F I N A N C I A L S T A T E M E N T S

For

ADVANCED MORTGAGE INVESTMENT CORPORATION

For the year ended

AUGUST 31, 2018

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, 2018 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, 2018 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Welch LLP

Chartered Professional Accountants
Licensed Public Accountants

Ottawa, Ontario
November 16, 2018.

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ADVANCED MORTGAGE INVESTMENT CORPORATION

STATEMENT OF FINANCIAL POSITION

AUGUST 31, 2018

	2018	2017
ASSETS		
Cash	$ 491,905	$ 192,931
Accounts receivable	28,328	-
Subscriptions receivable	-	30,377
Mortgage investments (notes 5, 6 and 7)	8,065,846	5,586,663
Prepaid expenses	152	152
	$ 8,586,231	$ 5,810,123
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES		
Accounts payable and accrued liabilities (note 7)	$ 112,653	$ 105,574
Dividends payable - cash	39,496	30,529
Dividends payable - dividend reinvestment plan	187,313	128,940
Preferred shares (notes 7 and 8)	8,246,669	5,544,980
	8,586,131	5,810,023
SHAREHOLDERS' EQUITY		
Common shares (note 9)	100	100
Retained earnings	-	-
	100	100
	$ 8,586,231	$ 5,810,123

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, 2018

	Common shares Number	Common shares Amount	Retained earnings	Total
Balance at August 31, 2016	100	$ 100	$ 37,576	$ 37,676
Comprehensive loss for the year ended August 31, 2017	-	-	(37,576)	(37,576)
Balance at August 31, 2017	100	100	-	100
Comprehensive income for the year ended August 31, 2018	-	-	-	-
Balance at August 31, 2018	100	$ 100	$ -	$ 100

(See accompanying notes)

ADVANCED MORTGAGE INVESTMENT CORPORATION

STATEMENT OF INCOME AND COMPREHENSIVE INCOME

YEAR ENDED AUGUST 31, 2018

	2018	2017
Revenue		
Mortgage interest	$ 575,432	$ 383,366
Amortization of mortgage investments transaction costs	(74,579)	(49,420)
	500,853	333,946
Fees earned	272,632	213,210
	773,485	547,156
Expenses		
Agent fees (note 7)	27,872	19,678
Bank charges	2,201	973
Insurance	3,833	3,648
Management fees (note 7)	208,051	177,375
Office and general	4,232	3,284
Professional fees	17,763	21,696
	263,952	226,654
Income before dividends on preferred shares	509,533	320,502
Dividends on preferred shares (note 8)	508,194	357,177
Net income (loss)	1,339	(36,675)
Share issuance costs expensed upon redemption of preferred shares	1,339	901
Comprehensive income (loss)	$ -	$ (37,576)

(See accompanying notes)

ADVANCED MORTGAGE INVESTMENT CORPORATION

STATEMENT OF CASH FLOWS

YEAR ENDED AUGUST 31, 2018

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Comprehensive income (loss)	$ -	$ (37,576)
Adjustments for:		
Amortization of mortgage investments transaction costs	74,579	49,420
Share issuance costs expensed upon redemption of preferred shares	1,339	901
Reinvested dividends	363,208	234,005
	439,126	246,750
Changes in level of:		
Accounts receivable	(28,328)	-
Subscription receivable	30,377	(30,377)
Prepaid expenses	-	(2)
Accounts payable and accrued liabilities	7,079	9,577
Dividends payable	67,340	73,382
Mortgage interest receivable	(16,913)	(9,144)
	498,681	290,186
CASH FLOWS FROM INVESTING ACTIVITIES		
Mortgage advances	(6,242,447)	(4,578,382)
Mortgage discharge and principal repayments	3,787,698	2,455,370
Mortgage investment transaction costs incurred	(82,100)	(58,585)
	(2,536,849)	(2,181,597)
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of preferred shares	2,573,821	2,217,526
Redemption of preferred shares	(202,823)	(135,596)
Preferred shares issuance costs incurred	(33,856)	(14,858)
	2,337,142	2,067,072
INCREASE IN CASH	298,974	175,661
CASH AT BEGINNING OF YEAR	192,931	17,270
CASH AT END OF YEAR	$ 491,905	$ 192,931

(See accompanying notes)

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, 2018.

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 16, 2018.

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.

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

Financial instruments - 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.

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

All other financial assets are subsequently measured at FVTPL.

Financial liabilities

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

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.

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

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).

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 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.

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. Interest income is recognized on a monthly basis, earned over the term of the arranged mortgage.

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 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; and
- 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.

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, 2018, 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 to an entity's first annual IFRS financial statements for a period beginning on or after January 1, 2018. The Corporation has assessed the impact of the new standard on its financial statements. The Corporation shall apply this standard to all contracts with customers except contracts with customers relate to financial instruments in accordance with the exceptions of IFRS 15.

The IASB issued a new standard, IFRS 16, *Leases*, which superseded IAS 17, Leases. The new standard brings most leases on the statement of financial position for lessees under a single model and eliminates the distinction between operating and final 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.

