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**ARO I MORTGAGE INVESTMENT  
CORPORATION INC.**

**FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED MARCH 31, 2016  
AND MARCH 31, 2015**

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## INDEPENDENT AUDITORS' REPORT

### To the Shareholders of AROI Mortgage Investment Corporation Inc.

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We have audited the accompanying financial statements of AROI Mortgage Investment Corporation Inc., which comprise the statement of financial position as at March 31, 2016, March 31, 2015 and April 1, 2014, and the statement of comprehensive income, changes in equity and cash flows for the years ended March 31, 2016 and March 31, 2015, 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 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.

#### Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 in our audits 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, 2016, March 31, 2015 and April 1, 2014, and the results of its operations and its cash flows for the years ended March 31, 2016 and March 31, 2015 in accordance with international financial reporting standards.

*WBLI LLP*

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#### CHARTERED PROFESSIONAL ACCOUNTANTS

Dartmouth, Nova Scotia  
September 12, 2016

# AROI MORTGAGE INVESTMENT CORPORATION INC.

## STATEMENTS OF FINANCIAL POSITION

AS AT MARCH 31, 2016


	2016	2015	As of April 1, 2014
	\$	\$	\$
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	224,807	36,674	353,285
Cash held in trust (note 8)	13,416	4,650	-
Interest receivable	37,472	18,461	1,356
Prepaid expenses	-	4,190	6,100
Mortgages receivable (note 9)	<u>3,076,241</u>	<u>1,786,181</u>	<u>892,666</u>
	<b>3,351,936</b>	<b>1,850,156</b>	<b>1,253,407</b>
<b>LIABILITIES</b>			
<b>CURRENT LIABILITIES</b>			
Accounts payable and accrued liabilities	16,778	17,318	22,234
Trust fund liability (note 8)	13,416	4,650	-
Dividends payable	-	53,131	24,968
	<u>30,194</u>	<u>75,099</u>	<u>47,202</u>
<b>SHAREHOLDERS' EQUITY</b>			
REDEEMABLE PREFERRED SHARES ( <i>Aggregate redemption amount of \$3,330,920; 2015 - \$1,785,960; 2014 - \$1,248,050</i> ) (note 11)	3,296,093	1,769,302	1,248,050
COMMON SHARES (note 12)	600	470	370
RETAINED EARNINGS (DEFICIT)	<u>25,049</u>	<u>5,285</u>	<u>(42,215)</u>
	<b>3,321,742</b>	<b>1,775,057</b>	<b>1,206,205</b>
	<b>3,351,936</b>	<b>1,850,156</b>	<b>1,253,407</b>

COMMITMENTS (note 17)

The accompanying notes are an integral part of these Financial Statements.

APPROVED ON BEHALF OF THE BOARD

\_\_\_\_\_  
Director

  
\_\_\_\_\_  
Director

**AROI MORTGAGE INVESTMENT CORPORATION INC.**  
**STATEMENTS OF COMPREHENSIVE INCOME**  
**FOR THE YEARS ENDED MARCH 31, 2016 AND MARCH 31, 2015**

	2016	2015
	\$	\$
<b>REVENUE</b>		
Mortgage interest	337,182	235,249
Late fees	10,194	3,247
Commitment fees	193,667	144,177
	<u>541,043</u>	<u>382,673</u>
<b>EXPENSES</b>		
Management fees	156,038	90,138
Referral fee	36,792	18,848
Accounting fees	16,756	13,651
Legal fees	15,953	6,722
Directors fees	6,300	4,500
Interest and bank charges	5,467	8,476
Miscellaneous	319	-
Management bonus	-	7,318
	<u>237,625</u>	<u>149,653</u>
COMPREHENSIVE INCOME FOR THE YEAR BEFORE OTHER ITEMS	<u>303,418</u>	<u>233,020</u>
<b>OTHER ITEMS</b>		
Loss on foreclosure (note 9)	16,492	-
Finder's fee	-	17,899
	<u>16,492</u>	<u>17,899</u>
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>	<u><b>286,926</b></u>	<u><b>215,121</b></u>

The accompanying notes are an integral part of these Financial Statements.

**AROI MORTGAGE INVESTMENT CORPORATION INC.**  
**STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE YEARS ENDED MARCH 31, 2016 AND MARCH 31, 2015**

	Common Shares		Preferred Shares		Retained Earnings (Deficit)	Total Equity
	Shares	Amount \$	Shares	Amount \$	\$	\$
At April 1, 2014	37	370	124,805	1,248,050	(42,215)	<b>1,206,205</b>
Share issuance	11	110	58,134	581,340	-	<b>581,450</b>
Share issuance costs	-	-	-	(16,658)	-	<b>(16,658)</b>
Share redemption	(1)	(10)	(15,175)	(151,750)	-	<b>(151,760)</b>
Stock dividend	-	-	10,832	108,320	-	<b>108,320</b>
Dividends	-	-	-	-	(167,621)	<b>(167,621)</b>
Total comprehensive income for the year	-	-	-	-	215,121	<b>215,121</b>
<b>At March 31, 2015</b>	<b>47</b>	<b>470</b>	<b>178,596</b>	<b>1,769,302</b>	<b>5,285</b>	<b>1,775,057</b>
Share issuance	14	140	129,005	1,290,050	-	<b>1,290,190</b>
Shares issuance costs	-	-	-	(18,169)	-	<b>(18,169)</b>
Share redemption	(1)	(10)	(1,373)	(13,730)	-	<b>(13,740)</b>
Stock dividend	-	-	26,864	268,640	-	<b>268,640</b>
Dividends	-	-	-	-	(267,162)	<b>(267,162)</b>
Total comprehensive income for the year	-	-	-	-	286,926	<b>286,926</b>
<b>At March 31, 2016</b>	<b>60</b>	<b>600</b>	<b>333,092</b>	<b>3,296,093</b>	<b>25,049</b>	<b>3,321,742</b>

The accompanying notes are an integral part of these Financial Statements.

