



2015 ANNUAL REPORT

CAPITAL PRESERVATION, STABILITY & GROWTH

Atlantic Advantage Mortgage Investment Corporation (the “AAMIC” & the “Corporation”) was incorporated in April 2014 and started attracting accredited investors in November 2014. Our vision is to build and grow AAMIC as a prudent, high yield investment vehicle of choice to affluent accredited investors with a clear risk-averse investment strategy.

Our investment mandate is focused on capital preservation, strong stable returns, and growth by retaining and developing talent to ensure risk-based service excellence and operational simplicity and scalability in a cost effective environment superior to our peers.

AAMIC owns all of its short-term mortgages that originated through our Investment Manager, Atlantic (HS) Financial Corporation. AAMIC also has an agreement with Atlantic Advantage Management Inc. (the “Manager”) to oversee its day-to-day operations.

LETTER TO SHAREHOLDERS



2015 is the first year of operations for Atlantic Advantage Mortgage Investment Corporation (“AAMIC” or the “Corporation”). AAMIC’s mandate is to provide

investors with a professionally managed mortgage investment portfolio, managed prudently to generate consistent and regular returns while safe-guarding the investment capital. From the onset, the AAMIC founders and executive team are determined to build this Corporation into a transparent, scalable, respected and solid investment proposition that can stand alongside much larger and established peers in the Canadian mortgage investment landscape. We are excited to have Ernst & Young LLP as our auditors, and to have the fortitude of an independent Advisory Committee to share knowledge on industry trend and technology advances beneficial to our growth. We also joined the Ontario Mortgage Investment Corporation Association (the “ONMICA”) as an inaugural member. All these are critical building blocks to guide the Board and the Executive Team in growing AAMIC and fulfilling its mandate to its investors and stakeholders.

Like any MIC start-up, the first few years are expected to be the most challenging in terms of achieving solid growth in both the mortgage investment portfolio and investor base, not least because of being an ‘unknown’ in the market. There is also the potential risk of growing one side of the balance sheet to meet the growth demands of the other side, resulting in either a

high-maintenance investor demographic (e.g. speculative and erratic investors), a weak mortgage portfolio or both. To manage this risk, AAMIC relies on its Credit Committee and adherence to its underwriting criteria drawn from established Canadian scheduled banks practices. All investors are also personally vetted by the Executive Team to determine that AAMIC can properly and adequately service their investment behaviours and objectives.

AAMIC was incorporated in February 2014 and obtained its CRA letter as a registered plan investment vehicle in October 2014. The Corporation funded 5 mortgages totalling \$1.88 million and rejected 7 applications totalling \$2.16 million during its inaugural year. As at June 30, 2015, AAMIC has attracted 26 investors with \$1.36 million AUM, earned \$76,066 in interest and other income against accumulated expenses of \$19,981 and distributed \$46,930 to its investors. Existing mortgage portfolio comprised of 3 mortgages in good standing totalling \$1,300,000.

The introduction of B-20 and B-21 by the Office of the Superintendent of Financial Institutions (“OSFI”) and new Canada Mortgage and Housing Corporation (“CMHC”) guidelines have tightened the underwriting criteria in the tier-1 mortgage market and correspondingly made the tier-2 market more competitive in terms of mortgage origination. We anticipate the overall Canadian housing prices to remain high albeit increasing at a slower pace. At the same time, AAMIC continues to remain vigilant should there be a housing market downturn and will adjust underwriting criteria to respond to market

LETTER TO SHAREHOLDERS

conditions, if necessary. Our continued preference for short-term mortgages of one year or less are expected to further mitigate any adverse impact from such a down turn.

From an investor perspective, the Ontario Securities Commission (the "OSC") amended its NI-45-106 and saw the elimination of the \$150,000 Minimum Amount Exemption for Ontario investors and introduced the Friends, Family, and Business Associates Exemption and Risk Acknowledgement Forms. These changes are part of its ongoing mandate for investor education and protection and also to make Ontario regulatory regime in line with other major provinces.

