# Aroi Mortgage Investment Corporation Inc.
## Financial Statements
*March 31, 2020*

## Contents

*For the year ended March 31, 2020*

# Independent Auditor's Report

To the Shareholders of Aroi Mortgage Investment Corporation Inc.:

**Opinion**

We have audited the financial statements of Aroi Mortgage Investment Corporation Inc. (the "Company"), which comprise the statement of financial position as at March 31, 2020, and the statements of income and other comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 2020, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

**Basis for Opinion**

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

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

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

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

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

**Auditor's Responsibilities for the Audit of the Financial Statements**

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

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

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

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

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

Dartmouth, Nova Scotia

MNP LLP

June 28, 2021

Chartered Professional Accountants

# Aroi Mortgage Investment Corporation Inc.
## Statement of Financial Position
*As at March 31, 2020*

| | **2020** | *2019* |
|---|---|---|
| **Assets** | | |
| Cash held in trust | **352,198** | - |
| Interest receivable | **106,989** | 67,583 |
| Prepaid expenses | **9,575** | 5,975 |
| Mortgages receivable *(Note 5)* | **5,742,187** | 5,100,450 |
| Property held for sale *(Note 6)* | **-** | 418,667 |
| | **6,210,949** | 5,592,675 |
| **Liabilities** | | |
| Bank indebtedness *(Note 7)* | **294,736** | 412,179 |
| Accounts payable and accrued liabilities | **60,468** | 18,000 |
| Notes payable | **36,980** | - |
| Deferred revenue | **3,288** | - |
| | **395,472** | 430,179 |

**COVID-19** *(Note 11)*

**Commitments** *(Note 12)*

**Events after the reporting period** *(Note 16)*

| | | |
|---|---|---|
| **Equity** | | |
| Share capital *(Note 9)* | | |
| Common shares *(Note 9)* | **680** | 710 |
| Redeemable preferred shares (Aggregate redemption amount of $5,842,540; 2019 - $5,373,060) *(Note 9)* | **5,788,415** | 5,318,935 |
| Retained earnings | **26,382** | (157,149) |
| | **5,815,477** | 5,162,496 |
| | **6,210,949** | 5,592,675 |

**Approved on behalf of the Board**

**Director** **Director**

*The accompanying notes are an integral part of these financial statements*

## Aroi Mortgage Investment Corporation Inc.
### Statement of Income and Other Comprehensive Income
*For the year ended March 31, 2020*

| | ***2020*** | *2019* |
|---|---|---|
| **Revenue** | | |
| Interest and fee income *(Note 5)* | **1,042,795** | 899,383 |
| Other income | **14,839** | 13,016 |
| | **1,057,634** | 912,399 |
| **Expenses** | | |
| Accounting fees | **29,970** | 24,180 |
| Directors fees | **12,000** | 6,000 |
| Dues and subscriptions | **384** | 384 |
| Insurance | **9,787** | 7,940 |
| Interest and bank charges | **20,010** | 16,562 |
| Legal fees | **31,916** | 25,148 |
| Management fees *(Note 13)* | **263,604** | 255,488 |
| Referral fees *(Note 13)* | **58,718** | 52,711 |
| | **426,389** | 388,413 |
| **Income and comprehensive income for the year before other items** | **631,245** | 523,986 |
| **Other items** | | |
| Provision for credit losses on mortgages receivable *(Note 5)* | **(8,140)** | (45,762) |
| (Provision for) recovery of losses on property held for sale *(Note 5), (Note 6)* | **8,826** | (62,600) |
| Realized loss on sale of property *(Note 5), (Note 6)* | **(2,846)** | - |
| | **(2,160)** | (108,362) |
| **Net income and comprehensive income for the year** | **629,085** | 415,624 |

# Aroi Mortgage Investment Corporation Inc.
## Statement of Changes in Equity
*For the year ended March 31, 2020*

| | *Common Shares* | *Common Shares Amount* | *Preferred Shares* | *Preferred Shares Amount* | *Retained Earnings (Deficit)* | *Total equity* |
|---|---|---|---|---|---|---|
| **Balance April 1, 2018** | **68** | **680** | **458,259** | **4,531,300** | **(192,245)** | **4,339,735** |
| Net income and comprehensive income for the year | **-** | **-** | **-** | **-** | **415,624** | **415,624** |
| Dividends | **-** | **-** | **-** | **-** | **(380,528)** | **(380,528)** |
| Share issuance costs | **-** | **-** | **-** | **(2,835)** | **-** | **(2,835)** |
| Issuance of preferred shares under dividend reinvestment plan | **-** | **-** | **31,741** | **317,410** | **-** | **317,410** |
| Share issuance | **5** | **50** | **72,022** | **720,220** | **-** | **720,270** |
| Share redemption | **(2)** | **(20)** | **(24,716)** | **(247,160)** | **-** | **(247,180)** |
| **Balance March 31, 2019** | **71** | **710** | **537,306** | **5,318,935** | **(157,149)** | **5,162,496** |
| **Balance April 1, 2019** | **71** | **710** | **537,306** | **5,318,935** | **(157,149)** | **5,162,496** |
| Net income and comprehensive income for the year | **-** | **-** | **-** | **-** | **629,085** | **629,085** |
| Dividends | **-** | **-** | **-** | **-** | **(445,554)** | **(445,554)** |
| Issuance of preferred shares under dividend reinvestment plan | **-** | **-** | **37,552** | **375,520** | **-** | **375,520** |
| Share issuance | **3** | **30** | **53,003** | **530,030** | **-** | **530,060** |
| Share redemption | **(6)** | **(60)** | **(43,764)** | **(436,070)** | **-** | **(436,130)** |
| **Balance March 31, 2020** | **68** | **680** | **584,097** | **5,788,415** | **26,382** | **5,815,477** |