**AROII MORTGAGE INVESTMENT CORPORATION INC.**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED MARCH 31, 2016 AND MARCH 31, 2015**

	2016	2015
	\$	\$
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Cash provided from operations		
Total comprehensive income for the year	<b>286,926</b>	215,121
Change in non-cash working capital balances		
Interest receivable	<b>(19,011)</b>	(17,105)
Prepaid expenses	<b>4,190</b>	1,910
Accounts payable and accrued liabilities	<b>(540)</b>	(4,916)
	<b>271,565</b>	195,010
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Issuance of common shares	<b>140</b>	110
Redemption of common share	<b>(10)</b>	(10)
Issuance of preferred shares	<b>1,290,050</b>	581,340
Redemption of preferred shares	<b>(13,730)</b>	(157,150)
Share issuance costs	<b>(18,169)</b>	(16,658)
Dividends paid	<b>(51,653)</b>	(25,738)
	<b>1,206,628</b>	381,894
<b>CASH FLOWS USED IN INVESTING ACTIVITIES:</b>		
Advances of mortgages receivable	<b>(2,332,323)</b>	(1,598,636)
Collection of mortgages receivable	<b>1,042,263</b>	705,121
	<b>(1,290,060)</b>	(893,515)
<b>CHANGE IN CASH AND CASH EQUIVALENTS DURING THE YEAR</b>	<b>188,133</b>	(316,611)
<b>CASH AND CASH EQUIVALENTS - beginning of year</b>	<b>36,674</b>	353,285
<b>CASH AND CASH EQUIVALENTS - end of year</b>	<b>224,807</b>	36,674

The accompanying notes are an integral part of these Financial Statements.

**AROI MORTGAGE INVESTMENT CORPORATION INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED MARCH 31, 2016 AND MARCH 31, 2015**

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**1. INCORPORATION AND OPERATIONS**

AROI Mortgage Investment Corporation Inc. (the "Company") was incorporated under the Nova Scotia Business Corporations Act on March 28, 2011 and commenced operations in August, 2011. The Company operates as a Mortgage Investment Corporation (MIC) as defined in the Income Tax Act of Canada.

The Company lends on security of mortgages on real properties situated in the Province of Nova Scotia. The mortgages transacted by the Company do not generally meet the underwriting criteria of conventional lenders. As a result the investments are subject to greater risk and accordingly earn a higher rate of interest than is generally obtainable through conventional mortgage lending activities. As a general practice, the Company restricts lending to a maximum of 85%.

The Company is not a reporting issuer under securities laws.

The address of the registered office is 115 Coldbrook Village Park Drive, Coldbrook, NS B4R 1B9.

**2. STATEMENT OF COMPLIANCE**

These Financial Statements for the year ended March 31, 2016 represent the Company's annual Financial Statements prepared in accordance with International Financial Reporting Standards ("IFRS"), and interpretations as issued by the International Accounting Standards Board ("IASB").

The Financial Statements of the Company for the year ended March 31, 2016 were authorized for issue in accordance with a resolution of the directors on September 12, 2016.

**3. BASIS OF PREPARATION**

**Basis of Measurement**

The Financial Statements were prepared under the historical cost convention.

The principal accounting policies are set out in note 6.

**Use of estimates and judgments**

The preparation of Financial Statements in accordance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the Financial Statements are disclosed in note 5.

**Functional and presentation currency**

These Financial Statements are presented in Canadian dollars, which is the Company's functional currency.

**4. IMPACT OF THE CHANGE IN THE BASIS OF ACCOUNTING**

The Company's financial statements for the year ended March 31, 2016 are the first annual financial statements to be prepared in accordance with International Financial Reporting Standards (IFRSs). These financial statements were prepared as described in note 6. The Company applied First-time Adoption of *International Financial Reporting Standards*, IFRS 1, in the preparation of these annual financial statements.

The date of IFRS adoption by the Company is April 1, 2015 and the end of the reporting period for these financial statements is March 31, 2016. However, the Company's date of transition to IFRS is April 1, 2014.



**AROI MORTGAGE INVESTMENT CORPORATION INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED MARCH 31, 2016 AND MARCH 31, 2015**

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**4. IMPACT OF THE CHANGE IN THE BASIS OF ACCOUNTING (CONTINUED)**

In preparing its first IFRS financial statements in accordance with IFRS 1, the Company did not elect to use any of the exemptions related to retrospective application of certain IFRSs.

The transition date to International Financial Reporting Standards is April 1, 2014 and, all transactions since this date have been recorded under IFRS. The adoption of IFRS did not result in any material adjustments to the comparative statement of financial position, profit or loss, changes in equity and cash flows from when it was previously reported. The accounting policy for the treatment of share issuance costs is different under IFRS compared to accounting standards for private enterprises (ASPE). As a result, the share issuance costs are now charged against share capital in the year of share issuance. The share issuance costs for the year ending March 31, 2015 were \$16,658. The comparative balances for preferred shares and retained earnings at March 31, 2015 have been adjusted in these financial statements to reflect the treatment under IFRS. The preferred share balance has decreased by \$16,658 to \$1,769,302 and the retained earnings is now \$5,285. The total shareholders' equity remains the same under IFRS and ASPE.

