

FINANCIAL STATEMENTS
For
ADVANCED MORTGAGE INVESTMENT CORPORATION
For the year ended
AUGUST 31, 2017

INDEPENDENT AUDITOR'S REPORT

To the shareholders of

ADVANCED MORTGAGE INVESTMENT CORPORATION

We have audited the accompanying financial statements of Advanced Mortgage Investment Corporation which comprise the statement of financial position as at August 31, 2017 and the statements of income and comprehensive income, changes in retained earnings and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Advanced Mortgage Investment Corporation as at August 31, 2017 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

We draw attention to Note 3 to the financial statements which describes the adoption of International Financial Reporting Standards 9 - Financial Instruments in advance of its effective date. Our opinion is not qualified in respect of this matter.



Chartered Professional Accountants
Licensed Public Accountants

Ottawa, Ontario
November 21, 2017.

ADVANCED MORTGAGE INVESTMENT CORPORATION

STATEMENT OF FINANCIAL POSITION

AUGUST 31, 2017

	<u>2017</u>	<u>2016</u> (as restated)
<u>ASSETS</u>		
Cash	\$ 192,931	\$ 17,270
Subscriptions receivable	30,377	-
Mortgage investments (notes 3, 8 and 9)	5,586,663	3,445,342
Prepaid expenses	<u>152</u>	<u>150</u>
	<u>\$ 5,810,123</u>	<u>\$ 3,462,762</u>
<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>		
LIABILITIES		
Accounts payable and accrued liabilities (note 9)	\$ 105,574	\$ 95,997
Dividends payable	159,469	86,087
Preferred shares (notes 4, 9 and 10)	<u>5,544,980</u>	<u>3,243,002</u>
	<u>5,810,023</u>	<u>3,425,086</u>
SHAREHOLDERS' EQUITY		
Common shares (note 11)	100	100
Retained earnings (notes 3 and 4)	<u>-</u>	<u>37,576</u>
	<u>100</u>	<u>37,676</u>
	<u>\$ 5,810,123</u>	<u>\$ 3,462,762</u>

Approved by the Board:

KEN ALGER
..... Director

MICHAEL HAPKE
..... Director

(See accompanying notes)

ADVANCED MORTGAGE INVESTMENT CORPORATION
STATEMENT OF CHANGES IN RETAINED EARNINGS
YEAR ENDED AUGUST 31, 2017

	<u>Common shares</u>		<u>Retained</u>	<u>Total</u>
	<u>Number</u>	<u>Amount</u>	<u>earnings</u> <u>(deficit)</u>	
Balance at September 1, 2015 as previously reported	100	\$ 100	\$ (44,209)	\$ (44,109)
Adjustments related to mortgage investments transaction costs (note 3)	-	-	19,188	19,188
Adjustments related to preferred shares issuance costs (note 4)	<u>-</u>	<u>-</u>	<u>8,490</u>	<u>8,490</u>
Balance at September 1, 2015 as restated	100	100	(16,531)	(16,431)
Net income and comprehensive income for the year ended August 31, 2016 as restated	<u>-</u>	<u>-</u>	<u>54,107</u>	<u>54,107</u>
Balance at August 31, 2016 as restated	100	100	37,576	37,676
Net loss and comprehensive loss for the year ended August 31, 2017	<u>-</u>	<u>-</u>	<u>(37,576)</u>	<u>(37,576)</u>
Balance at August 31, 2017	<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, 2017

	<u>2017</u>	<u>2016</u> (as restated)
Revenue		
Mortgage interest	\$ 383,366	\$ 212,336
Amortization of mortgage investments transaction costs (note 3)	<u>(49,420)</u>	<u>(43,609)</u>
	333,946	168,727
Fees earned	<u>213,210</u>	<u>150,048</u>
	<u>547,156</u>	<u>318,775</u>
Expenses		
Agent fees (note 9)	19,678	9,942
Bank charges	973	790
Insurance	3,648	3,650
Management fees (note 9)	177,375	37,330
Office and general (note 4)	3,284	1,008
Professional fees	21,696	27,140
Share issuance costs expensed upon redemption of preferred shares (notes 4)	<u>901</u>	<u>3,785</u>
	<u>227,555</u>	<u>83,645</u>
Income before dividends on preferred shares	319,601	235,130
Dividends on preferred shares (note 10)	<u>357,177</u>	<u>181,023</u>
Net income (loss) and comprehensive income (loss)	<u>\$ (37,576)</u>	<u>\$ 54,107</u>

