds will be used to renovate an existing building or construct a new building
- Multi-family residential
- Mixed-use properties
- Co-ownerships
- Industrial and commercial properties including condominium properties
- Serviced and un serviced land, acreage and building lots

## 2.6 ***Management Fees and Expenses***

The Mortgage Banker and the Mortgage Manager will be responsible for the employment expenses of their personnel, including but not limited to, salaries, employee benefit plans, temporary help expenses, costs associated with the sourcing and arranging of eligible investments for presentation to the Fund, rent, telephone, utilities, office furniture and supplies, equipment and machinery and other office expenses relating to the performance of the Mortgage Banker and Mortgage Manager's duties and obligations under the Mortgage Servicing Agreement and Management and Advisory Services Agreement.

The Fund is responsible for its own operating expenses including but not limited to its legal, audit and other professional fees, costs and expenses of shareholder recordkeeping and of reporting to shareholders, banking fees and interest charges and other costs and expenses which the Fund is not able to recover from borrowers. In addition, the Fund may engage in marketing activity to

identify additional investors from time to time which marketing costs will be borne by the Fund. The costs pertaining to marketing and distribution will be reasonable and economical so as to not produce a major adverse effect on the yield of the investment pool. The Mortgage Manager strongly believes that by increasing the size of the Fund, the overall risk of the loan portfolio is greatly reduced, which significantly reduces the investment risk to each individual investor.

The Fund will pay the following amounts to the Mortgage Banker under the Mortgage Servicing Agreement:

1. In respect of the Mortgage Banker's mortgage servicing and administrative function, an annual fee equal to .15 of one percent of the total value of funds under management as of the last day of each month calculated on a monthly basis and paid to the Mortgage Banker on the last day of each month.
2. The Mortgage Banker will also be paid all fees charged to mortgagors. Such fees may include, without limitation, commitment fees, application fees, due diligence fees, legal transaction fees, discharge fees, mortgage servicing fees, mortgage renewal fees, and other similar fees. These fees are added to the balance outstanding under the mortgage and must be repaid by the borrower to the Fund to obtain a discharge of the mortgage. However it is possible that not all such fees which have accrued under the terms of the mortgage and are secured by the mortgage will be recovered if the property must be sold under power of sale. This situation happens infrequently but should it occur any unpaid fees would constitute amounts recoverable from the Fund.
3. The Mortgage Banker is responsible for originating and underwriting all mortgage investment opportunities for the Fund. In consideration for these services, it will charge a fee to the borrower (or some cases more than one fee if additional work is required to be done in closing the transaction) which fees are paid by the borrower from the mortgage proceeds and must be repaid by the borrower to obtain a discharge of the mortgage. The Mortgage Banker (or the Mortgage Manager) determines the amount of fees to be charged to the borrower. In some instances, the Fund may agree to participate in a loan with little or no fees payable for mortgage commitment, brokerage, renewal or extension and such fees may be included in the interest payments payable to the Fund. Accordingly, in appropriate circumstances, the Mortgage Banker is entitled to recover its reasonable fees from the Fund in respect of such services.

The Fund will pay the following amounts to the Mortgage Manager under the terms of the Management and Advisory Services Agreement:

1. In respect of the Mortgage Manager's general advice and advisory services, an annual fee equal to .85 of one percent of the value of funds under management as of the last day of each month calculated on a monthly basis and paid to the Mortgage Manager on the last day of each month.
2. The Mortgage Manager will also be paid an annual performance fee equal to 50% of the net return earned by the Fund over and above 10% per annum on the paid up capital of the Fund after all expenses including the management and advisory services fees herein discussed.

Notwithstanding the above, the terms of the Mortgage Servicing Agreement and the Management and Advisory Services Agreement provide that at the sole and unfettered discretion of each of the Mortgage Banker and the Mortgage Manager, the entities may allocate the remuneration provided for in these agreements as between them at any time or times so long as the total paid to these

companies does not exceed 1.0% of funds under management (as this term is defined in these Agreements) in any fiscal year, and may allocate any performance bonus earned between them as they deem most beneficial from a tax point of view provided that the maximum amount payable cannot exceed 50% of the return earned over and above 10% per annum.

The Mortgage Banker and the Mortgage Manager may utilize the professional services of either “in-house” or third party legal counsel and paralegals to effect the Fund’s mortgage transactions and to carry out enforcement work. The Mortgage Banker or the Mortgage Manager, their affiliates and related parties may provide certain incidental services such as title searches, execution searches, obtaining tax certificates, arranging insurance and similar services. Such costs and expenses are borne by the borrower as part of the legal expenses of the transaction. The Mortgage Banker and the Mortgage Manager have an efficient, streamlined process which enables fast and cost efficient processing, which the Fund considers to be a competitive advantage.

The Mortgage Manager may employ from time to time the services of a related property management company to engage in dealing with the default and distress real estate situations the Fund may encounter. Remuneration may be paid to such property manager separate and distinct of any administration or services fees paid to the Mortgage Banker or the Mortgage Manager, which property management fees are usually paid from the proceeds of sale of any property under enforcement or the proceeds of any refinance. To the extent that the proceeds of sale are not sufficient to cover such accrued fees, any unpaid balance will constitute a liability of the Fund.

The Mortgage Manager may appoint from time to time a licensed realtor related to either the Mortgage Banker or the Mortgage Manager in the event a property must be listed for sale to realize on the Fund’s mortgage loan investment. The realtor may earn sales commission, consulting fees, inspection fees, referral fees and other similar fees.

## 2.7 *The Tax Act’s MIC Criteria*

Section 130.1 of the Tax Act sets out the criteria governing a MIC, and in summary says that in order to qualify as a MIC for a taxation year, a company must have met the following criteria by the end of its first fiscal year, and maintained these criteria throughout every fiscal year thereafter:

1. Its only undertaking was the investing of its funds and it did not manage or develop any real property;
2. It did not invest in:
  - (a) mortgages secured by real estate located outside Canada, or property outside Canada;
  - (b) shares of companies not resident in Canada; or
  - (c) real property or leasehold interests outside Canada;
3. It had at least 20 shareholders, and no one shareholder together with related parties to that shareholder held between them more than 25% of the issued shares of any class of shares of the company;
4. At least 50% of the company’s assets were comprised of:

- (a) loans secured on houses or on property included in a housing project, as those terms are defined in the *National Housing Act* (Canada)\*
  - (b) deposits insured by the Canada Deposit Insurance Corporation (“CDIC”) (or Quebec DIC);
  - (c) deposits in a credit union; and/or
  - (d) cash;
5. No more than 25% of the company’s assets consisted of real property (excluding any real property acquired by foreclosure);
6. The company did not exceed, generally speaking, a 3:1 debt-equity ratio, or a 5:1 ratio if more than two-thirds of the company’s property consisted of Residential Mortgages and/or deposits secured by the CDIC (or Quebec DIC) or at a credit union.

Section 130.1 of the *Income Tax Act* authorizes a MIC to borrow funds and leverage its capital in certain ratios related to the type of assets held. Provided one-half of a MIC’s assets comprise a combination of residential mortgages and/or CDIC insured investments, the MIC is authorized to borrow up to a maximum of three times the amount of its assets. Provided two-thirds of a MIC’s assets comprise a combination of residential mortgages and/or CDIC insured investments, the MIC is authorized to borrow up to a maximum of five times the amount of its assets.

The Fund believes that this leverage opportunity is integral to its dividend performance, and the Fund will maximize its leverage opportunity under the *Act*. The Fund will borrow funds whenever funds are available provided it is economical and prudent to do so. The directors have determined that a very conservative level of debt is equal to 25% of the paid up capital of the Fund, and although the actual amount of debt may vary above or below this percentage, over the long term the objective shall be to maintain it at approximately this level. This leverage when utilized will allow the Fund to remain fully invested to the extent possible as funds are received from new investors or mortgages in the Fund begin to payoff. As this money comes in, the debt will be paid down pending the location of new investment opportunities.

The Fund will likely commit to more mortgages than it will ultimately retain in its portfolio. It is the intention of the directors to sell mortgages within its portfolio from time to time to other lenders that may or may not be associated with the Mortgage Manager or the Mortgage Banker, and to reinvest the proceeds on the belief that a certain level of turnover in the portfolio may lower the overall exposure to defaults and/or to maintain a higher return, while always complying with the criteria set out in the *Income Tax Act* to maintain the Fund’s MIC status.

As a MIC under the Tax Act, the Fund is entitled to deduct from its income the amount of taxable dividends it pays to its shareholders. The Fund’s constating documents require it to pay out as dividends substantially all of its net income and net realized capital gains every year, and as a result the Fund anticipates that it will not be liable to pay income tax in any year. The Fund

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\* The *National Housing Act* (Canada) provides that: ‘house’ means a building or movable structure intended for human habitation containing not more than two family housing units, together with the land, if any, on which the building or movable structure is situated; and that “housing project” means a project consisting of one or more houses, one or more multiple-family dwellings, housing accommodation of the hostel or dormitory type, one or more condominium units or any combination thereof, together with any public space, recreational facilities, commercial space and other buildings appropriate to the project, but does not include a hotel.

operates as a tax-efficient conduit of profit to its shareholders. Refer to Item 6, “Income Tax Consequences.”

The Tax Act’s MIC criteria permit revenue sources other than residential mortgages, including among other things equity investments in real estate, investments in stocks and securities of Canadian companies, and mortgage lending in respect of commercial real estate. Notwithstanding its ability to invest in the array of investments allowed under the Tax Act, it is the Fund’s policy to invest its non-CDIC-insured holdings in mortgages secured by real estate located in Canada, primarily residential real property. A MIC’s only permitted undertaking under the Tax Act criteria is the investing of its funds, and it is specifically prohibited from managing or developing real property.

## 2.8 ***Problem Identification and Rectification Experience***

The Fund intends to minimize risks associated with defaulting mortgages through diligent application of standards for monitoring the Fund’s mortgage portfolio. Any and all defaults are immediately dealt with by following effective enforcement procedures to their conclusion where necessary.

The Mortgage Banker currently utilizes a very timely and effective default management and recovery program which includes but is not limited to the following:

- Implementation of enforcement proceedings following default under the terms of the mortgage;
- Issuing demand letters;
- Performing numerous property inspections starting usually 15 days following notification of default; and
- Commencing enforcement proceedings in a timely fashion to ensure the security for the loan is realized as soon as possible, or in the alternative assisting the borrower to obtain alternative financing as soon as possible.

