AROI MORTGAGE INVESTMENT CORPORATION INC.

FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2014

wbli CHARTERED ACCOUNTANTS

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of
AROI Mortgage Investment Corporation Inc.

We have audited the accompanying financial statements of AROI Mortgage Investment Corporation Inc., which comprise the balance sheet as at March 31, 2014, and the income statement and statements of retained earnings and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of AROI Mortgage Investment Corporation Inc. as at March 31, 2014 and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for private enterprises.

WBLI

CHARTERED ACCOUNTANTS

Dartmouth, Nova Scotia

June 2, 2014

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AROI MORTGAGE INVESTMENT CORPORATION INC.

BALANCE SHEET

AS AT MARCH 31, 2014

	2014	2013
	$	$
A S S E T S		
CURRENT ASSETS		
Cash	**166,115**	65,434
Cash held in trust	**187,170**	-
Accounts receivable	**1,356**	869
Prepaid expenses	**6,100**	6,439
Mortgages receivable (note 4)	**892,666**	493,764
	1,253,407	566,506
L I A B I L I T I E S		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	**22,235**	17,377
Due to related party (note 3)	**-**	20,000
Deferred revenue	**-**	2,494
Dividend payable	**24,968**	52,153
	47,203	92,024
S H A R E H O L D E R S ' E Q U I T Y		
REDEEMABLE PREFERRED SHARES *(Aggregate redemption amount of $1,248,050; 2013 - $521,330)* (note 5)	**1,248,050**	521,330
COMMON SHARES (note 6)	**370**	200
RETAINED EARNINGS (DEFICIT)	**(42,216)**	(47,048)
	1,206,204	474,482
	1,253,407	566,506

COMMITMENTS (note 7)

APPROVED ON BEHALF OF THE BOARD

Director

Director

AROI MORTGAGE INVESTMENT CORPORATION INC.

INCOME STATEMENT AND STATEMENT OF RETAINED EARNINGS

FOR THE YEAR ENDED MARCH 31, 2014

	2014	2013
	$	$
REVENUE		
Commitment fees	**70,719**	51,042
Mortgage interest	**111,457**	59,554
Interest on short-term investment	**-**	1,124
Late fees	**400**	655
	182,576	112,375
EXPENSES		
Management fees	**44,100**	30,308
Accounting fees	**11,673**	16,385
Referral fees	**5,085**	1,820
Directors' fees	**3,381**	3,000
Interest and bank charges	**572**	510
Interest on promissory notes	**10,258**	-
Miscellaneous	**596**	-
	75,665	52,023
INCOME FOR THE YEAR BEFORE OTHER ITEMS	**106,911**	60,352
OTHER ITEMS		
Legal fees	**5,122**	2,498
Finder's fee	**8,275**	-
	13,397	2,498
NET INCOME FOR THE YEAR	**93,514**	57,854
RETAINED EARNINGS (DEFICIT) - beginning of year	**(47,048)**	(52,749)
DIVIDENDS	**(69,516)**	(52,153)
SHARE ISSUANCE COSTS	**(19,166)**	-
RETAINED EARNINGS (DEFICIT) - end of year	**(42,216)**	(47,048)

