

FINANCIAL STATEMENTS
For
ADVANCED MORTGAGE INVESTMENT CORPORATION
For the year ended
AUGUST 31, 2023

INDEPENDENT AUDITOR'S REPORT

To the shareholders of

ADVANCED MORTGAGE INVESTMENT CORPORATION

Opinion

We have audited the financial statements of Advanced Mortgage Investment Corporation (the "Corporation"), which comprise the statement of financial position as at August 31, 2023, and the statements of income and 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 and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Corporation as at August 31, 2023 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

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 Corporation in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our 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 Corporation'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 Corporation or to cease operations, or has no realistic alternative but to do so.

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

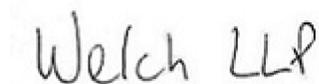
Auditor's Responsibilities for the Audit of the Financial Statements

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 Corporation'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 Corporation'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 Corporation 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.



Chartered Professional Accountants
Licensed Public Accountants

Ottawa, Ontario
November 7, 2023.

ADVANCED MORTGAGE INVESTMENT CORPORATION

STATEMENT OF FINANCIAL POSITION

AUGUST 31, 2023

	<u>2023</u>	<u>2022</u>
<u>ASSETS</u>		
Cash	\$ 318,197	\$ 1,545
Accounts receivable	9,650	2,702
Mortgage investments (notes 5, 6 and 8)	66,233,304	59,670,875
Prepaid expenses	<u>8,574</u>	<u>6,461</u>
	<u>\$ 66,569,725</u>	<u>\$ 59,681,583</u>
<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>		
LIABILITIES		
Bank loans (note 7)	\$ 15,130,694	\$ 13,477,736
Accounts payable and accrued liabilities (note 8)	110,881	615,455
Dividends payable - cash (note 9)	127,536	134,688
Dividends payable - dividend reinvestment plan (notes 8 and 9)	1,007,139	836,918
Preferred shares (notes 8 and 9)	<u>50,193,375</u>	<u>44,616,686</u>
	<u>66,569,625</u>	<u>59,681,483</u>
SHAREHOLDERS' EQUITY		
Common shares (note 10)	100	100
Retained earnings (note 3)	<u>-</u>	<u>-</u>
	<u>100</u>	<u>100</u>
	<u>\$ 66,569,725</u>	<u>\$ 59,681,583</u>

Approved by the Board:

KEN ALGER
 Director

MICHAEL HAPKE
 Director

(See accompanying notes)

ADVANCED MORTGAGE INVESTMENT CORPORATION

STATEMENT OF CHANGES IN EQUITY

YEAR ENDED AUGUST 31, 2023

	<u>Common shares</u>		<u>Retained earnings</u>	<u>Total</u>
	<u>Number</u>	<u>Amount</u>		
Balance at August 31, 2021	100	\$ 100	\$ -	\$ 100
Comprehensive income for the year ended August 31, 2022	-	-	-	-
Balance at August 31, 2022	100	100	-	100
Comprehensive income for the year ended August 31, 2023	-	-	-	-
Balance at August 31, 2023	<u>100</u>	<u>\$ 100</u>	<u>\$ -</u>	<u>\$ 100</u>

(See accompanying notes)

ADVANCED MORTGAGE INVESTMENT CORPORATION
STATEMENT OF INCOME AND COMPREHENSIVE INCOME
YEAR ENDED AUGUST 31, 2023

	<u>2023</u>	<u>2022</u>
Revenue		
Mortgage interest and fees (note 3)	\$ 7,412,102	\$ 4,780,040
Amortization of mortgage investments transaction costs (note 5)	<u>(451,955)</u>	<u>(412,594)</u>
	6,960,147	4,367,446
Administration fees earned	<u>316,062</u>	<u>254,193</u>
	<u>7,276,209</u>	<u>4,621,639</u>
Expenses		
Agency fees (note 8)	338,225	188,954
Bank charges	7,055	7,793
Insurance	21,758	5,953
Interest, commission and other fees (notes 7 and 8)	1,454,588	412,888
Management fees (note 8)	1,623,498	1,275,160
Office and general (note 8)	38,537	32,799
Professional fees	58,747	29,765
Provision for mortgage losses (note 5)	<u>32,317</u>	<u>-</u>
	<u>3,574,725</u>	<u>1,953,312</u>
Income before dividends on preferred shares	3,701,484	2,668,327
Dividends on preferred shares (notes 8 and 9)	<u>3,649,298</u>	<u>2,638,199</u>
Net income	52,186	30,128
Share issuance costs expensed upon redemption of preferred shares (note 9)	<u>52,186</u>	<u>30,128</u>
Comprehensive income	<u>\$ -</u>	<u>\$ -</u>

(See accompanying notes)

