All Island Equity Mortgage Investment Corp.
Financial Statements
June 30, 2021

Contents

For the year ended June 30, 2021

Management's Responsibility

To the Shareholders of All Island Equity Mortgage Investment Corp.:

Management is responsible for the preparation and presentation of the accompanying financial statements, including responsibility for significant accounting judgments and estimates in accordance with International Financial Reporting Standards. This responsibility includes selecting appropriate accounting principles and methods, and making decisions affecting the measurement of transactions in which objective judgment is required.

In discharging its responsibilities for the integrity and fairness of the financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets are safeguarded and financial records are properly maintained to provide reliable information for the preparation of financial statements.

The Board is responsible for overseeing management in the performance of its financial reporting responsibilities, and for approving the financial information included in the annual report. The Board fulfils these responsibilities by reviewing the financial information prepared by management and discussing relevant matters with management and external auditors. The Board is also responsible for recommending the appointment of the Company's external auditors.

MNP LLP is appointed by the shareholders to audit the financial statements and report directly to them; their report follows. The external auditors have full and free access to, and meet periodically with, both the Board and management to discuss their audit findings.

July 23, 2021

President

Independent Auditor's Report

To the Shareholders of All Island Equity Mortgage Investment Corp.:

Opinion

We have audited the financial statements of All Island Equity Mortgage Investment Corp. (the "Company"), which comprise the statement of financial position as at June 30, 2021, and the statements of comprehensive income (loss), changes in shareholders' equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at June 30, 2021, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

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- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Nanaimo, British Columbia

MNP LLP

July 23, 2021

Chartered Professional Accountants

All Island Equity Mortgage Investment Corp.
Statement of Financial Position
As at June 30, 2021

	2021	*2020*
Assets		
Current		
Cash	**9,445,306**	2,357,575
Current portion of mortgages receivable *(Note 5), (Note 6)*	**28,654,170**	29,539,933
Loan due from 1048377 B.C. Ltd. *(Note 7)*	**-**	1,193,110
Foreclosed assets held for sale *(Note 8)*	**103,624**	108,067
	38,203,100	33,198,685
Non-current		
Mortgages receivable *(Note 5), (Note 6)*	**3,094,379**	3,181,774
	41,297,479	36,380,459
Liabilities		
Current		
Accounts payable and accruals *(Note 10)*	**213,443**	184,624
Dividends payable	**197,168**	136,921
Prepaid mortgage interest	**174,198**	99,168
Unearned revenue	**177,894**	118,556
Redeemable/retractable preferred shares *(Note 11)*	**40,587,792**	35,916,732
	41,350,495	36,456,001
Commitment *(Note 12)*		
Significant event *(Note 13)*		
Shareholders' Equity		
Share capital *(Note 14)*	**10**	10
Deficit	**(53,026)**	(75,552)
	(53,016)	(75,542)
	41,297,479	36,380,459

Approved on behalf of the Board

Director **Director**

The accompanying notes are an integral part of these financial statements

All Island Equity Mortgage Investment Corp.
Statement of Comprehensive Income (Loss)
For the year ended June 30, 2021

	2021	*2020*
Revenue		
Interest - mortgage investments *(Note 7)*	**3,223,153**	2,748,851
Lender fees	**241,148**	179,929
	3,464,301	2,928,780
Expenses		
Bank charges	**2,889**	2,378
Computershare transfer agent fees	**11,292**	7,745
Financial fees *(Note 10)*	**668,321**	561,188
Interest	**22**	3,488
Office *(Note 10)*	**75,167**	56,028
Professional fees	**108,891**	40,715
	866,582	671,542
Net earnings before other items	**2,597,719**	2,257,238
Other items		
Provision for mortgage investment loss *(Note 5)*	**135,000**	200,000
Realized mortgage investment loss	**-**	215,717
Net earnings before dividend expense	**2,462,719**	1,841,521
Dividend expense *(Note 10)*	**(2,440,193)**	(1,874,054)
Comprehensive income (loss)	**22,526**	(32,533)