*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, 2020*

| | ***2020*** | *2019* |
|---|---|---|
| **Cash provided by (used for) the following activities** | | |
| **Operating activities** | | |
| Net income and comprehensive income for the year | **629,085** | 415,624 |
| Provision for credit losses on mortgages receivable | **8,140** | 45,762 |
| Provision for loss on property held for sale | **-** | 62,600 |
| | **637,225** | 523,986 |
| Changes in working capital accounts | | |
| Interest receivable | **(39,407)** | (52,821) |
| Fees receivable | **-** | 21,386 |
| Prepaid expenses | **(3,600)** | (1,975) |
| Accounts payable and accrued liabilities | **42,469** | (39,454) |
| Notes payable | **36,980** | - |
| Deferred revenue | **3,288** | (11,793) |
| | **676,955** | 439,329 |
| **Financing activities** | | |
| Issuance of common shares | **30** | 50 |
| Redemption of common shares | **(60)** | (20) |
| Issuance of preferred shares | **530,030** | 720,220 |
| Redemption of preferred shares | **(436,070)** | (247,160) |
| Share issuance costs | **-** | (2,835) |
| Dividends paid | **(70,034)** | (63,118) |
| | **23,896** | 407,137 |
| **Investing activities** | | |
| Advances of mortgages receivable | **(3,402,299)** | (3,678,402) |
| Collection of mortgages receivable | **2,752,422** | 2,210,699 |
| Proceeds from disposal of property held for sale | **421,864** | 1,004,506 |
| Payments received on property held for sale | **345** | 5,400 |
| Costs incurred on property held for sale | **(3,542)** | (256,343) |
| Pay-out of previous charges on property held for sale | **-** | (223,252) |
| | **(231,210)** | (937,392) |
| **(Increase) decrease in cash deficiency** | **469,641** | (90,926) |
| **Cash deficiency, beginning of year** | **(412,179)** | (321,253) |
| **Cash resources (deficiency), end of year** | **57,462** | (412,179) |
| **Cash resources (deficiency) are composed of:** | | |
| Cash held in trust | **352,198** | - |
| Bank indebtedness | **(294,736)** | (412,179) |
| | **57,462** | (412,179) |

## 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 is domiciled in Canada. 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 Company's registered office is 115 Coldbrook Village Park Drive, Coldbrook, Nova Scotia.

## 2. Statement of compliance

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

The Financial Statements of the Company for the year ended March 31, 2020 were authorized for issue in accordance with a resolution of the directors on June 17, 2021.

## 3. Summary of significant accounting policies

The principal accounting policies adopted in the preparation of the  financial statements are set out below. The policies have been consistently applied to all the years presented, unless otherwise stated.

***Cash and cash equivalents***

Cash and cash equivalents comprise cash on hand, cash in solicitor's trust, bank indebtedness 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 indebtedness that is repayable on demand and forms 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.

***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 the carrying amount and recoverable amount. Contractual interest on the mortgage loan is discontinued from the date of transfer from mortgages receivable to property held for sale.

***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 when it is probable that the economic benefits associated with a transaction will flow to the Company, and when the amount of revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable, excluding trade discounts, volume rebates, and amounts collected on behalf of third parties.

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 Other 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.

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.

All revenue is recognized when collection is reasonably assured.

***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.

***Financial instruments***

***Financial assets***

**Recognition and initial measurement**

The Company recognizes financial assets when it becomes party to the contractual provisions of the instrument. Financial assets are measured initially at their fair value plus, in the case of financial assets not subsequently measured at fair value through profit or loss, transaction costs that are directly attributable to their acquisition. Transaction costs attributable to the acquisition of financial assets subsequently measured at fair value through profit or loss are expensed in profit or loss when incurred.

**Classification and subsequent measurement**

On initial recognition, financial assets are classified and subsequently measured at amortized cost, fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVTPL). The Company determines the classification of its financial assets, together with any embedded derivatives, based on the business model for managing the financial assets and their contractual cash flow characteristics.

Debt instruments are classified as follows:

- Amortized cost - Assets that are held for collection of contractual cash flows where those cash flows are solely payments of principal and interest are measured at amortized cost. Interest revenue is calculated using the effective interest method and gains or losses arising from impairment, foreign exchange and derecognition are recognized in profit or loss. Financial assets measured at amortized cost are comprised of interest and mortgages receivable.

