

The Solidity Group Mortgage Investment Corporation

Financial Statements

Year ended October 31, 2023



Independent Auditor's Report

To the Directors of The Solidity Group Mortgage Investment Corporation

Opinion

We have audited the financial statements of The Solidity Group Mortgage Investment Corporation ("the Company"), which comprise the Balance Sheet as at October 31, 2023, and the Statements of Earnings and Other Comprehensive Income, Retained Earnings and Cash Flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at October 31, 2023 and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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



Bringing Solutions Together

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

Ford Keast CP

London, Ontario
December 13, 2023

**Chartered Professional Accountants
Licensed Public Accountants**

The Solidity Group Mortgage Investment Corporation

Balance Sheet as at October 31, 2023

	2023	2022
Assets		
Current		
Cash and cash equivalents	\$ 88,582	\$ 2,112,611
Interest receivable	252,283	120,330
Mortgages receivable (Note 2)	26,308,019	21,454,006
	<u>26,648,884</u>	<u>23,686,947</u>
Mortgages receivable due beyond one year (Note 2)	6,872,265	3,377,818
	<u>\$ 33,521,149</u>	<u>\$ 27,064,765</u>
Liabilities		
Current		
Mortgage prepaid interest	\$ 60,828	\$ 43,209
Amounts due to related party (Note 3)	16,557	-
Interest payable to Class A shareholders	960,139	371,668
Class A shares (Note 4)	32,483,525	26,649,788
	<u>33,521,049</u>	<u>27,064,665</u>
Shareholders' Equity		
Share capital (Note 4)	100	100
Retained earnings	-	-
	<u>100</u>	<u>100</u>
	<u>\$ 33,521,149</u>	<u>\$ 27,064,765</u>

Approved by the Board of Directors:



Director

The Solidity Group Mortgage Investment Corporation

Statement of Retained Earnings and Other Comprehensive Income

Year ended October 31, 2023

	2023	2022
Retained earnings, beginning of year	\$ -	\$ -
Net earnings and other comprehensive income	-	-
Retained earnings, end of year	\$ -	\$ -

The Solidity Group Mortgage Investment Corporation

Statement of Earnings and Other Comprehensive Income

Year ended October 31, 2023

	2023	2022
<hr/>		
Revenue		
Mortgage interest	\$ 3,210,293	\$ 2,375,813
Interest	55,445	35,858
	<hr/>	<hr/>
	3,265,738	2,411,671
<hr/>		
Expenses		
Interest to Class A shareholders (Note 8)	2,652,240	1,881,635
Management fee (Note 3)	599,633	516,275
Professional fees	11,526	13,132
Office supplies	7,514	7,644
Bad debt recovery	(5,175)	(7,015)
	<hr/>	<hr/>
	3,265,738	2,411,671
<hr/>		
Net earnings and other comprehensive income	\$ -	\$ -
<hr/>		

The Solidity Group Mortgage Investment Corporation

Statement of Cash Flows

Year ended October 31, 2023

	2023	2022
Cash provided by (used in):		
Operating Activities		
Net earnings and other comprehensive income	\$ -	\$ -
Change in non-cash working capital items related to operations (Note 6)	490,694	97,257
	<u>490,694</u>	<u>97,257</u>
Investing Activities		
Advances of mortgages receivable	(30,476,564)	(25,039,307)
Proceeds of mortgages receivable discharged	22,128,104	20,487,298
	<u>(8,348,460)</u>	<u>(4,552,009)</u>
Financing Activities		
Issuance of Class A shares (Note 4)	9,151,871	4,981,507
Redemption of Class A shares (Note 4)	(3,318,134)	(2,160,799)
	<u>5,833,737</u>	<u>2,820,708</u>
Decrease in cash and cash equivalents	(2,024,029)	(1,634,044)
Cash and cash equivalents, beginning of year	2,112,611	3,746,655
Cash and cash equivalents, end of year	\$ 88,582	\$ 2,112,611

The Solidity Group Mortgage Investment Corporation

Notes to Financial Statements
Year ended October 31, 2023

1. Summary of Significant Accounting Policies

Nature of Business

The Solidity Group Mortgage Investment Corporation ("the Company") was incorporated under the Business Corporations Act (Ontario), in Canada, on November 22, 2012. The Company operates as a mortgage investment corporation ("MIC") as defined in subsection 130.1(6) of the Income Tax Act (Canada). The primary objective of the Company is to generate a reliable stream of income by investing in a portfolio of residential and commercial mortgages from borrowers in market segments that are underserved by large financial institutions. The registered office is located at 211-1 Commissioners Road East, London, Ontario, Canada, N6C 5Z3.

Basis of Presentation

The accompanying financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"), on a going concern basis, under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities at fair value. The financial statements are presented in Canadian dollars.