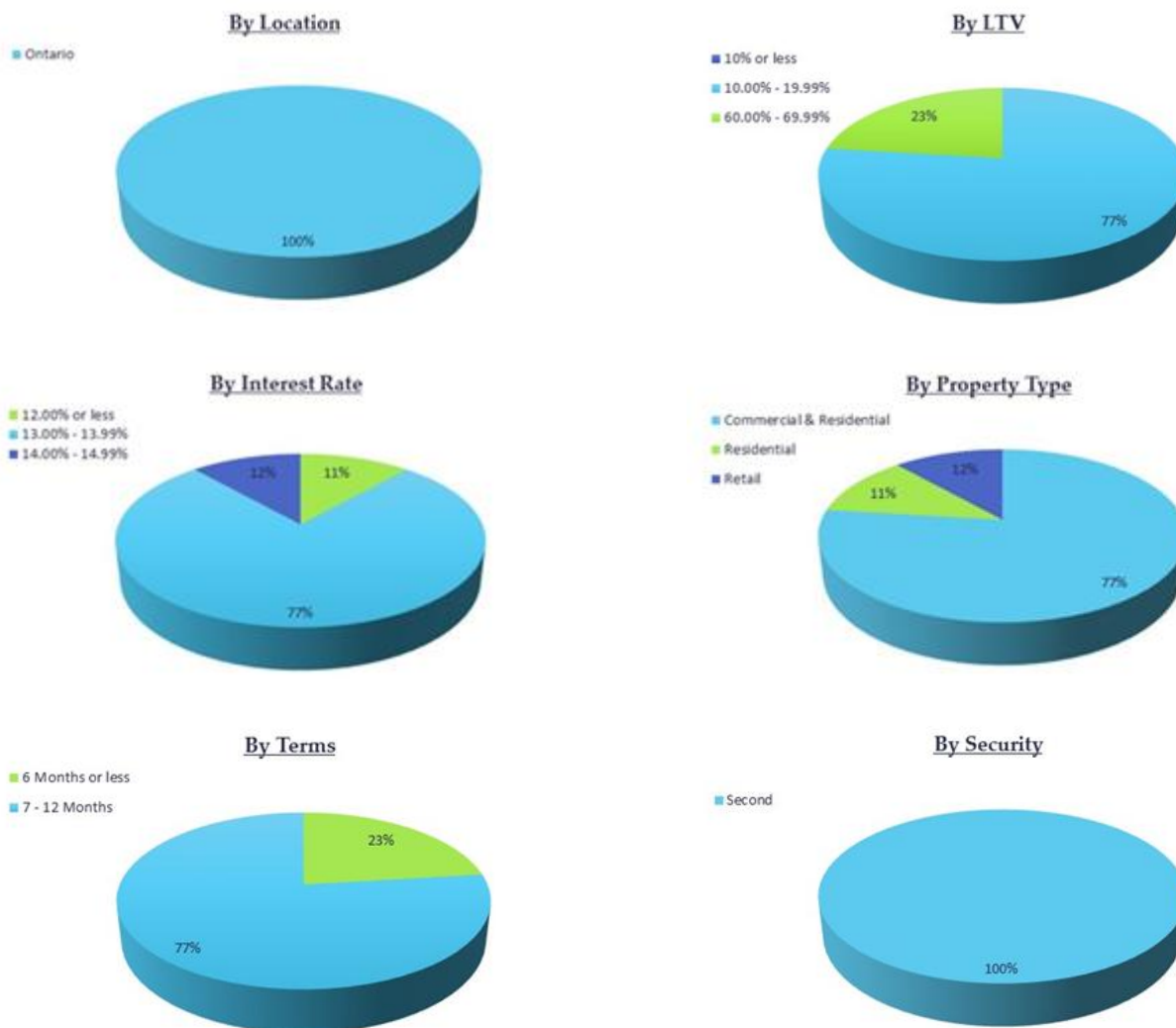
For fiscal 2015, AAMIC will continue its effort to grow its mortgage pipeline and further automate our back-office operations.

