Aroi Mortgage Investment Corporation Inc.
Financial Statements
March 31, 2023

Contents

For the year ended March 31, 2023

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, 2023, 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, 2023, 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.

Auditors' 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.

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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

December 14, 2023

MNP LLP

Chartered Professional Accountants

Aroi Mortgage Investment Corporation Inc.
Statement of Financial Position
As at March 31, 2023

	2023	2022
Assets		
Cash *(Note 6)*	**472,085**	534,394
Interest receivable	**131,794**	106,286
Prepaid expenses	**46,359**	16,359
Mortgages receivable *(Note 7)*	**11,252,644**	8,816,142
	11,902,882	9,473,181
Liabilities		
Bank indebtedness *(Note 9)*	**2,680,855**	1,015,089
Accounts payable and accrued liabilities	**189,913**	98,837
Notes payable	**130,000**	130,000
Prepayments	**31,524**	3,952
	3,032,292	1,247,878
Commitments *(Note 13)*		
Equity		
Share capital *(Note 11)*		
Common shares *(Note 11)*	**670**	690
Redeemable preferred shares (Aggregate redemption amount of $8,683,210; 2022 - $7,950,330) *(Note 11)*	**8,618,873**	7,885,993
Retained earnings	**251,047**	338,620
	8,870,590	8,225,303
	11,902,882	9,473,181

Approved on behalf of the Board

Director **Director**

The accompanying notes are an integral part of these financial statements

Aroi Mortgage Investment Corporation Inc.
Income Statement and Other Comprehensive Income
For the year ended March 31, 2023

	2023	*2022*
Revenue		
Interest revenue	**1,184,371**	1,007,711
Fee income	**535,519**	523,380
Other income	**19,591**	30,035
	1,739,481	1,561,126
Expenses		
Accounting fees	**25,343**	31,991
Directors fees	**13,800**	12,000
Dues and subscriptions	**741**	-
Insurance	**61,895**	16,944
Interest and bank charges	**96,804**	30,607
Legal fees	**32,814**	27,345
Management fees *(Note 14)*	**680,291**	523,194
Office	**-**	32
Referral fees	**-**	49,266
	911,688	691,379
Income and comprehensive income for the year before other items	**827,793**	869,747
Other items		
(Provision for) recovery of credit losses on mortgages receivable *(Note 7)*	**-**	60,389
Gains (losses) on property held for sale *(Note 7), (Note 8)*	**-**	1,172
Mortgage costs	**(4,023)**	-
	(4,023)	61,561
Net income and comprehensive income for the year	**823,770**	931,308

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, 2023

	Common Shares	*Common Shares Amount*	*Preferred Shares*	*Preferred Shares Amount*	*Retained earnings*	*Total equity*
Balance March 31, 2021	**70**	**700**	**733,211**	**7,268,919**	**161,860**	**7,431,479**
Net income for the year	**-**	**-**	**-**	**-**	**931,308**	**931,308**
Dividends	**-**	**-**	**-**	**-**	**(754,548)**	**(754,548)**
Issuance of preferred shares under dividend reinvestment plan	**-**	**-**	**66,604**	**666,040**	**-**	**666,040**
Share issuance costs	**-**	**-**	**-**	**(1,146)**	**-**	**(1,146)**
Share redemption	**(1)**	**(10)**	**(4,782)**	**(47,820)**	**-**	**(47,830)**
Balance March 31, 2022	**69**	**690**	**795,033**	**7,885,993**	**338,620**	**8,225,303**
Net income for the year	**-**	**-**	**-**	**-**	**823,770**	**823,770**
Dividends	**-**	**-**	**-**	**-**	**(911,343)**	**(911,343)**
Issuance of preferred shares under dividend reinvestment plan	**-**	**-**	**82,513**	**825,130**	**-**	**825,130**
Share redemption	**(2)**	**(20)**	**(9,225)**	**(92,250)**	**-**	**(92,270)**
Balance March 31, 2023	**67**	**670**	**868,321**	**8,618,873**	**251,047**	**8,870,590**

Aroi Mortgage Investment Corporation Inc.