## 2.9 ***Investment Advisory Committee***

The Fund has appointed an Investment Advisory Committee (IAC) composed of individuals who are independent of the Mortgage Banker and the Mortgage Manager to provide advice and recommendations to the Mortgage Banker and the Mortgage Manager with respect to the investment portfolio of the Fund. The members of the IAC include Mr Cecil B. Lynch, C.A. of Port Hope, Ontario and Mr Gordon R. Atkinson, of Cobourg, Ontario, both of whom have extensive professional and business experience in real estate and mortgage lending. Where the Mortgage Banker or the Mortgage Manager proposes to enter into a transaction on behalf of the Fund in which there is an actual or potential conflict between the interests of the Mortgage Banker or the Mortgage Manager on the one hand and the interests of the Fund on the other, the Fund will seek the advice and recommendation of the IAC. The IAC meets quarterly with additional meetings as needed.

## 2.10 ***Development of Business***

The Fund began soliciting interest from potential investors to invest in the Shares December 1, 2008.

The rate of return the Fund will earn from its mortgage investments will fluctuate with prevailing market demand for short-term mortgage financing. In most cases the Fund's mortgage investments will not meet financing criteria for conventional mortgages from institutional sources, and as a result these investments generally earn a higher rate of return than that normally attainable from conventional mortgage investments. The Mortgage Banker attempts to minimize risk by following a diversification strategy. The Fund's policy is to pay out monthly dividends to holders of its preferred shares.

#### 2.11 *Long-Term Objectives*

Over the long term, the Fund intends to continue to qualify as a MIC, raise investment capital, and invest substantially all its capital in mortgages secured against real property located in Canada. Preferred shares are issued to investors on the 1st of the month following the date on which a duly completed subscription accompanied by payment is received. In the event a suitable mortgage investment is not readily available at the time new subscriptions are accepted by the Fund, the Fund will invest in a CDIC-insured deposit(s) at the Fund's chartered bank. Management believes that the deal flow generated by the Mortgage Banker will make it likely that suitable investments will be readily available so as to deploy the Fund's investment capital on a timely basis.

#### 2.12 *Short-Term Objectives*

Over the next 12 months, the Fund's objective is to raise further equity capital, invest it pursuant to the Tax Act's MIC criteria with the intent of optimizing return (as described in more detail above under Items 2.2, 2.3, and 2.4), and continue paying monthly dividends to its shareholders. However, the Fund's business plan is not dependant on placement of the full amount of this offering. The amount of \$25,000,000 is simply a target. The Fund anticipates that whatever funds are raised will be sufficient for the Fund to continue implementing its business plan.

#### 2.13 *Material Agreements*

The Fund is currently a party to the following material agreements:

##### **Mortgage Servicing Agreement and Management and Advisory Services Agreement**

The Fund and the Mortgage Banker have entered into an exclusive Mortgage Servicing Agreement dated November 27, 2008, under which the Mortgage Banker administers the Fund's business affairs on a day to day basis and provides mortgage origination, underwriting, adjudication, and mortgage servicing to the Fund pursuant to the terms of the Mortgage Servicing Agreement. The Fund has also entered a Management and Advisory Services Agreement with the Mortgage Manager dated November 27, 2008 pursuant to the terms of which the Mortgage Manager will provide exclusive ongoing management, advice and consulting services to the Fund.

The Mortgage Banker, the Mortgage Manager, and the Fund are "related" companies. David Vyner and Jason Vyner are controlling shareholders of the Mortgage Banker. David Vyner is the sole shareholder, officer and director of the Mortgage Manager. David Vyner and Jason Vyner each own 25% of the outstanding common shares of the Fund and they are also directors and officers of the Fund. Each of David Vyner and Jason Vyner are registered mortgage professionals in good standing in Ontario, and have been so for 30 and 28 years respectively.

The Mortgage Servicing Agreement and Management and Advisory Services Agreement are for initial terms of ten years and will be automatically renewable for further terms of five years each

after the expiration of the initial term, subject to the provisions for termination. The Fund may only terminate the Mortgage Servicing Agreement and Management and Advisory Services Agreement for cause, upon the affirmative vote of a special majority of the Fund's directors. The Mortgage Banker and the Mortgage Manager may respectively terminate the Mortgage Servicing Agreement and Management and Advisory Services Agreement as follows: (a) immediately upon the winding up, bankruptcy or receivership of the Fund, or (b) upon 120 days notice to the Fund.

The Fund, the Mortgage Banker and the Mortgage Manager expressly agree in each of the Mortgage Servicing Agreement and Management and Advisory Services Agreement that neither of the Mortgage Servicing Agreement nor the Management and Advisory Services Agreement creates a fiduciary relationship between the Fund and either the Mortgage Banker or the Mortgage Manager. However each of the Mortgage Banker and the Mortgage Manager has agreed that it will exercise its powers and discharge its duties under these agreements honestly, in good faith and in what it reasonably believes to be in the best interests of the Fund.

Each of the Mortgage Banker and the Mortgage Manager will be given reasonable advance notice of (and agendas if available), and has the right to attend and be heard at, all meetings of the Fund's shareholders, the Fund's board of directors, and any committees established by the board of directors, and the Mortgage Banker and Mortgage Manager will be provided with copies of the minutes of any resolutions passed at all such meetings within a reasonable time after the meeting.

Under the Mortgage Servicing Agreement and Management and Advisory Services Agreement, each of the Mortgage Banker and Mortgage Manager, and their respective shareholders, directors and senior officers have, or may acquire, interests and dealings in other companies, joint ventures, limited partnerships and/or MICs which are presently or may in the future be actively engaged in similar businesses as the Fund. The Fund agrees that each of the Mortgage Banker and the Mortgage Manager, as well as all of their respective shareholders, directors or senior officers will not be liable to the Fund for any conflict of interest as a result of such other interests or dealings, and that such interests and dealings do not and will not constitute a breach of the Mortgage Servicing Agreement and Management and Advisory Services Agreement even if competitive with the business of the Fund, and even if the business opportunity could have been pursued by the Fund. However, the IAC will oversee and provide its advice and recommendations with respect to related party transactions where there is a real or potential conflict between the interests of the Fund and those of the Mortgage Banker and/or Mortgage Manager.

Neither the Mortgage Banker nor the Mortgage Manager will be liable to the Fund in respect of any loss or damage suffered by the Fund, including any loss or diminution in the net assets (that is, the value of the Fund's assets less its liabilities) of the Fund, unless such loss or damage is a direct result of gross negligence, gross wilful misconduct, or dishonesty by the Mortgage Banker or the Mortgage Manager in relation to their respective duties and responsibilities under the Mortgage Servicing Agreement and Management and Advisory Services Agreement.

The Mortgage Servicing Agreement and Management and Advisory Services Agreement also provide that the Fund will indemnify the Mortgage Banker and the Mortgage Manager, as well as their directors, officers and employees, from any claims arising in relation to the Mortgage Banker or Mortgage Manager's duties and responsibilities under the Mortgage Servicing Agreement and Management and Advisory Services Agreement.

Notwithstanding any other provision of the Mortgage Servicing Agreement, the Fund has granted to the Mortgage Banker, or any related company, the irrevocable right at any time to purchase the Fund's investment in any and/or all of the mortgages held by the Fund for a purchase price equal to the Fund's percentage interest in the principal amount of such mortgages, and accrued interest

payable thereon, calculated as at the end of business on the day immediately preceding the purchase date, less all accrued costs and expenses relating to the Fund.

### **Shareholders Agreement**

The holders of the common voting shares and the Fund have entered into a Shareholders Agreement dated November 27, 2008 to govern their respective rights and obligations vis-a-vis each other as holders of the voting shares. The provisions of this Agreement do not affect the rights and obligations of the holders of the Shares.

### **Use of Name License Agreement**

The business names “New Haven” and “New Haven Mortgage,” and all derivatives thereof, are owned by the Mortgage Banker. The Mortgage Banker has granted the Fund a nonexclusive license to use this name. The compensation payable to the Mortgage Banker for the use of this business name is included in the management fee payable to the Mortgage Banker by the Fund.

The Agreement is automatically renewed every year unless one of the parties provides notice of termination to the other not less than 30 days prior to an anniversary date of the Agreement. The Agreement also provides that it will be terminated upon certain adverse circumstances relating to the Fund, and that the Mortgage Banker can terminate it upon 30 days notice to the Fund. Upon termination, the Fund must cease all use of the business name, including the deletion of the name from its corporate name. All ownership rights in the business name or any derivatives thereof will at all times remain the exclusive property of the Mortgage Banker.

### **Financing Agreement**

The Corporation has also procured a \$50,000 line of credit from P.O.A.F.G. Corp., a corporation controlled by David Vyner and Jason Vyner, to fund the ongoing operations of the Fund. This credit facility is repayable on demand, open for repayment at any time without notice or bonus, and bears interest at a rate of Prime plus 3.0% per annum. Interest only payments shall be made to P.O.A.F.G.. Corp. on the first day of each month while any principal remains outstanding.

### **Third Party Marketing Agreements, Finder’s Fees and Commissions**

The Mortgage Manager on behalf of the Fund may enter into marketing agreements with third parties such as mortgage brokers/agents, financial advisors, stock brokers and dealers, and financial intermediaries (including its affiliated dealer, Integrated-Equities Inc.) to market the Shares on behalf of the Fund. None of the Mortgage Banker, Mortgage Manager or any their respective directors, officers or shareholders, will be compensated to market Shares on behalf of the Fund. The compensation paid to such third parties will be negotiated with such persons but in any event will not exceed 6.0% of the gross proceeds. No further compensation shall be paid on any purchases of Shares under a dividend re-investment plan or periodic investment plan.

In addition to commissions paid up front at the time the investment, the Mortgage Manager may also pay ongoing servicing fees or trailing commission to third parties (including its affiliated dealer, Integrated-Equities Inc.) who distribute Shares of the Fund.



**ITEM 3 : DIRECTORS, MANAGEMENT, PROMOTERS AND PRINCIPAL HOLDERS**

**3.1 Compensation and Securities Held**

The following table sets out the specified information about each director, officer, and promoter of the Fund and each person who, directly or indirectly, beneficially owns or controls 10% or more of any class of voting securities of the Fund (a “principal holder”).