I would like to take this opportunity to express my appreciation to our shareholders for their support, our Board of Directors for their wise counsel, our independent advisors for sharing their wisdom and the entire AAMIC team for their hard work over the past year. Dedication and commitment shown by our team will provide a strong foundation for success, solid growth and a robust performance for the years ahead.



Frank S. Pa
President & Chief Executive Officer

PERFORMANCE HIGHLIGHTS



Dividend History (Fiscal Year)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Cum.
2014							-	-	\$0.20	-	-	\$0.20	\$0.40
2015	-	-	\$0.20	-	-	\$0.20							\$0.80

MANAGEMENT DISCUSSION & ANALYSIS

For the Year Ended June 30, 2015



Table of Contents

1	Responsibility of Management.....	6
2	Forward Looking Statements.....	6
3	Non-IFRS Financial Measures.....	6
4	Corporation & Industry Overview.....	7
5	Mortgage Portfolio.....	9
6	Financial Performance.....	9
7	Balance Sheet Highlights.....	9
8	Liquidity & Capital Resources.....	10
9	Related Party Transactions.....	10
10	Commitments & Contingencies.....	11
11	Off-Balance sheet Arrangements.....	11
12	Risk Management.....	11
13	Critical Accounting Estimates.....	12
14	Additional Information.....	12

MANAGEMENT DISCUSSION & ANALYSIS

For the Year Ended June 30, 2015

1 RESPONSIBILITY OF MANAGEMENT

This Management's Discussion and Analysis ("MD&A") for Atlantic Advantage Mortgage Investment Corporation (the "AAMIC") should be read in conjunction with the audited financial statements and notes thereto for the year ended June 30, 2015 included herein which has been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

Investment in AAMIC is subject to certain risks and uncertainties described in the AAMIC Offering Memorandum, which should be read in conjunction with this MD&A. These documents are available on our website at www.aamic.ca.

Management is responsible for the information disclosed in this MD&A. AAMIC has in place appropriate procedures, systems and controls to ensure such information is materially complete and reliable. In addition, the Board of AAMIC has reviewed and approved the MD&A and the audited financial statements and notes thereto for the year ended June 30, 2015.

This MD&A contains certain forward-looking statements and non-IFRS financial measures, see "Forward-Looking Statements" and "Non-IFRS Financial Measures".

2 FORWARD LOOKING STATEMENTS

This MD&A may contain forward-looking statements relating to anticipated future events, results, performance, expectations or circumstances that are not historical facts but

instead represent our beliefs regarding future events and are subject to inherent risks and uncertainties. We caution readers of this MD&A not to place undue reliance on our forward-looking statements. Actual results may differ materially from management expectations projected in such forward-looking statements for a variety of reasons, including but not limited to, general market conditions, interest rates, regulatory and statutory developments, the effects of competition in areas that AAMIC may invest in and the risks detailed from time to time in the Corporation's public disclosures.

We caution that the foregoing list of factors is not exhaustive and that when relying on forward-looking statements to make decisions with respect to investing in the Corporation, investors and others should carefully consider these factors, as well as other uncertainties and potential events and the inherent uncertainty of forward-looking statements. Due to the potential impact of these factors, AAMIC and Atlantic Advantage Management Inc. (the "Manager") do not undertake, and specifically disclaim any intention or obligation to update or revise any forward looking statements, whether as a result of new information, future events or otherwise, unless required by applicable law.