All Island Equity Mortgage Investment Corp.
Statement of Changes in Shareholders' Equity
For the year ended June 30, 2021

	Share capital	Deficit	2020	2019
Shareholders' equity, beginning of year	**10**	**(75,552)**	**(75,542)**	(43,009)
Comprehensive income (loss)	**-**	**22,526**	**22,526**	(32,533)
Shareholders' equity, end of year	**10**	**(53,026)**	**(53,016)**	(75,542)

The accompanying notes are an integral part of these financial statements

All Island Equity Mortgage Investment Corp.
Statement of Cash Flows
For the year ended June 30, 2021

	2021	*2020*
Cash provided by (used for) the following activities		
Operating activities		
Fees and other receipts	**300,485**	229,417
Cash paid to suppliers	**(821,785)**	(641,645)
Interest received	**4,067,455**	2,883,605
Interest paid	**(2,911)**	(5,866)
Dividends paid	**(642,814)**	(446,107)
	2,900,430	2,019,404
Financing activities		
Payment of share issue costs	**(37,826)**	(5,000)
Proceeds from issuance of preferred shares	**4,673,300**	6,980,708
Redemption of preferred shares	**(1,714,612)**	(2,946,655)
	2,920,862	4,029,053
Investing activities		
Repayments from related parties	**1,193,110**	-
Funding of mortgage investments	**(27,060,033)**	(19,695,832)
Discharge of mortgage investments	**27,128,919**	15,679,180
Costs recovered from foreclosed assets held for sale	**4,443**	2,165
	1,266,439	(4,014,487)
Increase in cash	**7,087,731**	2,033,970
Cash, beginning of year	**2,357,575**	323,605
Cash, end of year	**9,445,306**	2,357,575
Supplementary cash flow information		
Class B Shares issued under dividend reinvestment plan	**1,737,133**	1,389,424

The accompanying notes are an integral part of these financial statements

1. Reporting entity

All Island Equity Mortgage Investment Corp. (the “Company”) was incorporated under the laws of British Columbia on February 27, 1997. The Company is domiciled in Canada. The Company's principal business activity is mortgage lending for residential and commercial properties. The Company is a mortgage investment corporation ("MIC") and is deemed to be a public corporation under the Income Tax Act.

The investment objective of the Company is, with a primary focus on capital preservation, to acquire and maintain a diversified portfolio of mortgage loan investments, which generates income allowing the Company to pay annual dividends to shareholders at the highest possible return.

The address of the Company’s registered office is 450 Wentworth Street, Nanaimo, British Columbia.

2. Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) and interpretations adopted by the International Accounting Standards Board (“IASB”).

The financial statements were approved by the board of directors and authorized for issue on July 23, 2021.

3. Basis of preparation

Basis of measurement

The financial statements have been prepared in the historical basis except for the revaluation of certain non-current assets and financial instruments. The principal accounting policies are set out in Note 4.

Functional and presentation currency

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

Significant accounting judgments, estimates and assumptions

The preparation of the Company’s financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainties about these assumptions and estimates could result in outcomes that would require a material adjustment to the carrying amount of the asset or liability affected in the future.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date are discussed below.

Mortgages receivable and foreclosed assets held for sale

The most significant estimates that management is required to make relate to the fair value of the mortgages receivable and foreclosed assets held for sale. These estimates may include assumptions regarding local real estate market condition, interest rates on the availability of credit, cost and terms of financing, and other factors affecting the investments in mortgages and underlying security of the mortgages. These key management estimates are subjective and involve inherent uncertainties and judgments.

These estimates and assumptions are reviewed periodically and, as adjustments become necessary, they are reported in net earnings in the periods in which they become known. Changes to the underlying assumptions and estimates or legislative changes in the near term could have a material impact on the provision recognized.

4. Summary of significant accounting policies

Except as noted above, the following significant accounting policies have been adopted in the preparation of these financial statements.