Name and municipality of principal residence	Positions held and the date of obtaining that position	Compensation paid by Fund in the most recently completed financial year or to be paid in the current financial year	Number, type and percentage of securities of the Fund held after completion of min. offering	Number, type and percentage of securities of the Fund held after completion of max. offering
David Vyner	Director, President, and Promoter since November 27, 2008	NIL	25 Common shares representing 25% of outstanding voting common equity	Same
Jason Vyner	Director, Secretary-Treasurer since November 27, 2008	NIL	25 Common Shares representing 25% of outstanding voting common equity	Same
Doron Noah	N/A	NIL	25 Common Shares representing 25% of outstanding voting common equity	Same
Eliahu Mansoor	N/A	NIL	25 Common Shares representing 25% of outstanding voting common equity	Same

The Fund has entered into agreements to issue its Class B Preferred Shares to certain qualified holders of interests in assets, primarily mortgages, to be acquired by the Fund. In order to facilitate this purchase transaction, the Fund will issue 1 Class B Preferred Share, at a price of \$1 per Class B Preferred Share, to each of the individuals shown above. It is expected that the Fund will purchase these four Class B Preferred Shares for cancellation following the closing of the acquisition transaction.

**3.2 Management Experience**

The following table sets out the principal occupations of the directors and executive officers of the Fund over the past five years, and their relevant experience in businesses similar to that of the Fund.

Name	Principal occupation and related experience
David Vyner	David has been a registered mortgage professional in good standing in Ontario, and has been such since 1982. David has been involved in all aspects of the mortgage industry since that time, including being engaged in brokering, underwriting, syndicating, and administering residential and commercial mortgages
Jason Vyner	Jason is David's brother, and is also a registered mortgage professional in good standing in Ontario, and has been such since 1985. Jason has been involved in all aspects of the mortgage industry since that time, including being engaged in brokering, underwriting, syndicating, and administering residential and commercial mortgages

### 3.3 *Penalties, Sanctions and Bankruptcy*

In the past five years, none of the directors or officers of the Fund have had any penalties or sanctions issued against them, nor been declared bankrupt.

### 3.4 *Auditors*

As a MIC, the Fund is deemed to be a public company by section 130.1 of the Income Tax Act. The Fund's auditors are KPMG LLP.

## ITEM 4 : CAPITAL STRUCTURE

### 4.1 *Share Capital*

The following table sets out information about the Fund's outstanding securities, including any options, warrants and other securities convertible into Shares as of April 30, 2012.

Description of Security	Number authorized to be issued	Number outstanding as at April 30, 2012	Number outstanding after minimum offering	Number outstanding after maximum offering
Voting Common Shares	Unlimited	100	100	100
Non-voting Class A Preferred	Unlimited	4,104,450	4,104,450	4,104,450
Non-voting Class C Preferred	Unlimited	Nil	500,000	25,000,000

The Non-voting Class A Preferred Shares are no longer generally offered to investors.

The Fund is also authorized to issue Non-voting Class B Preferred Shares. The Non-voting Class B Preferred Shares were created to facilitate a transaction to be entered into by the Fund. The Fund has agreed to acquire the property and assets of a certain unincorporated fund from the beneficial owners of such fund, in consideration of the issuance of Class B Preferred Shares to such beneficial owners. The Class B Preferred Shares are not offered to investors. After the first anniversary of the date of issue, a holder of Class B Preferred Shares can convert his or her holdings to Class C Preferred Shares. The Class B Preferred Shares can also be converted to Class C Preferred Shares at the discretion of the Board of Directors of the Fund.

The following is a description of the material terms of the Class B Preferred Shares (the Class B Shares):

- (a) **Voting** – The holders of the Class B Shares are not entitled to notice of or to attend or vote at meetings of the holders of common shares of the Fund.
- (b) **Redemption Rights** – Holders of the Class B Shares have redemption rights, meaning that they have a right to present all or some of their Shares to the Fund for cancellation and payment to such shareholder by the Fund of the “Redemption Amount.”

The articles of the Fund provide that the holders of the issued and outstanding Class B Preferred Shares shall have the right to require the Fund to redeem all or part of the Shares held by the said holder at any time subsequent to the date that is 12 months following the date such Class B Preferred Shares were issued to such holder. A redeeming shareholder must give the Fund a minimum of 120 days notice in writing delivered to the Fund’s registered head office. Redemption will occur at a redemption price per Class B Share equal to the net asset value of the Class B Shares redeemed.

Redemptions may take place monthly, and redemption proceeds will be paid to the investor within five business days of the date of redemption.

If a holder of a Class B Share wishes to redeem within five years of the initial purchase of the Shares, the Fund charges a redemption fee as follows:

Year 1 – No redemption permitted

Year 2 – 2%

Year 3 – 2%

Year 4 – 1.5%

Year 5 – 1%

Thereafter: No redemption fee

A holder of a Class B Share can also redeem all or part of his or her Class B Shares on the second anniversary date of purchase and will not be charged a redemption fee provided that the shareholder has given 6 months prior written notice of the request for redemption.

The Fund will not be required to redeem any shares on any redemption date if the aggregate amount redeemed would be equal to 10%, on an annualized basis, of the net assets of the Fund.

The Shareholder’s right to request redemption is subject to the following discretion vested with the Fund’s directors pursuant to the constating documents of the Fund, which provide as follows:

Subject to applicable law, the directors are empowered to take such steps and to do such things as may be necessary to ensure that the corporation qualifies and continues to qualify as a “mortgage investment corporation” under section 130.1 of the *Income Tax Act*, Canada. If the directors by resolution determine that it is in the best interests of the Corporation to ensure that the securities of the Corporation do not constitute a “prohibited investment” to any annuitant of a registered plan for purposes of the *Income Tax Act*, Canada, then the directors are further empowered to take such steps and to do such things as may be necessary in that regard. Without limiting the generality of the foregoing, for the purposes

stated above, the directors may in their sole discretion accept or reject subscriptions for securities in the capital of the corporation, redeem in whole or in part any class of securities of the corporation from any holder thereof, or deny, postpone, restrict or place conditions on any request for redemption or conversion of any securities of the corporation or on any application to transfer securities of the corporation.

- (c) **Dividends** – The Fund pays out as dividends substantially all of its net income and net realized capital gains every year to the holders of the preferred shares subject to the directors’ discretion to establish loan loss reserves for the Fund. The Fund is authorized to issue three classes of preferred shares. See “Capital Structure”.

The Fund allocates discrete pools of assets to the Class A Preferred Shares, the Class B Preferred Shares and the Class C Preferred Shares, except that the assets of the Class A Preferred Shares may be aggregated with the assets of the Class C Preferred Shares for the purposes of calculating dividend distributions. Accordingly, net income and net realized capital gains attributable to the Class C Shares will be paid out as dividends to the holders of the Class C Shares, except that at the discretion of the Board of Directors of the Fund, the net income and net realized capital gains attributable to the Class A Preferred Shares and the net income and net realized capital gains attributable to the Class C Preferred Shares may be added together to calculate dividends payable on the Class A Preferred Shares and the Class C Preferred Shares. In this circumstance, the Class A Preferred Shares and the Class C Preferred Shares shall rank equally, and no dividends may be declared on a Class A Preferred Share unless an identical dividend per share is declared on a Class C Preferred Share. Net income and net realized capital gains attributable to the Class B Shares will be paid out as dividends to the holders of the Class B Shares only.

Dividends will be paid monthly with the appropriate adjustment made to the final dividend payment to be made on December 15 of each year to holders of record as of the November 30 in that year ensure the net income of the Fund is reduced to NIL. The Articles prevent the payment of dividends to the holders of the common shares.

- (d) **Pre-emptive Rights** – Except as otherwise required by law, the holders of the Class B Shares are not entitled as such to subscribe for, purchase, or receive any part of any issue of shares, bonds, debentures, or other securities of the Fund.
- (e) **Liquidation, Dissolution, or Winding up** – In the event of the liquidation, dissolution or winding-up of the Fund, whether voluntary or involuntary, or in the event of any other distribution of assets of the Fund among its shareholders for the purpose of winding-up its affairs, the holders of the Shares will be entitled to receive from the assets of the Fund the aggregate net asset value of their Class B Shares together with all declared and unpaid dividends before any amount is paid or property or assets of the Fund distributed to the holders of the common shares or to holders of any other class of shares ranking junior to the Class B Shares.

#### 4.2 *Long Term Debt*

The Fund currently has no long term debt.

#### 4.3 *Prior Sales*

Within the past 12 months, the Fund has issued securities as follows:

<b>Date of Issuance</b>	<b>Type of Security Issued</b>	<b>Number Issued</b>	<b>Price per Security</b>	<b>Total Funds Received</b>
From April 30, 2011 to April 30, 2012	Class A Preferred Shares	1,635,315	\$1 Per Class A Preferred Share	\$ 1,635,315

During this period, a total of 241,000 Class A Preferred Shares were redeemed, for a net increase in Class A Preferred Shares of 1,394,315.

## **ITEM 5 : SECURITIES OFFERED**

### **5.1 Terms of Securities**

A description of the material terms of the securities being offered include:

- (a) **Voting** – The holders of the Shares are not entitled to notice of or to attend or vote at meetings of the holders of common shares of the Fund.
- (b) **Redemption Rights** – Holders of the Shares have redemption rights, meaning that they have a right to present all or some of their Shares to the Fund for cancellation and payment to such shareholder by the Fund of the “Redemption Amount.”

The articles of the Fund provide that the holders of the issued and outstanding Class C Preferred Shares shall have the right to require the Fund to redeem all or part of the Shares held by the said holder at any time subsequent to the date that is 12 months following the date such Class C Preferred Shares were issued to such holder. A redeeming shareholder must give the Fund a minimum of 120 days notice in writing delivered to the Fund’s registered head office. Redemption will occur at a redemption price equal to one hundred percent (100%) of the amount paid upon issuance of such shares, plus the amount of all dividends declared thereon and unpaid.

The redemption proceeds are paid monthly, and will be paid to the investor within five business days of the date of redemption.

If a holder of a Share wishes to redeem within five years of the initial purchase of the Shares, the Fund charges a redemption fee as follows:

Year 1 - No redemption permitted  
 Year 2 – 2%  
 Year 3 – 2%  
 Year 4 – 1.5%  
 Year 5 – 1%  
 Thereafter: No redemption fee

The Fund will not be required to redeem any shares on any redemption date if the aggregate amount redeemed would be equal to 10%, on an annualized basis, of the net assets of the Fund.

