AROI MORTGAGE INVESTMENT CORPORATION INC.

FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2018

CONTENTS

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 statement of financial position as at March 31, 2018 and the statements of income and comprehensive income, changes in equity 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 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 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, 2018 and the results of its operations and its cash flows for the year then ended in accordance with international financial reporting standards.

MNP LLP

Chartered Professional Accountants,
Licensed Public Accountants

Dartmouth, Nova Scotia
October 11, 2018

MNP LLP

AROI MORTGAGE INVESTMENT CORPORATION INC.

STATEMENT OF FINANCIAL POSITION

AS AT MARCH 31, 2018

	2018	2017
	$	$
ASSETS		
Cash and cash equivalents	**-**	576,258
Interest receivable	**14,761**	19,002
Fees receivable	**21,386**	-
Prepaid expenses	**4,000**	4,000
Mortgages receivable (note 7)	**3,783,614**	3,200,227
Property held for sale (note 8)	**1,011,578**	518,522
	4,835,339	4,318,009
LIABILITIES		
Bank indebtedness (note 9)	**321,253**	-
Accounts payable and accrued liabilities	**57,456**	31,176
Deferred revenue	**11,793**	-
	390,502	31,176
SHAREHOLDERS' EQUITY		
PREFERRED SHARES *(Aggregate redemption amount of $4,582,590; 2017 - $*4,319,340*)* (note 10)	**4,531,300**	4,269,390
COMMON SHARES (note 11)	**680**	690
RETAINED EARNINGS (DEFICIT)	**(87,143)**	16,753
	4,444,837	4,286,833
	4,835,339	4,318,009

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.

STATEMENT OF INCOME AND COMPREHENSIVE INCOME

FOR THE YEAR ENDED MARCH 31, 2018

	2018 $	2017 $
REVENUE		
Interest and fee income (note 7)	**671,090**	713,678
Other income	**16,291**	16,159
	687,381	729,837
EXPENSES		
Management fees	**184,504**	191,072
Referral fee	**43,053**	38,893
Accounting fees	**23,329**	34,352
Insurance	**8,750**	-
Legal fees	**6,699**	11,917
Directors fees	**6,000**	4,300
Interest and bank charges	**3,945**	4,972
Dues and subscriptions	**384**	265
Miscellaneous	**259**	1,204
	276,923	286,975
INCOME AND COMPREHENSIVE INCOME FOR THE YEAR BEFORE OTHER ITEMS	**410,458**	442,862
OTHER ITEMS		
Provision for loss on property held for sale (note 8)	**77,909**	50,566
Realized loss on sale of property (note 8)	**929**	49,192
Loss on mortgages receivable	**39,632**	-
	118,470	99,758
NET INCOME AND COMPREHENSIVE INCOME FOR THE YEAR	**291,988**	343,104

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

AROI MORTGAGE INVESTMENT CORPORATION INC.

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED MARCH 31, 2018

	Common Shares		Preferred Shares		Retained Earnings (Deficit)	**Total Equity**
	Shares	Amount	Shares	Amount		
		$		$	$	**$**
At April 1, 2016	60	600	333,092	3,296,093	25,050	**3,321,743**
Share issuance	9	90	68,908	689,080	-	**689,170**
Share issuance costs	-	-	-	(15,123)	-	**(15,123)**
Share redemption	-	-	(808)	(8,080)	-	**(8,080)**
Issuance of preferred shares under dividend reinvestment plan	-	-	30,742	307,420	-	**307,420**
Dividends	-	-	-	-	(351,401)	**(351,401)**
Net income and comprehensive income for the year	-	-	-	-	343,104	**343,104**
At March 31, 2017	69	690	431,934	4,269,390	16,753	**4,286,833**
Shares issuance costs	-	-	-	(1,340)	-	**(1,340)**
Share redemption	(1)	(10)	(9,155)	(91,550)	-	**(91,560)**
Issuance of preferred shares under dividend reinvestment plan	-	-	35,480	354,800	-	**354,800**
Dividends	-	-	-	-	(395,884)	**(395,884)**
Net income and comprehensive income for the year	-	-	-	-	291,988	**291,988**
At March 31, 2018	68	680	458,259	4,531,300	(87,143)	**4,444,837**

