THE SOLIDITY GROUP MORTGAGE INVESTMENT CORPORATION

Financial Statements

Year ended October 31, 2018

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of:
The Solidity Group Mortgage Investment Corporation

We have audited the accompanying financial statements of The Solidity Group Mortgage Investment Corporation which comprise the Balance Sheet as at October 31, 2018 and the Statements of Earnings and Other Comprehensive Income, 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, these financial statements present fairly, in all material respects, the financial position of The Solidity Group Mortgage Investment Corporation as at October 31, 2018 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ford Keast LLP

London, Ontario
December 5, 2018

Chartered Professional Accountants
Licensed Public Accountants

THE SOLIDITY GROUP MORTGAGE INVESTMENT CORPORATION

Balance Sheet as at October 31, 2018

	2018	2017
ASSETS		
Cash	$ 2,604,850	$ 3,576,142
Accounts receivable	6,695	-
Interest receivable	29,946	79,222
Mortgages receivable (Note 2)	5,557,926	9,842,414
Mortgages receivable due beyond one year (Note 2)	6,576,060	2,048,868
	$14,775,477	$15,546,646
LIABILITIES		
Mortgage prepaid interest	$ 8,721	$ -
Amounts due to related party (Note 3)	120,437	70,761
Interest payable to Class A shareholders	1,104,278	1,076,771
Class A shares (Note 4)	13,541,941	14,399,014
	14,775,377	15,546,546
SHAREHOLDERS' EQUITY		
CAPITAL STOCK (Note 4)	100	100
RETAINED EARNINGS	-	-
	100	100
	$14,775,477	$15,546,646

THE SOLIDITY GROUP MORTGAGE INVESTMENT CORPORATION

Statement of Retained Earnings
Year ended October 31, 2018

	2018	2017
RETAINED EARNINGS, Beginning of year	$ -	$ -
Net earnings	-	-
RETAINED EARNINGS, End of year	$ -	$ -

THE SOLIDITY GROUP MORTGAGE INVESTMENT CORPORATION

Statement of Earnings and Other Comprehensive Income
Year ended October 31, 2018

	2018	2017
REVENUE		
Mortgage interest	$ 1,801,790	$ 1,381,655
Interest	44,387	10,096
	1,846,177	1,391,751
EXPENSES		
Interest to Class A shareholders (Note 8)	1,195,652	1,076,771
Bad debt (Note 7)	276,010	44,505
Management fee (Note 3)	361,096	257,999
Professional fees	9,786	9,509
Office supplies and expenses	3,633	2,967
	1,846,177	1,391,751
NET EARNINGS	$ -	$ -

THE SOLIDITY GROUP MORTGAGE INVESTMENT CORPORATION

Statement of Cash Flows
Year ended October 31, 2018

	2018	2017
Cash provided by (used in):		
OPERATING ACTIVITIES		
Add non-cash item:		
Change in non-cash working capital items related to operations (Note 6)	$ 128,485	$ 279,311
INVESTING ACTIVITIES		
Increase in mortgages receivable	(242,704)	(3,177,090)
FINANCING ACTIVITIES		
Issuance of Class A shares	1,076,770	3,498,841
Redemption of Class A shares	(1,933,843)	-
	(857,073)	3,498,841
INCREASE (DECREASE) IN CASH DURING THE YEAR	(971,292)	601,062
Cash, Beginning of year	3,576,142	2,975,080
CASH, END OF YEAR	$ 2,604,850	$ 3,576,142

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The accompanying financial statements are prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board. The financial statements have been prepared on a historical cost basis and are presented in Canadian dollars.

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 underserviced by large financial institutions. The registered office is located at 211-1 Commissioners Road East, London, Ontario, Canada, N6C 5Z3.

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, balances with banks and investments in Canadian money market funds.

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, except the investments in equity instruments that are quoted in an active market, which are measured at fair value. 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.

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

	2018	2017
Mortgages receivable earning interest rates ranging from 2.95% to 15.90%	$12,133,986	$11,921,282
Less: loan loss reserve	-	30,000
Less: amounts due within one year	5,557,926	9,842,414
Mortgages receivable due beyond one year	$ 6,576,060	$ 2,048,868

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 less total liabilities, excluding any amounts relating to share capital, calculated at the end of each month.

	2018	2017
Management fee, including HST	$ 361,096	$ 257,999

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 non-interest bearing with no specified repayment terms.

4. SHARE CAPITAL

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

	2018	2017
Issued		
13,541,941 Class A shares (2017 - 14,399,014)	$13,541,941	$14,399,014
100 Class B shares	100	100
	$13,542,041	$14,399,114

During the period, the Company issued 1,076,771 Class A shares (2017 - 3,498,841) for cash. During the period, the shareholders redeemed 1,933,843 (2017 - 3,000) Class A shares 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 INSTRUMENT 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.

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.

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.

5. FINANCIAL INSTRUMENT RISK MANAGEMENT (continued)

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 exposed to market risk on its mortgage investments.

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 extent 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:

	2018	2017
(INCREASE) DECREASE IN CURRENT ASSETS:		
Accounts receivable	$ (6,695)	$ -
Interest receivable	49,276	23,573
INCREASE (DECREASE) IN CURRENT LIABILITIES:		
Interest payable to Class A shareholders	27,507	234,930
Mortgage prepaid interest	8,722	(17,535)
Advances from related party	49,675	38,343
Net change	$ 128,485	$ 279,311

7. CONTINGENT ASSET

The Company incurred losses on various mortgages in the current and prior fiscal year 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 quarterly dividends to shareholders totalling $91,356 (2017 - $NIL).

9. FUTURE CHANGES IN ACCOUNTING POLICIES

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:

IFRS 9, Financial instruments

In July 2014, the IASB issued the final version of IFRS 9, Financial instruments ("IFRS 9") replacing IAS 39, Financial instruments, Recognition and Measurements. The Company will adopt IFRS 9 effective November 1, 2018, the first fiscal year after the mandatory effective date. IFRS 9 is as a complete standard including the requirements for classification and measurement of financial instruments, the new expected loss impairment model and the new hedge accounting model. The Company has evaluated the impact of this standard on each of its financial instruments. Based upon the Company's existing financial instruments and related accounting policies at October 31, 2018, the Company does not anticipate any material changes to the financial statements.

IFRS 15, Revenue from contracts with customers

In May 2014, the IASB issued IFRS 15 which provides a single comprehensive framework for recognition, measurement and disclosure of revenue from contracts with customers. It does not apply to insurance contracts, financial instruments, or lease contracts, which fall within the scope of other IFRSs. The new standard is effective for annual periods beginning on or after January 1, 2018 and is to be applied retrospectively with earlier application permitted. IFRS 15 will replace IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfer of Assets from Customers, and SIC 31 Revenue: Barter Transaction Involving Advertising Services. The Company intends to adopt IFRS 15 in its financial statements for the annual period beginning on November 1, 2018. The Company does not expect the new standard to have a material impact on the financial statements.

10. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the shareholders and authorized for issue on December 5, 2018.