All Island Equity Mortgage Investment Corp.

Financial Statements

June 30, 2022

Contents

For the year ended June 30, 2022

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 of Directors are composed primarily of Directors who are neither management nor employees of the Company. 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 and separately with, both the Board and management to discuss their audit findings.

August 23, 2022

President

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 the results of its operations 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.

Other Information

Management is responsible for the other information. The other information comprises of offering memorandum. The offering memorandum report is expected to be made available to us after the date of this auditor’s report.

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

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

When we read the offering memorandum, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with 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.

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

August 23, 2022

Chartered Professional Accountants

MNP LLP

All Island Equity Mortgage Investment Corp.
Statement of Financial Position
As at June 30, 2022

	2022	*2021 (Restated)*
Assets		
Current		
Cash	**2,656,111**	9,445,306
Current portion of mortgages receivable *(Note 5), (Note 6)*	**47,266,790**	28,654,170
Prepaid expenses	**8,196**	-
Foreclosed assets held for sale *(Note 7)*	**-**	103,624
	49,931,097	38,203,100
Non-current		
Mortgages receivable *(Note 5), (Note 6)*	**-**	3,094,379
	49,931,097	41,297,479
Liabilities		
Current		
Accounts payable and accruals *(Note 9)*	**283,599**	213,443
Dividends payable	**228,958**	197,168
Prepaid mortgage interest	**115,698**	174,198
Unearned revenue	**152,477**	177,894
	780,732	762,703
Events after the reporting period *(Note 14)*		
Shareholders' Equity		
Share capital *(Note 10), (Note 11), (Note 16)*	**49,218,208**	40,587,802
Deficit	**(67,843)**	(53,026)
	49,150,365	40,534,776
	49,931,097	41,297,479

Approved on behalf of the Board

Director **Director**

All Island Equity Mortgage Investment Corp.
Statement of Comprehensive Income (Loss)
For the year ended June 30, 2022

	2022	*2021*
Revenue		
Interest - mortgage investments *(Note 6)*	**3,657,945**	3,223,153
Lender fees	**413,674**	241,148
	4,071,619	3,464,301
Expenses		
Bank charges	**3,168**	2,889
Financial fees *(Note 9)*	**846,170**	668,321
Interest	**-**	22
Office *(Note 9)*	**122,425**	100,217
Computershare transfer agent fees	**10,751**	11,292
Professional fees	**70,133**	83,841
	1,052,647	866,582
Net earnings before other items	**3,018,972**	2,597,719
Other items		
Provision for mortgage investment loss (gain) *(Note 5)*	**-**	135,000
Net earnings before dividend expense	**3,018,972**	2,462,719
Dividends *(Note 9)*	**(3,033,789)**	(2,440,193)
Comprehensive income (loss)	**(14,817)**	22,526

The accompanying notes are an integral part of these financial statements

All Island Equity Mortgage Investment Corp.
Statement of Changes in Shareholders' Equity
For the year ended June 30, 2022

	Share capital	*Deficit*	*Total equity*
Balance June 30, 2020, as previously stated	**10**	**(75,552)**	**(75,542)**
Retroactive application of change in accounting policy *(Note 16)*	**35,916,732**	**-**	**35,916,732**
Balance June 30, 2020 , as restated	**35,916,742**	**(75,552)**	**35,841,190**
Comprehensive income (loss) for the year	**-**	**22,526**	**22,526**
Issuance of share capital - Class B shares	**4,673,300**	**-**	**4,673,300**
Repurchase of shares - Class B shares	**(1,714,612)**	**-**	**(1,714,612)**
Dividends reinvested - Class B shares	**1,737,133**	**-**	**1,737,133**
Offering memorandum costs, net	**(24,761)**	**-**	**(24,761)**
Balance June 30, 2021 , as restated	**40,587,802**	**(53,026)**	**40,534,776**
Comprehensive income (loss) for the year	**-**	**(14,817)**	**(14,817)**
Issuance of share capital - Class B shares	**8,467,900**	**-**	**8,467,900**
Repurchase of shares - Class B shares	**(1,999,860)**	**-**	**(1,999,860)**
Dividends reinvested - Class B shares	**2,164,137**	**-**	**2,164,137**
Offering memorandum costs, net	**(1,771)**	**-**	**(1,771)**
Balance June 30, 2022	**49,218,208**	**(67,843)**	**49,150,365**

All Island Equity Mortgage Investment Corp.
Statement of Cash Flows
For the year ended June 30, 2022

