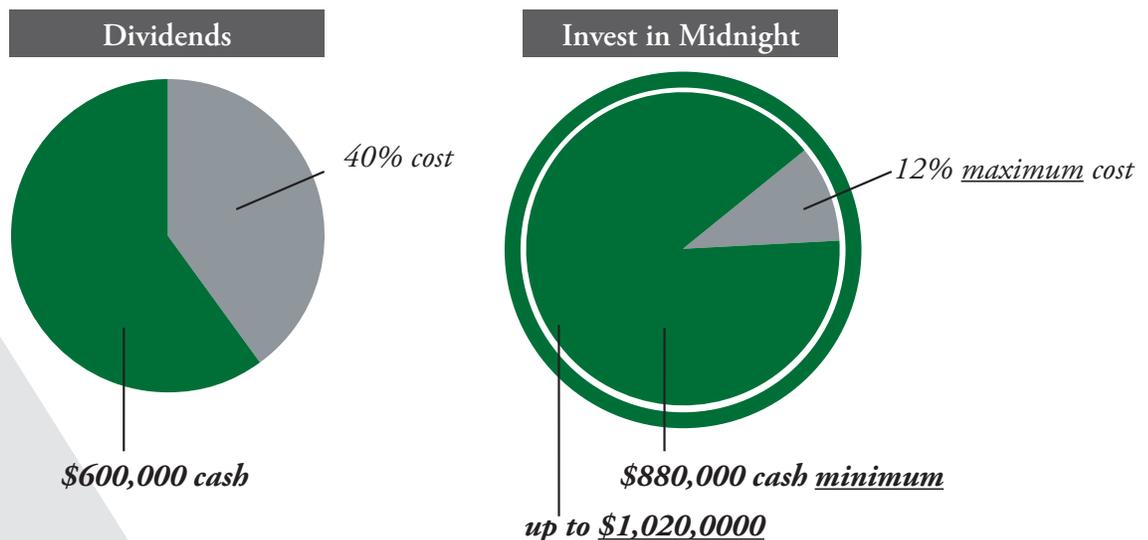


## USE PRIVATE COMPANY SHARES TO INVEST IN MIDNIGHT

Transfer shares of any private corporation to Midnight for preferred shares to enjoy dividends and tax-free capital gains.

**After-tax cash from receiving \$1,000,000 of dividends from a private corporation vs. transferring \$1,000,000 of private corporation shares to Midnight.**



- Receive \$800,000 upfront with the rest over 24 months.
- Use the lifetime capital gains exemption.
- Midnight carries on an active business of managing its portfolio of private equity, commercial lending and other financial businesses.

# SNAPSHOT

With a current team of 16 professionals and offices in Edmonton, Calgary and Toronto, Midnight Integrated Financial Inc. (“**Midnight**”) and its subsidiaries provide private equity capital, commercial loans, litigation funding and other financial products and services to Canadian businesses.

Midnight completed the first round of its capital raise in August 2018 through the issuance of Senior Preferred Shares. Midnight is currently offering Second Preferred Shares (“**Midnight Shares**”) pursuant to exemptions from prospectus and registration requirements in securities laws. The Midnight Shares feature monthly dividends (1.0% pa), growth opportunities (up to 7.0% pa), and cashless subscription/early liquidity options that are intended to provide the opportunity for investors to use the capital gains exemption (CGE).

## WHO MAY BE INTERESTED IN LEARNING ABOUT THE CGE OPPORTUNITY?

1. Every individual who has not used all of their CGE and who owns shares of a private corporation.
2. Every family trust that has beneficiaries of any age who have not used all of their CGE and that owns shares of a private corporation.

The CGE opportunity may be particularly relevant for shareholders of private corporations that are not qualified small business corporations (e.g., holding companies or operating companies with significant non-business or foreign assets), and in circumstances where a shareholder otherwise would receive dividends or salary (e.g., to cover a debit shareholder loan balance).

## HOW DOES THE CGE OPPORTUNITY ARISE?

1. **Cashless subscription option.** Rather than paying cash for Midnight Shares, the investor will exchange shares (voting, non-voting, common or preferred) of any private corporation (Aco) for Midnight Shares in a transaction that is intended to be tax-deferred. A due diligence and processing fee of 5.0% (plus GST/HST) of the value of the Aco shares is payable for each cashless subscription.
2. **Early Liquidity Option.** Under the early liquidity option the investor will own the Midnight Shares for 24 months and then close the sale of the Midnight Shares to a Midnight affiliate. In these circumstances, the sale price will be 90% of the initial redemption amount of the Midnight Shares plus any growth that occurs during the ownership period.
3. **Upfront deposit.** If the investor uses the early liquidity option, the Midnight affiliate will pay 80% of the redemption amount of the Midnight Shares to the investor immediately, in cash, as an upfront deposit.
4. **Aco share repurchase.** Aco will be required to repurchase its shares from Midnight and will pay the repurchase price in cash. In some circumstances Aco may receive a tax refund because of this share repurchase. The investor could use the cash received from the Midnight affiliate as an upfront deposit to make a shareholder loan to Aco to help fund the repurchase of the Aco shares.

In 24 months, the Midnight affiliate will purchase the Midnight Shares and pay the balance of the purchase price in cash. Investors have the opportunity to use the CGE to shelter the gain realized from closing the sale of the Midnight Shares.

Overall, the investor should receive 80% of the value of the Aco shares immediately as an upfront deposit, 2.0% of the value of the Aco shares over 24 months as dividends on the Midnight Shares, and an additional 10-24% of the value of the Aco shares in 24 months when the sale of the Midnight Shares closes.