3 NON-IFRS FINANCIAL MEASURES

This MD&A contains certain non-IFRS financial measures. A non-IFRS financial measure is defined as a numerical measure of the Corporation's historical or future financial performance, financial position, or cash flows that excludes amounts or is subject to

MANAGEMENT DISCUSSION & ANALYSIS

For the Year Ended June 30, 2015

adjustments that have the effect of excluding amounts, that are included in the most directly comparable measure calculated and presented in accordance with IFRS in the financial statements or includes amounts, or is subject to adjustments that have the effect of including amounts, that are excluded from the most directly comparable measure so calculated and presented. Non-IFRS financial measures disclosed herein are meant to provide additional information and insight regarding the historical operating results and financial position of AAMIC. These measures are not in accordance with, or a substitute for IFRS and may be different from or inconsistent with non-IFRS financial measures used by others.

4 CORPORATION & INDUSTRY OVERVIEW

AAMIC is committed to establishing itself in the mortgage investment industry as a risk adverse, prudent registered plan recognized mortgage investment vehicle for eligible investors in Canada. AAMIC growth will always be tightly controlled within this mandate in order to ensure capital preservation, stable income and effective operational infrastructure controls for the benefit of investors and stakeholders. As such, AAMIC is not suitable for those searching for high-risk-high-return or short-term and temporary investments.

As an Ontario Securities Commission (the "OSC") regulated Mortgage Investment Corporation, AAMIC generates monthly mortgage interest revenue from its portfolio of mortgages that are secured by real properties consisting primarily of multi-residential, office, retail, industrial or other commercial properties in Canada. AAMIC may

at times also charge lenders fees to mortgagors at the onset of mortgage funding which are then treated as deferred income over the term of such mortgages. Mortgages are either first ranking, a junior position in a first ranking mortgage, or a second ranking mortgage. Individual mortgages may be secured by more than one property owned by the same mortgagor, often referred to as a blanket mortgage. AAMIC may invest in mortgages on a participation basis with parties related to the Manager.

Mortgage loan default may arise from a number of reasons, such as a breach of covenant and does not necessarily mean it is non-paying, past due or impaired. When a loan goes into default, the Manager may take a number of different actions to secure the repayment of the loan. Working out default loans requires specialized knowledge and extensive experience in order to ensure capital and interest recovery. The Manager has been in the mortgage industry and operated as a mortgage broker for over 19 years and handled more than 30,000 mortgage loans totalling over \$10 billion over the last 10 years, and provided conduits in excess of \$50 million for mortgage investors. It has originated over \$75 million of loans since its inception, with a 0.1% loss experience. The Manager's sister entity Atlantic (HS) Capital Inc., was established in 2006 as an intermediary for private high net worth investors to participate directly in the funding and investment of alternative commercial and residential mortgages. Atlantic (HS) Capital Inc. has not incurred any losses since inception.

MANAGEMENT DISCUSSION & ANALYSIS

For the Year Ended June 30, 2015

Global petroleum production is expected to continue to outpace consumption in 2016, leading to softness in oil prices and negatively impact the Canadian Dollar. Commodity prices are also soft as a result of increasing concern about the extent of China economy slow down, its ability to transform from an export economy to one of domestic consumption. This and the Chinese government inconsistency in handling its stock market turmoil and Yuan fluctuations is putting major world stock markets into bear territory. All these factors are bringing downward pressure on both the growth forecast for the Canadian economy and the Canadian Dollar exchange rate, in particular with the US Dollar, at least for the next 12 months or so. As such, Bank of Canada is taking a cautionary approach to interest rates whereas major banks are facing higher cost of funds. The combined effect is likely a subdued trajectory for Canadian mortgage interest rates. Although recent data indicated continued strength in the US economy, the aforementioned global factors is being closely monitored by the Federal Reserve. Due to the low level of Oil prices, the Albertan economy will likely stay subdued for the remainder of 2016. Overall household spending is also likely to be muted in 2016 as a result of little upside movement in the employment rate and wages. While inflationary risk is low, household debt remains high and continues to be closely monitored by financial regulators and the Bank of Canada.

Overall Canadian housing price increases started levelling off towards the end of 2015. Housing starts will also likely to increase at a much more

modest rate for 2016. The only exception to such overall modest trends will be Calgary and adjacent major population areas due to a sluggish energy sector.