ADVANCED MORTGAGE INVESTMENT CORPORATION

STATEMENT OF CASH FLOWS

YEAR ENDED AUGUST 31, 2023

	<u>2023</u>	<u>2022</u>
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES		
Comprehensive income	\$ -	\$ -
Adjustments for:		
Amortization of mortgage investments transaction costs	451,955	412,594
Provision for mortgage losses	32,317	-
Share issuance costs expensed upon redemption of preferred shares	52,186	30,128
Amortization of debt financing costs	225,600	231,244
Reinvested dividends	<u>3,011,317</u>	<u>1,821,667</u>
	3,773,375	2,495,633
Changes in level of:		
Accounts receivable	(6,948)	975
Prepaid expenses	(2,113)	(5,063)
Accounts payable and accrued liabilities	(504,574)	229,041
Dividends payable	163,069	428,473
Mortgage interest receivable	(256,497)	(163,876)
Accrued interest payable	<u>77,358</u>	<u>33,336</u>
	<u>3,243,670</u>	<u>3,018,519</u>
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES		
Mortgage advances	(61,913,678)	(78,088,592)
Mortgage discharge and principal repayments	55,561,806	49,612,390
Mortgage investment transaction costs incurred	<u>(438,332)</u>	<u>(474,187)</u>
	<u>(6,790,204)</u>	<u>(28,950,389)</u>
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES		
Net proceeds from bank loans	1,350,000	13,213,156
Issuance of preferred shares	6,519,154	14,710,435
Redemption of preferred shares	(3,873,684)	(2,713,423)
Preferred shares issuance costs incurred	<u>(132,284)</u>	<u>(250,172)</u>
	<u>3,863,186</u>	<u>24,959,996</u>
INCREASE (DECREASE) IN CASH	316,652	(971,874)
CASH AT BEGINNING OF YEAR	<u>1,545</u>	<u>973,419</u>
CASH AT END OF YEAR	\$ <u>318,197</u>	\$ <u>1,545</u>

(See accompanying notes)

ADVANCED MORTGAGE INVESTMENT CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED AUGUST 31, 2023

1. NATURE OF OPERATIONS

Advanced Mortgage Investment Corporation (the "Corporation") is incorporated under the Canada Business Corporations Act. The Corporation's registered office and business office is located at 788 Island Park Drive in Ottawa, Ontario.

The Corporation is a Mortgage Investment Corporation ("MIC") as defined in Section 130.1 (6) of the Canada Income Tax Act. Section 130.1 (6) of the Income Tax Act prescribes the tax treatment of a MIC allowing the income earned on mortgages to be passed on to the shareholders in a flow-through manner. The flow-through is accomplished by a dividend which is deducted from the annual income for tax purposes but taxed as bond interest in the hands of the recipients.

2. BASIS OF PRESENTATION

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") including International Accounting Standards prevailing at August 31, 2023.

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

The financial statements are presented using the Canadian dollar which is the Corporation's functional currency.

The financial statements were authorized for issue by the Board of Directors on November 7, 2023.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies presented below have been applied consistently to all periods presented in the financial statements.

Financial instruments

Financial instruments are initially recognized at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and liabilities (other than financial assets and liabilities at fair value through profit or loss ("FVTPL")) are added to or deducted from the fair value of the financial assets or financial liabilities on initial recognition. Transaction costs directly attributable to the acquisition of financial assets and liabilities at FVTPL are expensed when incurred.

Financial assets

Financial assets that meet the following conditions are subsequently measured at amortized cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amounts outstanding.

ADVANCED MORTGAGE INVESTMENT CORPORATION

NOTES TO THE FINANCIAL STATEMENTS - Cont'd.

YEAR ENDED AUGUST 31, 2023

3. SIGNIFICANT ACCOUNTING POLICIES - Cont'd.

Financial instruments - Cont'd.

Financial assets - Cont'd.

Financial assets that meet the following conditions are subsequently measured at fair value through other comprehensive income ("FVTOCI"):

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets that are not measured at amortized cost or at FVTOCI are measured at FVTPL.

Cash, accounts receivable and mortgage investments are subsequently measured at amortized cost.

All other financial assets are subsequently measured at FVTPL.

Financial liabilities

Financial liabilities are classified as either financial liabilities at FVTPL or amortized cost. All financial liabilities which include bank loans, accounts payable and accrued liabilities, dividends payable and preferred shares are initially recognized at fair value and subsequently measured at amortized cost.

Impairment

Mortgage investments are assessed for impairment at the end of each reporting period in accordance with IFRS 9 - *Financial Instruments* as outlined below with any provision recorded as a reduction of the reported mortgage investments on the statement of financial position and reported separately in the statement of income and comprehensive income.

The amount of any expected credit loss ("ECL") is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

IFRS 9 uses an ECL model to determine the provision for credit losses. The ECL model is forward looking and results in a provision for mortgage losses being recorded on the financial statements regardless if there has been a loss event. ECLs are the difference between the present value of all contractual cash flows that are due under the original terms of the loan and the present value of all of the cash flows expected to be received.

The ECL model uses a three-stage impairment approach based on changes in the credit risk of the financial asset since initial recognition. The three stages are as follows: Stage 1 - financial assets that have not experienced a significant increase in credit risk since initial recognition; Stage 2 - financial assets that have experienced a significant increase in credit risk between initial recognition and the reporting date; and Stage 3 - financial assets for which there is objective evidence of impairment at the reporting date. The Corporation considers a number of factors, as detailed below, when assessing if there has been a significant increase in credit risk. The ECL model requires the recognition of credit losses equal to the 12-month ECLs for Stage 1 financial assets and ECLs for the remaining life of the financial assets for Stage 2 and 3 financial assets.

The Corporation may classify mortgages as impaired due to 1) actual default, 2) technical default, 3) significant increased credit risk ("SICR") and 4) increased market risk.

The Corporation maintains strict controls around 1) actual default, defined as failure to make a scheduled payment under the mortgage contract. The Corporation acts immediately upon the instance of an NSF (non-sufficient funds) payment.