(See accompanying notes)

ADVANCED MORTGAGE INVESTMENT CORPORATION

STATEMENT OF CASH FLOWS

YEAR ENDED AUGUST 31, 2017

	<u>2017</u>	<u>2016</u> (as restated)
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss) and comprehensive income (loss)	\$ (37,576)	\$ 54,107
Adjustments for:		
Amortization of mortgage investments transaction costs	49,420	43,609
Share issuance costs expensed upon redemption of preferred shares	901	3,785
Reinvested dividends	<u>234,005</u>	<u>109,490</u>
	246,750	210,991
Changes in level of:		
Accounts receivable	(30,377)	-
Prepaid expenses	(2)	2,960
Accounts payable and accrued liabilities	9,577	13,359
Dividends payable	73,382	56,762
Mortgage interest receivable	<u>(9,144)</u>	<u>(16,557)</u>
	<u>290,186</u>	<u>267,515</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Mortgage advances	(4,578,382)	(3,501,525)
Mortgage discharge and principal repayments	2,455,370	1,319,029
Mortgage investment transaction costs incurred	<u>(58,585)</u>	<u>(48,436)</u>
	<u>(2,181,597)</u>	<u>(2,230,932)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of preferred shares	2,217,526	2,168,242
Redemption of preferred shares	(135,596)	(455,099)
Preferred shares issuance costs incurred	<u>(14,858)</u>	<u>(8,856)</u>
	<u>2,067,072</u>	<u>1,704,287</u>
INCREASE (DECREASE) IN CASH	175,661	(259,130)
CASH AT BEGINNING OF YEAR	<u>17,270</u>	<u>276,400</u>
CASH AT END OF YEAR	\$ <u>192,931</u>	\$ <u>17,270</u>

(See accompanying notes)

ADVANCED MORTGAGE INVESTMENT CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED AUGUST 31, 2017

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 including International Accounting Standards prevailing at August 31, 2017.

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 21, 2017.

3. ADOPTION OF NEW INTERNATIONAL FINANCIAL REPORTING STANDARDS

Effective September 1, 2016, the Corporation adopted IFRS 9 - *Financial Instruments* (as revised in July 2014) in advance of its effective date. IFRS 9 introduces new requirements for: (a) the classification and measurement of financial assets and liabilities, (b) impairment for financial assets and (c) general hedge accounting. Details of these new requirements as well as their impact on the Corporation's financial statements are described below.

A. Classification and measurement of financial assets

The Corporation has applied the requirements of IFRS 9 to instruments that have not been derecognized as at September 1, 2016, date of initial application, and has not applied the requirements to instruments that have already been derecognized as at September 1, 2016. Comparative amounts in relation to instruments that have not been derecognized as at September 1, 2016 have been restated where appropriate.

All recognized financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortized cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

ADVANCED MORTGAGE INVESTMENT CORPORATION

NOTES TO THE FINANCIAL STATEMENTS - Cont'd.

YEAR ENDED AUGUST 31, 2017

3. ADOPTION OF NEW INTERNATIONAL FINANCIAL REPORTING STANDARDS - Cont'd.

The directors of the Corporation reviewed and assessed the Corporation's existing financial assets as at September 1, 2016 based on the facts and circumstances that existed at that date and concluded that the initial application of IFRS 9 has had the following impact on the Corporation's financial assets as regards to their classification and measurement:

- The Corporation's mortgage investments, which were classified as fair value through profit or loss ("FVTPL") under International Accounting Standards 39 ("IAS 39") - *Financial Instruments: Recognition and Measurement*, have been classified as loans and receivables. They are measured at amortized cost as they are held within a business model to collect contractual cash flows and these cash flows consist solely of payments of principal and interest on the principal amount outstanding.
- All other financial assets that were classified as loans and receivables under IAS 39 that were measured at amortized cost continue to be measured as such under IFRS 9.