Statement of Cash Flows

For the year ended March 31, 2023

	2023	*2022*
Cash provided by (used for) the following activities		
Operating activities		
Net income and comprehensive income for the year	**823,770**	931,308
Provision for (recovery of) credit losses on mortgages receivable	**-**	(60,389)
Provision for (recovery of) loss on property held for sale	**-**	(1,172)
	823,770	869,747
Changes in operating assets and liabilities		
Interest receivable	**(25,511)**	(18,899)
Mortgages receivable	**(2,436,503)**	(2,324,121)
Property held for sale	**-**	13,988
Prepaid expenses	**(30,000)**	(4,671)
Accounts payable and accrued liabilities	**91,079**	(38,953)
Deferred revenue	**27,572**	(10,597)
	(1,549,591)	(1,513,506)
Financing activities		
Redemption of common shares	**(20)**	(10)
Redemption of preferred shares	**(92,250)**	(47,820)
Share issuance costs	**-**	(1,146)
Dividends paid	**(86,213)**	(88,478)
Notes payable received	**-**	482,301
Repayment of notes payable	**-**	(352,301)
Net advances of bank indebtedness	**1,665,765**	1,015,089
	1,487,282	1,007,635
Decrease in cash resources	**(62,309)**	(505,871)
Cash resources, beginning of year	**534,394**	1,040,265
Cash resources, end of year	**472,085**	534,394

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 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, 2023 were authorized for issue in accordance with a resolution of the directors on December 8, 2023.

3. Change in accounting policies

Standards and Interpretations effective in the current period

The Company adopted amendments to the following standards, effective April 1, 2022. Adoption of these amendments had no effect on the Company’s financial statements.

- IFRS 16 Leases, and
- IAS 37 Provisions, Contingent Liabilities and Contingent Assets

4. 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 forms an integral part of the Company’s cash management system. Bank indebtedness is repayable on demand and presented separately on the Statement of Financial Position.

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. Accrued interest is presented separately on the Statement of Financial Position.

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

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 fair value less costs to sell. 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 revenue 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 this 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 as the Company does not have an enforceable right to payment until services are rendered.

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.

The Company does not expect to have any contracts where the period between the transfer of the promised goods or services to a client and payment by a client exceeds one year. Consequently, the Company does not adjust any transactions for the time value of money.

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.

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

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 receivable 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.

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

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 ("Stage 1"), unless there has been a significant increase in credit risk since initial recognition ("Stage 2"). 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 ("Stage 3"). 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.

Refer to Note 16 for additional information about the Company's credit risk management process, credit risk exposure and the amounts arising from expected credit losses.

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

Derecognition of financial assets

The Company applies its accounting policies for the derecognition of a financial asset to a part of a financial asset only when:

- The part comprises only specifically identified cash flows from a financial asset;
- The part comprises only a pro-rata share of the cash flows from a financial asset; or
- The part comprises only a pro-rata share of specifically identified cash flows from a financial asset.

In all other situations the Company applies its accounting policies for the derecognition of a financial asset to the entirety of a financial asset.

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.

Where substantially all risks and rewards of ownership have been transferred, or risks and rewards have neither been transferred nor retained and control of the financial asset has not been retained, the Company derecognizes the financial asset. At the same time, the Company separately recognizes as assets or liabilities the fair value of any rights and obligations created or retained in the transfer. Any difference between the carrying amount measured at the date of recognition and the consideration received is recognized in profit or loss.

Modification of financial assets

The Company assesses the modification of terms of a financial asset to evaluate whether its contractual rights to the cash flows from that asset have expired in accordance with the Company's derecognition policy.

When the modifications do not result in derecognition of the financial asset, the gross carrying amount of the financial asset is recalculated with any difference between the previous carrying amount and the new carrying amount recognized in profit or loss. The new gross carrying amount is recalculated as the present value of the modified contractual cash flows discounted at the asset's original effective interest rate.

For the purpose of applying the impairment requirements, at each reporting date subsequent to the modification, the Company continues to assess whether there has been a significant increase in credit risk on the modified financial assets from the date of initial recognition.

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.

Where an instrument contains both a liability and equity component, these components are recognized separately based on the substance of the instrument, with the liability component measured initially at fair value and the equity component assigned the residual amount. Transaction costs of equity transactions are treated as a deduction from equity.

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

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 and notes payable.

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.

Amendments to IFRS 9 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.

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.