ADVANCED MORTGAGE INVESTMENT CORPORATION
NOTES TO THE FINANCIAL STATEMENTS - Cont'd.
YEAR ENDED AUGUST 31, 2023

3. SIGNIFICANT ACCOUNTING POLICIES - Cont'd.

Impairment - Cont'd.

Technical default can include failure to maintain insurance, failure to repay property taxes when due, default in prior or subsequent encumbrances, failure to maintain property or any other breach of the standard charge terms or mortgage contract.

The Corporation monitors loans more closely with 3) SICR, and on an individual basis given their significance and unique characteristics. Situations that cause SICR can include loss of income of the borrower, death of the borrower or co-borrowers, or a deterioration in the creditworthiness of the borrower.

At each period-end, the Corporation calculates impairment allowance for 3) SICR on a file by file basis using the following methodology, with information available without undue cost or effect on an individual basis:

- The Corporation determines if mortgages have SICR.
- Mortgage receivables are considered to have similar risk characteristics when they are in the same geographical area which are secured by real property as collateral, as well as (in most instances) a Personal Property Security Act ("PPSA") registration against the borrower(s) and any guarantor(s).
- The Corporation presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Corporation has reasonable and supportable information that demonstrates otherwise.
- The Corporation considers any loans over 90 days past due to be credit impaired.
- Mortgages in actual and/or technical default are further analysed and assessed for impairment on a per-file basis.
- Impairment losses resulting from a mortgage default is determined using a provision matrix that can be adjusted on a file by file basis for factors that are specific to the property securing the mortgage, the circumstances of the borrowers and guarantors, general economic conditions in the regional market in which the property is located and an assessment of both the current and the forecast direction of real estate market conditions at the reporting date, including the expected timeline for the resolution of any foreclosure or power of sale process (where appropriate).

The Corporation monitors the overall 4) market risk and assesses the impact of increased market risk on the mortgage portfolio. The market risk assessment includes an evaluation of currency risk, interest rate risk, and the other price risks associated with residential real estate in the Ottawa, Greater Toronto Area and surrounding areas (see note 5).

Cash

Cash includes cash on deposit with financial institutions.

Accrued interest receivable

Accrued interest receivable on mortgages is calculated on each individual mortgage balance at year-end using the effective interest rate associated with the mortgage balance. Accrued interest is included with mortgage investments.

Revenue recognition

Revenue is substantively derived from the funding of non-conforming mortgages with funds raised from investors. Administration fees charged on servicing the mortgages are recognized when services are rendered. Commitment fees are recognized over the expected term of the mortgage commitment when collection is determinable. Commitment fees are paid to the lender to compensate for its commitment to fund the potential mortgage contract since it has set aside the funds for the borrower and cannot yet charge interest which is an integral part of generating an involvement with the resulting mortgage.

Interest on mortgage investments is recognized using the effective interest rate method. The Corporation's interest income is from financial instruments measured at amortized cost. Interest income is recognized on a monthly basis, earned over the term of the arranged mortgage.

ADVANCED MORTGAGE INVESTMENT CORPORATION
NOTES TO THE FINANCIAL STATEMENTS - Cont'd.
YEAR ENDED AUGUST 31, 2023

3. **SIGNIFICANT ACCOUNTING POLICIES - Cont'd.**

Income taxes

It is the intention of the Corporation to qualify as a MIC for Canadian income tax purposes. As such, the Corporation is able to deduct, in computing its income for a taxation year, dividends paid to its preferred shareholders during the year or within 90 days of the end of the year. The Corporation intends to maintain its status as a MIC and pay dividends to its shareholders in the year and in future years to ensure that it will not be subject to income taxes. Accordingly, for financial statement reporting purposes, the tax deductibility of the Corporation's distribution results in the Corporation being effectively exempt from taxation and as such, no provision for current or deferred income taxes is required for the Corporation.

Preferred shares

The Corporation classifies preferred shares strictly based on their substance. Preferred shares which provides for mandatory redemption by the Corporation for a fixed or determinable amount at a fixed or determinable future date, or gives the holder the right to require the issuer to redeem the share at or after a particular date for a fixed or determinable amount, meets the definition of a financial liability and is classified as such.

Use of estimates and judgements

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates. Changes in estimates are recorded in the accounting period in which they are determined.

Management makes accounting estimates and judgements when determining the following:

- Value of contingencies and accrued liabilities;
- Classification of mortgage investment: Management assesses the business model within which the assets are held and an assessment whether the contractual terms of the mortgage investments are solely payments of principal and interest on the principal amounts outstanding; and
- Impairment: Management assesses whether credit risk on financial assets has increased significantly since initial recognition and whether a loss allowance should be recognized. Management also uses forward-looking information and assumptions about the probability of default and expected losses for financial assets.

By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements for changes in such estimates in future periods could be material.

4. **EMERGING ACCOUNTING PRONOUNCEMENTS UNDER IFRS**

A number of new standards, amendments to standards and interpretations have been issued in IFRS but are not yet effective for the year ended August 31, 2023, and accordingly, have not been applied in preparing these financial statements. Management has not yet assessed the impact on its financial statements of the following amended standards and interpretations:

- Amendments to classification of liabilities as current and non-current and disclosure of accounting policies under IAS 1 - *Presentation of Financial Statements*;
- Amendments to the definition of accounting estimates under IAS 8 - *Accounting Policies, Changes in Accounting Estimates and Errors*;
- Amendments to clarify accounting for specific deferred tax on transactions such as leases and decommissioning obligations under IAS 12 - *Income taxes*;
- Amendments to IFRS 16 - *Leases* related to lease liability in a sale or leaseback;
- Amendments to IFRS 7 - *Financial Instruments - Disclosures* and to IAS 7 - *Statement of Cash Flows* related to supplier finance arrangements; and
- Amendments to IAS 21 - *The Effects of Changes in Foreign Exchange Rates* relating to lack of exchangeability of currency.