B. Impairment of financial assets

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires the Corporation to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect the changes in credit risk since initial recognition of the financial assets. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

Specifically, IFRS 9 requires the Corporation to recognise a loss allowance for expected credit losses ("ECL") on debt investments subsequently measured at amortized cost. In particular, IFRS 9 requires the Corporation to measure the loss allowance for a financial instrument at an amount equal to their lifetime ECL if the credit risk on that financial instrument has increased significantly since initial recognition. On the other hand, if the credit risk on a financial instrument has not increased significantly since initial recognition, the Corporation is required to measure the loss allowance for that financial instrument at an amount equal to 12-month ECL.

As at September 1, 2016, the directors of the Corporation reviewed and assessed the Corporation's existing financial assets for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of IFRS 9 to determine the credit risk of the mortgage investments at the date they were initially recognised, and compared that to the credit risk as at September 1, 2016. The result of the assessment had no impact on the Corporation's financial position, net income and comprehensive income.

ADVANCED MORTGAGE INVESTMENT CORPORATION

NOTES TO THE FINANCIAL STATEMENTS - Cont'd.

YEAR ENDED AUGUST 31, 2017

3. ADOPTION OF NEW INTERNATIONAL FINANCIAL REPORTING STANDARDS - Cont'd.

C. Classification and measurement of financial liabilities

There were no changes in the classification of financial liabilities. All financial liabilities that were classified as other financial liabilities under IAS 39 and measured at amortized cost continue to be measured as such under IFRS 9.

The tables below show the amount of adjustments for each financial statement line item affected by the application of IFRS 9.

Impact on assets, liabilities and equity as at August 31, 2016

	<u>As previously reported</u>	<u>IFRS 9 adjustments</u>	<u>As restated</u>
<u>Assets</u>			
Mortgage investments	\$ 3,421,327	\$ 24,015	\$ 3,445,342
<u>Liabilities and shareholders' equity</u>			
Retained earnings	\$ -	\$ 24,015	\$ 24,015

Impact on the statement of income and comprehensive income for the year ended August 31, 2016

	<u>As previously reported</u>	<u>IFRS 9 adjustments</u>	<u>As restated</u>
Mortgage interest	\$ 212,336	\$ -	\$ 212,336
Broker fees	48,436	(48,436)	-
Net income and comprehensive income	44,209	4,827	49,036

Broker fees are mortgage investments transaction costs and are now included in the cost of mortgage investments on initial recognition. These transaction costs are amortized over the expected life of the mortgages. Amortization of the transaction costs is included in mortgage interest.

Impact on the statement of changes in retained earnings for the year ended August 31, 2016

	<u>As previously reported</u>	<u>IFRS 9 adjustments</u>	<u>As restated</u>
Deficit at September 1, 2015	\$ (44,209)	\$ 19,188	\$ (25,021)
Net income and comprehensive income	44,209	4,827	49,036
Retained earnings at August 31, 2016	\$ -	\$ 24,015	\$ 24,015

Impact on the statement of cash flows for the year ended August 31, 2016

	<u>As previously reported</u>	<u>IFRS 9 adjustments</u>	<u>As restated</u>
Cash flows from operating activities	\$ 100,733	\$ 48,436	\$ 149,169
Cash flows from investing activities	(2,182,496)	(48,436)	(2,230,932)

ADVANCED MORTGAGE INVESTMENT CORPORATION

NOTES TO THE FINANCIAL STATEMENTS - Cont'd.