- Fair value through other comprehensive income - Assets that are held for collection of contractual cash flows and for selling the financial assets, and for which the contractual cash flows are solely payments of principal and interest, are measured at fair value through other comprehensive income. Interest income calculated using the effective interest method and gains or losses arising from impairment and foreign exchange are recognized in profit or loss. All other changes in the carrying amount of the financial assets are recognized in other comprehensive income. Upon derecognition, the cumulative gain or loss previously recognized in other comprehensive income is reclassified to profit or loss. The Company does not hold any financial assets measured at fair value through other comprehensive income.

- Mandatorily at fair value through profit or loss - Assets that do not meet the criteria to be measured at amortized cost, or fair value through other comprehensive income, are measured at fair value through profit or loss. All interest income and changes in the financial assets' carrying amount are recognized in profit or loss. Financial assets mandatorily measured at fair value through profit or loss are comprised of cash and cash equivalents.

- Designated at fair value through profit or loss – On initial recognition, the Company may irrevocably designate a financial asset to be measured at fair value through profit or loss in order to eliminate or significantly reduce an accounting mismatch that would otherwise arise from measuring assets or liabilities, or recognizing the gains and losses on them, on different bases. All interest income and changes in the financial assets' carrying amount are recognized in profit or loss.The Company does not hold any financial assets designated to be measured at fair value through profit or loss.

*Business model assessment*

The Company assesses the objective of its business model for holding a financial asset at a level of aggregation which best reflects the way the business is managed and information is provided to management. Information considered in this assessment includes stated policies and objectives, how the performance of assets in a portfolio is evaluated and reported and risks affecting the performance of the business model.

*Contractual cash flow assessment*

The cash flows of financial assets are assessed as to whether they are solely payments of principal and interest on the basis of their contractual terms. For this purpose, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money, the credit risk associated with the principal amount outstanding, and other basic lending risks and costs. In performing this assessment, the Company considers factors that would alter the timing and amount of cash flows such as prepayment and extension features, terms that might limit the Company's claim to cash flows, and any features that modify consideration for the time value of money.

**Reclassifications**

The Company reclassifies debt instruments only when its business model for managing those financial assets has changed. Reclassifications are applied prospectively from the reclassification date and any previously recognized gains, losses or interest are not restated. During the year, there have been no reclassifications.

**Impairment**

The Company recognizes a loss allowance for the expected credit losses associated with its financial assets, other than debt instruments measured at fair value through profit or loss. Expected credit losses are measured to reflect a probability-weighted amount, the time value of money, and reasonable and supportable information regarding past events, current conditions and forecasts of future economic conditions.

The date the Company commits to purchasing a financial asset is considered the date of initial recognition for the purpose of applying the Company's accounting policies for impairment of financial assets.

For mortgages receivable the Company records a loss allowance equal to the expected credit losses resulting from default events that are possible within the next 12-month period, unless there has been a significant increase in credit risk since initial recognition. For those financial assets for which the Company assessed that a significant increase in credit risk has occurred, the Company records a loss allowance equal to the expected credit losses resulting from all possible default events over the assets' contractual lifetime.

The Company applies the simplified approach for interest and fees receivable. Using the simplified approach, the Company records a loss allowance equal to the expected credit losses resulting from all possible default events over the assets' contractual lifetime.

The Company assesses whether a financial asset is credit-impaired at the reporting date. Regular indicators that a financial instrument is credit-impaired include significant financial difficulties as evidenced through non-compliance with payment terms and requests to restructure mortgage payment schedules. For financial assets assessed as credit-impaired at the reporting date, the Company continues to recognize a loss allowance equal to lifetime expected credit losses.

Loss allowances for expected credit losses are presented in the Statement of Financial Position as follows:

- For financial assets measured at amortized cost, as a deduction from the gross carrying amount of the financial asset;

- For loan commitments, as a provision; and

- For facilities with both a drawn and undrawn component where the Company cannot separately identify expected credit losses between the two components, as a deduction from the carrying amount of the drawn component. Any excess of the loss allowance over the carrying amount of the drawn component is presented as a provision.

Financial assets are written off when the Company has no reasonable expectations of recovering all or any portion thereof.

**Derecognition of financial assets**

The Company derecognizes a financial asset when its contractual rights to the cash flows from the financial asset expire, or the financial asset has been transferred under particular circumstances.

For this purpose, a financial asset is transferred if the Company either:

- Transfers the right to receive the contractual cash flows of the financial asset, or;
- Retains the right to receive the contractual cash flows of the financial asset, but assumes an obligation to pay received cash flows in full to one or more third parties without material delay and is prohibited from further selling or transferring the financial asset.

Transferred financial assets are evaluated to determine the extent to which the Company retains the risks and rewards of ownership. When the Company neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, it evaluates whether it has retained control of the financial asset.

***Financial liabilities***

**Recognition and initial measurement**

The Company recognizes a financial liability when it becomes party to the contractual provisions of the instrument. At initial recognition, the Company measures financial liabilities at their fair value plus transaction costs that are directly attributable to their issuance, with the exception of financial liabilities subsequently measured at fair value through profit or loss for which transaction costs are immediately recorded in profit or loss.