**5. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS**

The preparation of the Financial Statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the Financial Statements and reported amounts of revenues and expenses during the reporting period. Estimates and judgments are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates.

The key sources of estimation uncertainty that have a significant risk of causing material adjustment to the amounts recognized in the Financial Statements are:

**Allowance for mortgage losses**

The Company reviews its individually significant mortgages at each reporting date to assess whether an impairment loss should be recognized. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the impairment loss.

In estimating these cash flows, the Company makes judgments about the borrower's financial situation and the net realizable value of collateral. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

**Key assumptions in determining the allowance for impaired loans provision**

The Company has determined the likely impairment loss on loans which have not maintained the loan repayments in accordance with the loan contract, or where there is other evidence of potential impairment such as industrial restructuring, job losses or economic circumstances. In identifying the impairment likely from these events the Company estimates the potential impairment using the geographical location, type of loan security, the length of time the loans are past due and the historical loss experience. The circumstances may vary for each loan over time, resulting in higher or lower impairment (losses). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

For purposes of the collective provision loans are classified into separate groups with similar risk characteristics, based on the type of product and type of security. The Company currently does not require a collective provision for loans as specific provisions are determined to be adequate.

**AROI MORTGAGE INVESTMENT CORPORATION INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED MARCH 31, 2016 AND MARCH 31, 2015**

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**5. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (CONTINUED)**

**Assets taken in settlement of debt**

The Company uses management's best estimates of the Fair Value of the Assets taken in settlement of debt by inspecting the property, obtaining appraisals and speaking with realtors in the area.

**6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The principal accounting policies applied in the preparation of these Financial Statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

**Financial Instruments**

*Classification and measurement*

All financial instruments are initially recognized at fair value at acquisition. Measurement in subsequent periods depends on whether the financial instrument has been classified as fair value through profit or loss, loans and receivables, or other financial liabilities as described below. Transactions to purchase or sell these items are recorded on the settlement date. During the year, there has been no reclassification of financial instruments.

*Financial instruments classified as fair value through profit or loss*

Financial instruments classified as fair value through profit or loss are measured at fair value with unrealized gains and losses recognized through profit or loss. The Company's financial instruments classified as fair value through profit or loss include cash and cash equivalents and cash held in trust.

*Loan and receivables*

Financial assets classified as loans and receivables are subsequently measured at amortized cost. The Company's financial instruments classified as loans and receivables include interest and mortgages receivable.

*Other financial liabilities*

Financial instruments classified as other financial liabilities include accounts payable and accrued liabilities, the trust fund liability and dividends payable. Other financial liabilities are subsequently carried at amortized cost.

*De-recognition of financial assets*

De-recognition of a financial asset occurs when:

- The Company does not have rights to receive cash flows from the asset;
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either:
  - The Company has transferred substantially all the risks and rewards of the asset, or
  - The Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred or retained substantially all of the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Company's continuing involvement in the asset. In that case, the Company also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

**AROI MORTGAGE INVESTMENT CORPORATION INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED MARCH 31, 2016 AND MARCH 31, 2015**

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**6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Financial Instruments (continued)**

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of the existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amount is recognized in comprehensive income.

**Fair value of financial instruments**

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; a discounted cash flow analysis or other valuation models.

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.

**Cash and Cash Equivalents**

Cash and cash equivalents comprise cash on hand, cash in solicitor's trust and short-term highly liquid investments with original maturities of three months or less that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Company's cash management system. Cash subject to restrictions that prevent its use for current purposes is included in restricted cash.

**Mortgages Receivable**

Mortgages receivable are initially measured at fair value plus incremental direct transaction costs. Mortgages receivable are subsequently remeasured at their amortized cost, net of allowance for credit losses, using the effective interest method, which approximates fair value. Interest revenue is recorded on the accrual basis using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to the carrying amount of the financial asset.

**AROI MORTGAGE INVESTMENT CORPORATION INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED MARCH 31, 2016 AND MARCH 31, 2015**

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**6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Allowance for Loan Impairment**

Allowance for loan impairment represents specific and collective provisions established as a result of reviews of individual loans and groups of loans. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. In estimating these cash flows, the Company makes judgments about the net realizable value of collateral. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

Individual allowances are established by reviewing the value of the collateral underlying the loan. Collective allowances are established by reviewing specific arrears and current economic conditions.

Restructured loans are not considered impaired where reasonable assurance exists that the borrower will meet the terms of the modified debt agreement. Restructured loans are defined as loans greater than 90 days delinquent that have been restructured outside the Company's normal lending practices as it relates to extensions, amendments and consolidations.

A mortgage receivable is classified as impaired and a provision for loss established whenever a payment is 90 days past due. Mortgages are classified as impaired unless they are fully secured or collection efforts are reasonably expected to result in repayment of the debt. The Company maintains a delinquency report and when three payments are missed the Company includes the mortgage on this report.

Impairment is assessed at each reporting date, on a mortgage-by-mortgage basis and specific allowances are recorded if management determines that the mortgage receivable is impaired. In such cases, a specific provision is established to write down the loan to the estimated future net cash flows from the loan discounted at the loan's original effective interest rate. In cases where it is impractical to estimate the future cash flows, the carrying amount of the loan is reduced to its fair value calculated based on an observable market price. Any previously accrued but unpaid interest on the loan is charged to the allowance for loan impairment. Interest income after the impairment is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

**Assets Taken as Settlement of Debt**

Assets taken as settlement of debt are initially recorded at the lower of cost and estimated net realizable value. Cost comprises the balance of the loan at the date on which the Company obtains title to the asset plus subsequent disbursements related to the asset, less any revenues or lease payments received. Assets taken as settlement of debt are subsequently valued at the lower of their carrying amount and fair value less cost of disposal.