YEAR ENDED AUGUST 31, 2017

4. RESTATEMENT OF COMPARATIVE FIGURES

During the year ended August 31, 2017, management performed a detailed review of the preferred shares issuance costs and determined that certain costs were previously expensed as incurred rather than capitalized and shown as a reduction to the carrying value of preferred shares. The impact of the restatement is as follows:

Impact on assets, liabilities and equity as at August 31, 2016

	<u>As previously reported</u>	<u>IFRS 9 adjustments</u>	<u>As restated</u>
<u>Liabilities and shareholders' equity</u>			
Preferred shares	\$ 3,256,563	\$ (13,561)	\$ 3,243,002
Retained earnings	-	13,561	13,561

Impact on the statement of income and comprehensive income for the year ended August 31, 2016

	<u>As previously reported</u>	<u>IFRS 9 adjustments</u>	<u>As restated</u>
Share issuance costs expensed upon redemption of preferred shares	\$ -	\$ 3,785	\$ 3,785
Office and general	4,065	(3,057)	1,008
Referral fees	5,799	(5,799)	-
Net income and comprehensive income	44,209	5,071	49,280

Referral fees and certain filing fees included in office and general are preferred shares issuance costs that are now capitalized and shown as a reduction of the carrying value of preferred shares. These share issuance costs are expensed upon redemption of preferred shares.

Impact on the statement of changes in retained earnings for the year ended August 31, 2016

	<u>As previously reported</u>	<u>IFRS 9 adjustments</u>	<u>As restated</u>
Deficit at September 1, 2015	\$ (44,209)	\$ 8,490	\$ (35,719)
Net income and comprehensive income	44,209	5,071	49,280
Retained earnings at August 31, 2016	\$ -	\$ 13,561	\$ 13,561

Impact on the statement of cash flows for the year ended August 31, 2016

	<u>As previously reported</u>	<u>IFRS 9 adjustments</u>	<u>As restated</u>
Cash flows from operating activities	\$ 100,733	\$ 118,346	\$ 219,079
Cash flows from financing activities	1,822,633	(118,346)	1,704,287

ADVANCED MORTGAGE INVESTMENT CORPORATION

NOTES TO THE FINANCIAL STATEMENTS - Cont'd.

YEAR ENDED AUGUST 31, 2017

5. **SIGNIFICANT ACCOUNTING POLICIES**

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

Financial instruments

Under IFRS 9

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.

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.

All other financial assets are subsequently measured at FVTPL.

Cash, subscriptions receivable and mortgage investments are classified as subsequently measured at amortized cost.

Financial liabilities

All financial liabilities which include accounts payable and accrued liabilities, dividends payable and preferred shares are subsequently measured at amortized cost.

ADVANCED MORTGAGE INVESTMENT CORPORATION

NOTES TO THE FINANCIAL STATEMENTS - Cont'd.

YEAR ENDED AUGUST 31, 2017

5. SIGNIFICANT ACCOUNTING POLICIES - Cont'd.

Financial instruments - Cont'd.

Under IAS 39

Financial instruments are initially recognized at fair value including transaction costs, except those at fair value through profit or loss ("FVTPL") for which transaction costs are expensed when incurred.

The Corporation classifies its financial assets and liabilities depending on the purpose for which the financial instruments were acquired, their characteristics, and management intent as authorized below:

Cash and subscriptions receivable are classified as loans and receivables which are measured at amortized cost.

Mortgage investments have been classified as FVTPL which is measured at fair value, with changes in fair value being recorded in net earnings at each period end.

Accounts payable and accrued liabilities, dividends payable and preferred shares have been classified as other financial liabilities which are measured at amortized cost.

Management did not identify any material embedded derivatives which require separate recognition and measurement.

At each reporting date, the Corporation assesses whether there is objective evidence that a financial asset is impaired. If such evidence exists, the Corporation recognizes an impairment loss for financial assets carried at amortized cost. The loss is the difference between the amortized cost of the loan or receivable and the present value of the estimated future cash flows. The present value of estimated future cash flows is discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced by this amount either directly or indirectly through the use of an allowance account.

Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized.

When management considers the collection of the principal on a particular mortgage investment to be no longer reasonably assured, the fair value of the mortgage is not greater than the estimated fair value of the collateral securing the mortgage.

The gains and losses on disposal or repayment transactions are recorded as realized gains or losses at the time of disposal or repayment, respectively.

Cash

Cash includes cash on deposit with financial institutions.

