The Solidity Group Mortgage Investment Corporation

Financial Statements

Year ended October 31, 2021

Ford Keast LLP
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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, 2021, 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, 2021 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.

Emphasis of Matter
We draw attention to Note 10 of the financial statements, which describes the effects of the COVID-19 pandemic on the Company's operations. Our opinion is not modified in respect of this matter.

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.

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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 LLP

London, Ontario
December 21, 2021

Chartered Professional Accountants
Licensed Public Accountants

The Solidity Group Mortgage Investment Corporation

Balance Sheet as at October 31, 2021

	2021	2020
Assets		
Current		
Cash and cash equivalents	$ 3,746,655	$ 5,628,821
Interest receivable	138,731	54,970
Mortgages receivable (Note 2)	16,162,671	13,106,735
Mortgages receivable due beyond one year (Note 2)	4,117,144	3,784,661
	$ 24,165,201	$ 22,575,187
Liabilities		
Current		
Mortgage prepaid interest	$ 34,443	$ -
Amounts due to related party (Note 3)	848	-
Interest payable to Class A shareholders	300,730	395,662
Class A shares (Note 4)	23,829,080	22,179,425
	24,165,101	22,575,087
Shareholders' Equity		
Capital stock (Note 4)	100	100
Retained earnings	-	-
	100	100
	$ 24,165,201	$ 22,575,187

The accompanying notes are an integral part of these financial statements.

The Solidity Group Mortgage Investment Corporation

Statement of Retained Earnings
Year ended October 31, 2021

	2021	2020
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, 2021

	2021	2020
Revenue		
Mortgage interest	$ 2,212,812	$ 2,216,591
Interest	23,549	12,579
	2,236,361	2,229,170
Expenses		
Interest to Class A shareholders (Note 8)	1,686,888	1,696,003
Management fee (Note 3)	529,049	500,704
Professional fees	25,167	35,481
Office supplies	5,780	5,222
Bad debt recovery	(10,523)	(8,240)
	2,236,361	2,229,170
Net earnings and other comprehensive income	$ -	$ -

The accompanying notes are an integral part of these financial statements.

The Solidity Group Mortgage Investment Corporation
Statement of Cash Flows
Year ended October 31, 2021

	2021	2020
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)	(143,402)	(288,022)
	(143,402)	(288,022)
Investing Activities		
Increase in mortgages receivable	(3,388,419)	(699,964)
Financing Activities		
Issuance of Class A shares (Note 4)	4,001,721	4,743,595
Redemption of Class A shares (Note 4)	(2,352,066)	(1,358,772)
	1,649,655	3,384,823
Increase (decrease) in cash and cash equivalents	(1,882,166)	2,396,837
Cash and cash equivalents, beginning of year	5,628,821	3,231,984
Cash and cash equivalents, end of year	$ 3,746,655	$ 5,628,821

The accompanying notes are an integral part of these financial statements.

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 underserviced 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, 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. 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

	2021	2020
Mortgages receivable earning interest rates ranging from 1.94% to 18.00%	$ 20,279,815	$ 16,891,396
Less: loan loss reserve	-	-
Less: amounts due within one year	16,162,671	13,106,735
Mortgages receivable due beyond one year	$ 4,117,144	$ 3,784,661

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.

	2021	2020
Management fee, including HST	$ 529,049	$ 500,704

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.

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

	2021	2020
Issued		
23,829,080 Class A shares (2020 - 22,179,425)	$ 23,829,080	$ 22,179,425
100 Class B shares	100	100
	$ 23,829,180	$ 22,179,525

During the year, the Company issued 4,001,721 Class A shares (2020 - 4,743,595) for cash. During the year, the shareholders redeemed 2,352,066 (2020 - 1,358,772) 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 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.

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 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 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:

	2021	2020
(Increase) decrease in current assets:		
Interest receivable	$ (83,761)	$ 4,402
Increase (decrease) in current liabilities:		
Interest payable to Class A shareholders	(94,933)	(283,630)
Mortgage prepaid interest	34,444	(4,512)
Advances from related party	848	(4,282)
Net change	$ (143,402)	$ (288,022)

7. Contingent Asset

The Company incurred losses on various mortgages in the 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 quarterly dividends to shareholders totalling $1,386,158 (2020 - $1,300,340).

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. As of the audit report date, there are no future changes in accounting policies that are expected to have a future impact on the Company.

10. COVID-19 Pandemic

In March 2020, the World Health Organization declared a global pandemic known as COVID-19. This pandemic could impact demand for products and services in the near future. The impact to the Company is not determinable at the date of these financial statements; however, it may be material and could include changes to operations and the financial position of the Company.

11. Approval of Financial Statements

The financial statements were approved by the shareholders and authorized for issue on December 21, 2021.