The IASB issued a new standard, IFRS 17, *Insurance Contracts*. The new standard establishes principles for the recognition, presentation and disclosure of insurance contracts within the scope of the standard, to ensure that an entity provides relevant information that faithfully represents those insurance contracts. This standard becomes effective for annual reporting periods beginning on or after January 1, 2021. The Corporation has not yet assessed the impact of the new standard on its financial statements.

The IASB issued a new IFRS Interpretation, IFRIC 23, *Uncertainty Over Income Tax Treatments*. This interpretation clarifies how to apply the recognition and measurement requirements in IAS 12, *Income Taxes*, when there is uncertainty over income tax treatments. This standard becomes effective for annual reporting periods beginning on or after January 1, 2019. The Corporation has not yet assessed the impact of the new standard on its financial statements.

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.

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

a) *Fair value of financial instruments* - Cont'd.

A reconciliation of Level 3 assets is as follows:

	2018	2017
Mortgage investments at beginning of the year	$ 5,586,663	$ 3,445,342
Funding of mortgage investments	6,242,447	4,578,382
Accrued interest	16,913	9,144
Principal repayments on mortgage investments	(3,787,698)	(2,455,370)
Transaction costs incurred in the year	82,100	58,585
Amortization of transaction costs included in mortgage interest	(74,579)	(49,420)
Mortgage investments at end of year	$ 8,065,846	$ 5,586,663

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, 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, 2018, 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.

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

b) *Risk management* - Cont'd.

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, 2018 (2017 - $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 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.

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.

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, 2018 and August 31, 2017 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.

	On demand	Within one year	No stated maturity	Total
August 31, 2018				
Accounts payable and accrued liabilities	$ -	$ -	$ 112,653	$ 112,653
Dividends payable	-	226,809	-	226,809
Preferred shares	8,246,669	-	-	8,246,669
Total	$ 8,246,669	$ 226,809	$ 112,653	$ 8,586,131
August 31, 2017				
Accounts payable and accrued liabilities	$ -	$ -	$ 105,574	$ 105,574
Dividends payable	-	159,469	-	159,469
Preferred shares	5,544,980	-	-	5,544,980
Total	$ 5,544,980	$ 159,469	$ 105,574	$ 5,810,023

5. **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*

	2018	2017
Fees earned from financial assets measured at amortized cost	$ 272,632	$ 213,210
Mortgage interest income from financial assets measured at amortized cost	575,432	383,366
Dividends declared on financial liabilities measured at amortized cost	508,194	357,177
Share issuance costs expensed for financial liabilities measured at amortized cost	1,339	901

6. MORTGAGE INVESTMENTS

Mortgage investments are secured by the real property to which they relate, mature at various dates up to September 2019 with interest rates ranging from 4.79% to 15.37%. All mortgages are secured and relate to residential properties located in Ottawa and the surrounding regions of Eastern Ontario.

	2018	2017
Total mortgages receivable	$ 7,974,421	$ 5,519,672
Transaction costs	40,701	33,180
Accrued interest and payments owing	50,724	33,811
	$ 8,065,846	$ 5,586,663

7. 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:

	2018	2017
Broker fees to MBC included in mortgage investments	$ 45,031	$ 53,917
Management and performance fees to AAL	208,051	177,375
Agent fees to ACC	27,872	19,678
Commission and referral fees to ACC included in preferred shares	29,138	12,358
	$ 310,092	$ 263,328

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:

	2018	2017
Maximum fees under management agreement		
- management	$ 181,169	$ 127,720
- performance	34,943	33,051
Total maximum entitlement	216,112	160,771
Portion waived by AAL		
- performance	(31,996)	(3,802)
Sub-total	184,116	156,969
Applicable sales tax thereon at 13%	23,935	20,406
Total management fees to AAL	$ 208,051	$ 177,375

7. **RELATED PARTY TRANSACTIONS** - Cont'd.

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

	2018	2017
Accounts payable to AAL	$ 23,790	$ 43,647
Accounts payable to ACC	1,793	1,941
Accounts payable to MBC	11,765	340
	$ 37,348	$ 45,928

8. **PREFERRED SHARES**

Authorized:

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

Shares issued are:

	2018		2017	
	Number of shares	Amount	Number of shares	Amount
Balance at beginning of year	5,577,334	$ 5,577,334	3,261,399	$ 3,261,399
Issuance of shares	2,573,821	2,573,821	2,217,526	2,217,526
Redemption of shares	(202,823)	(202,823)	(135,596)	(135,596)
Reinvested distributions	363,208	363,208	234,005	234,005
Balance at end of year	8,311,540	8,311,540	5,577,334	5,577,334
Issuance costs		(64,871)		(32,354)
		$ 8,246,669		$ 5,544,980

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.

8. **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, 2018, the Corporation declared dividends totaling $508,194 ($0.073 per share) (2017 - $357,177; $0.074 per share) of which $226,809 is payable at August 31, 2018 (2017 - $159,469).

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.

9. **COMMON SHARES**

Authorized:

Unlimited number of common shares without par value.

Shares issued are:

	2018	2017
Common - 100 shares	$ 100	$ 100

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.

10. 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.

11. SUBSEQUENT EVENT

Subsequent to year-end, the Board of Directors declared monthly dividends for an aggregate amount of $65,427 ($0.0075 per share) to preferred shareholders for September 2018 and October 2018.