The Shareholder’s right to request redemption is subject to the following discretion vested with the Fund’s directors pursuant to the constating documents of the Fund, which provide as follows:

Subject to applicable law, the directors are empowered to take such steps and to do such things as may be necessary to ensure that the corporation qualifies and continues to qualify as a “mortgage investment corporation” under section 130.1 of the *Income Tax Act*, Canada. If the directors by resolution determine that it is in the best interests of the Corporation to ensure that the securities of the Corporation do not constitute a “prohibited investment” to any annuitant of a registered plan for purposes of the *Income Tax Act*, Canada, then the directors are further empowered to take such steps and to do such things as may be necessary in that regard. Without limiting the generality of the foregoing, for the purposes stated above, the directors may in their sole discretion accept or reject subscriptions for securities in the capital of the corporation, redeem in whole or in part any class of securities of the corporation from any holder thereof, or deny, postpone, restrict or place conditions on any request for redemption or conversion of any securities of the corporation or on any application to transfer securities of the corporation.

- (c) **Dividends** – The Fund pays out as dividends substantially all of its net income and net realized capital gains every year to the holders of the preferred shares subject to the directors’ discretion to establish loan loss reserves for the Fund. The Fund is authorized to issue three classes of preferred shares. See “Capital Structure”.

The Fund allocates discrete pools of assets to the Class A Preferred Shares, the Class B Preferred Shares and the Class C Preferred Shares, except that the assets of the Class A Preferred Shares may be aggregated with the assets of the Class C Preferred Shares for the purposes of calculating dividend distributions. Accordingly, net income and net realized capital gains attributable to the Class C Shares will be paid out as dividends to the holders of the Class C Shares, except that at the discretion of the Board of Directors of the Fund, the net income and net realized capital gains attributable to the Class A Preferred Shares and the net income and net realized capital gains attributable to the Class C Preferred Shares may be added together to calculate dividends payable on the Class A Preferred Shares and the Class C Preferred Shares. In this circumstance, the Class A Preferred Shares and the Class C Preferred Shares shall rank equally, and no dividends may be declared on a Class A Preferred Share unless an identical dividend per share is declared on a Class C Preferred Share. Net income and net realized capital gains attributable to the Class B Shares will be paid out as dividends to the holders of the Class B Shares only.

Dividends will be paid monthly with the appropriate adjustment made to the final dividend payment to be made on December 15 of each year to holders of record as of the November 30 in that year ensure the net income of the Fund is reduced to NIL. The Articles prevent the payment of dividends to the holders of the common shares.

- (d) **Pre-emptive Rights** – Except as otherwise required by law, the holders of the Shares are not entitled as such to subscribe for, purchase, or receive any part of any issue of shares, bonds, debentures, or other securities of the Fund.
- (e) **Liquidation, Dissolution, or Winding up** – In the event of the liquidation, dissolution or winding-up of the Fund, whether voluntary or involuntary, or in the event of any other distribution of assets of the Fund among its shareholders for the purpose of winding-up its affairs, the holders of the Shares will be entitled to receive from the assets of the Fund the sum of \$1 per Share together with all declared and unpaid dividends before any

amount is paid or property or assets of the Fund distributed to the holders of the common shares or to holders of any other class of shares ranking junior to the Shares.

## 5.2 ***Subscription Procedure***

The Shares are offered only on a private placement basis and only by dealers authorized to offer such private placements of securities. The principal distributor of the Fund is Integrated-Equities Inc., an affiliate of the Mortgage Banker and of the Mortgage Manager registered in the category of exempt market dealer.

Persons wishing to subscribe for Shares under this Offering may do so by completing the following three steps:

- (a) **Subscription Forms** – This Confidential Offering Memorandum is for persons who are resident in Canada and live in Ontario or Saskatchewan. To subscribe for Shares, investors must complete the Subscription Agreement attached hereto as Schedule A, including all Exhibits.

**If you have questions about completing the subscription agreement, or if you are not a resident in these jurisdictions but would like to subscribe, please contact the office of the Mortgage Manager at 1-866-996-8226 Ext 202 to request further information.**

- (b) **Method for Payment** – A cheque or bank draft in an amount equal to \$1.00 multiplied by the number of Shares being subscribed for must be forwarded to company's head office in Toronto, Ontario made payable to New Haven Mortgage Income Fund (1) Inc.
- (c) **Submitting Subscriptions** – Completed Subscription Agreements and funds payable to New Haven Mortgage Income Fund (1) Inc. must be received by the Fund at:

New Haven Mortgage Income Fund (1) Inc.  
Suite 106 1200 Sheppard Ave East  
Toronto, Ontario, M2K 2S5

Tel. No: 1-866-996-8226, Fax No.: 1-866-784-6385  
E-mail: [david@newhavenmortgage.com](mailto:david@newhavenmortgage.com)

- (d) **Acceptance of Subscriptions and Closings** – Subscriptions may be accepted at the sole discretion of the Mortgage Manager, and are subject to the terms and conditions of the Subscription Agreement signed by the investor. The authority to accept or reject subscriptions has been delegated to the Mortgage Manager to insure that the Fund maximizes its return for existing investors, that the fund remains qualified as a "MIC" as this term is defined by the Tax Act, and to insure that the Fund complies with all other relevant securities laws. The Mortgage Manager may also defer acceptance of a subscription on behalf of the Fund if the directors do not anticipate that the Fund will have sufficient investment opportunities within the next 30 day period to absorb the funds. If the directors do defer acceptance, such funds shall be invested in a CDIC insured investment available to the Mortgage Manager until the money can be rolled into the Fund's mortgage portfolio, with all interest earned being paid to such investor. If the Mortgage Manager rejects a subscription for any other reason, the subscription funds received will be returned to the investor, without interest or deduction, along with notification of the rejection.

**This offering is not subject to any minimum subscription level except specified or as required for the Fund to maintain its status as a “MIC” under Canadian income tax law. Therefore any funds received from an investor are available to the Fund and need not be refunded to the investor save and except as required by the constating documents of the Fund, the terms of this Confidential Offering Memorandum, or as otherwise required by law.**

This Offering may be nullified at the sole discretion of the Mortgage Manager acting on behalf of the Fund. For example, the Mortgage Banker might choose to nullify the Offering upon the occurrence of events such as any material adverse to change in the business, personnel or financial condition of the Mortgage Banker. If this Offering is nullified for any reason, the Subscription Agreement and cash funds received by the Mortgage Banker prior to the nullification will be returned to investors without interest or deduction as if the investors’ subscription had been rejected (whether or not the subscription(s) had previously been accepted by the Fund).

A prospective investor will become a shareholder upon execution of a Subscription Agreement, acceptance of the Subscription Agreement by the Mortgage Manager acting on behalf of the Fund, payment of the subscription price, and entry of the investor’s name in the shareholder register of the Fund.

### 5.3 *Investor Qualifications and Minimum Investment Amount:*

The Shares are offered on a private placement basis, conditional upon any sale of Shares being exempt from the prospectus requirements of applicable legislation. Each subscriber for Shares will be deemed to have represented to the Fund, the Mortgage Manager and to any broker or dealer who places the Shares with the subscriber that the subscriber is purchasing as an “accredited investor”, under the “minimum amount investment”, or as a “founder, control person or family” as those terms are defined in National Instrument 45-106 Prospectus and Registration Exemptions (“**NI 45-106**”).

The minimum investment if you are an “accredited investor” is \$25,000. If you are not an “accredited investor”, and you are purchasing under the “minimum amount investment”, the minimum amount is \$150,000. If you are subscribing as an “accredited investor,” when you complete the Subscription Agreement attached hereto as Schedule A you must indicate in Exhibit A the grounds upon which you qualify as an “accredited investor.” Under applicable securities law, an “accredited investor” includes, among other persons and companies (note that this is not an exhaustive list of persons or entities who qualify as “accredited investors”):

1. a person registered under the securities legislation of a jurisdiction of Canada as an advisor or dealer, other than a person registered solely as a limited market dealer,
2. an individual registered or formerly registered under the securities legislation of a jurisdiction of Canada as a representative of a person referred to in the preceding paragraph,
3. a pension fund that is regulated by either the Office of the Superintendent of Financial Institutions (Canada) or a pension commission or similar regulatory authority of a jurisdiction of Canada,
4. an individual who, either alone or with a spouse, beneficially owns, directly or indirectly, financial assets having an aggregate realizable value that before taxes, but net of any related liabilities, exceeds \$1,000,000;



5. an individual whose net income before taxes exceeded \$200,000 in each of the 2 most recent calendar years or whose net income before taxes combined with that of a spouse exceeded \$300,000.00 in each of the 2 most recent calendar years and who, in either case, reasonably expects to exceed that net income level in the current calendar year,
6. an individual who, either alone or with a spouse, has net assets of at least \$5,000,000;
7. a person, other than an individual or investment fund, that has net assets of at least \$5,000,000 as shown on its most recently prepared financial statements,
8. a trust company or trust corporation registered or authorized to carry on business under the *Trust and Loan Companies Act* (Canada) or under comparable legislation in a jurisdiction of Canada or foreign jurisdiction, acting on behalf of a fully managed account managed by the trust company or trust corporation, as the case may be,
9. a registered charity under the *Income Tax Act* (Canada) that, in regard to the trade, has obtained advice from an eligibility adviser or an adviser registered under the securities legislation of the jurisdiction of the registered charity to give advice on the securities being traded,
10. a person in respect of which all of the owners of interests, direct, indirect or beneficial, except the voting securities required by law to be owned by directors, are persons that are accredited investors.

#### **ITEM 6 : INCOME TAX CONSEQUENCES**

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

No application has been made for an advance income tax ruling with respect to the investment described in this Confidential Offering Memorandum nor is it intended that any application be made.

The Fund has prepared the following commentary, which it believes is a fair and adequate summary of the principal federal income tax consequences arising under the Tax Act to an investor who is an individual resident in Canada who acquires Shares under this Confidential Offering Memorandum.

The income tax consequences will not be the same for all investors, but may vary depending on a number of factors including the province or provinces in which the investor resides or carries on business, whether Shares acquired by him will be characterized as capital property, and the amount his taxable income would be but for his participation in this Offering.

***The following discussion of the Canadian income tax consequences is, therefore, of a general and limited nature only and is not intended to constitute a complete analysis of the income tax consequences and should not be interpreted as legal or tax advice to any particular investor. This summary does not address provincial or territorial laws of Canada or any tax laws of any jurisdiction outside of Canada. Each prospective investor should obtain advice from his own independent tax advisor as to the Canadian federal and provincial income tax consequences of his acquisition of Shares, as such consequences can vary depending upon the particular circumstances of each investor.***

This summary is based on the Fund's understanding of the current provisions of the Tax Act, the Regulations to the Tax Act, and the current administrative and assessing practises of Canada Revenue Agency ("CRA").