ADVANCED MORTGAGE INVESTMENT CORPORATION

NOTES TO THE FINANCIAL STATEMENTS - Cont'd.

YEAR ENDED AUGUST 31, 2017

5. SIGNIFICANT ACCOUNTING POLICIES - Cont'd.

Impairment

The Corporation has experienced no loss or impairment to date and since inception, however, the Corporation must assume that credit loss may occur. When that circumstance arises, the Corporation will recognize a loss allowance for expected credit losses on investments in debt instruments, primarily mortgage receivables that are measured at amortized cost with allowance for impairment being recorded in net earnings at each period end.

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.

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

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 (no sufficient fund) payment and, to date, has not failed to collect the arrears within 30 days of the original payment date.

The Corporation has experienced similar success rate with 2) technical default, and at times on a longer timeline due to the required deferred nature of the resolution of the technical default. 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. In cases where technical default does not generate ECL, for instance, when a property is sold (or refinanced) successfully but with a deferred firm closing date, no ECL is recognized.

Certain mortgages will be classified as Category 2 or Category 3 due to a significant increase of credit risk ("SICR") created by actual or technical default. The Corporation monitors loans with SICR more closely and on an individual basis given their significance and unique characteristics.

At each period end, the Corporation calculates impairment allowance for 3) increased credit risk 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. Mortgages with no SICR are classified as Category 1 and mortgages with SICR are classified as either Category 2 or Category 3.
- 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 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).

ADVANCED MORTGAGE INVESTMENT CORPORATION
NOTES TO THE FINANCIAL STATEMENTS - Cont'd.
YEAR ENDED AUGUST 31, 2017

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

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 arranging of private mortgages with a pool of third party lenders. Revenue is initially earned for administration and commitment fees and is recognized when the mortgage is signed, thereby ensuring the fee is fixed or determinable when borrower payments have cleared the bank.

Revenue is also recognized on a monthly basis, earned over the term of the arranged mortgage, as a fixed monthly amount with the terms being fixed in each respective lending agreement, which is arranged by the Corporation.

Interest on mortgage investments are recognized using the effective interest rate method. All of the Corporation's interest income are from financial instruments measured at amortized cost.

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 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 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 makes an assessment of 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;
- Impairment: Management makes an assessment of 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; and

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.

ADVANCED MORTGAGE INVESTMENT CORPORATION
NOTES TO THE FINANCIAL STATEMENTS - Cont'd.
YEAR ENDED AUGUST 31, 2017

6. 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, 2017, and accordingly, have not been applied in preparing these financial statements.

The IASB has issued a new standard, IFRS 15, Revenue from Contracts with Customers which replaces among others, IAS 18, Revenue; IFRIC 18, Transfers of Assets from Customers and SIC 31, Revenue - Barter Transactions Involving Advertising Services. The purpose of IFRS 15 is to establish the principles that an entity shall apply to report useful information about the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer. This standard becomes effective on January 1, 2018. The Corporation has not yet assessed the impact of the new standard on its financial statements.

The IASB issued a new standard, IFRS 16, Leases, which superseded IAS 17, Leases. The new standard brings most leases on the balance sheet for lessees under a single model and eliminates the distinction between operating and financial leases. Lessor accounting remains largely unchanged. This standard becomes effective on January 1, 2019. The Corporation has not yet assessed the impact of the new standard on its financial statements.

7. 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 at August 31, 2017 and August 31, 2016 is as follows:

	<u>2017</u>	<u>2016</u> (as restated)
Mortgage investments at beginning of the year	\$ 3,445,342	\$ 1,241,462
Funding of mortgage investments	4,578,382	3,501,525
Accrued interest	9,144	16,557
Principal repayments on mortgage investments	(2,455,370)	(1,319,029)
Transaction costs incurred in the year	58,585	48,436
Amortization of transaction costs included in mortgage interest	<u>(49,420)</u>	<u>(43,609)</u>
Mortgage investments at end of year	<u>\$ 5,586,663</u>	<u>\$ 3,445,342</u>

ADVANCED MORTGAGE INVESTMENT CORPORATION

NOTES TO THE FINANCIAL STATEMENTS - Cont'd.