**Impairment of Financial Assets**

For financial assets carried at amortized cost, the Company first assesses individually whether objective evidence of impairment exists for financial assets that are significant, or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the financial asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Financial assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment for impairment.

If there is objective evidence that an impairment loss has occurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. The carrying amount of the financial asset is reduced through the use of the provision for impaired financial assets and the amount of the impairment loss is recognized in profit or loss.

**AROI MORTGAGE INVESTMENT CORPORATION INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED MARCH 31, 2016 AND MARCH 31, 2015**

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**6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Impairment of Financial Assets (continued)**

The present value of the estimated future cash flows is discounted at the financial assets' original effective interest rate. The calculation of the present value of estimated future cash flows reflects the projected cash flows including provisions for impaired financial assets, prepayment losses, and costs to securitize and service financial assets.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in profit or loss.

**Income Taxes**

The Company is a MIC as defined in the Income Tax Act. Therefore, the Company is able to deduct, in computing taxable income, dividends paid to its shareholders during the year or within 90 days after year end. The Company intends to continue maintaining its status as a MIC and pay dividends to its shareholders to ensure it will not be subject to income taxes. Therefore, for financial statement reporting purposes, the tax deductibility of the Company's distributions result in the Company being effectively exempt from taxation and no provision for current or deferred income taxes is required for the Company.

**Revenue Recognition**

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable, excluding discounts, rebates, sales taxes or duty. The Company assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Company has concluded that it is acting as a principal in all of its revenue arrangements. The following specific recognition criteria must also be met before revenue is recognized:

- Interest income is recognized on the Statement of Comprehensive Income for all financial assets measured at amortized cost using the effective interest rate method. The effective interest rate is the rate that discounts estimated future cash flows through the expected life of the financial instrument back to the net carrying amount of the financial asset. The application of the method has the effect of recognizing revenue of the financial instrument evenly in proportion to the amount outstanding over the period to maturity or repayment.
- Commitment fee income received is added into income on the closing date of the specific mortgage.
- Late fees and other income is recorded as related fees are earned or services are provided.
- The preparation of the financial statements in conformity with IFRS requires that interest continue to accrue on delinquent accounts. IFRS also requires that a provision in the same amount is set up to recognize the interest may not be collected.

**Share Issue Costs**

Share issue costs include legal and accounting fees and brokerage commissions. These costs are charged against share capital in the year of share issuance. Costs incurred for shares that have not been issued at year end are deferred until such time as the related shares are issued.

**AROI MORTGAGE INVESTMENT CORPORATION INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED MARCH 31, 2016 AND MARCH 31, 2015**

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**6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Segment reporting**

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Company's other components. All operating segments' operating results are reviewed regularly by the Company's management to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. The Company has determined that there are no separate operating segments of the Company. Decisions about continuing or disposing of assets are made at the entity level, not by individual mortgage segment.

**7. RECENT ACCOUNTING PRONOUNCEMENTS**

The Company has reviewed new and revised accounting pronouncements that have been issued but are not yet effective and determined that the following may have an impact on the Company.

**i.) IFRS 9 Financial instruments**

In July 2014, the IASB issued a final revised IFRS 9 standard. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The new standard also includes an expected credit loss model. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. The Company will assess the impact of this standard in conjunction with the other phases, when the final standard including all phases is issued.

**ii.) IFRS 15 Revenue from Contracts with Customers**

IFRS 15 provides a single principle-based framework that applies to contracts with customers. IFRS 15 is effective for annual periods beginning on or after January 1, 2018. The Company is in the process of assessing the impact of IFRS 15 on its financial statements.

**8. CASH HELD IN TRUST**

These trust amounts represent a portion of mortgage funds held back for the purpose of making monthly payments on the related outstanding mortgage receivable. During the year, the Company acted as a joint account holder for these funds. The use of trust cash is restricted for use to pay down the related mortgage receivable and cannot be used in the operations of the Company.

	2016	2015	2014
	\$	\$	\$
Cash held in trust	<b>13,416</b>	4,650	-
Trust fund liability	<b>(13,416)</b>	(4,650)	-
	-	-	-

Cash held in trust is not segregated in a specific trust account at a financial institution; however, it is tracked as a liability on the balance sheet.

**AROI MORTGAGE INVESTMENT CORPORATION INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED MARCH 31, 2016 AND MARCH 31, 2015**

**9. MORTGAGES RECEIVABLE**

Portfolio of 68 (2015 – 49) mortgages bearing interest at fixed rates from 12% to 25% maturities ranging from April 2016 to April 2017, secured by real property to which they relate and by additional security in certain circumstances.

During the year the Company had a loss on foreclosure of \$16,492. This is the first such loss experienced by the Company since incorporation. At year end, the Company had no mortgage receivables that were considered to be impaired and had no assets taken as settlement of debt.

At year end the average Loan To Value (LTV) of the mortgages receivable was 59% (2015 – 63%). This ratio is computed by dividing the sum of the mortgage principal balance owed to AROI Mortgage Investment Corporation Inc. and all other balances which supersede it by the value of the security.

**Mortgages past due but not impaired**

A mortgage is considered past due when a counterpart has not made a payment by the contractual due date. The table that follows presents the carrying value of mortgages at year-end that are past due but not classified as impaired because they are either i) less than 90 days past due, or ii) fully secured and collection efforts are reasonably expected to result in repayment.