Revenue recognition

Interest income is recognized on an accrual basis by the effective interest method, using an effective interest rate which exactly discounts estimated future cash receipts to the net carrying amount of the financial asset over the asset's expected life.

Appraisal, discharge, inspection and non-sufficient funds fees are recognized when all contractual obligations to provide the corresponding services have been satisfied and collectability is reasonably assured.

Application and renewal fees are amortized to income over the contractual terms of the mortgages, as the contractual obligation of providing mortgage financing is fulfilled over the time each mortgage is outstanding. Forfeited lender fees are recognized at the time a borrower is determined not to have fulfilled the terms and conditions of a mortgage commitment and payment has been received.

Foreclosed assets held for sale

When the Company obtains legal title of the underlying security of an impaired mortgage receivable, the carrying value of the mortgage receivable, which comprises of principal, costs incurred, accrued interest receivable and a provision for mortgage investment loss, if any, is reclassified from mortgage and loan investments to foreclosed assets held for sale. Foreclosed assets held for sale are recognized at the lower of its carrying amount and fair value less costs to sell. The Company uses management's best estimate to determine fair value of these properties, which may involve frequent inspections, engaging realtors to assess market conditions based on previous property transactions or, retaining professional appraisers to provide independent valuations.

Contractual interest on the mortgage investment is discontinued from the date of transfer from mortgage receivable to foreclosed assets held for sale. Net income or loss generated from foreclosed assets held for sale (including fair value adjustments), if any, is recorded as provision for loss on foreclosed assets held for sale.

Financial instruments

Financial assets measured at amortized cost:

The Company has classified cash and mortgages receivable as financial assets measured at amortized cost. These assets are initially recognized as their fair value plus transaction costs that are directly attributable to their acquisition. Fair value is approximated by the instrument's initial cost in a transaction between unrelated parties. Transactions to purchase or sell these items are recorded on the trade date.

Subsequent to initial recognition, all financial assets are classified and subsequently measured at amortized cost. Interest revenue is calculated using the effective interest rate method and gains or losses arising from impairment, foreign exchange and derecognition are recognized in comprehensive loss.

Financial liabilities measured at amortized cost:

The Company has classified the following financial liabilities as financial liabilities measured at amortized cost: bank indebtedness, accounts payable and accruals, and dividends payable. These liabilities are initially recognized at their fair value. Fair value is approximated by the instrument's initial cost in a transaction between unrelated parties. Transactions to purchase or sell these items are recorded on the trade date.

Financial liabilities measured at amortized cost are subsequently measured at amortized cost using the effective interest method. Under this method, estimated future cash payments are exactly discounted over the liability's expected life, or other appropriate period, to its net carrying value. Amortized cost is the amount at which the financial liability is measured at initial recognition less principal repayments, and plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount. Net gains and losses arising from changes in fair value are recognized in comprehensive loss upon derecognition.

4. Summary of significant accounting policies *(Continued from previous page)*

Financial asset impairment

The Company assesses impairment of all its financial assets, except those classified at fair value through profit (loss). Management considers whether there has been a breach in contract, such as a default or delinquency in interest or principal payment in determining whether objective evidence of impairment exists. Impairment is measured as the difference between the asset's carrying value and its fair value. Any impairment, which is not considered temporary, is included in current year comprehensive income.

The Company reverses impairment losses on financial assets carried at amortized cost when the decrease in impairment can be objectively related to an event occurring after the impairment loss was recognized.

Mortgages receivable

The Company's business model is to manage mortgages and to collect principal and interest payments on mortgage investments. Loss provisions are recorded upon initial recognition of the mortgages receivable based upon expectations of future losses at the time.

The Company makes an estimate for determining whether the cash flows from mortgages receivable represent solely payments of principal and interest (SPPI). The estimation of future cash flows includes assumptions about local real estate market conditions, market interest rates, availability and terms of financing, underlying value of the security and various other factors. At the end of each reporting period, impairment is assessed using an expected credit loss (ECL) approach. Under this approach, the level of credit risk deterioration is assessed in a three-stage impairment model. The three stages are determined, and expected credit losses are assessed as follows:

Stage 1 - No significant increase to credit risk since initial recognition. 12-month expected credit losses are recognized.