ADVANCED MORTGAGE INVESTMENT CORPORATION

NOTES TO THE FINANCIAL STATEMENTS - Cont'd.

YEAR ENDED AUGUST 31, 2023

5. FINANCIAL INSTRUMENTS

a) *Fair value of financial instruments*

The Corporation classifies its fair value measurements using a fair value hierarchy that reflects the significance of inputs used in making the measurements. The accounting standard establishes a fair value hierarchy based on the level of independent, objective evidence surrounding the inputs used to measure fair value. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The inputs fall into three levels that may be used to measure fair value:

Level 1 - Applies to assets or liabilities for which there are quoted prices in active markets for identical assets or liabilities.

Level 2 - Applies to assets or liabilities for which there are inputs other than the quoted prices included in Level 1 that are observable for the asset or liability, either directly such as quoted prices for similar assets or liabilities in active markets or indirectly such as quoted prices for identical assets or liabilities in markets with insufficient volume or infrequent transactions.

Level 3 - Applies to assets or liabilities for which there is no observable market data.

Generally, the fair value of the mortgage investments approximate their carrying values given the short-term nature of these mortgages. The Corporation believes that the recorded values of all of the other financial instruments approximate their current fair values because of their nature and respective maturity dates and durations.

A reconciliation of Level 3 assets is as follows:

	<u>Mortgage principal</u>	<u>Transaction costs</u>	<u>Accrued interest and payments owing</u>	<u>Allowance for loss provision</u>	<u>Total</u>
Balance at August 31, 2021	\$ 30,845,016	\$ 98,961	\$ 25,227	\$ -	\$ 30,969,204
Funding of mortgage investments	78,088,592	-	-	-	78,088,592
Increase in accrued interest	-	-	140,732	-	140,732
Increase in prepaid interest	-	-	23,144	-	23,144
Principal repayments on mortgage investments	(49,612,390)	-	-	-	(49,612,390)
Transaction costs incurred in the year					
Broker fees to MBCI (note 8)	-	238,037	-	-	238,037
Broker fees to third parties	-	236,150	-	-	236,150
Amortization of transaction costs included in mortgage interest	-	(412,594)	-	-	(412,594)
Balance at August 31, 2022	59,321,218	160,554	189,103	-	59,670,875
Funding of mortgage investments	61,913,678	-	-	-	61,913,678
Increase in accrued interest	-	-	197,115	-	197,115
Increase in prepaid interest	-	-	60,621	-	60,621
Increase in balance owing to borrower	-	-	(3,767,357)	-	(3,767,357)
Allowance for loss provision	-	-	-	(32,317)	(32,317)
Principal repayments on mortgage investments	(51,795,688)	-	-	-	(51,795,688)
Transaction costs incurred in the year					
Broker fees to MBCI (note 8)	-	197,219	-	-	197,219
Broker fees to third parties	-	241,113	-	-	241,113
Amortization of transaction costs included in mortgage interest	-	(451,955)	-	-	(451,955)
Balance at August 31, 2023	<u>\$ 69,439,208</u>	<u>\$ 146,931</u>	<u>\$ (3,320,518)</u>	<u>\$ (32,317)</u>	<u>\$ 66,233,304</u>

ADVANCED MORTGAGE INVESTMENT CORPORATION

NOTES TO THE FINANCIAL STATEMENTS - Cont'd.

YEAR ENDED AUGUST 31, 2023

5. FINANCIAL INSTRUMENTS - Cont'd.

b) Risk management

The Corporation's financial instruments are subject to the following risks:

Credit risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Corporation. This risk arises principally from cash, accounts receivable and the mortgage investments held.

The Corporation mitigates this risk by having well established lending policies in place that ensure that mortgages are well secured and by limiting significant exposure to any one mortgagor. The Corporation has recourse under these mortgages in the event of default by the borrower, in which case the Corporation would have a claim against the underlying property. At August 31, 2023, the Corporation assessed the mortgage investments as to impairment using the following methodology:

- All mortgage receivables share risk characteristics in that all mortgage loans are in a similar geographical area which are all secured by real property as collateral as well as (in most instances) a PPSA registration against the borrowers and any guarantors.
- All of the loans were originated at a market rate of interest.
- Mortgages that are more than 30 days past due have a higher SICR.
- The Corporation considered any loans over 90 days past due to be credit impaired.
- Mortgages in technical default were assessed on a file by file basis. Two mortgages were in technical and actual default as of year-end. Both of these mortgages are on sale as of the date of the release of these financial statements. The Corporation is expected to recover all amounts due from the borrowers and no losses are expected.
- Impairment losses were estimated using a provision matrix that incorporates the outstanding principal under the mortgage, any regular interest receivable, fees receivable from the borrower(s) and guarantor(s) prior to and subsequent to default, and fees and charges for file related one-time and ongoing legal, insurance and property management services paid to realize the value of the mortgage property.

The company has recorded an allowance for credit losses amounting to \$32,317 as at August 31, 2023 (2022 - \$nil).