**Classification and subsequent measurement**

Subsequent to initial recognition, financial liabilities are measured at amortized cost or fair value through profit or loss.

The following financial liabilities are measured at fair value through profit or loss:

- Financial liabilities held for trading

Changes in the carrying amount of these financial liabilities are recognized in profit or loss.

Financial liabilities measured at fair value through profit or loss include bank indebtedness.

All other financial liabilities are measured at amortized cost using the effective interest method. Financial liabilities measured at amortized cost include accounts payable and accrued liabilities.

Financial liabilities are not reclassified subsequent to initial recognition.

**Derecognition of financial liabilities**

The Company derecognizes a financial liability only when its contractual obligations are discharged, cancelled or expire.

**Interest**

Interest income and expense are recognized in profit or loss using the effective interest method.

The ‘effective interest rate’ is the rate that exactly discounts estimated future cash payments over the expected life of the financial instrument to the gross carrying amount of the financial asset or the amortized cost of the financial liability. The effective interest rate is calculated considering all contractual terms of the financial instruments, except for the expected credit losses of financial assets.

The ‘amortized cost’ of a financial asset or financial liability is the amount at which the instrument is measured on initial recognition minus principal repayments, plus or minus any cumulative amortization using the effective interest method of any difference between the initial amount and maturity amount and adjusted for any expected credit loss allowance. The ‘gross carrying amount’ of a financial asset is the amortized cost of a financial asset before adjusting for any expected credit losses.

Interest income and expense is calculated by applying the effective interest rate to the gross carrying amount of the financial asset (when the asset is not credit-impaired) or the amortized cost of the financial liability.

Where a financial asset has become credit-impaired subsequent to initial recognition, interest income is calculated in subsequent periods by applying the effective interest method to the amortized cost of the financial asset. If the asset subsequently ceases to be credit-impaired, calculation of interest income reverts to the gross basis.

***Fair value measurements***

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

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

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

***Standards issued but not yet effective***

The Company has not yet applied the following new standards, interpretations and amendments to standards that have been issued as at March 31, 2020 but are not yet effective. Unless otherwise stated, the Company does not plan to early adopt any of these new or amended standards and interpretations.

***IFRS 9 Financial Instruments***

The amendments clarify which fees an entity includes when performing the 10 percent test used to determine whether to derecognize a financial liability. An entity shall include only the fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other's behalf.

## 4. Basis of preparation

***Basis of measurement***

The financial statements have been prepared on the historical cost basis.

The significant accounting policies are set out in Note 3.

***Functional and presentation currency***

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

***Significant accounting judgments, estimates and assumptions***

The preparation of the Company's financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. These estimates and assumptions have been made using careful judgment; however, uncertainties could result in outcomes that would require a material adjustment to the carrying amount of the asset or liability affected in the future.

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

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amount recognized in the financial statements are described below:

***Allowance for impaired mortgages***

At each reporting period, individually significant mortgages are assessed to determine whether their credit risk has increased significantly since initial recognition. In determining whether credit risk has significantly increased, management develops a number of assumptions about the following factors which impact the borrowers' ability to meet debt obligations:

- Forward looking information used as economic inputs including expected significant increase in unemployment rates;
- Changes in the value of the collateral supporting the obligation;
- The borrowers' ability to pay amounts outstanding based on the number of days past due.

Significant judgments, estimates and assumptions are required when calculating the expected credit losses of financial assets. In measuring the 12-month and lifetime expected credit losses, management makes assumptions about prepayments and the timing and extent of missed payments or default events. In addition, management makes assumptions and estimates about the impact that future events may have on the historical data used to measure expected credit losses.

In estimating expected credit losses, the Company develops a number of assumptions as follows:

- The period over which the Company is exposed to credit risk, considering for example, prepayments;
- The probability-weighted outcome, including identification of scenarios that specify the amount and timing of the cash flows for particular outcomes and the estimated probability of those outcomes;
- The risk of default occurring on loans during their expected lives being no longer than 12 months after the reporting date due to the short-term nature of the loans;
- Expected cash short falls including, recoveries, costs to recover and the effects of any collateral or other credit enhancements;
- Estimates of effective interest rates used in incorporating the time value of money.

The above assumptions are based on historical information and adjusted for current conditions and forecasts of future economic conditions. The Company determines adjustments needed to its historical assumptions by monitoring the correlation of the probability of default and loss rates with the following economic variable:

- Unemployment rates

The estimate of expected credit losses reflects an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes that are neither best-case nor worse-case scenarios. The Company uses judgment to weight these scenarios.

***Property held for sale***

The Company assesses property held for sale for impairment at the end of each reporting period. If impairment indicators exist, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

The recoverable amount is the higher of fair value less costs to sell and value in use. Value in use is the present value of estimated future cash flows discounted using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. The recoverable amount is estimated based on the fair value of the property held for sale by inspecting the property, obtaining appraisers and speaking with realtors in the area.