	<b>Under 30 days</b>	<b>31-60 days</b>	<b>61-90 days</b>	<b>91 days and greater</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<i>March 31, 2016:</i>					
Residential	<b>183,573</b>	<b>63,998</b>	-	<b>227,513</b>	<b>475,084</b>
Appraised value of collateral	<b>520,000</b>	<b>400,000</b>	-	<b>819,560</b>	<b>1,739,560</b>
Balance of Mortgages which supercede the amounts above	<b>175,993</b>	<b>139,832</b>	-	<b>419,298</b>	<b>735,123</b>
<b>Net collateral available</b>	<b>344,007</b>	<b>260,168</b>	-	<b>400,262</b>	<b>1,004,437</b>
<i>March 31, 2015:</i>					
Residential	<b>22,460</b>	<b>86,867</b>	-	-	<b>109,327</b>
Appraised value of collateral	<b>57,000</b>	<b>224,500</b>	-	-	<b>281,500</b>
Balance of Mortgages which supercede the amounts above	-	<b>62,869</b>	-	-	<b>62,869</b>
<b>Net collateral available</b>	<b>57,000</b>	<b>161,631</b>	-	-	<b>218,631</b>

The principal collateral and other credit enhancements the Company holds as security for loans include (i) insurance, and mortgages over residential lots and properties, (ii) recourse to business assets such as real estate, equipment, inventory and accounts receivable, (iii) recourse to commercial real estate properties being financed, and (iv) recourse to liquid assets, guarantees and securities. Valuations of collateral are updated periodically depending on the nature of the collateral to reflect the listed price of a property held for sale by the mortgagor when the listed price is less than the appraised value. The Company has informal policies in place to monitor the existence of undesirable concentration in the collateral supporting its credit exposure. In management's estimation, the fair value of the collateral is sufficient to offset the risk of loss on the mortgages past due but not impaired.

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**9. MORTGAGES RECEIVABLE (CONTINUED)**

**Mortgages past due but not impaired (continued)**

During the year some mortgages were renegotiated that would have otherwise been past due or impaired since the equity value in the property justified extension of the loan.

Distribution of mortgages:

Effective interest rates (%)	2016		2015		2014	
	Number of Mortgages	Amortized cost and fair value \$	Number of Mortgages	Amortized cost and fair value \$	Number of Mortgages	Amortized cost and fair value \$
12 - 13%	4	634,613	2	286,054	-	-
15 - 16%	33	1,816,496	19	945,580	12	592,131
16 - 17%	1	40,150	1	42,130	-	-
17 - 18%	2	38,858	1	20,372	-	-
18 - 19%	10	286,864	9	221,182	1	15,330
19 - 20%	1	12,918	1	14,090	2	37,000
20 - 21%	10	170,199	9	173,317	7	156,416
22 - 23%	2	17,013	2	16,415	-	-
25 - 26%	4	56,460	4	59,959	5	81,298
27 - 30%	1	2,670	1	7,082	1	10,491
		<b>3,076,241</b>		<b>1,786,181</b>		<b>892,666</b>
Allowance for mortgage losses		-		-		-
	<b>68</b>	<b>3,076,241</b>	<b>49</b>	<b>1,786,181</b>	<b>28</b>	<b>892,666</b>

All mortgages contain a prepayment option whereby the borrower may repay the principal at any time prior to maturity without penalty or yield maintenance.

Maturities and yields:

All mortgages mature within one year of their interest adjustment date.

**10. DEMAND LOAN**

During the year, the company entered into a credit facility agreement. The margined, demand operating line of credit has an authorized limit of the lesser of the margin calculation and \$300,000 which was undrawn at year end. This facility bears interest at prime plus 2.5% and is secured by a first position general security agreement on Company assets and personal guarantees in the amount of \$300,000 signed by Thomas Busch and Matthew Hennigar, directors of the Company.

At year-end the maximum margin available was \$300,000.



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**11. REDEEMABLE PREFERRED SHARES**

The Company has the following authorized redeemable preferred shares:

- An unlimited number of non-voting, Class A preferred shares, redeemable at the option of the Company and retractable at the option of the holder. A shareholder calls for redemption of shares held by such shareholder by giving, in writing, notice to the Company which then has up to twelve months to redeem the shares at \$10.00 per share.
- The Company is not obligated to redeem or repurchase any shares when doing so will cause the Company not to qualify under the Income Tax Act criteria to be a "Mortgage Investment Corporation" or if doing so will cause significant financial harm to the remaining shareholders.
- If the shareholder requests redemption within the first three years of issuance, a redemption penalty will apply as follows:
  - Within 1 year of purchase: 3%
  - Within 2 years of purchase: 2%
  - Within 3 years of purchase: 1%

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

	2016		2015		2014	
	Carrying Amount	Redemption Amount	Carrying Amount	Redemption Amount	Carrying Amount	Redemption Amount
	\$	\$	\$	\$	\$	\$
Class A Preferred Shares	<b>3,296,093</b>	<b>3,330,920</b>	1,769,302	1,785,960	1,248,050	1,248,050

The following transactions relating to the redeemable preferred shares occurred during the year:

	Shares	\$
Class A Preferred shares issued for cash consideration	<b>129,005</b>	<b>1,290,050</b>
3.0% stock dividend declared in June 2015 for the prior year	<b>4,689</b>	<b>46,890</b>
3.0% stock dividend declared in August 2015	<b>5,260</b>	<b>52,600</b>
2.5% stock dividend declared in October 2015	<b>5,364</b>	<b>53,640</b>
2.5% stock dividend declared in December 2015	<b>5,655</b>	<b>56,550</b>
2.5% stock dividend declared in March 2016	<b>5,896</b>	<b>58,960</b>
Class A Preferred shares redeemed	<b>1,373</b>	<b>13,730</b>

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**12. COMMON SHARES**

The Company has the following authorized common shares:

- An unlimited number of voting, common shares, retractable at the option of the Company and retractable at the option of the holder. A shareholder calls for repurchase of shares held by such shareholder by giving, in writing, notice to the Company which then has up to twelve months to repurchase the shares at \$10.00 per share.