Revenue Recognition

Mortgage interest is recorded using the effective interest rate method. Investment income is recognized as the investment income is earned. Bonus interest and premium interest are earned when the mortgage is funded.

Class A Shares

The Company's Class A shares are redeemable at the option of the holder at the value of their current investment and accordingly, are classified as a financial liability with the related dividends classified as interest expense.

Income Taxes

The Company is a MIC as defined in the Income Tax Act (Canada). As such, the Company is able to deduct, in computing taxable income, dividends paid to its shareholders during the year or within 90 days after the year end. The Company intends to continue maintaining its status as a MIC and pay dividends to its shareholders to ensure it will not be subject to income taxes. Therefore, for financial statement reporting purposes, the tax deductibility of the Company's distributions result in the Company being effectively exempt from taxation, with no provision for current or future income taxes required by the Company.

Cash and Cash Equivalents

Cash as disclosed on the Balance Sheet consists of cash on hand and balances with banks (2022 - cash on hand, balances with banks and investments in Canadian money market funds).

The Solidity Group Mortgage Investment Corporation

Notes to Financial Statements
Year ended October 31, 2023

1. Summary of Significant Accounting Policies (continued)

Financial Instruments

Measurement of Financial Instruments:

The Company initially measures its financial assets and financial liabilities at fair value, except for certain non-arm's length transactions.

The Company subsequently measures all its financial assets and financial liabilities at amortized cost. Changes in fair value are recognized in net earnings.

Impairment:

Financial assets measured at cost are tested for impairment when there are indicators of impairment. The amount of the write-down is recognized in net earnings. The previously recognized impairment loss may be reversed to the extent of the improvement, directly or by adjusting the allowance account, provided it is not greater than the amount that would have been reported at the date of the reversal had the impairment not been recognized previously. The amount of reversal is recognized in net earnings.

Transaction Costs:

The Company recognizes its transactions costs in net earnings in the period incurred. However, financial instrument that will not be subsequently measured at fair value are adjusted by the transaction costs that are directly attributable to their origination, issuance or assumption.

Capital Disclosure

The Company's objectives when managing capital are:

- (i) to maintain a flexible capital structure which optimizes the cost of capital at an acceptable risk;
- (ii) to manage capital in a manner which balances the interests of equity and debt holders; and
- (iii) to maintain the established guidelines set forth by Canada Revenue Agency relating to mortgage investment corporations.

The Company's definition of capital includes shareholders' equity and Class A shares.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders and issue new shares.

The Solidity Group Mortgage Investment Corporation

Notes to Financial Statements
Year ended October 31, 2023

1. Summary of Significant Accounting Policies (continued)

Use of Estimates

The preparation of financial statements in accordance with International Financial Reporting Standards requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reported period. Accounts specifically affected include loan loss reserves. These estimates are reviewed periodically, and, as adjustments become necessary, they are reported in earnings in the period in which they become known.

2. Mortgages Receivable

	2023	2022
Mortgages receivable earning interest rates ranging from 2.64% to 14.99% (2022 - 1.84% to 13.50%)	\$ 33,180,284	\$ 24,831,824
Less: amounts due within one year	26,308,019	21,454,006
Mortgages receivable due beyond one year	<u>\$ 6,872,265</u>	<u>\$ 3,377,818</u>

The mortgages are secured by real property.

3. Related Party Transactions

The Company has entered into a management agreement with Solidity Group Management Corporation, a corporation under common control, for the provision of management and other services relating to real estate, mortgage and financing services in exchange for the commitment and other fees charges to borrowers and a management fee per annum based on the net assets of the Company calculated and paid monthly.

The management fee payable by the Company to Solidity Group Management Corporation will not exceed 2% of the net assets of the Company, defined as total assets, calculated at the end of each month. The fee is based on 2% of total assets up to \$25 million, and 1% on total assets in excess of \$25 million. The total cash balance included in total assets for the purpose of the calculation is also capped at \$1 million. Any cash excess of this amount is excluded from the calculation.

	2023	2022
Management fee, including HST	<u>\$ 599,633</u>	<u>\$ 516,275</u>

These transactions are measured at the exchange amount, which is the amount agreed upon by the related parties. Advances to and from the Company are unsecured and non-interest bearing with no specified repayment terms.

The Solidity Group Mortgage Investment Corporation

Notes to Financial Statements
Year ended October 31, 2023

4. Share Capital

Authorized

Unlimited Class A shares, non-voting, redeemable and retractable at their issued amount

Unlimited Class B shares, voting, not entitled to dividends

	2023	2022
Issued		
32,483,525 Class A shares (2022 - 26,649,788)	\$ 32,483,525	\$ 26,649,788
100 Class B shares	100	100
	<u>\$ 32,483,625</u>	<u>\$ 26,649,888</u>

During the year, the Company issued 9,151,871 Class A shares (2022 - 4,981,507). In addition, 3,318,134 (2022 - 2,160,799) Class A shares were redeemed for cash.