Stage 2 - Significant increase in credit risk since initial recognition. Lifetime expected credit losses are recognized.

Stage 3 - Credit impaired. Lifetime expected credit losses are recognized.

Assessments of future expected losses in Stages 1 and 2 are made using forward-looking information. Mortgage investments are transferred to Stage 3 when there is objective information indicating one or more events negatively impacting the estimated future cash flows of that receivable has occurred.

Preferred share

The Company classifies financial instruments issued as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments. As such, redeemable shares are presented as a liability to the Company. The class B shares are redeemable at a price equal to their original issue amounts plus the amount of dividends declared and unpaid and a pro-rata share of shareholders' equity at the time notice of redemption is received. Dividends are recognized as dividend expense in comprehensive income as accrued.

Mortgage Investment Corporation ("MIC") eligibility criteria

To qualify as a MIC for Canadian income tax purposes, the Company must comply with the following:

i) At least 50% of the Company's assets must consist of residentially orientated mortgages and/or cash;
ii) The Company's only business activity is the investing funds of the corporation and not managing or developing any real property;
iii) The Company must not hold any investments secured by real property situated outside Canada; and
iv) No shareholder, along with connected individuals, directly or indirectly may own more than 25% of the issued shares of any class and the Company must have at least 20 shareholders.

In the opinion of management, these requirements have been met.

4. Summary of significant accounting policies *(Continued from previous page)*

Income taxes

The Company is a mortgage investment corporation ("MIC") for income tax purposes. As such, the Company is able to deduct, in computing its income for a taxation year, dividends paid to its shareholders during the year or within 90 days of the end of the year. The Company intends to maintain its status as a MIC and pay dividends to its shareholders in the current year and in future years to ensure that it will not be subject to income taxes. Accordingly, for financial statement reporting purposes, the tax deductibility of the Company's distribution results in the Company being effectively exempt from taxation and no provision for current or future income taxes is required for the Company.

Shareholders who received dividends from the Company, other than capital gains dividends, will be deemed, for income tax purposes, to have received interest payable on a bond issued by the Company and will be subject to Canadian income or withholding taxes accordingly.

As at June 30, 2021, the Company has non-capital losses carried forward for income tax purposes of $nil (2020 - $nil).

Comprehensive income

Comprehensive income includes all changes in equity of the Company, except those resulting from investments by owners and distributions to owners. Comprehensive income is the total of net earnings (loss) and other comprehensive income (loss). Other comprehensive income comprises revenues, expenses, gains and losses that, in accordance with International Financial Reporting Standards, require recognition, but are excluded from net earnings (loss). The Company does not have any items giving rise to other comprehensive income. All gains/losses, including those arising from measurement of all financial instruments have been recognized in net earnings (loss) for the year.

Fair value measurements

The Company classifies fair value measurements recognized in the statement of financial position using a three-tier fair value hierarchy, which prioritises the inputs used in measuring fair value as follows:

- Level 1: Quoted prices (unadjusted) are available in active markets for identical assets or liabilities;
- Level 2: Inputs other than quoted prices in active markets that are observable for the asset or liability, either directly or indirectly; and
- Level 3: Unobservable inputs in which there is little or no market data, which require the Company to develop its own assumptions.

Fair value measurements are classified in the fair value hierarchy based on the lowest level input that is significant to that fair value measurement. This assessment requires judgment, considering factors specific to an asset or a liability and may affect placement within the fair value hierarchy.

Leases

The economic ownership of a leased asset is transferred to the lessee if the lessee bears substantially all the risks and rewards related to the ownership of the leased asset. The related asset is then recognized at the inception of the lease at the fair value of the leased asset or, if lower, the present value of the lease payments plus incidental payments, if any. A corresponding amount is recognized as a finance leasing liability, irrespective of whether some of these lease payments are payable up-front at the date of inception of the lease. Leases of land and building are classified separately and the minimum lease payments are allocated between the land and building elements in proportion to the relative fair values of the leasehold interests at the inception of the lease.