The Corporation generally places its cash in Canadian chartered banks and as such, the Corporation does not anticipate significant credit risk associated with cash.

To reduce the Corporation's credit risk on accounts receivable, the Corporation has a stringent process validating the ability of the borrower to fund such commitment fees and other fees under the loan commitment. Mortgage applications undergo a comprehensive due diligence process adhering to the restrictions and eligibility under the Corporation's policies.

ADVANCED MORTGAGE INVESTMENT CORPORATION

NOTES TO THE FINANCIAL STATEMENTS - Cont'd.

YEAR ENDED AUGUST 31, 2023

5. **FINANCIAL INSTRUMENTS - Cont'd.**

b) *Risk management - Cont'd.*

Liquidity risk

All financial liabilities are exposed to liquidity risk. Liquidity risk is the risk that the Corporation will encounter difficulty in meeting obligations associated with its financial liabilities. The Corporation's management addresses this risk by reviewing its expected future cash flow requirements. In addition, the Corporation has policies in place that limit the total amount of share redemptions in any given year.

The table below analyzes the Corporation's financial liabilities as at August 31, 2023 and August 31, 2022 into relevant groupings based on contractual maturity dates. The amounts in the table are contractual undiscounted cash flows. Balances due within 12 months equal their carrying values as the impact of discounting is not significant.

	<u>On</u> <u>demand</u>	<u>Within</u> <u>one year</u>	<u>No stated</u> <u>maturity</u>	<u>Total</u>
<u>August 31, 2023</u>				
Bank loans	\$ -	\$ 15,130,694	\$ -	\$ 15,130,694
Accounts payable and accrued liabilities	-	-	110,881	110,881
Dividends payable	-	1,134,675	-	1,134,675
Preferred shares	<u>50,804,229</u>	<u>-</u>	<u>-</u>	<u>50,804,229</u>
Total	<u>\$ 50,804,229</u>	<u>\$ 16,265,369</u>	<u>\$ 110,881</u>	<u>\$ 67,180,479</u>
<u>August 31, 2022</u>				
Bank loans	\$ -	\$ 13,477,736	\$ -	\$ 13,477,736
Accounts payable and accrued liabilities	-	-	615,455	615,455
Dividends payable	-	971,606	-	971,606
Preferred shares	<u>45,147,442</u>	<u>-</u>	<u>-</u>	<u>45,147,442</u>
Total	<u>\$ 45,147,442</u>	<u>\$ 14,449,342</u>	<u>\$ 615,455</u>	<u>\$ 60,212,239</u>

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk is comprised of currency risk, interest rate risk and other price risk. The Corporation manages this risk by having well established lending policies in place that ensure mortgages are well secured.

i) *Currency risk*

Currency risk is the risk that the fair value of instruments or future cash flows associated with the instruments will fluctuate relative to the Canadian dollar due to changes in foreign exchange rates.

Substantially all of the Corporation's transactions are in Canadian dollars and as a result, the Corporation is not subject to significant currency risk.

ADVANCED MORTGAGE INVESTMENT CORPORATION

NOTES TO THE FINANCIAL STATEMENTS - Cont'd.

YEAR ENDED AUGUST 31, 2023

5. FINANCIAL INSTRUMENTS - Cont'd.

b) *Risk management* - Cont'd.

Market risk - Cont'd.

ii) *Interest rate risk*

Interest rate risk is the risk that the value of the Corporation's financial instruments will fluctuate due to changes in market interest rates. In respect of the Corporation's mortgage investments, the Corporation generally issues mortgages with terms of no longer than 12 months at fixed interest rates. Accordingly the Corporation is subject to limited exposure to interest rate risk on this financial instrument.

The Corporation's bank loans bear interest based on the bank's prime rate and CDOR (Canadian Dollar Offered Rate) and as such, the Corporation is exposed to interest rate risk on this financial instrument.

iii) *Other price risk*

Other price risk refers to the risk that the fair value of financial instruments or future cash flows associated with the instruments will fluctuate because of changes in market prices (other than those arising from currency risk or interest rate risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all similar instruments traded in the market.

The Corporation is not exposed to significant other price risk.-

Changes in risk

There have been no significant changes in the Corporation's risk exposures from the prior year.

6. MORTGAGE INVESTMENTS

Mortgage investments are secured by the real estate property to which they relate, mature at various dates up to September 2024 with interest rates ranging from 6.49% to 14.27%. All mortgages are secured and relate to residential properties located in Ottawa, the Greater Toronto Area and the surrounding regions of Eastern Ontario.

In September 2023, subsequent to year-end, the Corporation had approved mortgages for an aggregate amount of \$4,337,200 (2022 - \$1,372,000).

Mortgage investments at year-end are comprised of the following:

	<u>2023</u>	<u>2022</u>
Total mortgages receivable	\$ 69,439,208	\$ 59,321,218
Balance of unamortized transaction costs at year-end	146,931	160,554
Accrued interest	446,839	189,103
Balance owing to borrowers	<u>(3,767,357)</u>	<u>-</u>
	66,265,621	59,670,875
 Less provision for mortgage losses	 <u>(32,317)</u>	 <u>-</u>
	 \$ 66,233,304	 \$ 59,670,875

The allowance for mortgage losses at August 31, 2023 of \$32,317 (2022 - \$nil) represents management's estimate of the ECLs on mortgage investments that have not experienced a significant increase in credit risk since initial recognition or renewal (Stage 1). The ECL was assessed individually for each mortgage receivable at Stage 2 and Stage 3 at August 31, 2023 and management estimated that there were no expected losses on those mortgages.