## EXPECTED TAX CONSEQUENCES

The following example compares the expected tax consequences of a \$1,000,000 Midnight Share investment under the cashless investment/early liquidity options to a \$1,000,000 dividend for an investor in the top tax bracket (approx. 45% for non-eligible dividends – the top tax rate varies by Province).

	Dividend	Midnight Min Return	Midnight Max Return
Dividend/Share Exchange	\$1,000,000	\$1,000,000	\$1,000,000
Deposit		\$800,000	\$800,000
Due diligence and processing fee (5%)		\$(50,000)	\$(50,000)
Dividends - over 24 Months		\$20,000	\$20,000
Additional proceeds – in 24 Months		\$100,000	\$240,000
Fee Reimbursement	-	\$10,000	\$10,000
Income Tax (approx. 45%)	\$(450,000)	-	-
<b>Net Cash</b>	<b>\$550,000</b>	<b>\$880,000</b>	<b>\$1,020,000</b>
<b>SAVINGS VS. A DIVIDEND</b>		<b>\$330,000</b>	<b>\$470,000</b>
<b>Total Cost</b>	<b>45%</b>	<b>12%</b>	<b>(2%)</b>

*Please note that GST/HST on the due diligence fee is ignored in the above example as are income taxes on the Midnight Share dividends, income taxes on any gain arising from the sale of the Midnight Shares that is not sheltered by the CGE and the investor's advisor fees.*

## THE CGE

The CGE is a tax incentive to invest in Canadian businesses and shelters from tax up to approximately \$850,000 of capital gains from tax on dispositions of qualifying shares. The Midnight Shares are designed to qualify for the CGE. The CGE rules in the tax legislation contemplate share exchanges, arrangements to sell shares, and upfront deposits. The Midnight affiliate purchaser of the Midnight Shares is a trust with only individuals as settlor, beneficiaries and trustees. Whether an investor is able to use the CGE depends on numerous factors that are particular to the investor. Assessing an investor's ability to use the CGE is complex and prospective investors are urged to seek professional advice. To help defray advisor costs, Midnight will reimburse the investor for advisor fees of 1.0% of the Aco share value up to a maximum of \$10,000 (incl. GST/HST) per investor.

## CASH SUBSCRIPTIONS AND REDEMPTIONS

Investors are not required to exercise either of the cashless subscription or early liquidity options but may invest in Midnight Shares using cash and may redeem Midnight Shares for the redemption amount (being the issue price plus any growth) any time after five years (less a day) from the date the Midnight Shares are issued.

## IMPORTANT INFORMATION

The information in this document is general in nature and is provided for informational purposes only. It does not constitute legal, tax, investment or investment suitability advice to any prospective investor. A prospective investor should obtain and refer to the Investor Information offering documents before investing. There are tax consequences and risks associated with investing in Midnight Shares, and prospective investors are urged to seek advice from their own legal, tax and investment advisors before investing.

This document does not constitute an offer or solicitation to anyone in any jurisdiction in which such offer or solicitation is not authorized or to any person to whom it is unlawful to make such an offer or solicitation. No securities commission or similar regulatory authority in Canada has, in any way, passed upon the merits of the securities offered, and any representation to the contrary is an offence.

Midnight is not a mutual fund or a non-redeemable investment fund. The performance of the Midnight Shares is not guaranteed, their value may change frequently and past performance may not be repeated. Midnight Shares are not insured by the Canada Deposit Insurance Corporation or by any other government insurer. Midnight Shares may not be traded, resold or otherwise disposed of except pursuant to the early liquidity option or through a redemption of the Midnight Shares in accordance with their terms.

Midnight Shares will be available for cash purchase only to accredited investors. Before making a cash investment in Midnight Shares, prospective investors will be required to certify their status as an accredited investor. Cashless subscriptions for Midnight Shares will be available only to Canadian resident individuals and trusts. The minimum investment in Midnight Shares is \$400,000.

No commissions will be payable to Midnight for any cash or cashless subscription for Midnight Shares.

Prospective investors and advisors should contact [info@midnightfinancial.com](mailto:info@midnightfinancial.com) for further information.

This document may contain forward-looking statements that are based on Midnight's current expectations, plans, estimates, assumptions and beliefs that involve numerous risks and uncertainties. The words 'forecast', 'estimate', 'project', 'intend', 'expect', 'should', 'believe' and similar expressions are intended to identify forward-looking statements. All forward-looking statements should be evaluated with an understanding of their inherent uncertainty and are not a guarantee of future performance, and actual results, performance or achievements may vary materially from those expressed or implied. Forward looking statements in the document involve known and unknown risks and uncertainties and other factors which may be beyond the control of Midnight.

# MIDNIGHT SHARE SUBSCRIPTION PROCESS

## CASH SUBSCRIPTION

Please email [info@midnightfinancial.com](mailto:info@midnightfinancial.com) to obtain a subscription agreement.

## CASHLESS SUBSCRIPTION

To make a cashless investment in Midnight Shares each of the following must be provided to the Escrow Agent:

Miller Thomson LLP  
#2700, Commerce Place  
10155 102 Street NW  
Edmonton, Alberta, Canada T5J 4G8  
Attn: Joseph Yurkovich

1. Aco Financial Statements;
2. Aco articles, bylaws, unanimous shareholder agreement (if any) and the names of Aco's directors and shareholders;
3. If the Aco shares to be transferred to Midnight are preferred shares, and the Articles of Incorporation do not specify the redemption amount, please provide a copy of the directors resolution that fixes the redemption amount of the preferred shares.
4. A completed copy of the attached Cashless Subscription Form.
5. A cheque payable to Miller Thomson LLP, in trust, with respect to the due-diligence and processing fee, which is equal to 5.0% of the value of the Aco shares being transferred to Midnight. The due diligence and processing fee is capped at \$50,000 plus applicable GST/HST per investor and must be sent to the escrow agent for the closing. This fee is returned if the cashless subscription is not accepted.