Assets under finance lease are amortized on a straight-line basis, over the shorter of the useful life and the lease term. The depreciation policy for depreciable leased assets is consistent with that for depreciable assets that are owned by the Company. The corresponding finance leasing liability is reduced by lease payments less finance charges, which are expensed as part of finance costs.

All other leases are accounted for as operating leases, and payments are expensed on a straight-line basis over the term of the lease. Associated costs, such as maintenance and insurance, are expensed as incurred.

4. Summary of significant accounting policies *(Continued from previous page)*

Standards issued but not yet effective

The Company has not yet applied the following new standards, interpretations and amendments to standards that have been issued as at June 30, 2021 but are not yet effective. Unless otherwise stated, the Company does not plan to early adopt any of these new or amended standards and interpretations.

IFRS 16 Leases

Amendments to IFRS 16, issued in May 2020, provide lessees with an exemption from having to assess whether rent concessions occurring as a direct consequence of the COVID-19 pandemic are lease modifications and instead permits lessees to account for such rent concessions as if they were not lease modifications if certain conditions are met. There is no similar exemption for lessors. These amendments were developed as a practical expedient to address the challenges lessees are facing as a result of the COVID-19 pandemic. In addition, the amendments provide specific disclosure requirements regarding COVID-19 related rent concessions.

The amendments are effective for transactions for annual reporting periods beginning on or after June 1, 2020. The Company does not expect this standard to have a material impact on its financial statements.

IAS 37 Provisions, Contingent Liabilities and Contingent Assets

Amendments to IAS 37, issued in May 2020, specify that in assessing whether a contract is onerous under IAS 37, the cost of fulfilling a contract includes both the incremental costs and an allocation of costs that relate directly to contract activities. The amendments also include examples of costs that do, and do not, relate directly to a contract.

The amendments are effective for annual periods beginning on or after January 1, 2022. The Company does not expect this standard to have a material impact on its financial statements.

5. Mortgages receivable

Mortgages receivable consist of the following:

	2021	2020
Mortgage principal receivable	**31,503,810**	31,572,695
Accrued interest receivable	**594,739**	1,364,012
Less: allowance for mortgage investment loss	**(350,000)**	(215,000)
Carrying value of mortgage receivable	**31,748,549**	32,721,707
Less: current portion	**(28,654,170)**	(29,539,933)
Long-term portion of mortgages receivable	**3,094,379**	3,181,774

Mortgages receivable bear interest between 6% and 12% (2020 - 6% and 14%) and are secured by charges against real property. Principal and/or interest only payments are due monthly and early payment of principal is permitted.

The allowance for mortgage investment loss in the amount of $350,000 (2020 - $215,000) represents the total amount of management's estimate of the expected credit loss on the mortgage receivable that has experienced a significant increase in credit risk since initial recognition (Stage 1). No mortgages receivable has been transferred to Stages 2 or 3.

The portion of mortgage investments that are in default is $37,191 (2020 - $862,286).

6. Mortgages receivable - Portfolio Allocation

	Number of mortgages receivable	Carrying value	% of Portfolio
Mortgage rate %			
0.1% to 8.99%	12	4,641,593	15
9% to 9.49%	10	3,981,147	13
9.50% to 9.74%	16	7,364,088	23
9.75% to 9.99%	15	4,880,657	15
10% to 10.25%	10	4,901,964	15
10.26% to 10.50%	3	1,455,814	5
over 10.50%	13	4,523,286	14
	79	31,748,549	100

7. Loan due from 1048377 B.C. Ltd.

During the 2016 fiscal year, the Company entered into a contract to sell real property for $1,215,000 to 1048377 B.C. Ltd., a company owned by a director of the Company. Under the agreement, the Company retains title of the property until the purchase price has been paid in full. During this time the purchaser is permitted to occupy and enjoy the property, and a right to purchase has been registered against the property. 1048377 B.C. Ltd. may pay down the principal balance outstanding at any time during the life of the contract.