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

AROI MORTGAGE INVESTMENT CORPORATION INC.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED MARCH 31, 2018

	2018 $	2017 $
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash provided from operations		
Net income and comprehensive income for the year	**291,988**	343,104
Items in income and comprehensive income not involving cash		
Provision for loss on property held for sale	**77,909**	50,566
Realized loss on sale of property	**929**	49,192
	370,826	442,862
Change in non-cash operating items:		
Interest receivable	**4,241**	18,470
Fees receivable	**(21,386)**	-
Prepaid expenses	**-**	(4,000)
Accounts payable and accrued liabilities	**26,280**	14,400
Deferred revenue	**11,793**	(13,416)
	391,754	458,316
CASH FLOWS (USED IN) FROM FINANCING ACTIVITIES:		
Issuance of common shares	**-**	90
Redemption of common share	**(10)**	-
Issuance of preferred shares	**-**	689,080
Redemption of preferred shares	**(91,550)**	(8,080)
Share issuance costs	**(1,340)**	(15,123)
Dividends paid	**(41,084)**	(43,981)
	(133,984)	621,986
CASH FLOWS USED IN INVESTING ACTIVITIES:		
Advances of mortgages receivable	**(2,294,842)**	(2,624,112)
Collection of mortgages receivable	**1,182,836**	1,605,679
Proceeds from disposal of property held for sale	**90,000**	338,600
Payments received on property held for sale	**5,076**	-
Costs incurred on property held for sale	**(138,351)**	(62,433)
	(1,155,281)	(742,266)
CHANGE IN CASH AND CASH EQUIVALENTS DURING THE YEAR	**(897,511)**	338,036
CASH AND CASH EQUIVALENTS - beginning of year	**576,258**	238,222
CASH AND CASH EQUIVALENTS - end of year	**(321,253)**	576,258

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

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% of the loan-to-value ratio.

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, 2018 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, 2018 were authorized for issue in accordance with a resolution of the directors on October 1, 2018**.**

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 5.

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

4. 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:

4. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (CONTINUED)

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.

Property held for sale

The Company uses management’s best estimates of the fair value of the property held for sale by inspecting the property, obtaining appraisals and speaking with realtors in the area.

5. 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 bank indebtedness.

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, fees and mortgages receivable.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial Instruments (continued)

Other financial liabilities
Financial instruments classified as other financial liabilities include accounts payable and accrued liabilities. 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.

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 net income and 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.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value of Financial Instruments (continued)

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.

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.

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.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property Held for Sale
Property held for sale is 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. Property held for sale is 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.

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 and commitment fee income is recognized on the Statement of Income and 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.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition (continued)

- 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 Issuance Costs
Share issuance 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.

6. RECENT ACCOUNTING PRONOUNCEMENTS

Certain new standards; interpretations, amendments and improvements to existing standards were issued by the IASB or International Financial Reporting Interpretations Committee (“IFRIC”) that are mandatory for accounting periods beginning after January 1, 2018 or later periods. The standards impacted that are applicable to the Company are as follows.

i) IFRS 9 Financial instrument

IFRS 9 "Financial Instruments" (“IFRS 9”) is a new accounting standard that replaces IAS 39 "Financial Instruments: Recognition and Measurement" and is effective for annual periods beginning on or after January 1, 2018.

IFRS 9 includes requirements for classification and measurement of financial assets and liabilities, as well as impairment of financial assets. IFRS 9 uses an expected-loss impairment model based upon forward looking information that will result in earlier recognition of expected losses. IFRS 9 is required to be applied on a retrospective basis, with certain exceptions. As permitted, the Company has elected under the transitional provisions of IFRS 9 not to restate comparative figures and will recognize any measurement difference between the previous carrying amount and the new carrying amount as at April 1, 2018 through an adjustment to opening retained earnings. We continue to refine certain aspects of our impairment analysis as of the date of these financial statements.

Classification and measurement
IFRS 9 requires that the Company's business model and a financial instrument's contractual cash flows determine its classification and measurement in the financial statements. Upon initial recognition, each financial asset will be classified as either fair value through profit or loss (FVTPL), amortized cost, or fair value through other comprehensive income (FVOCI). All equity instruments are measured at fair value. A debt instrument is recorded at amortized cost only if the entity is holding the instrument to collect contractual cash flows and the cash flows represent solely principal and interest. Otherwise it is recorded at FVTPL.

Impairment
The impairment requirements of IFRS 9 apply to financial assets that are measured at amortized cost or FVOCI, and off-balance sheet lending commitments such as loan commitments.