The Class A shares are redeemable at the end of any calendar quarter provided the shareholder has held the shares for a period of at least eighteen months. The Company shall not accept redemption applications that will result in the Company failing to qualify as a mortgage investment corporation.

5. Financial Instruments Risk Management

Transactions in financial instrument may result in financial risks being assumed by the Company. The risks identified by the Company are as follows:

Credit Risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss to the Company by failing to discharge its obligation or make repayment. The Company's main credit risks relate to its mortgage receivables. The Company provides loans to its clients in the normal course of its operations. Security is obtained through mortgages on real property. The Company manages this risk through utilizing a credit committee to assess risk levels prior to funding and by requiring an independent appraisal of all properties prior to funding.

Expected credit losses are determined based on the loan to value ratio of the mortgages as well as specific instances where mortgages are in default. The expected credit losses are recorded as the estimated amount of credit losses for the next 12 month period. There have been no significant changes to the expected credit losses from the prior period. There are no significant credit risk concentrations as the mortgages receivable are stratified across various geographical regions, include a mixture of 1st and 2nd mortgages as well as commercial and residential mortgages. The Company considers a mortgage to be in default if the mortgage has neglected to pay their contractually required payment.

Currency Risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company has no exposure to foreign currency transactions.

The Solidity Group Mortgage Investment Corporation

Notes to Financial Statements
Year ended October 31, 2023

5. Financial Instruments Risk Management (continued)

Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The mortgages receivable bear fixed interest rates. The Company expects to renew its mortgages receivable at market rates as they mature. Accordingly, the Company's exposure to interest rate risk is dependent upon future market rates compared to rates currently established.

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. The Company is not exposed to market risk.

Liquidity Risk

Liquidity risk is the risk that an Company will encounter difficulty meeting financial obligations as they become due. The company considers that it has sufficient working capital available to meet its current and long-term financial needs.

The nature, extent and concentration of the Company's exposure to the above risks did not change during the fiscal year.

6. Statement of Cash Flows

The change in non-cash working capital balances related to operations referred to in the Statement of Cash Flows is determined as follows:

	2023	2022
(Increase) decrease in current assets:		
Interest receivable	\$ (131,953)	\$ 18,401
Increase (decrease) in current liabilities:		
Interest payable to Class A shareholders	588,471	70,938
Advances from related party	16,557	(848)
Mortgage prepaid interest	17,619	8,766
Net change	<u>\$ 490,694</u>	<u>\$ 97,257</u>

7. Contingent Asset

The Company incurred losses on various mortgages in prior fiscal years which, in management's opinion, was a result of negligence by the appraisers of the subject properties. The Company has commenced with filing three statements of claim with the Ontario Superior Court of Justice for total damages of \$650,000.

8. Interest to Class A Shareholders

During the year, the Company paid out monthly dividends to shareholders totaling \$1,692,101 (2022 - \$1,509,966).

The Solidity Group Mortgage Investment Corporation

Notes to Financial Statements
Year ended October 31, 2023

9. Future Changes in Accounting Policy

Various pronouncements have been issued by the IASB or IFRS Interpretations Committee (IFRIC) that will be effective for future accounting periods. The standards that are applicable to the Company are summarized, as follows:

IAS 1 Presentation of Financial Statements - Classification of Liabilities as Current or Non-Current

The revisions to IAS 1 require on the Balance Sheet that an entity classify a liability as current when a) it expects to settle the liability in its normal operating cycle; b) it holds the liability primarily for the purpose of trading; c) the liability is due to be settled within the twelve months after the reporting period; or d) it does not have the right at the end of the reporting period to defer settlement of the liability for at least twelve months after the reporting period. All other liabilities shall be classified as non-current. This revision is effective for annual periods beginning on or after January 1, 2024.

This amendment to IAS 1 is not expected to have a material impact on the Company.

IAS 1 Presentation of Financial Statements - Disclosure of Accounting Policies

The revisions to IAS 1 require that an entity disclose its material accounting policies instead of its significant accounting policies. This revision is effective for annual periods beginning on or after January 1, 2023.

This amendment to IAS 1 is not expected to have a material impact on the Company.

IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors - Definition of Accounting Estimates

The revisions to IAS 8 replace the definition of a change in accounting estimates with a definition of accounting estimates. Under the new definition, accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty". The revision clarifies that a change in accounting estimate that results from new information or new developments is not the correction of an error. This revision is effective for annual periods beginning on or after January 1, 2023.

This amendment to IAS 8 is not expected to have a material impact on the Company.

10. Approval of Financial Statements

The financial statements were approved by the shareholders and authorized for issue on December 13, 2023.

11. Restatement of Comparative Amounts

Certain comparative amounts have been restated to conform to the current year statement presentation. These changes do not affect prior years' net earnings and other comprehensive income.