Issued:

	2016	2015	2014
	\$	\$	\$
60 Common shares	<b>600</b>	470	370

During the year, the Company issued fourteen common shares for cash consideration of \$140.

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

**13. EARNINGS PER SHARE**

Basic earnings per share (EPS) is calculated by dividing profit or loss attributable to ordinary equity holders (the numerator) by the weighted average number of ordinary shares outstanding (the denominator) during the year. The denominator (number of units) is calculated by adjusting the shares in issue at the beginning of the year by the number of shares bought back or issued during the year, multiplied by a time-weighting factor.

	2016	2015
	\$	\$
Total comprehensive income available to shareholders	<b>286,926</b>	215,121
Weighted average number of shares	<b>238,207</b>	157,496
Earnings per share	<b>1.20</b>	1.37
	<b>12.05 %</b>	13.66 %

There is no dilutive effect during the years ending March 31, 2016 and March 31, 2015; therefore, the basic EPS equals the diluted EPS.

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**13. EARNINGS PER SHARE (CONTINUED)**

March 31, 2016 weighted average equity calculation:

	<b>Period Start</b>	<b>Period End</b>	<b>Total Shares</b>	<b>Days O/S</b>	<b>Weighted Shares</b>
	Apr 1, 2015	Jun 14, 2015	<b>178,643</b>	<b>74</b>	<b>36,119</b>
	Jun 14, 2015	Aug 4, 2015	<b>199,327</b>	<b>51</b>	<b>27,775</b>
	Aug 4, 2015	Oct 1, 2015	<b>204,587</b>	<b>58</b>	<b>32,421</b>
	Oct 1, 2015	Nov 1, 2015	<b>256,248</b>	<b>31</b>	<b>21,704</b>
	Nov 1, 2015	Jan 1, 2016	<b>283,712</b>	<b>61</b>	<b>47,285</b>
	Jan 1, 2016	Mar 24, 2016	<b>289,367</b>	<b>83</b>	<b>65,621</b>
	Mar 24, 2016	Apr 1, 2016	<b>333,152</b>	<b>8</b>	<b>7,282</b>
Weighted average number of shares					<b>238,207</b>
Share value					<b>\$ 10.00</b>
Weighted average equity value					<b>\$ 2,382,070</b>

March 31, 2015 weighted average equity calculation:

	<b>Period Start</b>	<b>Period End</b>	<b>Total Shares</b>	<b>Days O/S</b>	<b>Weighted Shares</b>
	Apr 1, 2014	Apr 2, 2014	<b>124,842</b>	<b>1</b>	<b>342</b>
	Apr 2, 2014	Jul 1, 2014	<b>146,090</b>	<b>90</b>	<b>36,022</b>
	Jul 1, 2014	Oct 1, 2014	<b>149,683</b>	<b>92</b>	<b>37,728</b>
	Oct 1, 2014	Jan 1, 2015	<b>156,135</b>	<b>92</b>	<b>39,355</b>
	Jan 1, 2015	Apr 1, 2015	<b>178,643</b>	<b>90</b>	<b>44,049</b>
Weighted average number of shares					<b>157,496</b>
Share value					<b>\$ 10.00</b>
Weighted average equity value					<b>\$ 1,574,960</b>

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**14. RELATED PARTY TRANSACTIONS**

The Company paid management fees to Aroi Management Incorporated, a Company controlled by two directors, of \$156,038 (2015 - \$90,138).

During the year, the Company paid referral fees to Aroi Management Incorporated, a Company controlled by two directors, of \$8,463 (2015 - nil).

During the prior year the Company paid \$13,984 in finder's fees to a director and a Company controlled by a director.

In 2015, the Company was liable to pay a management fee bonus of \$7,318 (2016 - nil) to Aroi Management Incorporated. This amount was included in accounts payable and accrued liabilities.

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

**15. CAPITAL MANAGEMENT**

The Company's objectives when managing capital are to (i) maintain a flexible capital structure which optimizes the cost of capital at acceptable risk; and (ii) maintain a deployment ratio in excess of 90%.

The Company's definition of capital includes shareholders' equity. Capital is monitored for any of these items if applicable.

The Company seeks to facilitate the management of its capital requirements by monitoring Key Performance Indicators (KPI's) which are reviewed by the Board of Directors and include present and last 12 month averages of the following:

- Capital deployment ratio
- Weighted average interest rate charged on outstanding Mortgages
- Weighted average interest rate charged on total capitalization
- Total \$ amount of Mortgages funded
- Total \$ amount of Mortgages repaid
- Net income as a percentage of capitalization

The Company may occasionally need to increase capital levels to facilitate acquisition or expansion activities, however there are no established quantitative returns on capital requirements for management. The Company considers the capital structure to consist of debt and shareholders' equity. The Company considers debt to include bank indebtedness, demand loans and long-term debt, including current portion.