The information provided will be reviewed and a customized cashless subscription and early liquidity documentation prepared, which then will be provided to the investor to review before closing.

Midnight expects to close subscriptions quarterly beginning in September 2018 until Midnight's second round of target capital is raised.

Please contact [info@midnightfinancial.com](mailto:info@midnightfinancial.com) with any questions.

# CASHLESS SUBSCRIPTION FORM

## Second Preferred Shares

### INVESTOR INFO

Name: \_\_\_\_\_ SIN Number: \_\_\_\_\_

Address: \_\_\_\_\_

City: \_\_\_\_\_ Province: \_\_\_\_\_ Postal Code: \_\_\_\_\_

Phone: \_\_\_\_\_ Email: \_\_\_\_\_

*This e-mail address will be used to send dividend notices/ statements.*

*Sign me up for Midnight Integrated Financial Inc.'s newsletter.  
You can unsubscribe at any time. ([www.midnightfinancial.com](http://www.midnightfinancial.com))*

### ACO INFO

Name: \_\_\_\_\_

Jurisdiction: \_\_\_\_\_ BN: \_\_\_\_\_

Address: \_\_\_\_\_

City: \_\_\_\_\_ Province: \_\_\_\_\_ Postal Code: \_\_\_\_\_

Phone: \_\_\_\_\_ Email: \_\_\_\_\_

Number and Class of Aco Shares to be transferred to Midnight: \_\_\_\_\_

Value of Aco Shares to be transferred to Midnight: \$ \_\_\_\_\_

Aco to Finance up to \$150,000 of the Redemption Amount?  YES or  NO

Immediate Exercise of Early Liquidity Option?\*  YES or  NO

Attached void cheque for EFT dividend payments

### ADVISOR INFO

Company Name: \_\_\_\_\_ Phone: \_\_\_\_\_

Contact Name: \_\_\_\_\_ Email: \_\_\_\_\_

Email to Midnight's Escrow Agent Miller Thomson LLP: [jjurkovich@millerthomson.com](mailto:jjurkovich@millerthomson.com)

*\*By exercising the Early Liquidity Option immediately after the transfer of the Aco Shares to Midnight, the investor will receive a cash deposit from MTT, which the investor can contribute to Aco to help fund the redemption of the Aco Shares.*

MIDNIGHT  INTEGRATED  
FINANCIAL INC.

*The Financial Advantage*

## INVESTOR INFORMATION

FOR MORE INFORMATION

[info@midnightfinancial.com](mailto:info@midnightfinancial.com) | [www.midnightfinancial.com](http://www.midnightfinancial.com)

# CONTENTS

<b>THE ISSUER</b> .....	3	Trading Restrictions .....	9
Background.....	3	<b>CAPITAL GAINS EXEMPTION</b> ....	10
Midnight’s Leadership Team.....	3	Overview.....	10
Midnight’s Business.....	4	Advisor Costs .....	10
Private Equity.....	5	Comparison to a Dividend.....	11
Commercial Loans .....	5	CGE FAQs.....	11
Tax Dispute Funding.....	5	<b>IMPORTANT INFORMATION</b> ....	16
Special Transactions.....	6	<b>MIDNIGHT SHARE</b>	
Real Estate.....	6	<b>SUBSCRIPTION PROCESS</b> .....	17
Marketable Securities.....	6	Cash Subscription .....	17
Forex .....	6	Cashless Subscription .....	17
Corporate Information.....	7	<b>CASHLESS SUBSCRIPTION</b>	
Community and Charity.....	7	<b>FORM</b> .....	18
Privacy Policy .....	7		
<b>THE OFFERING</b> .....	8		
Investors.....	8		
Terms of the Midnight Shares .....	8		

## EMPOWERING ENTREPRENEURS

*The capital gains exemption “is a broadly-based incentive that allows individual Canadians to decide where to put their money and how to create wealth, economic activity and jobs. This is central to our philosophy. The decisions should and will be made by individuals across Canada, not by politicians or public servants here in Ottawa. This is a measure designed to unleash the full entrepreneurial dynamism of individual Canadians.”*

Minister of Finance, the Honourable Michael H. Wilson, May 23, 1985.

# THE ISSUER

## BACKGROUND

Private business is the engine of the Canadian economy. However, many private equity firms and financial institutions tend to focus on well-established businesses. As a result, it is challenging for start-up ventures and developing businesses to access capital and loans. Midnight Integrated Financial Inc. (“**Midnight**”) was formed to respond to this market need. Midnight provides private equity capital and commercial loans to businesses of all sizes, in all sectors, and in all stages of development. Midnight also provides other financial products and services to Canadian businesses. Midnight is guided by two core principles: innovation and integrity. Midnight commenced operations on October 1, 2016 with a team of best-in-class professionals and offices in Edmonton and Calgary. To finance its operations Midnight completed the first round of its capital raise in August 2018 and Midnight is currently offering Second Preferred Shares pursuant to exemptions from prospectus requirements in securities laws.

## MIDNIGHT’S LEADERSHIP TEAM

### **John Burghardt**, *Chief Executive Officer & Co-Founder*

John is a lawyer and a Chartered Accountant. John’s practice has focused on developing tax and financing strategies. In 2007 John was named one of Canada’s leading lawyers under 40. In 2013 John was named Lawyer of the Year for tax law in Calgary by Best Lawyers.