This summary outlines the Canadian federal income tax consequences to an investor based on important facts and assumptions as set out by the Fund in the Confidential Offering Memorandum and particularly on additional facts and assumptions as follows:

- (a) Investors are, and will not cease to be, individual residents in Canada;
- (b) Investors acquire Shares pursuant to this Confidential Offering Memorandum and hold the Shares as capital property;
- (c) Investors hold Shares for the purpose of earning income and have reasonable expectation of earning a profit from holding the Shares; and
- (d) The Fund will qualify at all material times as a MIC for the purposes of the Tax Act.

It is incumbent upon prospective investors to fully investigate and substantiate the expectations above and, with respect to the assumption stated in (c) above, it is incumbent on an investor to investigate and substantiate his expectation of earning a profit from holding Shares, having regard to his expected financing costs and any projections he may wish to obtain from the Fund.

There is no assurance that the Tax Act and related Regulations will not be amended in a manner that fundamentally alters the income tax consequences to investors who acquire or dispose of Shares. This summary does not take into account any changes in law, whether by way of legislative or judicial action.

There has been no application for an Advance Income Tax Ruling from CRA on any aspect of the transactions proposed in the Confidential Offering Memorandum, nor is it intended that such an application will be made. No opinion from the Fund's legal counsel or accountants has been given with respect to these income tax considerations. The analysis contained herein is not all encompassing and should not be construed as specific advice to any particular investor and is not a substitute for careful tax planning, particularly since certain of the income tax consequences of an investment will not be the same for all taxpayers. Regardless of tax consequences, a decision to purchase the Shares offered should be based primarily on the merits of the investment as such and on an investor's ability to bear any loss that may be incurred.

## **The Fund**

As a MIC, the Fund is subject to special rules under the Tax Act that permit the Fund to be operated, in effect, as a tax free "flow through" conduit of its profit to its shareholders. The income of the Fund for purposes of the Tax Act includes interest earned and the taxable portion of any net realized capital gains. The Fund is permitted to deduct from its net income all taxable dividends it pays to its shareholders, other than capital gains dividends, and the taxable portion of its net realized capital gains distributed to Shareholders as capital gains dividends within the periods prescribed by the Tax Act. If and to the extent the Fund has income after these and other applicable deductions, such income is subject to the prevailing tax rates applicable to a public corporation excluding the general rate reduction.

## **Shareholders**

### *A. Dividends*

Taxable dividends, except capital gains dividends, received by a Shareholder are taxable in the hands of the Shareholder as interest and not as dividends. Capital gains dividends received by a Shareholder are treated as capital gains of the Shareholder, one half of which must be included as a "taxable capital gain" in computing the Shareholder's taxable income.

### *B. Dispositions*

The cost to a Shareholder of his Shares (plus or minus certain adjustments required under the Tax Act) will be the adjusted cost base of the Shares at any particular time, against which a capital gain or capital loss will be measured on a sale or other deemed disposition of the Shares. For the purposes of calculating the “adjusted cost base” of the Shares, the investor will include the amount paid for the Shares plus any increase in value in the Shares. Given all income is intended to be paid to investors, it is not expected that the Shares will increase in value over time. The Shares will decrease in value only if the Fund suffers losses on mortgage investments. Any such losses would be reflected in a negative balance in the retained earnings of the Fund. The value of each investor’s Shares would decrease pro-rata.

A Shareholder will be considered to have disposed of his Shares when he assigns or sells his Shares, his Share is the subject of a gift, he dies, or where the Fund is wound-up or otherwise terminated. A Share which is the subject of a gift or which is held by a Shareholder when he dies is generally deemed to be disposed of for proceeds equal to fair market value at that time. However, in certain circumstances a capital gain or capital loss will be deferred where gift or bequest transfers the Share to the Shareholder’s spouse.

Generally, a Shareholder will realize a capital gain (or sustain a capital loss) equal to the amount by which the proceeds received or deemed to have been received on the disposition of a Share exceed (or are exceeded by) the adjusted cost base of the Share.

Shareholders will include one half of any capital gain in computing taxable income as a “taxable capital gain.” Similar proportions of a capital loss will be “allowable capital loss” that may be used to offset taxable capital gains in the year that the capital loss is sustained. To the extent the allowable capital loss is not offset against taxable capital gains in that year, it may be carried back three years and forward indefinitely to offset taxable capital gains realized in those years.

### *C. Interest on Money Borrowed to Purchase Shares*

An investor will generally be entitled to deduct from his income reasonable interest paid or payable with respect to monies borrowed to acquire Shares, provided he has a reasonable expectation of profit from holding the Shares. Interest expense deducted by an investor will be included in computing his cumulative net investment losses.

After the disposition of a Share by a taxpayer, reasonable interest expense on money borrowed for the purpose of acquiring that Share will generally continue to be deductible until the borrowing is repaid, regardless of whether a gain or loss was realized on the disposition of the Share, except to the extent any proceeds of disposition attributable to that borrowed money are used to make personal expenditures by the taxpayer or are not otherwise used for the purpose of earning income.

## **Deferred Income Plans (RRSPs, RRIFs, Deferred Profit Sharing Plans)**

### *A. Eligibility for Investment by Deferred Income Plans*

As long as the Fund is qualified as a MIC under the Tax Act, the Shares will be qualified investments for trusts governed by a registered retirement savings plan (“RRSP”), deferred profit sharing plans, and registered retirement income funds, provided the Fund does not hold any debt of an annuitant or a related party.

### *B. Interest Expense Regarding RRSP Contributions*

Interest and other borrowing costs incurred by a Shareholder for the purpose of making a contribution to an RRSP are not deductible. Therefore, if a Shareholder holds Shares in an RRSP, the Shareholder would not be eligible to deduct from his income any interest expense on money borrowed for the purpose of acquiring the Shares held in the RRSP.

### *C. Distributions Received From Issuer by RRSP*

As noted, taxable dividends are deemed to be interest income to the Shareholder, which together with one half of capital gains dividends are added to the Shareholder's taxable income if the Shares are held personally by the Shareholder. Such distributions paid on Shares held by an RRSP, however, will not be subject to tax in the hands of the RRSP, provided the RRSP has not borrowed money or carried on business and the annuitant under the RRSP is alive. An RRSP will not carry on business merely by holding Shares. The distributions paid to the RRSP will be taxable to the annuitant under the RRSP on withdrawal of the funds from the RRSP, which must occur no later than the year the annuitant becomes 71 years old.

### *D. RRSP Contribution Limits*

An individual may contribute cash or eligible property (such as a Share) to an RRSP in a calendar year or within 60 days after the end of the year, and may claim a deduction for that calendar year to the extent that the amount contributed does not exceed the limited specified by CRA. The amount of an individual's contribution will be equal to the fair market value of any property contributed as of the date of contribution. Unused RRSP deduction room can be carried forward in the event contributions made to an RRSP for a particular year are less than the allowable contribution for that year.

The transfer of a Share to an RRSP will result in the deemed disposition for income tax purposes at an amount equal to the fair market value of the Share at the time of the transfer. For an individual Shareholder who holds a Share as capital property, the disposition will result in a capital gain equal to the excess of the fair market value of the Share over its adjusted cost base. Should the fair market value of the Share be less than its adjusted cost base upon contribution to the RRSP, no capital loss will be allowed.

Funds or properties withdrawn from an RRSP are taxable to the annuitant under the RRSP in the year of withdrawal. The amount of any non-qualified investment acquired by an RRSP in a year is included in the income of the annuitant for the year.

***Each prospective investor is advised to seek independent advice in respect of the income tax consequences of his participation in the Fund, taking into account his own particular circumstances.***

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

The Mortgage Manager on behalf of the Fund may enter into marketing agreements with third parties such as mortgage brokers/agents, financial advisors, stock brokers and dealers, and financial intermediaries (including its affiliated dealer, Integrated-Equities Inc.) to market the Shares on behalf of the Fund. None of the Mortgage Banker, Mortgage Manager or any their respective directors, officers or shareholders, will be compensated to market Shares on behalf of the Fund. The compensation paid to such third parties will be negotiated with such persons but in any event will not exceed 6.0% of the gross proceeds. No further compensation shall be paid on any purchases of Shares under a dividend re-investment plan or periodic investment plan.

In addition to commissions paid up front at the time the investment, the Mortgage Manager may also pay ongoing servicing fees or trailing commission to third parties who distribute Shares of the Fund.

## **ITEM 8 : RISK FACTORS**

### **8.1 General**

This purchase of Shares involves a number of risk factors and is suitable only for investors who are aware of the risks inherent in the real estate industry and who have the ability and willingness to accept the risk of loss of their invested capital and who have no immediate need for liquidity.

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

In addition to the factors set forth elsewhere in this Confidential Offering Memorandum, prospective investors should consider the following risks before purchasing Shares. Any or all of these risks, or other as yet unidentified risks, may have a material adverse effect on the Fund's business, and/or the return to the investors.

### **8.2 Investment Risk**

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

- 1. No Market for Shares** – There is no market through which Shares may be sold and the Fund does not expect that any market will develop pursuant to this Offering or in the future. The Shares are subject to resale restrictions under applicable securities legislation. See Item 10, Resale Restrictions, regarding resale restrictions applicable to the Shares.
- 2. Retraction Liquidity** – The Shares are retractable, meaning that investors have the right to require the Fund to redeem them, upon appropriate advance notice from the investor to the Fund. The retraction timings are measured from the date on which the investor is issued the Shares to the date on which the investor is entitled to request redemption by the Fund. **If the investor does not provide the Fund with the appropriate notice of retraction, the right of retraction is suspended until an additional time period has elapsed.** See Item 5.1, Terms of Securities. Retraction and redemption of the Shares are subject to the Fund maintaining its status as a MIC as defined by the Tax Act, all as determined solely by the Mortgage Manager. Accordingly this investment may be unsuitable for those prospective investors who require greater liquidity.
- 3. Absence of Management Rights** – The Shares being sold under this Offering do not carry voting rights, and consequently an investor's investment in Shares does not carry with it any right to take part in the control or management of the Fund's business, including the election of directors. In assessing the risks and rewards of an investment in Shares, potential investors should appreciate that they are relying solely on the good faith, judgment and ability of the directors, officers and employees of the Fund and the Mortgage Manager to make appropriate decisions with respect to the management of the Fund, and that they will be bound by the decisions of the Fund's directors, and the Mortgage Manager's directors, officers and employees. It would be inappropriate for investors unwilling to rely on these individuals to this extent to purchase Shares.