According to the agreement, 1048377 B.C. Ltd. is required to make the following monthly payments and to have the property listed for sale:

1) interest only at 6% from April 15, 2016 to March 15, 2019
2) $25,000 on August 15, 2018
3) interest only at 7% from March 16, 2019 to March 15, 2021
4) Remaining balance due Mar 15, 2021.

During the year, the remaining loan balance was paid in full and $59,100 (2020 - $84,000) of interest income was recorded on this loan. This amount has been included within Interest - mortgage investments on the Statement of Comprehensive Income (Loss).

8. Foreclosed assets held for sale

Foreclosed assets held for sale consists of one (2020 - one) foreclosed residential property acquired through the foreclosure process. This property is recorded at its fair value of $103,624 (2020 - 108,067). The changes in the foreclosed assets held for sale during the year were as follows:

	2021	*2020*
Balance, beginning of year	**108,067**	110,231
Incidental income, net of carrying costs	**(4,443)**	(2,164)
	103,624	108,067

For the property held for sale, the Company has received a Contract of Purchase and Sale which closes in August 2021 in excess of its carrying value.

9. Bank indebtedness

At June 30, 2021, the Company has an available operating loan with a credit limit of $2,000,000, bearing interest at prime plus 1.25%, of which $nil (2020 - $nil) was outstanding at year-end. A general security agreement covering all assets of the Company is pledged for the operating loan. Prime rate as at June 30, 2021 was 2.45% (2020 - 2.45%).

The operating loan requires that the Company maintain an equity balance of at least $12,000,000 including preferred shares and maintain a ratio of total liabilities to tangible net worth of not greater than 0.25:1. In addition, the Company cannot provide mortgages to any person if the aggregate amount of the mortgage would exceed 15% of the mortgage portfolio without prior written consent of the Bank. As at June 30, 2021, the Company is in compliance with all such covenants. It is management's opinion that the Company is likely to remain in compliance with all credit facility covenants throughout the 12 months subsequent to June 30, 2021.

10. Related party transactions

Under the terms of its financial management agreement, the Company pays an annual fee of 1% of its mortgage portfolio, calculated and payable on a quarterly basis, to two companies controlled by directors of the Company. This agreement was signed July 1, 2018 and expires June 30, 2021. Included in expenses are $414,113 (2020 - $280,594) of financial fees related to this agreement, of which $83,398 (2020 - $75,215) is in accounts payable.

Included in office expenses for the current year are $77,317 (2020 - $38,000) paid to companies controlled by related parties through the directors of the Company for the provision of financial and administrative services. The expenses were conducted in the normal course of operations and measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

Included in dividend expense is $54,422 (2020 - $35,459) of dividends paid to shareholders of the Company who are related parties.

11. Redeemable/retractable preferred shares

The Company has issued preferred shares, redeemable at the option of the holder with 90 days notice and redeemable at the option of the Company with 30 days notice at a redemption price of $10 per share. In accordance with International Financial Reporting Standards for accounting for financial instruments, share capital which has attributes of a financial liability is presented as such and, accordingly, all Class B preferred shares, redeemable at the option of the holder, have been classified as a current liability.

In the event there is insufficient funds from the repayment of mortgages held by the Company to all shares for which a notice has been given, then such shares shall be redeemed in the order and amount for which such funds are and become available. The Company shall not be obligated to redeem any shares if such a redemption would result in the loss of the Company's status as a mortgage investment corporation within the meaning of the Income Tax Act.

The Company assumed mortgages receivable and cash from another mortgage investment corporation during the fiscal year and issued shares to the mortgage investment corporation's investors in return. The impact on the balance of preferred shares from this transaction is presented separately below.