YEAR ENDED AUGUST 31, 2017

7. 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, subscriptions receivable and the mortgages held.

The Corporation mitigates this risk by having well established lending policies in place that ensure that mortgages are well secured and by limiting its 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, 2017, the Corporation assessed the mortgage investments as to impairment using the following methodology:

- All mortgage receivables were classified as Category 1 due to a lack of SICR.
- All mortgage receivables share similar risk characteristics in that all mortgage loans are in the same 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.
- The Corporation was unable to rebut the presumption that a loan will have a greater SICR when more than 30 days past due.
- 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. No impairment loss was recognized for these mortgages as they were subsequently fully recovered from sale of related properties.
- 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 impairment assessment resulted in an immaterial amount of impairment losses and, accordingly, management has not recognized impairment losses for the year ended August 31, 2017 (2016 - \$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.

In order to reduce the Corporation's credit risk on subscriptions receivable, the Corporation has a stringent process validating the ability of the preferred share subscriber to fund such subscriptions. Subscription applications undergo a comprehensive due diligence process adhering to the restrictions and eligibility under the offering memorandum and the Corporation's policies.

The maximum exposure to credit risk at August 31, 2017 is the carrying value of its cash, subscriptions receivable and mortgage investments presented on the statement of financial position.

ADVANCED MORTGAGE INVESTMENT CORPORATION

NOTES TO THE FINANCIAL STATEMENTS - Cont'd.

YEAR ENDED AUGUST 31, 2017

7. **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, 2017 and August 31, 2016 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 demand</u>	<u>Within one year</u>	<u>No stated maturity</u>	<u>Total</u>
<u>August 31, 2017</u>				
Accounts payable and accrued liabilities	\$ -	\$ -	\$ 105,574	\$ 105,574
Dividends payable	-	159,469	-	159,469
Preferred shares	<u>5,544,980</u>	<u>-</u>	<u>-</u>	<u>5,544,980</u>
Total	<u>\$ 5,544,980</u>	<u>\$ 159,469</u>	<u>\$ 105,574</u>	<u>\$ 5,810,023</u>
<u>August 31, 2016 (as restated)</u>				
Accounts payable and accrued liabilities	\$ -	\$ -	\$ 95,997	\$ 95,997
Dividends payable	-	86,087	-	86,087
Preferred shares	<u>3,243,002</u>	<u>-</u>	<u>-</u>	<u>3,243,002</u>
Total	<u>\$ 3,243,002</u>	<u>\$ 86,087</u>	<u>\$ 95,997</u>	<u>\$ 3,425,086</u>

ADVANCED MORTGAGE INVESTMENT CORPORATION

NOTES TO THE FINANCIAL STATEMENTS - Cont'd.

YEAR ENDED AUGUST 31, 2017

7. FINANCIAL INSTRUMENTS - Cont'd.

b) Risk management - Cont'd.

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.

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.

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 changes in the Corporation's risk exposures from the prior year.

c) Income and expenses

	<u>2017</u>	<u>2016</u> (as restated)
Fees earned from financial assets measured at amortized cost	\$ 213,210	\$ 150,048
Mortgage interest income from financial assets measured at amortized cost	383,366	212,336
Dividends declared on financial liabilities measured at amortized cost	357,177	181,023
Share issuance costs expensed for financial liabilities measured at amortized cost	901	3,785

ADVANCED MORTGAGE INVESTMENT CORPORATION
NOTES TO THE FINANCIAL STATEMENTS - Cont'd.
YEAR ENDED AUGUST 31, 2017

8. MORTGAGE INVESTMENTS

Mortgage investments are secured by the real property to which they relate, mature at various dates up to September 2018 with interest rates ranging from 4.79% to 14.15%. All mortgages are secured and relate to residential properties located in Ottawa and the surrounding regions of Eastern Ontario.