### **Richard Kirby**, *President & Co-Founder*

Richard is a lawyer and holds an MBA from Cornell University. Richard’s practice has focused on developing tax strategies for entrepreneurs. In 2011 Richard was named one of Canada’s leading lawyers under 40. In 2013 Richard was named one of Edmonton’s Top 40 under 40 community leaders by Avenue Edmonton.

### **Jon Gilbert**, *Executive Vice President*

Jon has practiced in all areas of tax law with an emphasis on corporate/trust tax planning and international tax planning. In addition, Jon has conducted tax litigation before all levels of courts, and has extensive experience managing the audit process and dealing with the Canada Revenue Agency.

### **Ray Hupfer**, *Vice President, Business Development*

Ray is a lawyer and Chartered Accountant. He has more than 30 years of experience in tax, mergers and acquisitions and estate planning. He is currently and has in the past served on the boards of charitable organizations, including the role of chair.

**James Niosi, Vice President, Capital Markets**

James is a senior executive with over 21 years experience in Capital Markets. He has held senior management positions most recently at a top 4 Pension Fund with assets in excess of \$120 Billion as global head of trading. His expertise spans multiple asset classes including global equities, equity derivatives and foreign exchange. James has also held positions as Senior Vice President of a mid tier broker responsible for their Quantitative Strategy Trading group and Vice President at one of the top 5 Canadian Banks as head of Prime Brokerage.

**Joshua Wiles, Vice President, Commercial Portfolio**

Joshua is a Professional Engineer that holds a B.Sc in Engineering from the University of Alberta. Prior to joining Midnight, his career involved managing engineering and quality teams. Joshua has experience working in design, procurement, fabrication, construction and commissioning fields; focused on efficiency and effectiveness while keeping safety and quality paramount.

**Margaret Paproski, Vice President, Legal**

Margaret is a lawyer, CPA, CMA and finance professional with over 20 years of experience. Prior to joining Midnight, Margaret practiced tax law with a focus on corporate reorganizations, acquisitions and divestitures. Margaret also spent five years of her career as an investment banker at a bulge bracket investment bank in the US after completing her MBA (with Distinction) at the Kellogg School of Management at Northwestern University.

**Shae MacPherson, Vice President, Operations**

Shae holds a designation in management from the Canadian Institute of Management. Shae is a dedicated and passionate professional with over 20 years of experience that spans across operations, finance, marketing and administration.

**Jacquelyn Colville, Financial Advisor**

Jackie is a CPA, CA with extensive experience in financial management, business leadership and directing strategy. Her prior leadership experiences include CFO of Alberta Investment Management Corporation and of Champion Petfoods.

**Brian Felesky, Senior Advisor**

Brian is a lawyer and former Vice-Chairman, Investment Banking (Canada), Credit Suisse Securities. Brian is currently a Director of Cequence Energy Ltd., and Si Systems Ltd., Chairman of the Advisory Board of Aspen Properties and Senior Advisor to E.H. Technologies. He is a past Director of Suncor Energy Ltd., Precision Drilling Ltd., Capital Power LP (TransCanada Power) and others.

## MIDNIGHT'S BUSINESS

Midnight earns income from a portfolio of integrated financial subsidiaries by (a) employing professionals who operate the subsidiaries, and (b) raising capital to provide to the subsidiaries. None of the Midnight subsidiaries is wholly-owned by Midnight, although Midnight owns the majority of the equity in each. Under unanimous shareholder agreements, Midnight receives special dividends from the Midnight subsidiaries that reflect the value of the human capital provided by Midnight as well as ordinary dividends that reflect the value of the financial capital provided by Midnight. Midnight also receives management fees and interest income from its affiliates.

Midnight, its affiliates and subsidiaries operate in the following core business areas.

### 1. Private Equity

Midnight invests in equity of privately-owned businesses of all sizes, in all sectors, and at all stages of development.

While Midnight will consider conventional private equity opportunities, as an innovation Midnight will purchase non-voting preferred shares from the shareholders of a company before undertaking a detailed review of the business. Midnight may not redeem the preferred shares for at least six months while the private company may redeem the shares at any time. This approach provides the shareholders with immediate cash liquidity as well as the opportunity to use the capital gains exemption on the sale.

If all parties agree that a long-term investment by Midnight is appropriate, the preferred shares held by Midnight will be converted into common shares and Midnight may make an additional cash investment. Otherwise the preferred shares held by Midnight will be redeemed.

### 2. Commercial Loans

Midnight provides short and medium term loans at competitive rates and on competitive terms. Midnight is able to respond to all loan requests rapidly and with a view to establishing long-term relationships with entrepreneurs.

### 3. Litigation Funding

Tax disputes can be very expensive, very uncertain and take significant time to resolve. Given those factors, if audited and challenged by the Canada Revenue Agency many taxpayers choose to concede legitimate positions rather than dispute tax reassessments.

To assist taxpayers, Midnight will fund up to 75% of the costs of select tax disputes at any stage in the dispute process. While our team of tax experts will offer advice and recommendations, the taxpayer will maintain control over all aspects of the dispute and may use the taxpayer's choice of accountants and lawyers. Midnight will only be compensated if and when a successful resolution is achieved. The amount of compensation will be negotiated at the outset of the arrangement and will depend on the nature of the issues involved in the dispute.

#### 4. Special Transactions

For many reasons, when selling a business a vendor typically prefers to sell equity while a purchaser typically prefers to buy assets. As a result, a purchaser often will require a substantial price discount to be induced to purchase equity rather than assets. Midnight arbitrage operations seek to narrow this pricing gap between vendors and purchasers.