If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

An impairment loss can be reversed and  the carrying amount of the asset increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

## 5. Mortgages receivable

Portfolio of 93 (2019 - 84) mortgages bearing interest at fixed rates from 6% to 25% and an average rate of 13.81% (2019 - 13.83%), maturities ranging from April 2020 to March 2021, 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, 2020 are commitment fees of $245,262 (2019 - $287,405).

During the year, the Company recognized a recovery on property held for sale of $8,826 (2019 - $62,600) and recorded a provision for credit losses on mortgages receivable of $8,140 (2019 - $45,762). At year end, the Company had no mortgages receivable that were considered to be credit impaired.

**Mortgages past due but not credit 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 the mortgages at year-end that are past due but not classified as credit impaired because they are either 1) 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, 2020: | | | | | |
| Residential | 513,720 | 317,610 | - | - | 831,330 |
| March 31, 2019: | | | | | |
| Residential | 640,477 | 8,660 | - | 31,227 | 680,364 |

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 credit impaired.

Distribution of mortgages:

| *Effective interest rates (%)* | ***2020*** Number of mortgages | Amortized cost of fair value | *2019* Number of mortgages | Amortized cost of fair value |
|---|---|---|---|---|
| 6% | **1** | **61,715** | - | - |
| 10% | **1** | **48,000** | 1 | 5,095 |
| 12% | **23** | **2,593,580** | 20 | 2,647,110 |
| 14% | **4** | **448,393** | 3 | 398,453 |
| 15% | **24** | **1,692,431** | 26 | 1,349,594 |
| 16% | **11** | **353,068** | 8 | 263,669 |
| 17% | **13** | **413,745** | 8 | 223,286 |
| 18% | **10** | **189,130** | 10 | 182,869 |
| 19% | **2** | **40,065** | 2 | 43,052 |
| 20% | **2** | **43,345** | 4 | 115,790 |
| 22% | **1** | **2,700** | 1 | 5,933 |
| 25% | **1** | **15,020** | 1 | 16,464 |
| | **93** | **5,901,192** | 84 | 5,251,315 |
| Allowance for mortgage losses | **-** | **(159,005)** | - | (150,865) |
| | **93** | **5,742,187** | 84 | 5,100,450 |

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 yield:**

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

## 6. Property held for sale

| | ***Properties*** | ***Amount $*** |
|---|---|---|
| At March 31, 2018 | 5 | 1,011,578 |
| Costs incurred to sell | - | 256,343 |
| Pay-out of previous charges | - | 223,252 |
| Proceeds on properties sold during the year | 3 | (1,004,506) |
| Payments received on properties | - | (5,400) |
| Provision for loss | - | (62,600) |
| At March 31, 2019 | 2 | 418,667 |
| Costs incurred to sell | - | 3,542 |
| Pay-out of previous charges | - | - |
| Proceeds on properties sold during the year | 2 | (421,864) |
| Payments received on properties | - | (345) |
| Provision for (recovery of) loss on property held for sale | | - |
| | - | - |
| At March 31, 2020 | - | - |

All of the properties are residential in nature.

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

| | ***2020*** | *2019* |
|---|---|---|
| Provision for impairment losses on property held for sale, beginning of year | **(119,622)** | (128,475) |
| Provision for (recovery of) loss on property held for sale | **-** | (62,600) |
| Charge-offs, net | **119,622** | 71,453 |
| Provision for impairment losses on properties held for sale, end of year | **-** | (119,622) |

## 7. Bank indebtedness

The Company has a demand operating line of credit with an authorized limit of the lesser of the margin calculation and $750,000 (2019 - $750,000) of which $276,788 (2019 - $455,623) was drawn down. The margin calculation is calculated by the sum of 55% of first mortgages and 25% of second mortgages in favour of the Company on properties not exceeding 75% loan-to-value ratios and that are not more than 30 days in arrears. 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 $750,000 signed by two directors of the Company.

## 8. Income taxes

As of March 31, 2020, the Company has non-capital losses carried forward for income tax purposes of nil (2019 - nil). The Company also has future deductible temporary differences resulting from financing costs and provisions for loss on properties held for sale and mortgages receivable for income tax purposes of nil (2019 - $278,930). However, in computing the current year's income for tax purposes, the Company deducted $114,899 (2019 - $77.219) of dividends paid within 90 days of the end of the year.

## 9. Share capital

The Company has the following authorized shares:

**Common Shares**

Unlimited voting common shares, redeemable 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.