On the mortgage industry front, regulatory guidelines B-20 and B-21 and tightening CMHC mortgage insurance rules have been introduced to modulate the risks associated with an overheated housing market. Their combined effects have created an expanded alternative mortgage lending market but correspondingly, increased competition amongst mortgage funding providers.

AAMIC relies on established credit policies and underwriting parameters in all mortgage assessments. All accepted mortgage applications are reviewed and approved by the Credit Committee. Underwriting parameters are continuously assessed and modulated when necessary to reflect market trend and mitigate risks at a portfolio level as well as on specific mortgages. Default risks are further mitigated by offering mortgage terms of one year or less. In addition to assessing potential investors for Accredited Investors and Close Friends and Business Associates eligibility, all potential investors are interviewed by members of the AAMIC Executive Team to ensure AAMIC can properly and adequately service their investment behaviours and objectives. AAMIC will continue to expand its mortgage pipeline into 2016 with experienced residential properties builders and developers that have a long-standing track record of success and in many cases, a positive history with AAMIC or its Investment Manager.

MANAGEMENT DISCUSSION & ANALYSIS

For the Year Ended June 30, 2015

Overall, the selection approach adopted by AAMIC on mortgagors and investors serve to mitigate risks, facilitate operating efficiency and will allow AAMIC to establish a strong presence in the market.

5 MORTGAGE PORTFOLIO

For the year ended June 30, 2015, the Corporation underwrote 5 mortgages totalling \$1,880,000, of which 2 were renewed and 2 have since been discharged. During this same period, 7 mortgage applications totalling \$2,160,000 were rejected as a result of underwriting review by the Credit Committee.

As at June 30, 2015, the AAMIC had 3 mortgages with a gross value of \$1,300,000. AAMIC continues to invest in a diversified portfolio of quality short-term mortgages with maturities of less than one year. The current investment portfolio comprises of 3 sub-ordinated mortgages all located in Ontario. The longest term remaining to maturity is 7 months with a weighted average duration of 5 months, loan-to-value (the "LTV") of 27.95% and average interest rate of 13%.

As at June 30, 2015, total allowance for loan losses was \$5,379, representing 41 basis points of the original cost of the mortgage portfolio. No losses were incurred in the 12 months period to June 30, 2015 and all existing mortgages are active and in good standing. The allowance for loan losses is based on assumptions relating to the mortgage portfolio and also reflects short weighted average duration and low LTV of the portfolio. We note that, the passage of time will

determine the actual performance of the mortgages and allowance for loan losses will continue to be reviewed by the Credit Committee and, if appropriate, adjusted.

6 FINANCIAL PERFORMANCE

For the year ended June 30, 2015, its first full year of operations, AAMIC had a net income of \$56,090. Income from operations comprised of mortgage interest income of \$65,147 and one-time mortgage administration fees and discharge fees totalling \$10,919. Total expenses for the period amounted to \$19,976 of which \$8,667 was for management fees paid to Atlantic Advantage Management Inc., Manager of the Corporation. This represented Management Expense Ratio ("MER") of approximately 1.47% on the average investor pool balance for the year.

7 BALANCE SHEET HIGHLIGHTS

Total assets as of June 30, 2015 were \$1,335,154. Total assets comprised primarily of mortgages, short-term bank balances, and accrued interest receivables.

Total liabilities of \$202,549 as at June 30, 2015 consisted mainly of shareholders loans \$177,942 and Q4 accrued dividends to Class A Preference Shares of \$21,748. The shareholders loans are further discussed under Related Party Transactions and in the accompanying audited financial statements.

AAMIC issued 112,335 Class A (non-voting) Preferred Shares to 26 investors in its first year of operation. Of these, 5 are RRSP investors with amounts invested totalling \$433,350. There were

MANAGEMENT DISCUSSION & ANALYSIS

For the Year Ended June 30, 2015

no redemptions during the year. The Corporation made distribution of \$46,930 in its inaugural year representing a net yield of 8% to its investors on an annualized basis.