Offsetting

Financial assets and financial liabilities are offset, with the net amount presented in the Statement of Financial Position, when, and only when, the Company has a current and legally enforceable right to set off the recognized amounts and intends either to settle on a net basis or realize the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRS, or when arising from a group of similar transactions if the resulting income and expenses are not material

Collateral

The Company recognizes the proceeds from the sale of any non-cash collateral that has been pledged to it and a liability measured at fair value for its obligation to return the collateral.

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

If a debtor defaults under the terms of its contract and is no longer entitled to the return of any collateral, the Company recognizes the collateral as an asset initially measured at fair value or, if it has already sold the collateral, derecognizes its obligation to return the collateral.

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

There are no standards issued but not yet effective relevant to the Company as at March 31, 2023.

5. Basis of preparation

Basis of measurement

The financial statements have been prepared on the historical cost basis except for the revaluation of certain financial instruments.

The significant accounting policies are set out in Note 4.

Functional and presentation currency

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

Significant accounting judgments, estimates and assumptions

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

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

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:

Key assumptions in determining the 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:

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

- Forward looking information used as economic inputs including expected significant increase in unemployment rates and interest rates;
- Changes in the value of the collateral supporting the obligation;
- Expected or actual changes in internal credit ratings of the borrower;
- 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 mortgages during their expected lives being no longer than 12 months after the reporting date due to the short-term nature of the mortgages;
- 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.

6. Cash

Included in cash is $120,000 (2022 - $120,000) of funds held in trust.

7. Mortgages receivable

Portfolio of 82 (2022 - 92) mortgages bearing interest at fixed rates from 6% to 20% (2022 - 6% to 20%) and an average rate of 12.84% (2022 - 13.10%), maturities ranging from June 2023 to June 2024, secured by real property to which they relate and by additional security in certain circumstances.

During the year, the Company recognized a gain (loss) on property held for sale of nil (2022 - $1,172) and recorded a (provision for) recovery of credit losses on mortgages receivable of nil (2022 - $60,389). At year end, the Company had two mortgage receivables that are considered to be credit impaired (2022 - two).

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 2) fully secured and collection efforts are reasonably expected to result in repayment.

At March 31, 2023, the Company did not have any mortgages past due that were not credit impaired. For the year ended March 31, 2022, the mortgages past due but not credit impaired are as follows:

	Under 30 days $	***31-60 days $***	***61-90 days $***	***91 days and greater $***	***Total $***
March 31, 2022:					
Residential	62,992	190,149	-	-	253,141

	2023		*2022*	
Effective interest rates (%)	***Number of mortgages***	***Amortized cost of fair value***	*Number of mortgages*	*Amortized cost of fair value*
6%	**1**	**61,709**	1	61,711
10%	**1**	**40,670**	1	42,774
12%	**23**	**5,863,042**	39	6,226,878
13%	**18**	**3,471,449**	2	84,860
14%	**4**	**610,328**	4	632,603
15%	**9**	**429,141**	15	837,341
	-	**-**	-	-
16%	**13**	**504,671**	17	690,780
17%	**8**	**263,402**	8	215,275
18%	**3**	**90,335**	3	99,271
19%	**1**	**6,933**	1	9,540
20%	**1**	**5,661**	1	9,806
22%	**-**	**-**	-	-
25%	**-**	**-**	-	-
	82	**11,347,341**	92	8,910,839
Allowance for mortgage losses	**-**	**(94,696)**	-	(94,696)
	82	**11,252,645**	92	8,816,143

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

8. Property held for sale

At March 31, 2021, the Company held one residential property for sale with a net carrying value of $13,998. During the prior year, the residential property was sold for proceeds of $13,998.

During the year, the Company did not acquire or dispose of any residential property held for sale.

9. Bank indebtedness

The Company has an available line of credit of $3,500,000 (2022 - $3,500,000) of which $2,680,855 (2022 - $1,015,070) had been drawn down. The line of credit bears interest at the credit union prime rate of interest plus 1.75% (2002 - credit union prime rate of interest plus 1.75%). The available line of credit is also subject to margining determined on a monthly basis. The margin calculation is calculated by the sum of 50% of first charge mortgages less:

- the full amount of any mortgages in arrears;
- the full amount of mortgages with loan to value greater than 75%;
- any mortgages on commercial properties; and
- accounts payable and Super Priorities.