	2016	2015	2014
	\$	\$	\$
Accounts payable and accrued liabilities	<b>16,778</b>	17,318	22,234
Shareholder's equity	<b>3,321,742</b>	1,775,057	1,206,205
	<hr/>		
Total capitalization	<b>3,338,520</b>	1,792,375	1,228,439
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**15. CAPITAL MANAGEMENT (CONTINUED)**

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, redeem shares for cancellation, issue new shares, issue new debt, and issue new debt to replace existing debt.

The establishment of an operating line with Credit Union Atlantic was the only change in the Company's approach to capital management during the year.

**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's activities expose it to a variety of financial risks: credit risk, and market risk. The Company's overall risk management program focuses on 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 risk management policies approved by its Board of Directors.

These risk management policies and procedures include the following:

- Ensure all activities are consistent with the focus of the Company;
- Balance risk and return;
- Manage credit, market and liquidity risk through preventative and detective controls;
- Ensure credit quality is maintained;
- Ensure credit, and market, risk are maintained at acceptable levels;
- Diversify risk in transactions, customer relationships and loan portfolios;
- Price according to risk taken; and
- Use consistent credit risk exposure tools.

Risk management is carried out by Aroi Management Incorporated, the policies of which are determined by the Board of Directors and are:

- Maximum Mortgage value is 10% of Capitalization
- Maximum Loan To Value (LTV) ratio is 85%, however the Board's authorization is required to exceed 75%.
- An appraisal or MLS listed purchase transaction value is required to confirm property value for all Mortgages exceeding 2% of the Company's Capitalization.
- Lending is restricted to properties located on Mainland Nova Scotia.

There have been no significant changes from the previous year in the exposure to risk, policies and procedures or methods used to measure risk.

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**16. FINANCIAL INSTRUMENTS (CONTINUED)**

**Credit Risk**

Credit risk is defined as the risk that a mortgagor will be unable to fulfill their mortgage commitments. Credit risk primarily arises from mortgages receivable. Management relies heavily on its personal evaluation of the Borrower's character.

Concentration of credit risk exists if a number of borrowers are engaged in similar economic activities or are located in the same geographical region, and indicate the relative sensitivity of the Company's performance to developments affecting a particular segment of borrowers or geographical region. Geographical risk exists for the Company due to its primary service area being mainland Nova Scotia.

Credit risk management for mortgage portfolio:

The Company mitigates this risk by having well established lending policies in place. Policies include but are not limited to:

1. All mortgage applications undergo a comprehensive due diligence process.
2. Prior to funding, the Company will obtain current appraisals on all properties which secure the loan. The appraisals will be completed by an accredited appraiser approved by the Company.(Except for arms length purchase of MLS listed property or Mortgages of less than 2% of the Company's Capitalization based on Management's discretion)
3. All mortgages are registered as charges against real property, provided that the overall loan to appraised value ratio does not exceed 85% (including prior charges).
4. The initial term of a mortgage cannot exceed 12 months from the interest adjustment date.
5. The Company will not make a mortgage loan, if immediately after the closing of the loan transaction; the amount so lent would be greater than 10% of the Company's net assets.
6. Management actively monitors the mortgage portfolio.
7. Review of 12 months of client banking history (bank statements).
8. Employment verification.
9. Credit bureau analysis.
10. Interviews with every borrower.
11. Management personally inspects every property.

Risk is measured by reviewing qualitative and quantitative factors that impact the mortgage portfolio and starts at the time of a credit application and continues until the loan is fully repaid.

*Analysis of maximum exposure to credit and collateral*

The maximum exposure to credit risk at March 31, 2016 is the fair value of its mortgages receivable and interest receivable which total \$3,113,713 (2015 - \$1,804,642).

To reduce the exposure the Company holds collateral as security on its mortgages. The collateral consists of a charge against real property on each mortgage. At March 31, 2016 the fair value of the collateral on the mortgages receivable is in excess of the fair value of the mortgages receivable.

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**16. FINANCIAL INSTRUMENTS (CONTINUED)**

	2016	2015	2014
	\$	\$	\$
Residential first mortgages	1,845,164	977,838	538,234
Residential second mortgages	1,151,216	645,989	307,185
Residential third mortgages	79,861	27,924	23,676
Commercial first mortgages	-	-	23,571
Commercial second mortgages	-	134,430	-
	<b>3,076,241</b>	<b>1,786,181</b>	<b>892,666</b>

\*First mortgages are loans secured by a first priority mortgage charge with loan to values not exceeding 85%.

\*\*Second mortgages are loans with mortgage charges not registered in first priority with loan to values not exceeding 85%.

\*\*\*Third mortgages are loans with mortgage charges not registered in first or second priority with loan values not exceeding 85%.

The mortgage portfolio consists of mortgages that have been registered in Nova Scotia. All of the security for these mortgages is on mainland Nova Scotia

The Company does not internally assign credit quality ratings to its mortgages that are neither past due or impaired. In addition, there is a limited market for such a portfolio of mortgages so standard credit ratings have not been used. However, the Company actively monitors its mortgage portfolio, the quality of the mortgages and any impairment.

Additional information on credit quality, renegotiated mortgages and mortgages past due but not impaired is included in Note 9.

*Collateral obtained*

During the year the Company obtained assets by taking possession of collateral and subsequently sold it prior to March 31, 2016. The Company took possession of \$55,913 (2015 - nil) of property. The Company's policy for these assets is to sell the assets to recover funds loaned.

**Market Risk**

Market risk is the risk of loss in value of financial instruments that may arise from changes in market factors such as equity prices and credit spreads. The Company's exposure changes depending on market conditions. Market risks that have a significant impact on the Company include fair value risk.