8 LIQUIDITY & CAPITAL RESOURCES

AAMIC manages its capital structure in a manner that allows it to support ongoing operations while focusing on its primary objectives of capital preservation and building itself as a reputable, risk adverse investment vehicle for eligible investors in Canada. AAMIC reviews its capital structure on an ongoing basis and adjusts its capital structure in response to mortgage and loan investment opportunities, the availability of capital and anticipated changes in general economic conditions.

Access to liquidity is crucial for AAMIC as it allows the Corporation to grow by making full use of mortgage market opportunities under the risk controlled capital preservation mandate and continued adherence as an eligible MIC within section 130.1 of the Income Tax Act (Canada). The Corporation has not entered into any credit facility with any financial institution or issue any debenture shares. Instead, the founders (holders of AAMIC common shares) have agreed and committed to providing interest free demand loans to AAMIC in order to secure mortgage lending on a short-term basis and repayable as the Corporation acquires new or additional investment funds from new or existing investors. Such shareholders loans are further discussed in details under Related Party Transactions and the accompanying audited financial statements.

9 RELATED PARTY TRANSACTIONS

Manager

AAMIC is managed by Atlantic Advantage Management Inc. (the "Manager"), a related party by virtue of common management. The Manager is responsible for the management and administration of the Corporation's mortgage investment portfolio. Pursuant to the Management Agreement, the Manager is entitled to a Management Fee of up to 4.00% per annum of the investors' pool of the Corporation, calculated daily and paid monthly in arrears. Upon approval by the AAMIC Board, the Manager is also entitled to receive a performance fee equal to 12.50% of AAMIC net operating income remaining after distribution of dividend to its Class A Preference Shares shareholders of at least 8% on a per annum basis, failing which no performance fee shall be payable to the Manager for such annual period. The Manager will calculate the final Performance Fee of a completed calendar year based on the audited financial statements for that year. This Performance Fee will become payable to the Manager within 15 days after the issuance of the Corporation's audited financial statements for that year. During this first fiscal period of the Corporation, the Manager earned management fees of \$8,667, equivalent to approximately 1.47% on the average investor pool balance for the year.

Common Control

Mr. Frank S. Pa is the President and CEO of the Corporation, the Manager and the Investment Manager. In addition, the Manager and the

MANAGEMENT DISCUSSION & ANALYSIS

For the Year Ended June 30, 2015

Investment Manager are related to the Corporation through common control.

Shareholders Mortgage Funding Advances

As part of mortgage lending liquidity management, the founders (holders of AAMIC common shares) have agreed and committed to provide interest free demand loans to AAMIC in order to secure mortgage lending on a short-term basis and repayable as the Corporation acquires new or additional investment funds from new or existing investors. In turn, the founders are entitled to the mortgage interests earned on that portion of outstanding balances funded by such shareholder loans calculated on a daily basis and only on that portion of earned mortgage interests attributable to AAMIC invested principal is earned by the Corporation.

During the fiscal year ended June 30, 2015, AAMIC funded two subordinated mortgages from such shareholder loans.

The first being a subordinated mortgage AAMIC co-invested with other parties, one of which is related by virtue of common management. The amount of this subordinated mortgage was \$3 million, of which AAMIC share is \$1 million. AAMIC ranks parri-passu with all other subordinated lenders on this mortgage. The term for this mortgage is one year and matured on December 15, 2015, with a 13% interest rate per annum. Loan-To-Value (the "LTV") was 15.79%. As at June 30, 2015, the amount of shareholders mortgage funding advance balance pertaining to this loan was \$177,942, comprised of principal of \$176,650 and accrued interests of \$1,292. Mortgage interests earned by founders from this

funding advance was \$42,385 and that earned by AAMIC were \$29,476.