During the year, the credit facility agreement was amended to include a contingent liability with a maximum value of $1,400,000 to support the payment stream. This line of credit bears interest at the credit union's prime rate of interest plus 2.0%. There were no drawdowns outstanding at March 31, 2023.

The credit facility is secured by a debenture containing an assignment of the mortgage receivable portfolio, including present and future mortgages; and a registered General Security Agreement, giving a first charge on accounts receivable.

10. Income taxes

In computing the current year's income for tax purposes, the Company deducted $308,419 (2022 - $396,129) of dividends paid within 90 days of the end of the year.

11. 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:

	2023	*2022*
67 Common Shares	**670**	690
868,321 Class A Preferred Shares	**8,618,873**	7,885,993
	8,619,543	7,886,683

Redeemable Class A preferred shares

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

	Number of shares	***Share capital***	***Share premium***
5.1% share issuance under dividend reinvestment plan declared in June 2022	**38,005**	**380,050**	**-**
2.0% share issuance under dividend reinvestment plan declared in September 2022	**14,865**	**148,650**	**-**
2.0% share issuance under dividend reinvestment plan declared in December 2022	**15,038**	**150,380**	**-**
2.0% share issuance under dividend reinvestment plan declared in March 2023	**14,605**	**146,050**	**-**
Class A Preferred shares redeemed	**9,225**	**92,250**	**-**

Subsequent to year end, 7,220 Class A preferred shares were redeemed for $72,220. The Company also issued 44,845 Class A preferred shares for $448,450 under dividend reinvestment plans.

12. Earnings per share

	2023	*2022*
Basic earnings per share	**0.99**	1.22

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:

	2023	*2022*
Earnings used in the calculation of total basic earnings per share	**823,770**	931,327

	2023	*2022*
Weighted average number of shares	**832,721**	760,816

Diluted earnings per share

There is no dilutive effect during the years ending March 31, 2023 and March 31, 2022; therefore, the basic EPS equals the diluted EPS.

13. Commitments

The Company has a commitment with an arm's length party to pay management fees. Management fees include a basic fee and an annual fee.

The basic fee is equal to 1.5% of the mortgage balance and is determined at the end of each month.

The annual mortgage 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% of the paid up capital up to and including 15% of the paid up capital.;

iii) If yield is more than 15%, an amount equal to half of the yield which exceeds 15% of the paid up capital.

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, 2023, the Company has committed to funding mortgages for $397,000 (2022 - $541,151).

14. Related party transactions

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

	2023	*2022*
Management fees paid to AROI Management Incorporated, a company controlled by two directors	**-**	184,501

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.

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 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.

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.

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 receivable 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:

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

- 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.

The Board of Directors are involved in financial instrument risk management oversight, including setting risk management policies. There have been no significant changes from the previous year in the Company's risks to which it is exposed or its general policies and procedures for managing risk which include:

- 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.

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

8. Credit bureau analysis.

9. Interviews with every borrower.

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, 2023, is the fair value of its interest receivable and mortgages receivable which total $11,384,438 (2022 - $8,922,427).

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, 2023, 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:

	2023	*2022*
First charge mortgages	**10,595,449**	8,227,208
Second charge mortgages	**751,892**	683,631
	11,347,341	8,910,839

*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%.

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 7.

Collateral obtained
During the year the Company did not obtain any assets by taking possession of collateral. 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.

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

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 Company uses the expected loss model to record an allowance against mortgage receivables. The allowance is broken into three stages. Stage 1 contains all mortgages that are not delinquent and do not have any known additional risk. Stage 2 contains all loans delinquent between 31 and 90 days, and any loan that has been assessed to have additional risk.

The Company identifies credit-impaired financial assets through regular reviews of past due balances and credit assessments of its borrowers. Stage 3 contains all delinquent loans over 90 days, bankruptcy, consumer proposals, credit counselling and accounts that are in serious default with little change of recovery. The probability of default, risk adjustment and loss given default are used to determine the the expected credit loss for the Company's residential mortgage receivable portfolio.

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 (2022 – 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.