*Risk measurement*

The Company's risk position is measured and monitored to ensure compliance with policy. Management is responsible for the managing the Company's approved limits and compliance with policies. The Company manages market risk by developing and implementing policies, which are approved and periodically reviewed by the Board.

The Company's goal is to achieve adequate levels of profitability, liquidity and safety. The Board of Directors reviews the Company's investment management approaches periodically to ensure they remain relevant and effective in managing and controlling risk.

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**16. FINANCIAL INSTRUMENTS (CONTINUED)**

*Interest Rate Risk*

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows of the fair values of financial instruments.

The Company is exposed to interest rate price risk both on its demand loan and its mortgage receivables. The demand loan consists of an operating line of credit that bears interest at variable rates, which exposes the Company to cash flow fluctuations. An increase in prime interest rates will have a direct impact on the cash flows required to service the debt. The fair value of the Company's mortgage receivables will also be impacted by changes in the market interest rate. The Company's mortgages are short, fixed term mortgages ranging up to 12 months. Any change in the market interest rate will expose the Company to fair value fluctuations in their portfolio.

The Company has managed this risk by maintaining an adequate spread between the interest rate paid on the demand loan and the interest received on the fixed, short-term mortgages. The Company also manages the risk by maintaining a mortgage portfolio of short term, fixed mortgages with rates at a premium from market rates. The average interest rate of the mortgages as at year end was 15.23% (2015 – 15.91%). There is no specific market for mortgages of similar type, term and credit risk.

**Fair values**

The Company's financial instruments recognized on the Statement of Financial Position consist of cash, mortgages receivable, mortgage interest receivable, demand loan and trade and other payables. The fair values of these recognized financial instruments, excluding mortgages receivable, approximate their carrying values due to their short-term maturity. The fair values of mortgages receivable approximates their carrying value given the mortgages receivable consist of short-term loans that are repayable at the option of the borrower without yield maintenance or penalties.

*Recurring fair value measurements*

The Company's assets measured at fair value on a recurring basis have been categorized in the fair value hierarchy as follows:

	Fair value	Level 1	Level 2	Level 3
<b>March 31, 2016</b>				
<b>Assets</b>				
Cash and cash equivalents	224,807	224,807	-	-
Cash held in trust	13,416	13,416	-	-
	<b>238,223</b>	<b>238,223</b>	-	-

**March 31, 2015**

**Assets**

Cash and cash equivalents	36,674	36,674	-	-
Cash held in trust	4,650	4,650	-	-
	<b>41,324</b>	<b>41,324</b>	-	-



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**16. FINANCIAL INSTRUMENTS (CONTINUED)**

*Asset and liabilities for which fair value is only disclosed*

The following table analyses within the fair value hierarchy the Company's assets and liabilities (by class) not measured at fair value at March 31, 2016 but for which fair value is disclosed:

	Fair value	Level 1	Level 2	Level 3
<b>March 31, 2016</b>				
<b>Assets</b>				
Mortgages receivable	3,076,241	-	-	3,076,241
Interest receivable	37,472	-	-	37,472
<b>Total Assets</b>	<b>3,113,713</b>	<b>-</b>	<b>-</b>	<b>3,113,713</b>
<b>Liabilities</b>				
Accounts payable and accrued liabilities	16,778	-	-	16,778
Trust fund liability	13,416	-	-	13,416
<b>Total Liabilities</b>	<b>30,194</b>	<b>-</b>	<b>-</b>	<b>30,194</b>
<b>March 31, 2015</b>				
<b>Assets</b>				
Mortgages receivable	1,786,181	-	-	1,786,181
Interest receivable	18,461	-	-	18,461
<b>Total Assets</b>	<b>1,804,642</b>	<b>-</b>	<b>-</b>	<b>1,804,642</b>
<b>Liabilities</b>				
Accounts payable and accrued liabilities	17,318	-	-	17,318
Trust fund liability	4,650	-	-	4,650
Dividends payable	53,131	-	-	53,131
<b>Total Liabilities</b>	<b>75,099</b>	<b>-</b>	<b>-</b>	<b>75,099</b>

For mortgages receivable classified as Level 3 of the hierarchy, as there are no quoted prices in an active market for these mortgages receivable, the Company makes its determination of fair value based on its assessment of the current mortgage market for mortgages receivable of same or similar terms. Typically, these investments 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 mortgage is no longer reasonably assured, the fair value of the mortgage is reduced to the estimated net realizable value of the underlying security.

**Other legal and regulatory risk**

Legal and regulatory risk is the risk that the Company has not complied with requirements set out in terms of compliance with The Mortgage Brokers Act of Nova Scotia, anti-money laundering legislation, securities regulations or their code of conduct/conflict of interest requirements. In seeking to manage these risks, the Company has established policies and procedures and monitors to ensure ongoing compliance.

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**17. COMMITMENTS**

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

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.

The Company shall pay an amount equal to 1% of the capitalization at the end of the fiscal year as a capitalization fee. The Board of Directors reserves the right to terminate this compensation at any time.

The Company has committed to pay management the 2% referral fee on mortgage transactions for which there is no arms length broker.

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.

At March 31, 2016 the Company has committed to funding one (2015 – one) mortgage for \$25,000 (2015 - \$51,150).

**18. INCOME TAXES**

The Company has non-capital loss carry forwards for income tax purposes of \$59,683 which will expire as follows:

	\$
2032	49
2036	59,634
	<hr/>
	<b>59,683</b>
	<hr/>

The potential benefit of these loss carry forwards has not been recognized in these financial statements.