	Number	***2021 Amount***	*Number*	*2020 Amount*
Balance, beginning of year	**3,592,854**	**35,916,732**	2,665,051	26,636,924
Redeemed	**(171,461)**	**(1,714,612)**	(294,665)	(2,946,655)
Issued for cash	**467,330**	**4,673,300**	460,008	4,600,080
Issued as dividend reinvested	**173,713**	**1,737,133**	138,942	1,389,432
Offering memorandum cost	-	**(37,826)**	-	(5,000)
Offering memorandum amortization	-	**13,065**	-	6,783
Shares issued to assume mortgages receivable	**-**	**-**	385,455	3,854,544
Shares issued to assume cash	**-**	**-**	238,063	2,380,624
	4,062,436	**40,587,792**	3,592,854	35,916,732

12. Commitment

Subsequent to the year-end, the Company entered into six mortgage receivable agreements to be funded in the 2022 fiscal year, for a total of $3,070,000 (2020 - $150,000).

13. Significant event

In early 2020, there was a global outbreak of COVID-19 (Coronavirus), which has had a significant impact on businesses through the restrictions put in place by the Canadian, provincial and municipal governments regarding travel, business operations and isolation/quarantine orders. At this time, it is unknown the extent of the impact the COVID-19 outbreak may have on the Company as this will depend on future developments that are highly uncertain and that cannot be predicted with confidence. These uncertainties arise from the inability to predict the ultimate geographic spread of the disease, and the duration of the outbreak, including the duration of travel restrictions, business closures or disruptions, and isolation/quarantine measures that are currently, or may be put, in place by Canada and other countries to fight the virus.

14. Share capital

Authorized

Common Shares
1,000 Class A common shares, voting, no par value

Redeemable/retractable preferred shares
10,000,000 Class B redeemable preferred shares, non voting, no par value, retractable at the option of the shareholder with 90 days notice, redeemable at the option of the Company with 30 days notice at $10 each.

Issued

	2021	*2020*
10 Common shares (Class A)	**10**	10

15. Capital management

The Company's objectives when managing capital are to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders; to provide an adequate return to shareholders by pricing products and services commensurately with the level of risk.

The Company monitors capital on the basis of a return on investment calculation to provide shareholders with a consistent rate of return from year to year. During the year, the Company's strategy, which was unchanged from the prior year, was to advance an adequate amount of mortgages at an acceptable risk level to provide a consistent return to shareholders.

In order to maintain compliance with the rules under the Income Tax Act to qualify as a mortgage investment corporation, the Company is subject to capital requirements to maintain a minimum of 20 shareholders with no shareholder owning, directly or indirectly, more than 25% of the issued shares of any class of the share capital of the Company. During the year ended June 30, 2021, the Company was in compliance with these capital requirements.

The Company manages the following as capital:

	2021	*2020*
Share capital	**10**	10
Deficit	**(53,026)**	(75,552)
Liability component of redeemable/retractable preferred shares	**40,587,792**	35,916,732
	40,534,776	35,841,190

The Company is subject to a capital requirement imposed by the Royal Bank of Canada with regards to maintaining an equity balance of at least $12,000,000. For purposes of this calculation the liability component of redeemable/retractable preferred shares are included in equity. In order to meet this requirement, the Company adjusts the amount of dividends paid to shareholders, issues new shares or adjusts the amount of mortgages receivable. As at June 30, 2021 the Company was in compliance with this capital requirement.

16. Financial instruments

The Company as part of its operations carries a number of financial instruments. It is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments except as otherwise disclosed.

Risk management policy

The Company, as part of operations, has established avoidance of undue concentrations of risk, and requirements for collateral to mitigate credit risk as risk management objectives. In seeking to meet these objectives, the Company follows a risk management policy approved by its Board of Directors. Policies of the Company include:

- All mortgages will be registered on title to the subject property in the name of the Company;
- No single investment or related group of investments involving one property or development, or involving several properties or developments owned by one borrower and its affiliates, will exceed 25% of the book value of the assets of the Company, unless firm takeout commitments are in place;
- Mortgages receivable will generally not exceed 75% of the appraised value at the date of advance;
- Every mortgage application must be approved unanimously by the Company's loan committee;
- The Company requires an appraisal with every mortgage application unless otherwise directed by the Directors of the Company and each appraisal is required to be prepared by a member of the Accredited Appraisal Canadian Institute; and;
- The Company must not exceed certain debt-to-equity ratios, which vary depending on the percentage of the cost of the property invested in residential mortgages or on deposit with qualifying financial institutions. If less than two-thirds of the cost of the Company's property is invested in this manner, the debt-to-equity ratio may not exceed three to one. If more than two-thirds of the cost of the Company's property is invested in this manner, then the debt-to-equity ratio may not exceed five to one.