Midnight will purchase equity of business entities (corporations, trusts or partnerships) at a modest price discount, and then sell the assets to another entity owned by the vendor, to a third party, or to the Midnight private equity arm. If another entity controlled by the vendor purchases the assets, that entity would be well-positioned to resell the assets to another party. Simply stated, Midnight will absorb the due diligence, complexities, issues, income taxes and other costs associated with buying the equity of a business entity and then selling the assets, in order to provide a clean break for the vendor while allowing the purchaser of the assets to enjoy a fresh start. The strategy also allows vendors to use safe income and capital dividend tax planning techniques that are common with equity sales.

#### 5. Real Estate

Midnight selectively purchases interests in real estate. Midnight focuses its real estate investments on properties that provide a stable rental stream, have potential for significant capital appreciation, and have a connection to other Midnight operations or investments.

#### 6. Capital Markets

Midnight will invest temporary cash balances to maximize returns while protecting capital using three separate strategies:

- (a) engage in dividend capture by purchasing publicly-listed shares shortly before the ex-dividend date and selling them shortly thereafter;
- (b) speculate in publicly-listed securities on a short-term basis to seek a net trading profit; and
- (c) invest in low-risk and highly-liquid securities.

#### 7. Foreign Currency

Midnight will also:

- (a) invest in its own proprietary trading in options and forward/forward swaps;
- (b) issue unique foreign exchange leveraged derivatives;
- (c) issue preferred shares which are tied to the forex markets; and
- (d) sell partnerships that are set up as turn-key forward/forward swap trading businesses.

## **CORPORATE INFORMATION**

Midnight is governed by the Canada Business Corporations Act. Audited financial statements and an annual report of Midnight will be provided to investors as required by corporate law (Midnight has a December 31 fiscal year end). Midnight intends to provide newsletter updates to investors.

Midnight is authorized to issue an unlimited number of voting common shares, an unlimited number of non-voting common shares, an unlimited number of Senior Preferred Shares issuable in series 1 through 100,000, an unlimited number of Second Preferred Shares issuable in series 1 through 100,000 and an unlimited number of Third Preferred Shares and Fourth Preferred Shares. The Senior Preferred Shares rank in priority to the Second Preferred Shares. The Third Preferred Shares and Fourth Preferred Shares are subordinate to the Second Preferred Shares. Each series of Second Preferred Shares has identical terms.

The issued common shares of Midnight consist of 100 voting common shares issued to an Alberta corporation, the shareholders of which are John Burghardt and another Alberta corporation, the sole shareholder of which is Erin Kirby (the spouse of Richard Kirby). Each of Mr. Burghardt and Mrs. Kirby reside in Alberta, Canada.

The issued Senior Preferred Shares of Midnight consist of 77,925,067 Senior Preferred Shares issued in Series 1 through 91, the shareholders of which are third party Canadian investors.

## **COMMUNITY AND CHARITY**

Midnight believes in Canadian communities and charities and has committed to donate a portion of its net income to charity and community organizations each year. Midnight also encourages employees to volunteer their time and expertise.

## **PRIVACY POLICY**

All personal information obtained by Midnight will be handled in accordance with Midnight's privacy policy. Please see [www.midnightfinancial.com](http://www.midnightfinancial.com) for more information.

# THE OFFERING

## INVESTORS

Midnight is offering Second Preferred Shares (“**Midnight Shares**”):

1. for cash subscriptions to all accredited investors; and
2. for cashless subscriptions to Canadian resident individuals and trusts.

The minimum subscription for Midnight Shares is \$400,000. Prospective investors for cash subscriptions will be required to certify their accredited investor status, sign a risk acknowledgement form, and invest through a registered exempt market dealer. Midnight Shares issued for cash subscriptions will be issued under the “accredited investor” exception from prospectus requirements in securities laws. Midnight Shares issued for cashless subscriptions will be issued under the “asset acquisition” exception from prospectus requirements in securities laws.

A different series of Second Preferred Shares will be issued to each investor to facilitate record keeping.

Midnight expects to close subscriptions quarterly commencing in September 2018 and continuing until Midnight’s second round of target capital is raised.

## TERMS OF THE MIDNIGHT SHARES

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**Dividends** A monthly cash dividend at an annual rate of 1.0% will be paid on the initial redemption amount of the Midnight Shares, prorated for periods that are less than a month.

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**Growth** The redemption amount of the Midnight Shares initially will equal the value of the cash or property transferred to Midnight and will increase by up to 7.0% of the initial redemption amount each year, depending on the performance of Midnight’s business.

The monthly increase will equal the lesser of (a) a prorated share of 75% of Midnight’s monthly net income and (b) the annual 7.0% cap divided by 12. For this purpose (1) Midnight’s monthly net income will be equal to Midnight’s combined gross profit for the month less the greater of \$500,000 and 40% of the combined gross monthly profit less taxes at the general corporate tax rate less the growth amount payable on the Senior Preferred Shares for that month and (2) the growth amount payable on the Senior Preferred Shares for that month will be equal to the amount of the increase in the redemption amount of each Senior Preferred Share for the month multiplied by the number of Senior Preferred Shares outstanding in the month. All computations will be completed on a monthly basis.

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**Redemptions** The Midnight Shares may be redeemed in whole or in part by the holder or the issuer at any time after 60 months (less a day) from the date of issuance.

The redemption proceeds will be paid, at the option of Midnight, by cash or by the issuance of a promissory note of Midnight that pays quarterly interest at the rate prescribed for taxable benefits in the tax legislation, with the principal amount of the note paid evenly over a 15 year period on the first day of each calendar year.

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**Non-Voting** The Midnight Shares will not entitle the holder to vote at meetings of shareholders of Midnight, except as required by corporate law.