The second subordinated mortgage that was likewise initiated with shareholders mortgage advance loan was for \$450,000 at 8% interest per annum with a LTV of 59.37% for a one year term but it was discharged after only one month in April 2015. Mortgage interest earned by founders from their shareholder loans was \$3,369 and that earned by AAMIC was \$518.

10 COMMITMENTS & CONTINGENCIES

In the ordinary course of business activities, AAMIC may be contingently liable for litigation and claims arising from its mortgage investing operations. Where required, management records adequate provisions in the accounts. As at June 30, 2015, AAMIC did not have and was not aware of any outstanding litigations against the Corporation or its Board and Executives pertaining to matters of the Corporation.

AAMIC evaluates potential mortgages as well as new investors on an ongoing basis. Subsequent to June 30, 2015 and up to the date of this report, AAMIC had issued two mortgage commitment letters totalling \$1.9 million and received \$585,500 new registered investment transfers from 6 investors that are being processed by Olympia Trust on AAMIC's behalf.

11 OFF-BALANCE SHEET ARRANGEMENTS

AAMIC does not utilize off-balance sheet arrangements.

MANAGEMENT DISCUSSION & ANALYSIS

For the Year Ended June 30, 2015

12 RISK MANAGEMENT

AAMIC is exposed to various financial instrument risks in the normal course of business. The Manager of the Corporation have put in place various procedures and safeguards to mitigate these risks in order to ensure the preservation of capital as well as the achievement of acceptable and consistent rates of return. For details on financial instrument risks and management's response to these risks, please see note 3(b) of the audited financial statements.

13 CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements requires the Manager to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. The allowance for loans losses is the most important estimate, which takes into consideration assumptions regarding local real estate market conditions, interest rates movement, the availability of credit, impact of present or future legislation and regulation as well as the maturity, duration, past and anticipated performance and well-being of each mortgage in the mortgage portfolio of the Corporation

Accordingly, by their nature, estimates of impairment are subjective and do not necessarily result in precise determinations. Should the underlying assumptions change, the estimated allowance for loan losses could vary by a material amount.

14 ADDITIONAL INFORMATION

Jeffrey Wong

General Manager and Chief Financial Officer

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Mortgage Investment Corporation

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AUDITED FINANCIAL STATEMENTS



Table of Contents

Independent Auditors' Report.....	15
Statement of Comprehensive Income	16
Statement of Financial Positions.....	17
Statement of Cash Flow.....	18
Statement of Changes In Equity	19
Notes to Audited Financial Statements.....	20

Audited Financial Statements of

ATLANTIC ADVANTAGE MORTGAGE INVESTMENT CORPORATION

As at June 30, 2015

AUDITED FINANCIAL STATEMENTS



INDEPENDENT AUDITORS' REPORT

To the Shareholders of

Atlantic Advantage Mortgage Investment Corporation

We have audited the accompanying financial statements of Atlantic Advantage Mortgage Investment Corporation, which comprises the statements of financial position as at June 30, 2015 and 2014, and the statements of comprehensive income, changes in shareholder's equity and cash flows for the periods ended June 30, 2015 and 2014, 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.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 auditors' 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 auditors consider internal controls 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 in our audits 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 Atlantic Advantage Mortgage Investment Corporation as at June 30, 2015 and 2014, and its financial performance and its cash flows for the periods ended June 30, 2015 and 2014 in accordance with International Financial Reporting Standards.

Toronto, Canada,
January 25, 2016

A handwritten signature in black ink that reads 'Ernst & Young LLP' in a cursive, script font.