	2022	*2021*
Cash provided by (used for) the following activities		
Operating activities		
Fees and other receipts	**388,257**	300,485
Cash paid to suppliers	**(966,481)**	(821,785)
Interest received	**3,218,494**	4,067,455
Interest paid	**(11,364)**	(2,911)
Dividends paid	**(837,861)**	(642,814)
	1,791,045	2,900,430
Financing activities		
Payment of share issue costs	**(14,614)**	(37,826)
Proceeds from issuance of preferred shares	**8,467,900**	4,673,300
Redemption of preferred shares	**(1,999,860)**	(1,714,612)
	6,453,426	2,920,862
Investing activities		
Repayments from related parties	**-**	1,193,110
Proceeds from disposal of foreclosed assets held for sale	**103,624**	-
Funding of mortgages receivable	**(32,964,323)**	(27,060,033)
Discharge of mortgages receivable	**17,827,033**	27,128,919
Costs recovered from foreclosed assets held for sale	**-**	4,443
	(15,033,666)	1,266,439
Increase (decrease) in cash	**(6,789,195)**	7,087,731
Cash, beginning of year	**9,445,306**	2,357,575
Cash, end of year	**2,656,111**	9,445,306
Supplementary cash flow information		
Class B Shares issued under dividend reinvestment plan	**2,164,137**	1,737,133

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.

In March 2020, the COVID-19 outbreak has caused governments worldwide to enact emergency measures to combat the spread of the virus. These measures, which include the implementation of travel restrictions, self-imposed quarantine periods and social distancing, could have a significant impact on the real estate industry and many other businesses worldwide. As at June 30, 2022, the pandemic has had minimal impact on the business of the Company.

2. Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRSs”) 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 August 4, 2022.

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. These estimates and assumptions have been made using careful judgment; however, uncertainties 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 prepared based on management's best knowledge of current events and actions that the Company may undertake in the future. These estimates and underlying assumptions are reviewed on an ongoing basis and revisions to accounting estimates are recognized prospectively in comprehensive income in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

3. Basis of preparation *(Continued from previous page)*

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.

Classification of non-voting shares with redemption feature

Under IFRS, IAS 32 requires that shares of an entity which include a contractual obligation for the issuer to repurchase or redeem them for cash or another financial asset be classified as financial liabilities. The Company's Class B preferred non-voting shares contain a redemption feature whereby the holders can request redemption of the shares during a specified period during the year. The redemption feature is subject to certain restrictions which give Management the ability to effectively defer redemption indefinitely. Accordingly, management has applied judgment in assessing whether the redemption feature would create a contractual obligation to repurchase or redeem shares for cash or another financial asset and has determined that it would not and that the shares should be classified as equity.

By their nature, these estimates are subject to measurement uncertainty, and the effect on the financial statements from changes in such estimates in future years could be material.

4. Summary of significant accounting policies

Except as noted above, the following principal 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 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.

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

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 mortgages receivable 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.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Common and preferred shares are classified as equity. Incremental costs directly attributable to the issue of common and preferred shares, which include legal and accounting, are recognized as a deduction from equity.

Financial instruments

Financial assets measure 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: 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.

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.

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 payments 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 profit (loss).

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.

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

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.

Mortgage 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.

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.

Comprehensive income

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

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

Fair value measurements

The Company classifies fair value measurements recognized in the statement of financial position using a three-tier fair value hierarchy, which prioritizes 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.

The Company considers a fair value measurement to have transferred between the levels in the fair value hierarchy on the beginning of the reporting period, the date of the event or change in circumstances that caused the transfer, etc. There were no transfers between Level 1 and Level 2, as well as no transfers into or out of Level 3 during the period.

In determining fair value measurements, the Company uses valuation techniques based on its assessment of the current ending market of same or similar terms. Typically, the mortgages receivable approximate their carrying values given the mortgages receivable 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.

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.

IAS 1 Presentation of Financial Statements

Amendments to IAS 1, issued in January 2020, provide clarification on the requirements for classifying liabilities as either current or non-current.

The amendments are effective for annual periods beginning on or after January 1, 2023. The Company does not expect these amendments to have a material impact on its financial statements.

IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors

Amendments to IAS 8, issued in February 2021, introduce a new definition of “accounting estimates” to replace the definition of “change in accounting estimates” and also include clarification intended to help entities distinguish changes in accounting policies from changes in accounting estimates.

The amendments are effective for annual periods beginning on or after January 1, 2023. The Company does not expect these amendments to have a material impact on its financial statements.

IAS 16 Property, Plant, and Equipment

Amendments to IAS 16, issued in May 2020, prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be available for use. Instead, the proceeds from selling such items, and the costs of producing those items, would be recognized in profit or loss.