	<u>2017</u>	<u>2016</u> (as restated)
Total mortgages receivable	\$ 5,519,672	\$ 3,396,660
Transaction costs	33,180	24,015
Accrued interest and payments owing	<u>33,811</u>	<u>24,667</u>
	<u>\$ 5,586,663</u>	<u>\$ 3,445,342</u>

9. RELATED PARTY TRANSACTIONS

The Corporation, 7016514 Canada Inc. (operating as Advanced Alternative Lending ("AAL")), Advanced Capital Corporation ("ACC") and Mortgage Brokers City Inc. ("MBC") 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.

The Corporation incurred the following fees to its affiliated companies as follows:

	<u>2017</u>	<u>2016</u>
Broker fees to MBC included in mortgage investments	\$ 53,917	\$ 46,271
Management and performance fees to AAL	177,375	37,330
Agent fees to ACC	19,678	9,942
Referral fees and commission to ACC included in preferred shares	<u>12,358</u>	<u>5,799</u>
	<u>\$ 263,328</u>	<u>\$ 99,342</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 assets under 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 target 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.

The management fees to AAL has been calculated as follows:

	<u>2017</u>	<u>2016</u>
Maximum fees under management agreement		
- management	\$ 127,720	\$ 63,881
- performance	<u>33,051</u>	<u>20,745</u>
Total maximum entitlement	160,771	84,626
Portion waived by AAL		
- management	-	(30,846)
- performance	<u>(3,802)</u>	<u>(20,745)</u>
Sub-total	156,969	33,035
Applicable sales tax thereon at 13%	<u>20,406</u>	<u>4,295</u>
Total management fees to AAL	<u>\$ 177,375</u>	<u>\$ 37,330</u>

ADVANCED MORTGAGE INVESTMENT CORPORATION
NOTES TO THE FINANCIAL STATEMENTS - Cont'd.
YEAR ENDED AUGUST 31, 2017

9. RELATED PARTY TRANSACTIONS - Cont'd.

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

	<u>2017</u>	<u>2016</u>
Accounts payable to AAL	\$ 43,647	\$ 70,657
Accounts payable to ACC	1,941	1,130
Accounts payable to MBC	340	5,248
	<u>\$ 45,928</u>	<u>\$ 77,035</u>

10. PREFERRED SHARES

Authorized:

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

Shares issued are:

	<u>2017</u>		<u>2016</u>	
	<u>Number of shares</u>	<u>Amount</u>	<u>Number of shares</u>	<u>Amount (as restated)</u>
Balance at beginning of year	3,261,399	\$ 3,261,399	1,438,766	\$ 1,438,766
Issuance of shares	2,217,526	2,217,526	2,168,242	2,168,242
Redemption of shares	(135,596)	(135,596)	(455,099)	(455,099)
Reinvested distributions	234,005	234,005	109,490	109,490
Balance at end of year	<u>5,577,334</u>	<u>5,577,334</u>	<u>3,261,399</u>	<u>3,261,399</u>
Issuance costs		(32,354)		(18,397)
		<u>\$ 5,544,980</u>		<u>\$ 3,243,002</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.

ADVANCED MORTGAGE INVESTMENT CORPORATION
NOTES TO THE FINANCIAL STATEMENTS - Cont'd.
YEAR ENDED AUGUST 31, 2017

10. **PREFERRED SHARES** - Cont'd.

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.

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.

As long as a particular 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 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, 2017, the Corporation declared dividends totaling \$357,177 (\$0.074 per share) (2016 - \$181,023; \$0.075 per share) of which \$159,469 is payable at August 31, 2017 (2016 - \$86,087).

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.

11. **COMMON SHARES**

Authorized:

Unlimited number of common shares without par value.

Shares issued are:

	<u>2017</u>	<u>2016</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

ADVANCED MORTGAGE INVESTMENT CORPORATION
NOTES TO THE FINANCIAL STATEMENTS - Cont'd.
YEAR ENDED AUGUST 31, 2017

11. **COMMON SHARES** - Cont'd.

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.

12. **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.

13. **SUBSEQUENT EVENT**

Subsequent to year-end, the Board of Directors declared monthly dividends for an aggregate amount of \$44,855 (\$0.0076 per share) to preferred shareholders for September 2017 and October 2017.