4. **Lack of Separate Legal Counsel** – The investors, as a group, have not been represented by separate counsel. Neither counsel for the Fund nor counsel for the Mortgage Banker or Mortgage Manager purport to have acted for the investors nor to have conducted any investigation or review on their behalf.

### 8.3 *Issuer Risk*

Risks that are specific to the Fund include the following:

1. **MIC Tax Designation** – Under the Fund’s articles, the Fund’s directors are required to use their best efforts to ensure that the Fund qualifies as a MIC pursuant to the Tax Act. As well, the Fund’s Articles of Incorporation grant the directors the discretion to reject any applications for stock dividends or share subscriptions, transfers, redemptions or retractions where in the view of the directors such would not be in the Fund’s best interests as a MIC under the Tax Act. As a company qualified as a MIC, the Fund may deduct taxable dividends it pays from its income, and the normal gross-up and dividend tax credit rules will not apply to dividends paid by the Fund on the Shares. Rather, the dividends will be taxable in the hands of shareholders as if they had received an interest payment.
2. **Reliance on the Mortgage Banker** – In accordance with the terms of the Mortgage Servicing Agreement between the Fund and the Mortgage Banker, the Mortgage Banker has significant responsibility for assisting the Fund to conduct its affairs. Any inability of the Mortgage Banker to perform competently or on a timely basis will negatively affect the Fund.
3. **Key Personnel** – The operations of the Fund and the Mortgage Banker are highly dependent upon the continued support and participation of their key personnel. The loss of their services may materially affect the time or the ability of the Fund to implement its business plan. The Mortgage Banker’s management team consists of several key personnel. In order to manage the Fund successfully in the future, it may be necessary to further strengthen its management teams. The competition for such key personnel is intense, and there can be no assurance of success in attracting, retaining, or motivating such individuals. Failure in this regard would likely have a material adverse effect on the Fund’s business, financial condition, and result of operations.
4. **Conflicts of Interest** – Conflicts of interest exist, and others may arise, between investors and the directors and officers of the Mortgage Banker and the Fund and their associates and affiliates, as well as the directors and officers of the Mortgage Manager and the Fund and their associates and affiliates.

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

The Fund and its shareholders are dependant in large part upon the experience and good faith of the Mortgage Banker. The Mortgage Banker is entitled to and does act in a similar capacity for other companies with investment criteria similar to those of the Fund. Notwithstanding this fact, the Mortgage Banker does not anticipate any difficulty in keeping the Fund fully invested in superior-yield mortgages.

Several of the Fund's mortgages may be shared with other investors affiliated or associated with the Mortgage Banker and Mortgage Manager, which parties may include managers, directors or staff of the Fund, the Mortgage Banker and the Mortgage Manager itself.

The Fund's investment position may rank either equally with, in priority to, or subordinate to other members of the syndicate or participating investors.

The Fund acknowledges that the Mortgage Manager, Mortgage Banker, as well as any of its directors, officers, shareholders, employees and affiliates may purchase with their own funds and own as a co-lender a percentage interest in an investment that the Mortgage Banker presents to the Fund for acquisition, and that the Mortgage Banker may also sell undivided percentage interests in any such investment opportunities to other co-lenders.

The Fund also acknowledges that the Mortgage Banker or its affiliates may hold a subordinate position in a mortgage which is presented to the Fund and the rate of return on such subordinated position may vary from the Fund's rate of return which variation will be dependent on the Fund's risk position relative to the other investors.

5. **Future Operations and Possible Need for Additional Funds** - Certain uninsurable or uninsured events may also occur which can substantially reduce the ability of the Fund to carry on business in a profitable manner, including natural or man-made disasters.

The Fund anticipates that a substantial portion of the net proceeds of this Offering will be expended by the Fund in investing in residential mortgages, and also anticipates that the net proceeds of the Offering and anticipated cash flow from operating revenues will be sufficient to carry out the Fund's business plan.

#### 8.4 ***Industry Risk***

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

1. **Insurance** – The Fund's mortgage loans will not usually be insured in whole or in part. As well, there are certain inherent risks in the real estate industry, some of which the Fund may not be able to insure against or which the Fund may elect not to insure due to the costs of such insurance. The effect of these factors cannot be accurately predicted.
2. **Priority** – Financial charges for construction and other financing funded by conventional third party lenders may rank in priority to the mortgages registered in favour of the Fund. Although the Fund will have all of the rights of the holder of a subsequent mortgage in this scenario, in the event of default by the mortgagor under any prior financial charge, the Fund may not recover any or all the monies advanced.
3. **Default** – If there is default on a mortgage, it may be necessary for the Fund, in order to protect the investment, to engage in foreclosure or sale proceedings and to make further outlays to complete an unfinished project or to maintain prior encumbrances in good

standing. In those cases, it is possible that the total amount recovered by the Fund may be less than the total investment, resulting in loss to the Fund. The directors intend to implement a policy of building up a “loan loss reserve” account to absorb such losses but there is no assurance that such losses will not exceed the amount set aside in this account. Equity investment in real property may involve fixed costs in respect of mortgage payments, real estate taxes, and maintenance costs, which could adversely affect the Fund’s income.

4. **Yield** – The yields on real estate investments, including mortgages, depend on many factors including economic conditions and prevailing interest rates, the level of risk assumed, conditions in the real estate industry, opportunities for other types of investments, legislation, government regulation and tax laws. The Fund cannot predict the effect that such factors will have on its operations.
5. **Competition** – The earnings of the Fund depend on the Fund’s ability, with the assistance of the Mortgage Banker, to locate suitable opportunities for the investment and reinvestment of the Fund’s funds and on the yields available from time to time on mortgages and other investments. The investment industry in which the Fund operates is subject to a wide variety of competition from private businesses in Canada and the United States, many of whom have greater financial and technical resources than the Fund. Although such competition, as well as any future competition, may adversely affect the Fund’s success in the marketplace, at the present time the Mortgage Banker has no reason to believe that such competition will prevent the Fund from successfully executing its business plan or operating profitably.
6. **Mortgage Renewals** - There can be no assurances that any of the mortgages comprising the mortgage portfolio from time to time can or will be renewed at the same interest rates and terms when the mortgage mature, or in the same amounts as are currently in effect. With respect to each mortgage comprising the mortgage portfolio, it is possible that the mortgagor, the mortgagee, or both will elect not to renew such mortgage. In addition, if the mortgages in the mortgage portfolio are renewed, the principal balance of such renewals, the interest rates and the other terms and conditions for such mortgages will be subject to negotiations between the mortgagors, the mortgagee, and the Mortgage Banker at the time of renewal.
7. **Composition of Mortgage Portfolio** - The composition of the mortgage portfolio may vary widely from time to time and may be concentrated by type of mortgage, industry, or geographic region, resulting in the mortgage portfolio being less diversified than anticipated. A lack of diversification may result in the Fund being exposed to economic downturns or other events that have an adverse and disproportionate effect on particular types of mortgage, industry or geographic region.
8. **Appraisals** - As a condition of funding all loans, the Fund and the Mortgage Banker will either require the production of an appraisal prepared by an accredited appraiser licensed to prepare appraisals in the applicable province of Canada, or in the alternative from time to time the Mortgage Manager and Mortgage Banker may rely upon an opinion of value furnished by a reputable realtor who may be equally or better equipped to provide an accurate evaluation of a particular property as a consequence of specialized expertise relating to that particular type of property or with respect to the particular geographic area in which the subject property is located. However preparing appraisals and/or real estate valuations is not an exact science, and there is no guarantee that any such appraiser or realtor relied upon by the Fund will not make an error notwithstanding the experience,



training and qualifications of such person. Such errors could result in the value of the underlying security with respect to any investment being less than what the Fund believed it was causing a loss to the Fund.

#### **ITEM 9 : REPORTING OBLIGATIONS**

You will receive the following ongoing documentary disclosure if you invest the Fund:

**Monthly** – With your monthly cheque which will be mailed to you on the 15<sup>th</sup> of each month, you will receive an Account Statement showing the total number of Shares held; income earned in the preceding month; the amount of your dividend (or additional Shares if dividends are reinvested).

**Annually** – You will receive a copy of the **audited financial statements** when the same are completed.

All of the interim statements and the audited statements will also be posted to the web-page as the same are completed.

In each year, the Fund will forward income tax reporting information necessary to enable a holder of Shares to file a Canadian federal income tax return.

#### **ITEM 10 : RESALE RESTRICTIONS**

The distribution of the Shares is being made on a private placement basis only and is exempt from the requirement that the Fund prepare and file a prospectus with the relevant Canadian securities regulatory authorities in Canada. Accordingly, any resale of the Shares must be made in accordance with applicable Canadian securities laws, which will vary depending on the relevant jurisdiction, and which may require a resale to be made in accordance with prospectus and registration requirements or exemptions from the prospectus and registration requirements. **These resale restrictions may apply to any resale of the Shares, and may never expire. Investors are advised to seek legal advice prior to any resale of the Shares.**

The Fund is not, and does not presently intend to become, a “reporting issuer”, as such term is defined under applicable Canadian securities laws, in any province or territory of Canada. Investors are advised that the Fund is not required to file, and currently does not intend to file, a prospectus or similar document with any securities regulatory authority in Canada qualifying the resale of the Shares to the public in any province or territory of Canada.

#### **ITEM 11 : PURCHASERS’ RIGHTS**

Securities legislation in certain of the Canadian provinces provides certain purchasers of securities pursuant to an offering memorandum (such as this Confidential Offering Memorandum) with a remedy for damages or rescission, or both, in addition to any other rights they may have at law, where the offering memorandum and any amendment thereto contains a “misrepresentation”, as defined in the applicable securities legislation. A “misrepresentation” is generally defined in the applicable securities legislation to mean an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to make any statement not misleading in light of the circumstances in which it was made. These remedies, or notice with respect to these remedies, must be exercised or delivered, as the case may be, by the purchaser within the time limits prescribed by applicable securities legislation.

The following is a summary of the rights of action for damages or rescission, or both, available to certain purchasers resident in certain of the provinces of Canada.