6. RECENT ACCOUNTING PRONOUNCEMENTS (CONTINUED)

i) IFRS 9 Financial instrument (continued)

The determination of the provision for mortgage losses will move from an incurred credit loss model, whereby credit losses are recognized when a defined loss event occurs under IAS 39, to an expected loss model under IFRS 9, where provisions are recorded upon initial recognition of the financial asset based upon expectations of future credit losses at that time. Under IFRS 9, the Company will recognize a loss allowance equal to 12-month expected credit losses, if the credit risk at the reporting date has not increased significantly since initial recognition (Stage 1), representing the expected credit losses from default events that are possible within the next 12 months.

IFRS 9 requires the recognition of credit losses for the remaining life of the financial assets (lifetime expected losses) that are considered to have experienced a significant increase in credit risk (Stage 2) and for financial assets that are credit impaired at the reporting date (Stage 3).

ii) IFRS 15 Revenue from Contracts with Customer

IFRS 15 Revenue from Contracts with Customers – The IASB issued IFRS 15 to establish principles for reporting the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. The core principle of IFRS 15 is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. IFRS 15 also includes a cohesive set of disclosure requirements that would result in an entity providing comprehensive information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers. This standard is effective for annual periods beginning on or after January 1, 2018 with earlier adoption permitted. The Company does not expect this standard to have a material impact on its financial statements.

7. MORTGAGES RECEIVABLE

Portfolio of 72 (2017 – 65) mortgages bearing interest at fixed rates from 10% to 25% and an average rate of 14.21% (2017 - 15.31%), maturities ranging from April 2018 to March 2019, secured by real property to which they relate and by additional security in certain circumstances. Included in interest and fee income for the year ended March 31, 2018 are commitment fees of $182,028 (2017 - $202,292).

During the year, the Company had losses on property held for sale of $78,838 (2017 - $99,758) and losses on mortgages receivable of $39,632 (2017 - nil). At year end, the Company had no mortgages receivable that were considered to be impaired.

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.

	Under 30 days	31-60 days	61-90 days	91 days and greater	Total
	$	$	$	$	$
March 31, 2018:					
Residential	**95,740**	**148,302**	**52,734**	**-**	**296,776**

7. MORTGAGES RECEIVABLE (CONTINUED)

Mortgages past due but not impaired (continued)

	Under 30 days	31-60 days	61-90 days	91 days and greater	Total
	$	$	$	$	$
March 31, 2017:					
Residential	**91,590**	**464,241**	**-**	**59,274**	**615,105**

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.

Distribution of mortgages:

	2018		2017	
Effective interest rates	**Number of Mortgages**	**Amortized cost and fair value**	Number of Mortgages	Amortized cost and fair value
(%)		**$**		$
10%	**1**	**78,254**	-	-
12%	**12**	**1,558,182**	4	425,442
13%	**-**	**-**	1	418,000
15%	**25**	**1,202,030**	20	979,238
16%	**10**	**431,964**	9	593,083
17%	**7**	**229,101**	4	249,957
18%	**9**	**137,972**	14	283,333
19%	**2**	**44,831**	3	93,208
20%	**4**	**76,483**	6	116,335
22%	**1**	**8,887**	2	12,614
25%	**1**	**15,910**	2	29,017
	72	**3,783,614**	65	3,200,227
Allowance for mortgage losses		**-**		-
	72	**3,783,614**	65	3,200,227

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

<u>Maturities and yields:</u>

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

8. PROPERTY HELD FOR SALE

Property held for sale

	Properties	Amount $
At March 31, 2016:		-
Properties foreclosed on during the year	3	894,447
Costs incurred to sell	-	62,433
Proceeds on properties sold during the year	2	(338,600)
Realized loss on sale of property	-	(49,192)
Provision for loss	-	(50,566)
At March 31, 2017:	1	518,522
Properties assumed during the year	5	528,619
Costs incurred to sell	-	138,351
Proceeds on properties sold during the year	1	(90,000)
Payments received on properties	-	(5,076)
Realized loss on sale of property	-	(929)
Provision for loss	-	(77,909)
At March 31, 2018:	5	1,011,578

All of the properties are residential in nature.