ADVANCED MORTGAGE INVESTMENT CORPORATION

NOTES TO THE FINANCIAL STATEMENTS - Cont'd.

YEAR ENDED AUGUST 31, 2023

7. BANK LOANS AND CREDIT FACILITY

The Corporation has a credit facility agreement with a maximum limit of \$35,000,000 (2022 - \$35,000,000). The purpose of the loan is to generate a higher rate of return for the investors. The credit facility is a revolving term credit facility by way of a prime loan and Canadian Dollar Offered Rate ("CDOR") loans.

The credit facility matures on November 30, 2023 with the option to extend for one year at the sole discretion of the lender. This lender has currently offered the Corporation a one-year renewal with no material changes to the facility other than a slight rate reduction. The credit facility is secured by a general security agreement constituting a first ranking security interest in all personal property of the Corporation, assignment of mortgage loans, assignment of material contracts such as management agreement and offering memorandum and power of attorney in favour of the lender in respect of the mortgages.

The credit facility is payable in full on the maturity date. Mandatory prepayments usual and customary for transactions of this type include, but not limited, to:

- 100% of net proceeds from the sale of any mortgage loans or other assets other than in the ordinary course of business;
- 100% of net proceeds of any public or private issuance or incurrence of any secured or unsecured debt other than permitted debt; and
- 100% of net proceeds of insurance claims.

CDOR based loans are available to the Corporation in increments of \$1,000,000 and multiples of \$500,000 thereafter with terms of 1, 2, or 3 months bearing interest at the CDOR rate plus 2%. The Corporation had drawn down \$15,000,000 (2022 - \$8,000,000) of CDOR loans against its revolving credit facility as at August 31, 2023 and maturing on September 18, 2023. Total interest incurred for the current year-end related to the CDOR loan was \$868,833 (2022 - \$31,208).

The prime loan is interest bearing with interest calculated at the bank's prime plus 0.75%. The Corporation had drawn down \$20,000 (2022 - \$5,670,000) against its revolving credit facility as at August 31, 2023. Total interest incurred for the current year-end related to the prime loan was \$349,180 (2022 - \$150,436).

The credit facility includes provisions in the agreement that allow the Corporation to convert all or a portion of the prime loan into a CDOR loan or vice versa with written notice requirements in accordance with the provisions of the loan agreement.

Subject to the other terms in the loan agreement, provided that the Corporation has satisfied the borrowing conditions and requested that the bank rollover and continue to make available by way of CDOR loans to replace all or a portion of an outstanding CDOR loan at the end of its interest period, the bank shall, at the end of the interest period of such CDOR loan, continue to make credit available to the Corporation by way of a CDOR loan in the principal amount equal to the CDOR loan to be replaced or the portion thereof to be replaced. The CDOR loan will automatically be rolled over into another CDOR loan if no event of default has occurred and the Corporation fails to provide the bank with written notice. If an event of default has occurred and is continuing, each CDOR loan will automatically be converted into a prime loan.

In addition, the Corporation must meet certain financial ratios. As at August 31, 2023, the Corporation was in compliance with these covenants.

ADVANCED MORTGAGE INVESTMENT CORPORATION

NOTES TO THE FINANCIAL STATEMENTS - Cont'd.

YEAR ENDED AUGUST 31, 2023

7. BANK LOANS AND CREDIT FACILITY - Cont'd.

As at year-end, bank loans consist of the following:

	<u>2023</u>	<u>2022</u>
CDOR loan - CDOR plus 2%, due September 18, 2023	\$ 15,000,000	\$ 8,000,000
Prime loan - prime rate plus 0.75%, due November 30, 2023	<u>20,000</u>	<u>5,670,000</u>
	15,020,000	13,670,000
Accrued interest payable	110,694	33,336
Less debt financing costs	<u>-</u>	<u>(225,600)</u>
	<u>\$ 15,130,694</u>	<u>\$ 13,477,736</u>

Debt financing costs include:

	<u>2023</u>	<u>2022</u>
Balance at beginning of year	\$ 225,600	\$ -
Commission fees to ACC (note 8)	-	350,000
Legal and other fees	-	106,844
Amortization	<u>(225,600)</u>	<u>(231,244)</u>
Balance at end of year	<u>\$ -</u>	<u>\$ 225,600</u>

Subsequent to the year-end, the Corporation converted \$5,000,000 of the above CDOR loan to a prime loan and the remaining \$10,000,000 CDOR loan was extended for one month. In addition, the Corporation made a net drawdown in the prime loan facility amounting to \$365,000.

8. RELATED PARTY TRANSACTIONS

The Corporation, 7016514 Canada Inc. (operating as Advanced Alternative Lending ("AAL")), Advanced Capital Corporation ("ACC") and Mortgage Brokers City Inc. ("MBCI") are companies under common ownership and management.

The following related party transactions occurred in the normal course of business and have been recorded at their exchange amount which is the amount agreed upon by the related parties.

Included in accounts payable and accrued liabilities at year-end are the following amounts:

	<u>2023</u>	<u>2022</u>
Payable to AAL	\$ 515	\$ 96,159
Payable to ACC	29,926	375,167
Payable to MBCI	<u>6,165</u>	<u>37,135</u>
	<u>\$ 36,606</u>	<u>\$ 508,461</u>

The Corporation incurred the following broker fees to MBCI as follows:

	<u>2023</u>	<u>2022</u>
Broker fees to MBCI (note 5)	<u>\$ 197,219</u>	<u>\$ 238,037</u>

Broker fees are transaction costs for registered mortgage investments and are included in the cost of the applicable registered mortgage investment on initial recognition. These transaction costs are amortized over the expected life of the applicable mortgage.