### **Ontario**

Section 130.1 of the *Securities Act* (Ontario), as amended (the “Ontario Act”), provides that every purchaser of securities pursuant to an offering memorandum (such as this Confidential Offering Memorandum) shall have a statutory right of action for damages or rescission against the issuer and any selling security holder in the event that the offering memorandum contains a misrepresentation, as defined in the Ontario Act. A purchaser who purchases securities offered by the offering memorandum during the period of distribution has, without regard to whether the purchaser relied upon the misrepresentation, a right of action for damages or, alternatively, while still the owner of the securities, for rescission against the issuer and any selling security holder provided that:

- (a) if the purchaser exercises its right of rescission, it shall cease to have a right of action for damages as against the issuer and the selling security holders, if any;
- (b) the issuer and the selling security holders, if any, will not be liable if they prove that the purchaser purchased the securities with knowledge of the misrepresentation;
- (c) the issuer and the selling security holders, if any, will not be liable for all or any portion of damages that it proves do not represent the depreciation in value of the securities as a result of the misrepresentation relied upon;
- (d) the issuer and the selling security holders, if any, will not be liable for a misrepresentation in forward-looking information if it proves that:
  - (i) the offering memorandum contains, proximate to the forward-looking information, reasonable cautionary language identifying the forward-looking information as such, and identifying material factors that could cause actual results to differ materially from a conclusion, forecast or projection set out in the forward-looking information, and a statement of material factors or assumptions that were applied in drawing a conclusion or making a forecast or projection set out in the forward-looking information; and
  - (ii) it had a reasonable basis for drawing the conclusions or making the forecasts and projections set out in the forward-looking information; and
- (e) in no case shall the amount recoverable exceed the price at which the securities were offered.

Section 138 of the Ontario Act provides that no action shall be commenced to enforce these rights more than:

- (a) in the case of an action for rescission, 180 days after the date of the transaction that gave rise to the cause of action; or
- (b) in the case of an action for damages, the earlier of:
  - (i) 80 days after the date that the purchaser first had knowledge of the facts giving rise to the cause of action; or
  - (ii) three years after the date of the transaction that gave rise to the cause of action.

This Confidential Offering Memorandum is being delivered in reliance on the “accredited investor exemption” from the prospectus requirements contained under section 2.3 of NI 45-106. The rights referred to in section 130.1 of the Ontario Act do not apply in respect of an offering memorandum (such as this Confidential Offering Memorandum) delivered to a prospective purchaser in connection with a distribution made in reliance on the accredited investor exemption if the prospective purchaser is:

- (a) a Canadian financial institution or a Schedule III bank (each as defined in section 1.1 of NI 45-106);
- (b) the Business Development Bank of Canada incorporated under the Business Development Bank of Canada Act (Canada); or
- (c) a subsidiary of any person referred to in paragraphs (a) and (b), if the person owns all of the voting securities of the subsidiary, except the voting securities required by law to be owned by directors of that subsidiary.

### **Saskatchewan**

Under Saskatchewan securities legislation, in the event that an offering memorandum is sent or delivered to a purchaser of securities resident in Saskatchewan and contains a misrepresentation at the time of purchase, such purchaser will have, subject to certain limitation and statutory defences and without regard to whether the purchaser relied on the misrepresentation, a statutory right of action for rescission against the issuer or for damages against: (i) the issuer; (ii) every promoter or director of the issuer at the time the offering memorandum was sent or delivered to such purchaser; (iii) every person who, or company that, sells securities on behalf of the issuer under the offering memorandum; (iv) every person who signed the offering memorandum; and (v) every person whose consent was filed in connection therewith (only in connection with statements made by that person). Where an individual makes a verbal statement to a prospective purchaser resident in Saskatchewan that contains a misrepresentation relating to the securities purchased and the verbal statement is made either before or contemporaneously with the purchase of such securities, the purchaser has a right of action for damages against the individual who made the verbal statement if it was a misrepresentation at the time of purchase, regardless of whether the purchaser relied on the misrepresentation. Saskatchewan securities legislation provides a right of action for rescission or damages to a purchaser of securities to whom an offering memorandum was not sent or delivered prior to or at the same time as the purchaser enters into an agreement to purchase the securities and the right to void the purchase agreement and to recover all money and other consideration paid by the purchaser for the securities if such securities are sold in Saskatchewan in contravention of Saskatchewan securities legislation or a decision of the Saskatchewan Financial Services Commission. No action to enforce a right of rescission may be commenced more than 180 days after the date of the transaction that gave rise to the cause of action and a purchaser must commence an action for damages within the earlier of (i) one year after such purchaser first had knowledge of the facts giving rise to the cause of action or (ii) six years after the date of the transaction that gave rise to the cause of action.

### **ITEM 12 : PERSONAL INFORMATION**

Each resident of Ontario who purchases the Shares will be deemed to have represented to the Fund and each dealer from whom a purchase confirmation is received, that such purchaser:

- (a) has been notified by the Fund:
  - (i) that the Fund may be required to provide personal information pertaining to the purchaser as required to be disclosed in Schedule I of Form 45-106F1 under NI 45-106 (including its name, address, telephone number and the aggregate

purchase price of any Shares purchased) (“**personal information**”), which Form 45-106F1 may be required to be filed by the Fund under NI 45-106;

- (ii) that such personal information may be delivered to the Ontario Securities Commission (the “**OSC**”) in accordance with NI 45-106;
- (iii) that such personal information is collected indirectly by the OSC under the authority granted to it under the securities legislation of Ontario;
- (iv) that such personal information is collected for the purposes of the administration and enforcement of the securities legislation of Ontario; and
- (v) that the public official in Ontario who can answer questions about the OSC’s indirect collection of such personal information is the Administrative Assistant to the Director of Corporate Finance at the OSC, Suite 1903, Box 55, 20 Queen Street West, Toronto, Ontario M5H 3S8, Telephone: (416) 593-8086; and

(b) has authorized the indirect collection of the personal information by the OSC.

Furthermore, each investor acknowledges that its name, address, telephone number and other specified information, including the aggregate purchase price paid by the investor, may be disclosed to other Canadian securities regulatory authorities and may become available to the public in accordance with the requirements of applicable Canadian laws. By purchasing the Shares, each investor consents to the disclosure of such information.

### **ITEM 13 : DATE AND CERTIFICATE OF THE ISSUER**

Dated the 22nd day of May, 2012.

This Confidential Offering Memorandum does not contain a misrepresentation.

#### **NEW HAVEN MORTGAGE INCOME FUND (1) INC.**

(signed) “*David Vyner*”  
President and Director

(signed) “*Jason Vyner*”  
Secretary-Treasurer and Director

**Statements made in this offering memorandum are those of the issuer. No person is authorized to give any information or to make any representation in connection with this offering other than as referred to in this offering memorandum, and any information or representation not referred to in this offering memorandum must not be relied upon as having been authorized by the issuer.**

Financial Statements of

**NEW HAVEN MORTGAGE  
INCOME FUND (1) INC.**

Year ended November 30, 2011



**KPMG LLP**  
**Chartered Accountants**  
Bay Adelaide Centre  
333 Bay Street Suite 4600  
Toronto ON M5H 2S5  
Canada

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## INDEPENDENT AUDITORS' REPORT

To the Shareholders of New Haven Mortgage Income Fund (1) Inc.

We have audited the accompanying financial statements of New Haven Mortgage Income Fund (1) Inc., which comprise the balance sheet as at November 30, 2011, the statements of income and retained earnings and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

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

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

### *Auditors' Responsibility*

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

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

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

### *Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of New Haven Mortgage Income Fund (1) Inc. as at November 30, 2011, and its results of operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants, Licensed Public Accountants

February 9, 2012  
Toronto, Canada

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

# NEW HAVEN MORTGAGE INCOME FUND (1) INC.

## Balance Sheet

November 30, 2011, with comparative figures for 2010

	2011	2010
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 592,182	\$ 227,102
Interest and other receivables	123,279	18,252
Mortgage loans (note 4)	3,271,476	2,419,206
	<u>3,986,937</u>	<u>2,664,560</u>
Other assets	24,232	27,695
	<u>\$ 4,011,169</u>	<u>\$ 2,692,255</u>

## Liabilities and Shareholders' Equity

Current liabilities:		
Accounts payable and accrued liabilities	\$ 107,195	\$ 28,553
Due to associated companies (note 5)	63,424	107,152
Preference shares (note 6)	3,840,450	2,556,450
	<u>4,011,069</u>	<u>2,692,155</u>
Shareholders' equity:		
Share capital:		
Common shares (note 7)	100	100
Retained earnings	<u>—</u>	<u>—</u>
	<u>100</u>	<u>100</u>
	<u>\$ 4,011,169</u>	<u>\$ 2,692,255</u>

See accompanying notes to financial statements.

On behalf of the Board:



David Vyner

Director



Jason Vyner

Director

## NEW HAVEN MORTGAGE INCOME FUND (1) INC.

### Statement of Income and Retained Earnings

Year ended November 30, 2011, with comparative figures for 2010

	2011	2010
Revenue:		
Investment	\$ 359,235	\$ 277,978
Expenses:		
Accounting and legal fees	41,499	14,120
Amortization	3,462	3,461
Dues and fees	1,500	3,000
Other, including loan loss provision	33,183	17,423
Mortgage administrator's fees	22,238	20,644
Mortgage manager's fees	3,925	3,643
	<u>105,807</u>	<u>62,291</u>
Income before dividends on preference shares	253,428	215,687
Dividends on preference shares	<u>(253,428)</u>	<u>(215,687)</u>
Net income	-	-
Retained earnings, beginning of year	-	-
Retained earnings, end of year	<u>\$ -</u>	<u>\$ -</u>

See accompanying notes to financial statements.



## NEW HAVEN MORTGAGE INCOME FUND (1) INC.

### Statement of Cash Flows

Year ended November 30, 2011, with comparative figures for 2010

	2011	2010
Cash provided by (used in):		
Operating activities:		
Net income	\$ —	\$ —
Amortization	3,462	3,461
Change in non-cash operating working capital:		
Increase in interest and other receivables	(105,027)	(5,204)
Increase in accounts payable and accrued liabilities	78,643	20,166
Increase (decrease) in due to associated companies	(43,728)	72,634
	(66,650)	91,057
Financing activities:		
Preference shares issued	1,469,000	429,700
Preference shares redeemed	(185,000)	(131,900)
	1,284,000	297,800
Investing activities:		
Increase in mortgage loans, net	(852,270)	(829,494)
Increase (decrease) in cash and cash equivalents	365,080	(440,637)
Cash and cash equivalents, beginning of year	227,102	667,739
Cash and cash equivalents, end of year	\$ 592,182	\$ 227,102
Represented by:		
Cash	\$ 592,182	\$ 227,102

See accompanying notes to financial statements.