**Class A 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 total issued share capital is as follows:

| | ***2020*** | *2019* |
|---|---|---|
| 68 Common Shares | **680** | 710 |
| 584,097 Class A Preferred Shares | **5,788,415** | 5,318,935 |
| | **5,789,095** | 5,319,645 |

***Redeemable Class A preferred shares***

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

| | ***Number of shares*** | ***Share capital*** |
|---|---|---|
| 2.0% share issuance under dividend reinvestment plan declared in June 2019 for the prior year | **8,868** | **88,680** |
| 2.0% share issuance under dividend reinvestment plan declared in September 2019 | **9,166** | **91,660** |
| 2.0% share issuance under dividend reinvestment plan declared in December 2019 | **9,800** | **98,000** |
| 2.0% share issuance under dividend reinvestment plan declared in March 2020 | **9,718** | **97,180** |
| Class A Preferred shares redeemed | **43,065** | **436,070** |
| Class A Preferred shares issued | **53,003** | **530,030** |

Subsequent to year end 24,727 Class A preferred shares were redeemed for $247,270 and 5 common shares were redeemed for $50. The Company also issued 124,373 Class A preferred shares for proceeds of $1,243,730 and 7 common shares for proceeds of $70. Additionally, 49,311 Class A preferred shares were issued for $493,110 under dividend reinvestment plans.

## 10. Earnings per share

| | ***2020*** | *2019* |
|---|---|---|
| Basic earnings per share | **1.14** | 0.89 |

Basic earnings per share amounts are calculated by dividing net income and comprehensive income for the year attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding during the year.

The earnings and weighted average number of ordinary shares used in the calculation of basic earnings per share are as follows:

| | ***2020*** | *2019* |
|---|---|---|
| Earnings used in the calculation of total basic earnings per share | **629,085** | 415,624 |

| | ***2020*** | *2019* |
|---|---|---|
| Weighted average number of shares | **552,477** | 466,034 |

***Diluted earnings per share***

There is no dilutive effect during the years ending March 31, 2020 and March 31, 2019; therefore, the basic EPS equals the diluted EPS.

## 11. COVID-19

At year end, the effects of a global outbreak of COVID-19 (coronavirus) continues to rapidly evolve, which has had a significant impact on businesses through the restrictions put in place by the Canadian, provincial, and municipal governments regarding travel, business operations and isolation/quarantine orders. At this time, it is unknown the extent of the impact of the COVID-19 outbreak may have on the Company as this will depend on future developments that are highly uncertain and cannot be predicted with confidence. These uncertainties arise from the inability to predict the ultimate geographic spread of the disease, and the duration of the outbreak, including the duration of travel restrictions, business closures or disruptions, and quarantine/isolation measures that are currently, or may be put, in place by Canada and other countries to fight the virus. The Company continues to monitor the situation and assess the impact that the pandemic may have on its operations, including the ability of its clients to service and repay their mortgages.

## 12. Commitments

The Company has a commitment with a company controlled by two directors 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 mortgages receivable balances.

The annual mortgage (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 also committed to pay a company controlled by two directors 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, 2020 the Company has committed to funding mortgages for nil (2019 - $237,054).

## 13. Related party transactions

The following table outlines the Company's related party transactions during the year:

| | ***2020*** | *2019* |
|---|---|---|
| Management fees paid to AROI Management Incorporated, a company controlled by two directors | **263,604** | 255,488 |
| Referral fees paid to AROI Management Incorporated, a company controlled by two directors | **7,742** | 4,721 |

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

## 14. 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 bank indebtedness and 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 to 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.

**15. Financial instruments**

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

***Credit Risk***

Credit risk is the risk of financial loss to the Company because a counterparty to a financial instrument fails to discharge its contractual obligations. Credit risk primarily arises from interest and mortgages receivable.

**Risk management process**

The Company manages its credit risk by following 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; and
- Lending is restricted to properties located on mainland Nova Scotia.

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 indicates 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. 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).

2. 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).

3. The initial term of a mortgage cannot exceed 12 months from the interest adjustment date.

4. 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.

5. Management actively monitors the mortgage portfolio.

6. Review of 3 months of client banking history (bank statements).

7. Employment verification.

8. Credit bureau analysis.

9. Interviews with every borrower.

10. 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.

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

*Analysis of maximum exposure to credit and collateral*
The maximum exposure to credit risk at March 31, 2020 is the fair value of its interest and mortgages receivable which total $6,008,181 (2019 - $5,318,897).

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, 2020 the fair value of the collateral on the mortgages receivable is in excess of the fair value of the mortgages receivable.

At year end, the breakdown by position the Company holds for the mortgage portfolio is as follows:

| | ***2020*** | *2019* |
|---|---|---|
| Residential first mortgages | **4,837,956** | 3,492,780 |
| Residential second mortgages | **983,376** | 1,678,675 |
| Residential third mortgages | **79,860** | 79,860 |
| | **5,901,192** | 5,251,315 |

*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.

Additional information on credit quality, renegotiated mortgages and mortgages past due but not impaired is included in Note 5.

*Collateral obtained*
During the year the Company obtained assets by taking possession of collateral. The Company took possession of nil (2019 - nil) of property. The Company`s policy for these assets is to sell the assets to recover funds loaned.

**Inputs, assumptions and techniques**

*Definition of default and assessments of credit risk*

Financial instruments are assessed at each reporting date for a significant increase in credit risk since initial recognition. This assessment considers changes in the risk of a default occurring at the reporting date as compared to the date of initial recognition.