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**Dilution** In accordance with Corporate law, so long as any Midnight Shares are outstanding, Midnight may not pay dividends on shares of any other class or redeem or repurchase shares of any other class ranking subordinate to the Midnight Shares if such action would reduce the net realizable value of the property of Midnight to an amount that is less than the redemption amount of all Midnight Shares then outstanding. Since the Senior Preferred Shares rank ahead of the Midnight Shares, the Senior Preferred Shares may be redeemed or repurchased even if such action would reduce the net realizable value of the property of Midnight to an amount that is less than the redemption amount of the Midnight Shares.

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**Cashless Subscription Option** All Aco Shares exchanged for Midnight Shares will be required to be repurchased by Aco from Midnight on the day of the share exchange. The repurchase proceeds must be paid in cash. If requested, the commercial lender affiliated with Midnight may lend Aco up to \$150,000 (at 12% interest) of the repurchase proceeds.

---

**Early Liquidity Option** If an investor chooses to exercise the early liquidity within the time frame specified, a Midnight affiliate (MTT) will pay 80% of the initial redemption amount of the Midnight Shares to the investor as an upfront deposit. The deposit will be paid in cash. The balance of the sale price will be paid in cash when the sale closes after 24 months. Depending on when the investor exercises the early liquidity option, the investor could lend the cash deposit received to Aco to help fund the redemption of the Aco Shares.

---

## TRADING RESTRICTIONS

Midnight Shares may not be traded, resold or otherwise disposed of to any other person than MTT or on a redemption of the Midnight Shares in accordance with their terms.

# CAPITAL GAINS EXEMPTION

## OVERVIEW

The cashless subscription and early liquidity options are intended to provide the opportunity for investors to use the capital gains exemption (CGE). The CGE is a tax incentive to invest in Canadian businesses. The CGE shelters from tax approximately \$850,000 of capital gains from dispositions of qualifying shares.

The Midnight Shares are expected to qualify for the CGE because:

- Midnight should be a Canadian-controlled private corporation;
- Midnight should be regarded as carrying on its business solely in Canada;
- although Midnight's business will focus on earning income from a portfolio of financial subsidiaries, Midnight will have more than five full-time employees engaged in that business, which should qualify Midnight's business as an active business; and
- all of Midnight's assets should be regarded as being used in its active business.

Using the CGE, an investor could be entitled to shelter up to approximately \$850,000 of capital gains realized on sales of Midnight Shares under the early liquidity option.

## ADVISOR COSTS

Whether an investor is able to use the CGE depends on numerous factors that are particular to the investor. Assessing an investor's ability to use the CGE is complex and prospective investors are urged to seek professional advice. To help defray advisor costs, Midnight will reimburse the investor for advisor costs equal to 1% of the value of the Aco shares up to a maximum of \$10,000 (incl. GST/HST).

## COMPARISON TO A DIVIDEND

The following example compares the expected tax consequences of a \$1,000,000 Midnight Share investment under the cashless investment and early liquidity options to a \$1,000,000 dividend for a hypothetical investor in the top tax bracket (approximately 45% for non-eligible dividends – the top tax rate varies by Province), who holds Midnight Shares as capital property, and who is able to use the CGE to shelter tax on the capital gain arising on the sale of Midnight Shares to MTT without restriction or limitation and without giving rise to alternative minimum tax or the loss of any benefits that are based on the level of income.

	<b>Dividend</b>	<b>Midnight Min Return</b>	<b>Midnight Max Return</b>
Dividend/Share Exchange	\$1,000,000	\$1,000,000	\$1,000,000
Deposit		\$800,000	\$800,000
Due diligence and processing fee (5%)		\$(50,000)	\$(50,000)
Dividends - over 24 Months		\$20,000	\$20,000
Additional proceeds – in 24 Months		\$100,000	\$240,000
Fee Reimbursement	-	\$10,000	\$10,000
Income Tax (approx. 45%)	\$(450,000)	-	-
<b>Net Cash</b>	<b>\$550,000</b>	<b>\$880,000</b>	<b>\$1,020,000</b>
<b>SAVINGS VS. A DIVIDEND</b>		<b>\$330,000</b>	<b>\$470,000</b>
<b>Total Cost Gain</b>	<b>45%</b>	<b>12%</b>	<b>(2%)</b>

*Please note that GST/HST on the due diligence fee is ignored in the above example as are income taxes on the Midnight Share dividends, income taxes on any gain arising from the sale of the Midnight Shares that is not sheltered by the CGE and the investor's advisor fees.*

## CGE FAQs

The following FAQs reflect the expectations of Midnight, are provided for general information only, and are not intended to be and may not be construed as legal, tax, investment or investment suitability advice to any prospective investor. Prospective investors are urged to obtain, and must rely on, their own legal, tax and investment advisors.