The provision for losses on properties held for sale is comprised of the following:

	2018 $	2017 $
Provision for impairment losses on properties held for sale, beginning of year	(50,566)	-
Provision for properties held for sale losses	(78,838)	(99,758)
Charge-offs, net	929	49,192
Provision for impairment losses on properties held for sale	(128,475)	(50,566)

9. BANK INDEBTEDNESS

The Company has a demand operating line of credit with an authorized limit of the lesser of the margin calculation and $300,000 of which $236,401 (2017 - nil) was drawn down. This facility bears interest at prime plus 2.50% and is secured by a first position general security agreement on Company assets and joint personal guarantees up to a maximum amount of $300,000 signed by Thomas Busch and Matthew Hennigar, directors of the Company.

10. PREFERRED SHARES

The Company has the following authorized 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 may, but is not required to, redeem shares pro rata from the holders of the Class A preferred shares of the Company.
- 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%
- In the event of liquidation, dissolution or winding up of the Company, the holders of the Class A preferred shares will receive an amount equal to the redemption price together with any dividends declared but unpaid and the holders of the common shares will receive an amount equal to the stated capital of the common shares. All remaining assets of the Company will be available for distribution on a pro rata basis with the holders of the Class A preferred shares and the common shares.

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

	2018		2017	
	Carrying Amount	**Redemption Amount**	Carrying Amount	Redemption Amount
	$	**$**	$	$
458,259 Class A Preferred Shares	**4,531,300**	**4,582,590**	4,269,390	4,319,340

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

	Shares	**$**
2.5% share issuance under dividend reinvestment plan declared in June 2017 for the prior year	**9,561**	**95,610**
2.5% share issuance under dividend reinvestment plan declared in September 2017	**9,779**	**97,790**
2.0% share issuance under dividend reinvestment plan declared in December 2017	**8,018**	**80,180**
2.0% share issuance under dividend reinvestment plan declared in March 2018	**8,122**	**81,220**
Class A Preferred shares redeemed	**9,155**	**91,550**

Subsequent to year end 10,895 preferred shares were redeemed for $108,950.

11. 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:

		2018	2017
		$	$
68	Common shares	**680**	690

During the year, a shareholder redeemed 1 common share for $10 and subsequent to year end 1 common share was redeemed for $10.

12. INCOME TAXES

As of March 31, 2018, the Company has non-capital losses carried forward for income tax purposes of $nil (2017 - $nil). The Company also has future deductible temporary differences resulting from financing costs and provisions for loss on properties held for sale for income tax purposes of $153,652 (2017 - $84,961). However, in computing the current year's income for tax purposes, the Company deducted $11,383 (2017 - $51,762) of dividends within 90 days of the end of the year.

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.

	2018	2017
	$	$
Net income and comprehensive income available to shareholders	**291,987**	343,104
Weighted average number of shares	**441,353**	348,683
Earnings per share	**0.66**	0.98
	6.62 %	9.84 %

There is no dilutive effect during the years ending March 31, 2018 and March 31, 2017; therefore, the basic EPS equals the diluted EPS.

13. EARNINGS PER SHARE (CONTINUED)

March 31, 2018 weighted average equity calculation:

	Period Start	Period End	Total Shares	Days O/S	Weighted Shares
	Apr 1, 2017	Jun 22, 2017	**432,003**	**83**	**98,236**
	Jun 22, 2017	Jul 6, 2017	**440,914**	**14**	**16,912**
	Jul 6, 2017	Aug 10, 2017	**436,057**	**35**	**41,814**
	Aug 10, 2017	Sep 27, 2017	**435,057**	**48**	**57,213**
	Sep 27, 2017	Dec 29, 2017	**444,836**	**93**	**113,342**
	Dec 29, 2017	Feb 5, 2018	**452,854**	**38**	**47,146**
	Feb 5, 2018	Feb 15, 2018	**452,504**	**10**	**12,397**
	Feb 15, 2018	Mar 30, 2018	**450,205**	**43**	**53,038**
	Mar 30, 2018	Mar 31, 2018	**458,237**	**1**	**1,255**
Weighted average number of shares					**441,353**
Share value					**$ 10.00**
Weighted average equity value					**$ 4,413,530**

March 31, 2017 weighted average equity calculation:

	Period Start	Period End	Total Shares	Days O/S	Weighted Shares
	Apr 1, 2016	Jun 28, 2016	**333,152**	**89**	**81,234**
	Jun 28, 2016	Sep 27, 2016	**339,245**	**91**	**84,579**
	Sep 27, 2016	Dec 30, 2016	**346,300**	**94**	**89,184**
	Dec 30, 2016	Jan 27, 2017	**354,242**	**28**	**27,175**
	Jan 27, 2017	Mar 30, 2017	**384,586**	**62**	**65,327**
	Mar 30, 2017	Mar 31, 2017	**432,003**	**1**	**1,184**
Weighted average number of shares					**348,683**
Share value					**$ 10.00**
Weighted average equity value					**$ 3,486,830**

14. RELATED PARTY TRANSACTIONS

The Company paid management fees to AROI Management Incorporated, a company controlled by two directors, of $184,504 (2017 - $191,072).