The Company considers mortgages receivable to be in default when contractual payments are more than 90 days past due or other objective evidence of impairment exists, such as notification of bankruptcy. This definition is consistent with the definitions used for the Company's internal credit risk management practices and has been selected because it most closely aligns the definition of default to the Company's past credit experience. Relatively few financial instruments subsequently return to performing status after a default has occurred under this definition without further intervention on the part of the Company.

Changes in credit risk are assessed on the basis of the risk that a default will occur over the contractual lifetime of the financial instrument rather than based on changes in the amount of expected credit losses or other factors. In making this assessment the Company takes into account all reasonable and supportable information, including forward-looking information, available without undue cost or effort. The Company considers past due information of its balances and information about the borrower.

The credit risk of a financial instrument is deemed to have significantly increased since initial recognition when contractual payments have exceeded 30 days past due, or other information becomes available to management.

The Company identifies credit-impaired financial assets through regular reviews of past due balances and credit assessments of its customers. Credit-impaired financial assets are typically placed on the Company's watch list based on its internal credit risk policies. In making this assessment, the Company considers past due information of its balances and information about the borrower available through regular commercial dealings.

*Measurement of expected credit losses*

The Company measures expected credit losses for mortgages receivable on a group basis. These assets are grouped on the basis of their shared risk characteristics. Otherwise, expected credit losses are measured on an individual basis.

When measuring 12-month and lifetime expected credit losses, the Company considers items such as the contractual period of the financial asset or the period for which the entity is exposed to credit risk, determination of appropriate discount rates used in incorporating the time value of money, how probabilities of default and other assumptions and inputs used in calculating the amount of cash short falls depending on the type or class of financial instrument. Forward-looking information is incorporated into the determination of expected credit loss by considering anticipated unemployment rates and considering the effect such information could have on any assumptions or inputs used in the measurement of expected credit losses, determining significant increases in credit risk or identifying a credit-impaired financial asset.

Significant judgments, estimates and assumptions are required when calculating the expected credit losses of financial assets. In measuring the 12-month and lifetime expected credit losses, management makes assumptions about the timing and extent of missed payments or default events. In addition, management makes assumptions and estimates about the impact that future events may have on the historical data used to measure expected credit losses.

*Write-offs*

Financial assets are written off when there is no reasonable expectation of recovery. The Company assesses that there is no reasonable expectation of recovery when the security relating to the loan has been sold and there are remaining amounts outstanding, the borrower has filed for bankruptcy and the trustee has indicated that no additional funds will be paid. Where an asset has been written off but is still subject to enforcement activity, the asset is written off but remains on a list of delinquent accounts. Where information becomes available indicating the Company will receive funds, such amounts are recognized at their fair value. The contractual amount outstanding on financial assets which were written off during the year and continue to be subject to enforcement activity is nil (2019 – nil).

**Exposure to credit risk**

The following table sets out information about the credit quality of financial assets assessed for impairment under IFRS 9 *Financial instruments*. The amounts in the table, unless otherwise indicated, represent the assets' gross carrying amount. For loan commitments, the amounts in the table represent the amounts committed.

The internal risk ratings present in the table below are defined as follows:

| Category | Loan-to-Value (LTV) | Priority Ranking | Certainty of Repayments |
|---|---|---|---|
| Low | Low (LTV < 65%) | First | High |
| Medium | Medium (LTV 65% - 75%) | Second | Moderate |
| High | High (LTV > 75%) | Third | Low |

| | ***12-month ECL*** | ***2020 Lifetime ECL (not credit impaired)*** | ***Lifetime ECL (credit impaired)*** | ***Total*** |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Mortgages receivable | | | | |
| Low | **4,578,176** | **317,610** | **-** | **4,895,786** |
| Medium | **754,497** | **-** | **243,304** | **997,801** |
| High | **-** | **-** | **7,605** | **7,605** |
| Loan commitments | **-** | **-** | **-** | **-** |
| Interest receivable | **56,984** | **8,552** | **35,699** | **101,235** |
| | **5,389,657** | **326,162** | **286,608** | **6,002,427** |
| Less: loss allowance | **110,441** | **5,952** | **42,612** | **159,005** |
| Total carrying amount | **5,279,216** | **320,210** | **243,996** | **5,843,422** |

| | *12-month ECL* | *2019 Lifetime ECL (not credit impaired)* | *Lifetime ECL (credit impaired)* | *Total* |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Mortgages receivable | | | | |
| Low | 3,819,737 | - | 16,464 | 3,836,201 |
| Medium | 1,391,691 | 8,660 | 14,763 | 1,415,114 |
| Loan commitments | 237,054 | - | - | 237,054 |
| Interest receivable | - | 67,582 | - | 67,582 |
| Less: loss allowance | 103,662 | 238 | 858 | 150,865 |
| Total carrying amount | 5,298,713 | 76,004 | 30,369 | 5,405,086 |

*Concentrations of credit risk*

A credit concentration exists relating to the geographical risk which exists due to its primary service area being mainland Nova Scotia.