### 1. How may an investor confirm that the Midnight Shares qualify for the CGE?

*The Canada Revenue Agency will not issue rulings on questions of fact, such as whether the Midnight Shares qualify for the CGE. In each cashless subscription agreement, Midnight will represent the existence of certain facts that should allow each investor's advisor to conclude that: (a) Midnight is a Canadian-controlled private corporation; (b) Midnight's business qualifies as an active business; and (c) all of Midnight's assets are used in its active business. Based on those conclusions, each investor's advisor is expected to be able to confirm that the Midnight Shares qualify for the CGE. In the cashless subscription agreements Midnight will covenant to maintain those facts while the Midnight Shares are outstanding.*

## 2. Midnight only earns dividends – is that a qualifying “active business”?

*For tax purposes a “business” has been defined to be an endeavor that occupies time and labour with a view to profit. Midnight will raise capital and then deploy that capital into the Midnight subsidiaries and the Midnight employees will operate the Midnight subsidiaries. Since Midnight will provide financial capital and human capital to the Midnight subsidiaries, those subsidiaries will pay Midnight both ordinary and special dividends. There will be a direct link between both the financial and human capital provided by Midnight and the ordinary and special dividend income earned by Midnight. As such, Midnight should be regarded as being in the business of earning dividends from its subsidiaries. The shares of the Midnight subsidiaries held by Midnight also should be regarded as being used in Midnight’s business in the same way that a hotel building is used to generate revenue in a hotel business. Since none of the Midnight subsidiaries is a Canadian-controlled private corporation, the tax rules should not “look through” the shares of the Midnight subsidiaries to their underlying assets and operations. A qualifying “active business” is defined as any business, subject to certain exclusions including an exclusion for a specified investment business. A specified investment business is defined to be a business of earning income from property, including dividends, unless more than five full-time employees are employed in the business throughout each relevant year. Midnight had more than five full-time employees since October 1, 2016 and intends to continue to employ more than five full-time employees in its business throughout all times in which Midnight Shares are outstanding. Therefore, Midnight’s business should qualify as an active business.*

## 3. Could Midnight grow to become too big for the CGE?

*The tax legislation does not limit the size that a corporation may be while still qualifying for the CGE.*

## 4. Can the CGE be claimed on a sale of preferred shares such as the Midnight Shares?

*The CGE rules in the tax legislation specifically contemplate using the CGE to shelter capital gains from sales of preferred shares with fixed dividends and redemption amounts. These rules however deny the ability to use the CGE in those circumstances if a significant part of the gain in the shares has arisen because a corporation has not paid reasonable dividends. Under the cashless subscription, each investor’s gain should be attributable to the tax-deferred exchange of Aco shares for Midnight Shares and not be related to any dividends.*

## 5. Is it permissible to exchange non-qualifying Aco shares for qualifying Midnight Shares?

*The CGE rules in the tax legislation specifically contemplate situations where shares are exchanged for the shares that are then sold with the resulting gain sheltered by the CGE. So long as the qualifying Midnight shares are held for at least 24 months, it should be permissible to exchange non-qualifying shares for qualifying shares.*

**6. Could the CGE be claimed on the Midnight Shares if there is a pre-arranged sale to MTT? Even if MTT pays a large upfront deposit to the investor?**

*The CGE rules in the tax legislation specifically contemplate that an affiliate of the issuer (such as MTT) could enter into an arrangement to buy the relevant shares and transfer property to investors as a deposit. As with the response to FAQ 4, where there is a pre-arranged sale and/or a deposit, these rules provide that the investor is only prohibited from using the CGE if a significant portion of the gain in the shares has arisen because a corporation has not paid reasonable dividends. Here, each investor's gain should be attributable to the tax-deferred exchange of Aco shares for Midnight Shares and not be related to any dividends.*

**7. What tax reporting should apply to an investor who sells Midnight Shares to MTT?**

*Year 1*

- *The investor reports a tax-deferred exchange of Aco shares for Midnight shares.*
- *Aco reports a deemed dividend from repurchasing Aco shares.*

*24 Months Later*

- *The investor reports the sale of Midnight Shares to MTT and offsets the gain with the CGE.*

*Other*

- *The investor reports receiving monthly dividends on the Midnight Shares.*

**8. What conditions need to exist for an investor to use the CGE without adverse results?**

*In order to use the CGE without adverse results not only must the Midnight Shares qualify but the following conditions must exist for each investor (the terms used in the description of these conditions have special meanings in the tax legislation): (a) the investor must be resident in Canada throughout the year in which the CGE is claimed; (b) the investor must have available CGE room; (c) the investor must not have a cumulative net investment loss; (d) the investor must not have claimed an allowable business investment loss in the past; (e) the investor must have sufficient income so the sale of Midnight Shares will not give rise to alternative minimum tax or a reduction in any income-based benefits; (f) the investor must hold the Midnight Shares as capital property and not as inventory of any securities trading business or an adventure or concern in the nature of trade, and; (g) any capital losses incurred by the investor in the year the Midnight Shares are sold must be claimed before the CGE. Midnight strongly urges prospective investors to confirm their ability to access the CGE with their advisors.*

**9. Why would an exchange of Aco Shares for Midnight Shares be tax-deferred?**

*Section 85.1 of the tax legislation provides for an automatic share-for-share tax-deferred “rollover” where the investor and Midnight deal at arm’s length. Midnight also will file a section 85 “rollover” election if requested within three months of closing by an investor (this election also provides for a tax-deferred “rollover” and applies regardless of whether the investor and Midnight deal at arm’s length).*

**10. Is this a “tax shelter”?**

*The “tax shelter” rules apply to investments that are expected to generate tax deductions while held by a purchaser. However, acquiring Midnight Shares should not generate tax deductions.*

**11. Do the “reportable transaction” rules apply?**

*The “reportable transaction” rules apply where a transaction involves at least two of the following three hallmarks: (1) confidential protection; (2) contractual protection; and (3) fees based on tax benefits or numbers of participants. The cashless subscription and early liquidity options are not intended to give rise to any confidential protection or contractual protection.*