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

Standards issued but not yet effective *(Continued from previous page)*

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

5. Mortgages receivable

Mortgages receivable consist of the following:

	2022	*2021*
Mortgage principal receivable	**46,631,847**	31,503,810
Accrued interest receivable	**975,690**	594,739
Less: allowance for mortgage investment loss	**(340,747)**	(350,000)
	47,266,790	31,748,549
Less: current portion of mortgages receivable	**47,266,790**	28,654,170
	-	3,094,379

Mortgages receivable bear interest between 6.00% and 11.50% (2021 - 6.00% and 12.00%) 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 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 $Nil (2021 - $37,191).

6. Mortgages receivable - portfolio allocation

	Number of mortgages receivable	Carrying value	% of Portfolio
Mortgage rate %			
0.10% to 8.99%	38	24,835,675	52
9.00% to 9.49%	9	3,365,621	7
9.50% to 9.74%	9	4,212,004	9
9.75% to 9.99%	11	4,107,417	9
10.00% to 10.25%	9	4,851,400	10
10.26% to 10.50%	2	1,821,395	4
over 10.50%	9	4,073,278	9
	87	47,266,790	100

7. Foreclosed assets held for sale

Foreclosed assets held for sale consists of nil (2021 - one) foreclosed residential property acquired through the foreclosure process. During the year, the Company sold the foreclosed residential property, which had been held as collateral against the debt, for a nominal gain included in interest - mortgage investments revenue.

8. Bank indebtedness

At June 30, 2022, 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 (2021 - $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, 2022 was 3.70% (2021 - 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, 2022, 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, 2022.

9. 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 a company controlled by a director of the Company. This agreement became effective June 30, 2021 and expires June 30, 2026. Included in expenses are $435,438 (2021 - $414,113) of financial fees related to this agreement, of which $122,400 (2021 - $83,398) is in accounts payable and accruals

Included in office expenses for the current year are $89,214 (2021 - $77,317) paid to a company controlled by a director of the Company for the provision of financial and administrative services, of which $25,163 (2021 - $29,255) is in accounts payable and accruals. 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 $69,950 (2021 - $54,422) of dividends paid to shareholders of the Company who are related parties.

10. Share capital

	Number	**2022 Amount**	Number	2021 Amount
Balance, beginning of year	**4,062,446**	**40,587,802**	3,592,864	35,916,742
Class B shares redeemed	**(199,986)**	**(1,999,860)**	(171,461)	(1,714,612)
Class B shares issued for cash	**846,790**	**8,467,900**	467,330	4,673,300
Class B shares issued as dividend reinvested	**216,413**	**2,164,137**	173,713	1,737,133
Class B shares offering memorandum cost	-	**(14,614)**	-	(37,826)
Class B shares offering memorandum amortization	-	**12,843**	-	13,065
	4,925,663	**49,218,208**	4,062,446	40,587,802

11. Issued 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:

	2022	*2021 (Restated)*
10 Class A common shares (2021 - 10)	**10**	10
4,925,653 Class B redeemable preferred shares (2021 - 4,062,436)	**49,218,198**	40,587,792
	49,218,208	40,587,802

Preferred shares may be remdeemed at the request of the shareholders for the issue price, subject to certain restrictions outlined in the offering memorandum and management approval.

12. 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, 2022, the Company was in compliance with these capital requirements.

The Company manages the following as capital:

	2022	*2021 (Restated)*
Share capital	**49,218,208**	40,587,802
Deficit	**(67,843)**	(53,026)
	49,150,365	40,534,776

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. As at June 30, 2022 the Company was in compliance with this capital requirement.

13. 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.

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 $47,266,790 (2021 - $31,748,549). 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, 2022 and June 30, 2021, 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.

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.

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

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.

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.

14. Events after the reporting period

Subsequent to the year-end, the Company entered into six mortgage receivable agreements to be funded in the 2023 fiscal year, for a total of $3,190,000 (2021 - $3,070,000).

15. Comparative figures

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

16. Change in accounting policies

Voluntary change in accounting policy

Classification of non-voting shares with redemption feature

Effective July 1, 2021, the Company voluntarily changed its accounting policy with respect to the classification of Class B preferred non-voting shares from a financial liability to an equity instrument. The voluntary change in accounting policy was initiated by management to reflect the restrictions on the redemption feature on the preferred shares.

The change in accounting policy was made retrospectively.

The impact of this change in accounting policy for June 30, 2021 was to increase share capital by $40,587,792, decrease redeemable/retractable preferred shares by $40,587,792.

The cumulative effect in the prior year, as of June 30, 2020, was to increase share capital by $35,916,732, decrease redeemable/retractable preferred shares by $35,916,732.