# NEW HAVEN MORTGAGE INCOME FUND (1) INC.

Notes to Financial Statements

Year ended November 30, 2011

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New Haven Mortgage Income Fund (1) Inc. (the "Fund") is a mortgage investment corporation that was incorporated on November 27, 2008 under the laws of the Province of Ontario. The objective of the Fund is to provide stable secure cash distributions of income while preserving investor capital. The Fund is subject to rules under the Income Tax Act (Canada) that permit the Fund to be operated as a flow-through conduit of its net income to its investors. The income of the Fund for purposes of the Income Tax Act (Canada) includes interest earned and the taxable portion of any net realizable capital gains. The Fund is permitted to deduct from its net income all taxable dividends paid to its investors.

New Haven Mortgage Corporation ("NHMC"), an associated company, acts as the Mortgage Banker to the Fund. The Mortgage Banker will, on behalf of the Fund, originate, underwrite, adjudicate, service and administer each loan. New Haven Treasury Management Inc. is the Mortgage Manager who provides advisory and management services to the Fund.

There are risks to the Fund because of the industry in which it operates. Real estate investment is subject to significant uncertainties due to, among other factors, uncertain costs of construction, development and financing. Uncertainty is due to the ability to obtain required licenses, permits, approvals and fluctuating demand for developed real estate. The anticipated higher returns associated with the Fund's mortgage loans reflect the greater risks involved in making these types of loans as compared to long-term conventional mortgage loans. Inherent in these loans are completion risks, as well as financing risks.

## 1. Significant accounting policies:

### (a) Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. These estimates are reviewed periodically. As adjustments become necessary based on additional information as it becomes available, the adjustments may be reported in the year in which they become known to management.

# NEW HAVEN MORTGAGE INCOME FUND (1) INC.

Notes to Financial Statements (continued)

Year ended November 30, 2011

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## 1. Significant accounting policies (continued):

### (b) Revenue recognition:

Revenue is recognized as earned when the following conditions are met:

- (i) revenue is recognized on an accrual basis on interest income earned on investing in residential first and second mortgages;
- (ii) there is clear evidence that an arrangement exists;
- (iii) amounts are fixed or can be determined; and
- (iv) the ability to collect is reasonably assured.

### (c) Mortgage loans:

The Fund meets the criteria of an investment company in accordance with The Canadian Institute of Chartered Accountants' ("CICA") Accounting Guideline 18, Investment Companies ("AcG-18"). As a result, mortgage loans are carried at fair value with changes in fair value being reported in the statement of income and retained earnings.

The investment goal is to make prudent investments in the first and second mortgages against real property located in Ontario. In considering a mortgage proposal, the Mortgage Manager and Banker adhere to strict investment and operating policies, which include obtaining a credit application from all borrowers; and obtaining an appraisal prepared by an accredited appraiser or, in certain instances, a letter of opinion from a realtor.

### (d) Preference shares:

Preference shares of the Fund are redeemable at the option of the holder and, accordingly, are classified as other liabilities. Dividends thereon are classified as a deduction from income.

# NEW HAVEN MORTGAGE INCOME FUND (1) INC.

Notes to Financial Statements (continued)

Year ended November 30, 2011

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## 1. Significant accounting policies (continued):

### (e) Income taxes:

The Fund is a mortgage investment corporation pursuant to the provisions of the Income Tax Act (Canada), Section 130.1. It is permitted for income tax purposes to deduct from its income, dividends paid on its redeemable preferred shares during the year and within 90 days thereafter. Accordingly, dividends have been classified as a deduction from income.

### (f) Financial instruments:

CICA Handbook Section 3855, Financial Instruments - Recognition and Measurement, establishes standards for recognizing and measuring financial assets and financial liabilities, including non-financial derivatives. In accordance with this standard, the Fund has classified its financial assets as one of the following: held-to-maturity; loans and receivables; held-for-trading; or available-for-sale. All financial liabilities must be classified as: held-for-trading or other liabilities. The Fund's classifications are as follows:

(i) cash - held-for-trading;

(ii) interest and other receivables and mortgage loans - loans and receivables; and

(iii) accounts payable and accrued liabilities, due to associated companies and preference shares - other liabilities.

### (g) Fair value hierarchy:

Amendments to CICA Handbook Section 3862, Financial Instruments - Disclosures, to expand disclosures of financial instruments establishes a three-level fair value hierarchy as a framework for disclosing the fair value based on inputs used to value the Fund's investments. The fair values of the three levels are based on:

- Level 1 - unadjusted quoted prices in active markets for identical instruments;
- Level 2 - models using inputs other than quoted prices that are observable for the instruments; and
- Level 3 - models using inputs that are not based on observable market data.

# NEW HAVEN MORTGAGE INCOME FUND (1) INC.

Notes to Financial Statements (continued)

Year ended November 30, 2011

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## 2. Accounting changes:

The Canadian Accounting Standards Board confirmed that the adoption of International Financial Reporting Standards ("IFRS") would be effective for annual periods beginning on or after January 1, 2013 for entities applying AcG-18. IFRS will replace Canadian generally accepted accounting principles for these enterprises. These new standards will be effective for the Fund commencing with the 2014 fiscal year.

## 3. Financial risk management and financial instruments:

Overview:

The Fund is exposed to credit risk, liquidity risk and market risk. The Fund's primary risk management objective is to protect earnings and cash flows and, ultimately, shareholder value. Risk management strategies, as discussed below, are designated and implemented to ensure the Fund's risk and the related exposure are consistent with its business objectives and risk tolerance.

### (a) Credit risk:

Credit risk is the risk of loss should borrowers under the Fund's mortgage fail to discharge their obligation. The Fund's sole activity is investing in mortgages and, therefore, generally all of its assets are exposed to credit risk. Any instability in the real estate sector and adverse change in economic conditions in Canada could result in declines as the value of real property secures the Fund's mortgage investments. The Fund manages credit risk by adhering to investment and operating policies, including credit evaluation of the borrowers and obtaining appraisals on all real property or, in certain instances, a letter of opinion from a realtor.

### (b) Liquidity risk:

Liquidity risk is the risk that the Fund will not be able to meet its financial obligations as they fall due. The Fund manages liquidity risk by continuously monitoring actual and projected cash flows to ensure that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Fund's reputation.

# NEW HAVEN MORTGAGE INCOME FUND (1) INC.

Notes to Financial Statements (continued)

Year ended November 30, 2011

### 3. Financial risk management and financial instruments (continued):

#### (c) Market risk:

Market risk is the risk that potential changes in economic conditions may affect the lending of mortgage funds which will ultimately affect the Fund's revenue.

### 4. Mortgage loans:

	Number	2011	2010
First mortgage*	24	\$ 1,673,869	\$ 1,328,086
Second mortgage	20	1,265,107	1,091,120
Mortgage funds advanced		332,500	—
	44	\$ 3,271,476	\$ 2,419,206

\*First mortgages, where New Haven Mortgage Income Fund (1) Inc. has a subordinate position, total \$424,602.

At November 30, 2011, the mortgages bear interest at rates from 8.00% to 14.00% with a weighted average rate of 10.786% (2010 - 11.19%) and mature between 2012 and 2013. During the year, funds of \$332,500 were advanced to close mortgage deals that did not close prior to the year end.

These mortgages are categorized in Level 3 of the fair value hierarchy.

During the year, expenses that are recognized as recoverable of \$46,071 were paid to protect the Fund security in certain mortgagees.

### 5. Due to associated companies:

The Fund has been advanced funds in the amount of \$34,518 (2010 - \$34,518) from P.O.A.F.G. Corporation, which is controlled by David Vyner and Jason Vyner, who are also common shareholders of the Fund. These funds were used to pay for the organizational costs of the Fund. This advance is repayable on demand and bears interest at a rate of bank prime plus 3% per annum. P.O.A.F.G. Corporation waived the interest for 2010 and 2011.

# NEW HAVEN MORTGAGE INCOME FUND (1) INC.

Notes to Financial Statements (continued)

Year ended November 30, 2011

## 5. Due to associated companies (continued):

NHMC, exclusively on behalf of the Fund, originates, underwrites, adjudicates, services or arranges for third-party servicing. It is known to the Fund as the Mortgage Banker and is entitled to an annual fee equal to 0.15 of 1% of the total value of funds under management as of the last day of the month calculated on a monthly basis paid to the Mortgage Banker on the last day of each month.

New Haven Treasury Management Inc., exclusively on behalf of the Fund, provides advisory and management services. It is known to the Fund as the Mortgage Manager and is entitled to an annual fee equal to 0.85 of 1% of the total value of the funds under management as of the last day of each month calculated on a monthly basis and paid to the Mortgage Manager on the last day of each month. The Mortgage Manager will also be paid an annual performance fee equal to 50% of the net return earned by the Fund over and above 10% per annum of the paid-up capital of the Fund after all expenses, including management and advisory service fees herein discussed.

Notwithstanding the above, the terms of both the Mortgage Servicing Agreement and the Management and Advisory Services Agreement provide that, at the sole and unfettered discretion of each of the Mortgage Banker and the Mortgage Manager, the entities may allocate the remuneration provided for these agreements between them at any time, so long as the total remuneration paid to these companies does not exceed the 1% of the funds under management.

During the year, a total of \$26,163 (2010 - \$24,289) was paid to both entities.

## 6. Preference shares:

	2011	2010
Authorized:		
Unlimited Class A non-voting, participating, preference shares without nominal or par value, which are redeemable after five years from the dates of issue		
Issued and outstanding:		
3,840,450 Class A preference shares (2010 - 2,556,450)	\$ 3,840,450	\$ 2,556,450

# NEW HAVEN MORTGAGE INCOME FUND (1) INC.

Notes to Financial Statements (continued)

Year ended November 30, 2011

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**6. Preference shares (continued):**

During 2011, 1,469,000 (2010 - 719,700) Class A preference shares were issued for cash consideration of \$1 per share and 185,000 (2010 - 131,900) Class A preference shares were redeemed for cash consideration of \$1 per share. These shares are classified as a current liability due to their redemption provisions.

**7. Common shares:**

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	2011	2010
Authorized:		
100 common shares		
Issued and outstanding:		
100 common shares	\$ 100	\$ 100

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