**Amounts arising from expected credit losses**

*Reconciliation of the loss allowance*

The following tables show a reconciliation of the opening to the closing balance of the loss allowance by class of financial instrument.

| | ***12-month ECL*** | ***Lifetime ECL (not credit impaired)*** | ***Lifetime ECL (credit impaired)*** | ***Total*** |
|---|---|---|---|---|
| **Mortgages receivable** | | | | |
| Balance at April 1, 2018 | **98,799** | **6,304** | **-** | **105,103** |
| Transfers in (out) - Stage 2 | **5,208** | **(5,208)** | **-** | **-** |
| Transfers in (out) - Stage 3 | **-** | **(858)** | **858** | **-** |
| Provision for impaired loans | **45,762** | **-** | **-** | **45,762** |
| Balance at March 31, 2019 | **149,769** | **238** | **858** | **150,865** |

| | *12-month ECL* | *Lifetime ECL (not credit impaired)* | *Lifetime ECL (credit impaired)* | *Total* |
|---|---|---|---|---|
| **Mortgages receivable** | | | | |
| Balance at April 1, 2019 | **149,769** | **238** | **858** | **150,865** |
| Transfers in (out) - Stage 2 | **(42,468)** | **42,468** | **-** | **-** |
| Transfers in (out) - Stage 3 | **-** | **(36,754)** | **36,754** | **-** |
| Provision for impaired loans | **3,140** | **-** | **5,000** | **8,140** |
| Balance at March 31, 2020 | **110,441** | **5,952** | **42,612** | **159,005** |

The Company has reduced loss allowances for mortgages receivable by the estimated fair market value of collateral held.

As at March 31, 2020, the Company had no property held for sale (2019 - 2), with a carrying amount of nil (2019 – $418,667), which was obtained by taking possession of collateral held as security on mortgages receivable.

***Interest rate risk***

Interest rate risk is the risk that the value of a financial instrument might be adversely affected by a change in the interest rates. Changes in market interest rates may have an effect on the cash flows associated with some financial assets and liabilities, known as cash flow risk, and on the fair value of other financial assets or liabilities, known as price risk. In seeking to minimize the risks from interest rate fluctuations, the Company manages exposure 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 Company is exposed to interest rate risk with respect to mortgages receivable, all of which are expected to be realized within one year, and which are subject to fixed interest rates ranging from 6% to 25% (2019 – 10% to 25%). The Company's bank indebtedness has a floating rate of interest set at prime plus 2.5% (2019 – prime plus 2.5%). The Company is not exposed to significant interest rate risk on any other financial assets or liabilities.

***Liquidity risk***

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivery of cash or another financial asset. The Company enters into transactions to borrow funds from financial institutions and obtain investments from shareholders, for which repayment is required at various maturity dates. Liquidity risk is measured by reviewing the Company's future net cash flows for the possibility of negative net cash flow.

The Company manages the liquidity risk resulting from its accounts payable and accrued liabilities and bank indebtedness by reviewing forecasted cash flow.

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

**Fair value measurements**

The Company's financial instruments recognized on the Statement of Financial Position consist of interest receivable, mortgages receivable, 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.

For mortgages receivable classified as Level 3 of the hierarchy, there are no quoted prices in an active market for these mortgages. 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 by the estimated net realizable value of the underlying security.

***Recurring fair value measurements***

The Company's liability measured at fair value on a recurring basis is bank indebtedness and has been categorized in the fair value hierarchy as noted below.

***Assets and liabilities for which fair value is only disclosed***
The Company's assets and liabilities (by class) not measured at fair value at March 31, 2020 but for which fair value is disclosed is interest receivable, mortgage receivable and accounts payable and accrued liabilities

| | ***Fair Value*** | ***Level 1*** | ***Level 2*** | ***2020 Level 3*** |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash held in trust | **352,198** | **352,198** | **-** | **-** |
| Interest receivable | **106,989** | **-** | **-** | **106,989** |
| Mortgages receivable | **5,742,187** | **-** | **-** | **5,742,187** |
| Total | **6,201,374** | **352,198** | **-** | **5,849,176** |
| **Liabilities** | | | | |
| Bank indebtedness | **294,736** | **294,736** | **-** | **-** |
| Accounts payable and accrued liabilities | **60,468** | **-** | **-** | **60,468** |
| Notes payable | **36,980** | **-** | **-** | **36,980** |
| Total | **392,184** | **294,736** | **-** | **97,448** |

| | *Fair Value* | *Level 1* | *Level 2* | *2019 Level 3* |
|---|---|---|---|---|
| **Assets** | | | | |
| Interest receivable | 67,583 | - | - | 67,583 |
| Mortgages receivable | 5,100,450 | - | - | 5,100,450 |
| Total | 5,168,033 | - | - | 5,168,033 |
| **Liabilities** | | | | |
| Bank indebtedness | 412,179 | 412,179 | - | - |
| Accounts payable and accrued liabilities | 18,000 | - | - | 18,000 |
| Total | 430,179 | 412,179 | - | 18,000 |

## 16. Events after the reporting period

Subsequent to year end, the Company assumed three properties. The total balance outstanding on these mortgages at March 31, 2020 was $389,654.