ADVANCED MORTGAGE INVESTMENT CORPORATION
NOTES TO THE FINANCIAL STATEMENTS - Cont'd.
YEAR ENDED AUGUST 31, 2023

8. RELATED PARTY TRANSACTIONS - Cont'd.

The Corporation incurred the following commission fees to ACC as follows:

	<u>2023</u>	<u>2022</u>
Commission fees to ACC (notes 7 and 9)	\$ 126,704	\$ 593,490

Commission fees amounting to \$126,704 (2022 - \$243,490) relate to preferred share issuance costs and are shown as a reduction of the carrying value of the preferred shares on initial recognition. These share issuance costs are expensed upon redemption of the applicable preferred shares.

Commission fees of \$nil (2022 - \$350,000) were paid to ACC as debt financing transaction costs and are included in the carrying value of related bank loans that are measured at amortized cost. ACC is entitled to a commission fee equal to 1% of the capital raised which includes the leverage facility and 0.5% for renewals of the current leverage facility where new funds are not added. The current credit facility is up for renewal November 30, 2023. ACC may waive any of the fees in its sole discretion, in whole or in part, at any time, without notice and in any single instance.

The Corporation incurred management and performance fees to AAL and are calculated as follows which are inclusive of harmonized sales tax ("HST"):

	<u>2023</u>	<u>2022</u>
Maximum fees under management agreement		
- management	\$ 2,198,473	\$ 1,228,199
- performance	<u>69,603</u>	<u>10,051</u>
Total maximum entitlement	2,268,076	1,238,250
Portion waived by AAL		
- management	(761,749)	(99,739)
- performance	<u>(69,603)</u>	<u>(10,051)</u>
Sub-total	1,436,724	1,128,460
Applicable sales tax thereon at 13%	<u>186,774</u>	<u>146,700</u>
Total management fees to AAL	<u>\$ 1,623,498</u>	<u>\$ 1,275,160</u>

In accordance with the management agreement between the Corporation and AAL, AAL is entitled to a management fee equal to 2.6% per annum of the asset and liability management as well as an annual performance fee equal to 25% of the amount by which the Corporation's net income for the fiscal year exceeds the corresponding hurdle yield. AAL may waive any of the fees in its sole discretion, in whole or in part, at any time, without notice and in any single instance. AAL has waived in whole the performance fees for the year ended August 31, 2023 and August 31, 2022, respectively. In addition, AAL has waived a portion of the management fees for the year ended August 31, 2023 and August 31, 2022, respectively.

The Corporation incurred the following agency fees to ACC as follows:

	<u>2023</u>	<u>2022</u>
Agency fees to ACC	\$ 338,225	\$ 188,954

ACC has entered into an agency agreement to act as an agent to the Corporation for trading the Corporation's securities. In accordance with the agency agreement between the Corporation and ACC, ACC is entitled to an agency fee equal to 0.4% per annum of the asset and liability management.

In addition, at August 31, 2023, ACC held 137,066 (2022 - 126,880) non-voting preferred shares of the Corporation. The Corporation declared dividends on these preferred shares amounting to \$10,181 in 2023 (2022 - \$8,864) which were all reinvested to preferred shares. At August 31, 2023, \$3,195 (2022 - \$3,200) of dividends declared in the year were unpaid and were included in the dividends payable in the statement of financial position.

Finally, in accordance with the Offering Memorandum, honorariums incurred and payable to the directors of the Corporation amounted to \$15,991 (2022 - \$11,141) and are included in office and general in the statement of income and comprehensive income. \$15,991 was unpaid as of August 31, 2023 (2022 - \$11,141) and is included in accounts payable and accrued liabilities.

ADVANCED MORTGAGE INVESTMENT CORPORATION

NOTES TO THE FINANCIAL STATEMENTS - Cont'd.

YEAR ENDED AUGUST 31, 2023

9. PREFERRED SHARES

Authorized:

An unlimited number of non-voting preferred shares without par value.

Shares issued are:

	2023		2022	
	<u>Number of shares</u>	<u>Amount</u>	<u>Number of shares</u>	<u>Amount</u>
Balance at beginning of year	45,147,442	\$ 45,147,442	31,328,763	\$ 31,328,763
Issuance of shares	6,519,154	6,519,154	14,710,435	14,710,435
Redemption of shares	(3,873,684)	(3,873,684)	(2,713,423)	(2,713,423)
Reinvested distributions	<u>3,011,317</u>	<u>3,011,317</u>	<u>1,821,667</u>	<u>1,821,667</u>
Balance at end of year	<u>50,804,229</u>	50,804,229	<u>45,147,442</u>	45,147,442
Issuance costs		<u>(610,854)</u>		<u>(530,756)</u>
		<u>\$ 50,193,375</u>		<u>\$ 44,616,686</u>

Share issuance costs are reconciled as follows:

	<u>2023</u>	<u>2022</u>
Balance at beginning of year	\$ 530,756	\$ 310,712
Commission fees to ACC (note 8)	126,704	243,490
Filing and other fees	5,580	6,682
Amortization of issuance costs	<u>(52,186)</u>	<u>(30,128)</u>
Balance at end of year	<u>\$ 610,854</u>	<u>\$ 530,756</u>

The Corporation in its discretion may redeem all or any portion of the preferred shares upon providing the holders thereof with not less than 21 days' notice and payment of the redemption amount. Upon completion of the redemption process, the redeemed and non-voting preferred shares shall be cancelled. If not, all of the outstanding preferred shares are to be redeemed, the preferred shares to be redeemed will be, unless the holders of the preferred shares otherwise agree, redeemed based in proportion to the number of preferred shares registered in the name of each holder as a percentage of the total number of preferred shares outstanding. The amount to be paid by the Corporation in respect of each preferred share to be redeemed will be the redemption amount as hereinafter defined.