AROI MORTGAGE INVESTMENT CORPORATION INC.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED MARCH 31, 2014

	2014	2013
	$	$
CASH FLOWS PROVIDED FROM OPERATING ACTIVITIES:		
Cash provided from operations		
Net income for the year	**93,514**	57,854
Change in non-cash working capital balances		
Accounts receivable	**(487)**	(359)
Prepaid expenses	**339**	(339)
Accounts payable and accrued liabilities	**4,858**	(1,318)
Deferred revenue	**(2,494)**	2,494
Due to related party	**(20,000)**	20,000
	75,730	78,332
CASH FLOWS FROM FINANCING ACTIVITIES:		
Issuance of common shares	**180**	-
Repurchase of common share	**(10)**	-
Issuance of preferred shares	**738,841**	-
Redemption of preferred shares	**(65,540)**	-
Share issuance costs	**(19,166)**	-
Dividends paid	**(43,282)**	-
	611,023	-
CASH FLOWS USED IN INVESTING ACTIVITIES:		
Redemption of short term investment	**-**	65,000
Advances of mortgages receivable	**(951,383)**	(554,662)
Receipt of mortgages receivable	**552,481**	350,414
	(398,902)	(139,248)
CHANGE IN CASH AND CASH EQUIVALENTS DURING THE YEAR	**287,851**	(60,916)
CASH AND CASH EQUIVALENTS - beginning of year	**65,434**	126,350
CASH AND CASH EQUIVALENTS - end of year	**353,285**	65,434

1. SIGNIFICANT ACCOUNTING POLICIES

The financial statements were prepared in accordance with Canadian accounting standards for private enterprises (ASPE) and include the following significant accounting policies:

Cash and Cash Equivalents
The company's policy is to disclose bank balances under cash and cash equivalents including cash held in trust.

Mortgages Receivable
Mortgages receivable are valued at the lower of cost or net realizable value. When the net carrying amount of a mortgage receivable exceeds the estimated net recoverable amount, the asset is written down with a charge against income.

Impairment of Long-Lived Assets
A long-lived asset is tested for impairment whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. An impairment loss is recognized when the carrying amount of the asset exceeds the sum of the undiscounted cash flows resulting from its use and eventual disposition. Any impairment loss is measured as the amount by which the carrying amount of the long-lived asset exceeds its fair value.

Revenue Recognition
The company recognizes revenue on its mortgages when the interest is earned. Commitment fees are recognized when the mortgage is signed and ultimate collection is reasonably assured.

Income Taxes
The company applies the ITA section 130.1 whereby the dividends declared are equated to bond interest and, therefore, deductible for tax purposes. As the company declares dividends on all income earned during the year there will be no taxes payable.

Financial Instruments

Measurement of financial instruments
The company initially measures its financial assets and liabilities at fair value, except for certain non-arm's length transactions, which are measured at the exchange amount.

The company subsequently measures all its financial assets and financial liabilities at amortized cost.

Financial assets measured at amortized cost include cash, cash held in trust, accounts receivable and mortgages receivable. Financial liabilities measured at amortized cost include accounts payable and accrued liabilities and amounts due to a related party.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

Impairment
Financial assets measured at cost are tested for impairment when there are indicators of impairment. The amount of any write-down is recognized in net income. Any previously recognized impairment loss may be reversed to the extent of the improvement, directly or by adjusting the allowance account, provided it is no greater than the amount that would have been reported at the date of the reversal had the impairment not been recognized previously. The amount of any reversal is recognized in net income.

Transaction costs
The company recognizes its transaction costs in net income in the period incurred. However, financial instruments that will not be subsequently measured at fair value are adjusted by the transaction costs that are directly attributable to their origination, issuance or assumption.

Use of Estimates
The preparation of financial statements in accordance with Canadian accounting standards for private enterprises requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the current period. These estimates are reviewed periodically and adjustments are made to income as appropriate in the year they become known.

2. FINANCIAL INSTRUMENTS

Risks and Concentrations
The company is exposed to various risks through its financial instruments. The following analysis provides a measure of the company's risk exposure and concentrations at the balance sheet date.

Credit Risk
Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The company's main credit risks relate to its accounts receivable and mortgages receivable. The company provides mortgages to its clients in the normal course of its operations.

Market Risk
Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk. The company is mainly exposed to interest rate risk.

2. FINANCIAL INSTRUMENTS (continued)

Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The company is exposed to interest rate risk on its fixed interest rate financial instruments. The fixed-rate instruments subject the company to a fair value risk.

3. RELATED PARTY TRANSACTIONS

The company paid management fees to AROI Management Incorporated, a company controlled by two directors, of $44,100 (2013 - $30,308) of which $5,411 is recorded as a payable at year end (2013 - $7,347).