**12. Is the pre-arranged sale to MTT a “synthetic disposition arrangement”?**

*A “synthetic disposition arrangement” in respect of a property exists where a taxpayer makes arrangements that eliminate substantially all risk of loss and opportunity for profit on the property. Investors who exercise the early liquidity option should continue to enjoy the opportunity for profit if the Midnight Shares grow in value as well as when dividends are paid on the Midnight Shares over the 24 month period, and also are exposed to risk if MTT is somehow unable to satisfy the agreed upon purchase price. The investor also may cancel the early liquidity arrangement with MTT, as described earlier. As a consequence, the investor should continue to have the benefits and risks of ownership of the Midnight Shares until the sale of the Midnight Shares to MTT closes after 24 months.*

**13. Does the “surplus stripping” rule in subsection 84(2) of the tax legislation apply?**

*That rule may apply to deem an investor to receive a dividend in some situations if the investor indirectly receives corporate property on the winding-up, discontinuance or reorganization of the corporation’s business. Here, Aco’s operations should not be disturbed by the transaction.*

**14. Does the “surplus stripping” rule in subsection 84.1(1) of the tax legislation apply?**

*That rule may apply to deem an investor to receive a dividend in some situations if: (a) the investor sells shares; (b) the purchaser is a corporation; and (c) the purchaser does not deal at arm’s length with the investor. Here (1) the purchaser (MTT) is a trust (with only individuals as settlor, trustees and beneficiaries) and not a corporation, and (2) MTT and each investor will be acting solely in their own interests.*

## 15. Does the general anti-avoidance rule (“GAAR”) apply?

*The GAAR applies where the results of a transaction frustrate the purpose of relevant provisions in the tax legislation. According to the published Federal Department of Finance budget information, the purpose of the CGE is to encourage new businesses, investing in businesses and growing businesses, while unleashing the entrepreneurial dynamism of Canadians. Investment businesses like Midnight that employ more than five full-time employees are not excluded from the types of businesses that qualify. By holding Midnight Shares for 24 months (being the investment period specified in the tax legislation), an investor will be investing in the new and growing Midnight business, so the purpose behind the CGE should be fulfilled rather than frustrated. As well, an investment in Midnight Shares indirectly will help other private businesses since such investment will provide capital for Midnight’s private equity and commercial lending operations.*

*In addition, as discussed above, the tax legislation specifically contemplates the ability to use the CGE to shelter gains on sales of preferred shares, on sales of shares that are issued in exchange for other shares, and in circumstances where an entity affiliated with the issuer (like MTT) has arranged to purchase the shares and pays a deposit. In these situations the investor may use the CGE so long as a significant part of the gain on the shares that are sold did not arise because of the failure of a corporation to pay reasonable dividends. Here, each investor’s gain should be attributable to the tax-deferred exchange of Aco shares for Midnight Shares. Since the tax legislation contains specific rules that apply in situations like the Midnight Share investment, it should not be abusive to simply apply those rules.*

## 16. What are the tax consequences to Aco from repurchasing Aco shares?

*Aco should be deemed to pay a dividend to the extent the repurchase proceeds exceed the paid-up capital of the Aco shares (which Midnight expects will be minimal in most cases). Depending on the circumstances, the deemed payment of a dividend may lead to a recovery of Aco’s refundable dividend tax on hand balance. Part VI.1 of the tax legislation imposes a special tax on corporations that pay dividends on certain shares that are characterized as taxable preferred shares. However, that rule generally does not apply to deemed dividends from redemptions or repurchases of shares with a fixed redemption or repurchase amount that were issued in exchange for, or used to be, common shares. Investors also should be aware that, in some circumstances, the interest expense paid by Aco on borrowed money used to fund the Aco share repurchase amount may not be deductible.*

## 17. What are the tax risks to the transaction?

*Based on legal advice Midnight believes that these FAQs reflect an accurate and complete description of the principal tax questions concerning the Midnight Share cashless subscription and early liquidity options. Notwithstanding that belief it is possible that the Canada Revenue Agency may audit and decide to challenge matters. Midnight believes that the anticipated tax consequences described in these FAQs should withstand any challenge, although Midnight cannot and does not guarantee any particular tax outcome to any particular investor. Investors also should be aware that it is possible that the tax law may change while investors hold Midnight Shares, which may adversely impact after-tax returns.*

# IMPORTANT INFORMATION

The information in this document is general in nature and is provided for informational purposes only. It does not constitute legal, tax, investment or investment suitability advice to any prospective investor. There are tax consequences and risks associated with investing in Midnight Shares, and prospective investors are urged to seek advice from their own legal, tax and investment advisors before investing.

This document does not constitute an offer or solicitation to anyone in any jurisdiction in which such offer or solicitation is not authorized or to any person to whom it is unlawful to make such an offer or solicitation. No securities commission or similar regulatory authority in Canada has, in any way, passed upon the merits of the securities offered, and any representation to the contrary is an offence.

Midnight is not a mutual fund or a non-redeemable investment fund. The performance of the Midnight Shares is not guaranteed, their value may change frequently and past performance may not be repeated. Midnight Shares are not insured by the Canada Deposit Insurance Corporation or by any other government insurer. Midnight Shares may not be traded, resold or otherwise disposed of except pursuant to the early liquidity option or through a redemption of the Midnight Shares in accordance with their terms.

No commissions are payable to Midnight in connection with either a cash or a cashless subscription for Midnight Shares.

This document may contain forward-looking statements that are based on Midnight's current expectations, plans, estimates, assumptions and beliefs that involve numerous risks and uncertainties. The words 'forecast', 'estimate', 'project', 'intend', 'expect', 'should', 'believe' and similar expressions are intended to identify forward-looking statements. All forward-looking statements should be evaluated with an understanding of their inherent uncertainty and are not a guarantee of future performance, and actual results, performance or achievements may vary materially from those expressed or implied. Forward looking statements in the document involve known and unknown risks and uncertainties and other factors which may be beyond the control of Midnight.