During the year, the Company paid referral fees to AROI Management Incorporated, a company controlled by two directors, of $20,236 (2017 - $9,849).

During the prior year, the Company sold a foreclosed property to a shareholder for total proceeds of $172,600.

These transactions occurred in the normal course of operations and are measured at the fair value, which is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

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 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.

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.

16. FINANCIAL INSTRUMENTS (CONTINUED)

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.

Credit Risk
Credit risk is defined as the risk that a mortgagor will be unable to fulfil 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).

16. FINANCIAL INSTRUMENTS (CONTINUED)

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, 2018 is the fair value of its interest, fees, and mortgages receivable which total $3,819,761 (2017 - $3,219,229).

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, 2018 the fair value of the collateral on the mortgages receivable is in excess of the fair value of the mortgages receivable.

	2018	2017
	$	$
Residential first mortgages	**2,812,014**	1,900,983
Residential second mortgages	**891,740**	1,219,384
Residential third mortgages	**79,860**	79,860
	3,783,614	3,200,227

*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

16. FINANCIAL INSTRUMENTS (CONTINUED)

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 7.

Collateral obtained
During the year the Company obtained assets by taking possession of collateral. The Company took possession of $528,619 (2017 - $894,447) 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.

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 bank indebtedness and its mortgage receivables. The bank indebtedness 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 bank indebtedness 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 14.21% (2017 – 15.31%). There is no specific market for mortgages of similar type, term and credit risk.

16. FINANCIAL INSTRUMENTS (CONTINUED)

Fair values

The Company's financial instruments recognized on the Statement of Financial Position consist of cash and cash equivalents, interest receivable, fees receivable, mortgages receivable, the bank indebtedness and accounts payable and accrued liabilities. 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 and liabilities 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
March 31, 2018				
Liabilities				
Bank indebtedness	**(321,253)**	**(321,253)**	**-**	-
March 31, 2017				
Assets				
Cash and cash equivalents	**576,258**	**576,258**	**-**	-

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, 2018 but for which fair value is disclosed:

	Fair value	Level 1	Level 2	Level 3
March 31, 2018				
Assets				
Mortgages receivable	**3,783,614**	**-**	-	3,783,614
Interest receivable	**14,761**	**-**	-	14,761
Fees receivable	**21,386**	**-**	-	21,386
Total Assets	**3,819,761**	**-**	-	3,819,761
Liabilities				
Accounts payable and accrued liabilities	**57,456**	**-**	-	57,456
Deferred revenue	**11,793**	**-**	-	11,793
Total Liabilities	**69,249**	**-**	-	69,249

16. FINANCIAL INSTRUMENTS (CONTINUED)

	Fair value	Level 1	Level 2	Level 3
March 31, 2017				
Assets				
Mortgages receivable	**3,200,227**	**-**	-	3,200,227
Interest receivable	**19,002**	**-**	-	19,002
Total Assets	**3,219,229**	**-**	-	3,219,229
Liabilities				
Accounts payable and accrued liabilities	**31,176**	**-**	-	31,176

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.

Liquidity Risk
Liquidity risk is the risk the Company will encounter difficulty in meeting its financial obligations as they become due.

The Company is exposed to liquidity risk resulting from fluctuations in cash flows as a result of the timing of mortgage investment funding, redemptions and payment of share dividends. Management routinely forecasts future cash flow sources and requirements to ensure cash is efficiently utilized.

The contractual maturities of financial liabilities as at March 31, 2018 include the Company's bank indebtedness and accounts payable and accrued liabilities.

As at March 31, 2018, the Company had a cash position of nil (2017 - $576,258) and the Company had mortgages receivable totaling $3,783,614 (2017 - $3,200,227), which substantially exceeded its total liabilities of $390,502 (2017 - $31,176).

There were no changes to the Company's exposure to liquidity risk or approach to managing this risk during the year.

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, 2018 the Company has committed to funding mortgages for $55,203 (2017 - $146,000).