The company paid commissions to AROI Financial Services Inc., a company controlled by a director, of $17,600 in 2012 of which $6,100 is set up as a prepaid expense at year end.

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

During the prior year, the company entered into a promissory note agreement in the amount of $20,000 at an interest rate of 10% per annum with a shareholder. This note was converted into 2,000 Class A preferred shares during the year.

4. MORTGAGES RECEIVABLE

	2014	2013
	$	$
15% mortgages receivable, with monthly interest payments, principal due at maturity, maturing at various times during fiscal 2015.	**715,101**	305,048
19% mortgages receivable, with monthly interest payments, principal due at maturity, maturing at various times during fiscal 2015.	**37,000**	59,000
20% mortgages receivable, with monthly interest payments, principal due at maturity, maturing at various times during fiscal 2015.	**56,454**	-
25% mortgages receivable, with monthly interest payments, principal due at maturity, maturing at various times during fiscal 2015.	**73,620**	116,590
28% mortgage receivable, repayable in monthly principal plus interest payments, maturing in September 2014.	**10,491**	13,126
	892,666	493,764
Less current portion	**892,666**	493,764
	-	-

5. REDEEMABLE PREFERRED SHARES

The company has the following authorized redeemable preferred shares:

Authorized
Unlimited Class A non-voting, redeemable preferred shares without nominal or par value

The details of the preferred shares issued and the redemption amounts are as follows:

		2014		2013	
		Carrying Amount	**Redemption Amount**	Carrying Amount	Redemption Amount
		$	**$**	$	$
124,805	Class A Preferred Shares	**1,248,050**	**1,248,050**	521,330	521,330

During the year, the company issued 74,028 class A preferred shares for cash consideration of $740,280. The company also declared a 10% stock dividend on the preferred and common shares in March 2013, and a 4% stock dividend on the preferred and common shares in October 2013 and December 2013. This resulted in the issuance of an additional 5,342 class A preferred shares with a value attributed of $53,419.

During the year, the company redeemed 6,699 class A preferred shares for $65,540.

6. COMMON SHARES

Authorized
Unlimited Common shares without nominal or par value

		2014	2013
		$	$
Issued			
37	Common shares	**370**	200

During the year, the company issued 18 common shares for cash consideration of $180.

During the year, the company redeemed one common share for cash consideration of $10.

7. COMMITMENTS

The company has a commitment with a related party to pay management fees. Management fees include a basic fee, annual (bonus) fee and an earned commitment fee.

The basic fee is equal to 2% of the average mortgage balance and is determined by computing the annual average of monthly mortgage receivable balances.

7. COMMITMENTS (continued)

The annual (bonus) fee is based on the following calculations:

i) If yield is less than 12%, no annual fee is paid;

ii) If yield is more than 12%, the annual fee is one quarter of the yield which exceeds the 12% portion;

iii) If yield is more than 15%, an amount equal to one quarter of the yield which exceeds 15% is also added to the annual fee.

The company shall pay 50% of all earned mortgage commitment fees paid by and not refunded to borrowers as the earned commitment fee.

Under ITA section 130.1, the company is also required to pay out all of its income in dividends to its shareholders to keep it from incurring income taxes.

8. EARNINGS PER SHARE

The following ratios are calculated using the weighted average capital stock outstanding for the year:

		2014		2013
		$		$
Revenue as a percentage of capital stock		**24.10 %**		21.50 %
Fixed expenses as a percentage of capital stock	**2.00 %**		3.70 %	
Variable expenses as a percentage of capital stock	**9.80 %**		6.70 %	
Expenses as a percentage of capital stock		**11.80 %**		10.40 %
Earnings as a percentage of capital stock		**12.30 %**		11.10 %
Earnings per share		**$ 1.24**		$ 1.11
Dividends per share		**$ 0.92**		$ 1.00
Dividends as a percentage of share price		**10.00 %**		10.00 %