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

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

	2023			
	12-month ECL	***Lifetime ECL (not credit impaired)***	***Lifetime ECL (credit impaired)***	***Total***
Financial assets				
Mortgages receivable				
Low	**11,290,772**	**-**	**-**	**11,290,772**
Medium	**-**	**-**	**56,568**	**56,568**
High	**-**	**-**	**-**	**-**
Loan commitments	**-**	**-**	**-**	**-**
Interest receivable	**114,414**	**-**	**17,380**	**131,794**
	11,405,186	**-**	**73,948**	**11,479,134**
Less: loss allowance	**28,489**	**-**	**66,207**	**94,696**
Total carrying amount	**11,376,697**	**-**	**7,741**	**11,384,438**

	2022			
	12-month ECL	*Lifetime ECL (not credit impaired)*	*Lifetime ECL (credit impaired)*	*Total*
Financial assets				
Mortgages receivable	-	-	-	-
Low	8,672,358	-	-	8,672,358
Medium	-	190,149	48,331	238,480
High	-	-	-	-
Loan commitments	541,151	-	-	541,151
Interest receivable	88,171	5,981	12,134	106,286
	9,301,680	196,130	60,465	9,558,275
Less: loss allowance	40,299	882	53,515	94,696
Total carrying amount	9,261,381	195,248	6,950	9,463,578

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.

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

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, 2021	**114,026**	**-**	**52,649**	**166,675**
Transfers in (out) - Stage 2	**(12,473)**	**12,473**	**-**	**-**
Transfers in (out) - Stage 3	**-**	**(11,590)**	**11,590**	**-**
Provision for (recovery of) impaired loans	**(61,255)**	**-**	**866**	**(60,389)**
Accounts written off	**-**	**-**	**(11,590)**	**(11,590)**
Balance at March 31, 2022	**40,298**	**883**	**53,515**	**94,696**
Mortgages receivable				
Balance at April 1, 2022	**40,298**	**883**	**53,515**	**94,696**
Transfers in (out) - Stage 2	**883**	**(883)**	**-**	**-**
Transfers in (out) - Stage 3	**-**	**-**	**-**	**-**
Provision for (recovery of) impaired loans	**-**	**-**	**-**	**-**
Accounts written off	**-**	**-**	**-**	**-**
Balance at March 31, 2023	**41,181**	**-**	**53,515**	**94,696**

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

The following tables explain how significant changes in the gross carrying amount of financial instruments during the year contributed to changes in the loss allowance.

As at March 31, 2023, the Company had nil property held for sale (2022 - nil), with a carrying amount of $nil (2022 – $nil), 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 20% (2022 – 6% to 20%). The Company's bank indebtedness has a floating rate of interest set at credit union prime plus 1.75% (2022 – prime plus 1.75%). The Company is not exposed to significant interest rate risk on any other financial assets or liabilities.

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

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 bank indebtedness, accounts payable and accrued liabilities and notes payable 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 consists of cash, 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.

Financial assets measured at fair value include cash.

Financial instruments not measured at fair value

The carrying amount, fair value and categorization into the fair value hierarchy of all other financial assets and financial liabilities held by the Company and not measured at fair value on the Statement of Financial Position are as follows:

	Fair Value	*Level 1*	*Level 2*	*2023 Level 3*
Financial assets measured at amortized cost				
Interest receivable	**131,794**	**-**	**-**	**131,794**
Mortgages receivable	**11,252,644**	**-**	**-**	**11,252,644**
Total	**11,384,438**	**-**	**-**	**11,384,438**
Financial liabilities measured at amortized cost				
Bank indebtedness	**2,680,855**	**2,680,855**	**-**	**-**
Accounts payable and accrued liabilities	**189,916**	**-**	**-**	**189,916**
Notes payable	**130,000**	**-**	**-**	**130,000**
Total	**3,000,771**	**2,680,855**	**-**	**319,916**

16. Financial Instruments *(Continued from previous page)*

	Fair Value	*Level 1*	*Level 2*	*2022* *Level 3*
Financial assets measured at amortized cost				
Interest receivable	106,286	-	-	106,286
Mortgages receivable	8,816,142	-	-	8,816,142
Total	8,922,428	-	-	8,922,428
Financial liabilities measured at amortized cost				
Bank indebtedness	1,015,070	1,015,070	-	-
Accounts payable and accrued liabilities	98,837	-	-	98,837
Notes payable	130,000	-	-	130,000
Total	1,243,907	1,015,070	-	228,837

17. Events after the reporting period

Subsequent to year-end, the Company declared dividends of $522,606 of which $448,450 were paid by way of issuing 44,845 Class A preferred shares and $74,155 as cash dividends.