A preferred shareholder may request the Corporation to redeem all or any portion of its preferred shares at the end of any calendar quarter, provided the preferred shareholder has held the preferred shares for a period of at least 12 months. In certain circumstances, the hold period restrictions may be waived or abridged by the Corporation in its sole discretion. The amount payable by the Corporation in respect of each preferred share to be redeemed shall be the redemption amount, as hereinafter defined, which shall be due 15 days after the redemption date.

Preferred shareholders wishing to redeem preferred shares must submit written notice of such intention to the Corporation prior to the last business day of the preceding calendar quarter in which preferred shares are intended to be redeemed. Only whole preferred shares may be redeemed unless it is the investor's entire investment in the Corporation that is being redeemed.

The Corporation has the discretion to reject or defer any redemption application by a preferred shareholder where, in the view of the Corporation, such a redemption will result in the Corporation failing to qualify as a Mortgage Investment Corporation under the Income Tax Act or which would otherwise be contrary to applicable laws.

ADVANCED MORTGAGE INVESTMENT CORPORATION
NOTES TO THE FINANCIAL STATEMENTS - Cont'd.
YEAR ENDED AUGUST 31, 2023

9. PREFERRED SHARES - Cont'd.

The redemption amount is an amount equal to the amount paid up on the preferred shares being redeemed together with all dividends declared thereon and unpaid as at the Redemption Date.

Substantial Shareholders are defined as a preferred shareholder who, together with parties related to that preferred shareholder (as defined by the Income Tax Act), holds a total number of preferred shares which is equal to or greater than 10% of the total number of preferred shares outstanding.

If a preferred shareholder is classified as a Substantial Shareholder, they will be restricted to redeeming no more than 20% of their preferred shares in any quarter.

The Corporation shall not be obligated to redeem more than 10% of the issued preferred shares in any fiscal year. The Corporation shall redeem preferred shares in order in which the Corporation receives written notice of redemption from the preferred shareholders.

Preferred shares are entitled to dividends at the discretion of the Board of Directors. The Corporation makes dividend payments to preferred shareholders on a monthly basis within 15 days after the end of each month. The Corporation intends to pay out as cash dividends substantially all of its net income and net realized capital gains within 90 days of the fiscal year-end. For the year ended August 31, 2023, the Corporation declared dividends totaling \$3,649,298 (2022 - \$2,638,199), thereby distributing earnings of \$0.076 (2022 - \$0.071) per share based on the weighted average outstanding preferred shares of the Corporation, of which \$1,134,675 is payable at August 31, 2023 (2022 - \$971,606).

The Corporation's dividend reinvestment and share purchase plan ("DRIP") provides eligible and registered holders of preferred shares with a means to reinvest dividends declared and payable on such preferred shares in additional preferred shares. Under the DRIP, the shareholders may enroll to have their cash dividends reinvested to purchase additional preferred shares.

10. COMMON SHARES

Authorized:

Unlimited number of common shares without par value.

Shares issued are:

	<u>2023</u>	<u>2022</u>
Common - 100 shares	\$ <u>100</u>	\$ <u>100</u>

Common shares are not entitled to receive any dividends in respect of such shares. In the event of liquidation, dissolution or winding up of the Corporation, whether voluntary or involuntary, or in the event of any other distribution of assets of the Corporation among its shareholders for the purpose of winding up its affairs, the Corporation will distribute the assets of the Corporation among the shareholders in the following priority:

First, to the holders of the Preferred Shares, an amount equal to the Redemption Amount attributed to the Preferred Shares;

Second, to the holders of the Common Shares, an amount equal to the amount paid up thereon; and

Third, the balance, if any, to the holders of Preferred Shares and Common Shares on a pro-rata basis.

The holders of the Common Shares shall be entitled to receive notice of and to attend and shall be entitled to one vote at any meeting of the shareholders of the Corporation for each Common Share held, except meetings at which only holders of a specified class of shares are entitled to vote.

ADVANCED MORTGAGE INVESTMENT CORPORATION

NOTES TO THE FINANCIAL STATEMENTS - Cont'd.

YEAR ENDED AUGUST 31, 2023

11. CAPITAL MANAGEMENT

The Corporation's objectives when managing capital are to meet regulatory requirements and other contractual obligations and to safeguard the Corporation's ability to continue as a going concern in order to generate returns to its investors.

The Corporation's capital is comprised of its preferred shares and its equity, including capital stock and retained earnings.

The Corporation is not subject to externally imposed capital requirements.

12. SUBSEQUENT EVENTS

Subsequent to year-end, the Board of Directors declared the monthly dividend for September 2023 in the aggregate amount of \$253,660 (\$0.0041 per share) to preferred shareholders.