Credit risk

Credit risk is the risk of financial loss because a counter party to a financial instrument fails to discharge its contractual obligations.

The maximum exposure to credit risk as at June 30, 2021 is the fair value of its mortgages receivable, which total $31,748,549 (2020 - $33,749,817). The Company has recourse under these mortgages in the event of default by the borrower, in which case the Company would have claim against the underlying property.

A credit concentration exists relating to mortgages receivable. As at June 30, 2021 and June 30, 2020, there were no borrowers that accounted for more than 10% of the mortgages receivable. The Company believes that there is no unusual exposure associated with the collection of receivables, other than noted as in Note 5.

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument might be adversely affected by a change in the interest rates and that at the end of a mortgage's term, it will be re-priced to a prevailing interest rate lower than the original one. Changes in market interest rates may have an effect on the cash flows associated with some financial assets and liabilities, known as cash flow risk, and on the fair value of other financial assets or liabilities, known as price risk. The risk is mitigated by the fact that the Company is not exposed to market mortgage rates as there is no specific market for mortgages of a similar type, term or credit risk. This has allowed the Company to renew its mortgages at consistent rates.

16. Financial instruments *(Continued from previous page)*

Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or foreign currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. The Company enters into transactions to advance funds on mortgages where an interest rate based upon current mortgage interest rates is charged on the advance date. Other price risk is mitigated by the fact that the Company is not exposed to market mortgage rates as there is no specific market for mortgages of similar type, term or credit risk. Due to this fact, a 1% change in market mortgage interest rates would not change the fair value of mortgages receivable.

The Company manages its other price risk by investing in mortgages with short-term maturities to minimize fluctuations in fair value as a result of market mortgage interest rate changes.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities. The Company enters into transactions to purchase goods and services on credit and pay dividends within 90 days after the year-end, for which repayment is required at various dates and manages preferred share redemptions. Liquidity risk is measured by reviewing the Company's future net cash flows for the possibility of a negative net cash flow.

The Company manages the liquidity risk resulting from accounts payable and accruals, share redemptions and dividends payable by investing in mortgages with short-term maturities and maintains significant committed borrowing facilities from its bank for credit flexibility. The Company commits to mortgages receivable only on an assured cash availability basis.

Fair value of financial instruments

The carrying amount of cash, accounts payable and accruals and dividends payable are approximated by their fair value due to their short-term nature.

International Financial Reporting Standards require the disclosure of fair value information for all financial instruments, except in the cases where time and cost constraints make such information too difficult to reliably determine. As relevant and reliable fair value information was not obtainable, the Company has not disclosed the fair value information for its liability component of redeemable/retractable preferred shares. These shares do not trade in an organized/active market and no quoted market prices or prices from recent market transactions are available.

As there are no quoted prices in an active market for mortgages receivable, management makes its determination of fair value based on its assessment of the current lending market of same or similar terms. Typically, the mortgages receivable approximate their carrying values given the mortgage investments consist of short-term loans that are repayable at the option of the borrower without yield maintenance or penalties. When collection of the principal amount of a mortgage is no longer reasonably assured, the fair value of the mortgage is reduced to the estimated net realizable value of the underlying security.

Fair value estimates are made at a specific point in time, based on available relevant market information and details of the financial instrument. However, in cases where they may not be fully supported by observable market prices or rates, assumptions may be subjective, and fair value cannot be estimated with precision.

17. Comparative figures

Certain prior year figures have been reclassified to conform to the current year's presentation.