Chartered Professional Accountants
Licensed Public Accountants

AUDITED FINANCIAL STATEMENTS



ATLANTIC ADVANTAGE MORTGAGE INVESTMENT CORPORATION

Statement of Comprehensive Income

For the period ended June 30

	<u>Notes</u>	<u>2015</u>	<u>2014</u>
		\$	\$
<u>Revenue</u>			
Mortgage Interest Income		65,147	-
Other Interest Income		10,919	-
		Gross Revenue	\$ -
<u>Expenses</u>			
Management Fee/ACI Fees	4	8,667	-
Provision for Loan Losses		5,379	-
Accounting & Audit		9,500	-
Legal Fees		2,472	-
Licenses, Registration & Trademark		1,560	-
Administration Overhead		339	-
Bank Interest & Charges		363	-
Miscellaneous		701	-
		Total Expenses	\$ -
		Comprehensive Income	\$ -

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

Approved on behalf of the Board:

Frank Pa (President & CEO)

Jeffrey Wong (CFO)

AUDITED FINANCIAL STATEMENTS



ATLANTIC ADVANTAGE MORTGAGE INVESTMENT CORPORATION

Statement of Financial Positions

For the period ended June 30

	<u>Notes</u>	<u>2015</u>	<u>2014</u>
		\$	\$
<u>Assets</u>			
Bank & Cash		32,222	100
Interest Receivables		8,311	-
Investments in Mortgages	5	1,300,000	-
Allowance for Loan Losses		(5,379)	-
Total Assets		\$ 1,335,154	\$ 100
<u>Liabilities</u>			
Accounts Payable & Accrued Liabilities		11,740	-
Due to Related Parties		119	-
Dividends Accrued		21,748	-
Shareholder Loan		177,942	-
Total Liabilities		\$ 211,549	\$ -
Share Capital		1,123,450	100
Retained Earnings		155	-
Shareholders' Equity		\$ 1,123,605	\$ 100
Total Liabilities & Shareholders' Equity		\$ 1,335,154	\$ 100
Redeemable shares: Class A Preference Shares	6	1,123,350	-
Voting Shares	6	100	100
Number of Class A Preferred Shares Outstanding		112,335	-
Par value of Class A Preferred Shares		10.00	-

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

Approved on behalf of the Board:

Frank Pa (President & CEO)

Jeffrey Wong (CFO)

AUDITED FINANCIAL STATEMENTS



ATLANTIC ADVANTAGE MORTGAGE INVESTMENT CORPORATION

Statement of Cash Flows

For the period ended June 30

	<u>Notes</u>	<u>2015</u>	<u>2014</u>
		\$	\$
<u>Operations</u>			
Net Earnings		47,085	-
Items Not Affecting Cash:			
Allowance for loan losses		5,379	-
Change in Other Assets and Other Liabilities			
Interest Receivables		(8,311)	-
Other Receivables & Prepaids		-	-
Accounts Payable & Accrued Liabilities		11,740	-
Intercompany Balances		119	-
Cash from Operations		\$ 56,012	\$ -
<u>Financing</u>			
Issuance of Class A Preference Shares Net of Redemptions		1,123,350	-
Issuance of Common Shares		-	100
Dividends Paid		(46,930)	-
Shareholders Loans Advanced		177,942	-
Dividends Accrued		21,748	-
Cash from Financing		\$ 1,276,110	\$ 100
<u>Investments</u>			
Investment in Mortgages		(1,300,000)	-
Cash Used in Investments		\$ (1,300,000)	\$ -
Net Changes in Cash Position		\$ 32,122	\$ 100
Cash, Beginning of Period		100	-
Cash, End of Period		\$ 32,222	\$ 100

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

Approved on behalf of the Board:

Frank Pa (President & CEO)

Jeffrey Wong (CFO)

AUDITED FINANCIAL STATEMENTS



ATLANTIC ADVANTAGE MORTGAGE INVESTMENT CORPORATION

Statement of Changes in Equity
For the period June 30

	<u>Notes</u>	<u>2015</u>		<u>2014</u>	
		Unit	\$	Unit	\$
<u>Share Capital</u>					
Common Shares		<u>100</u>	<u>\$ 100</u>	<u>100</u>	<u>\$ 100</u>
Class A Preferred Shares					
Opening Balance		-	-	-	-
Issuance from cash		112,335	1,123,350	-	-
Closing Balance		<u>112,335</u>	<u>1,123,350</u>	<u>-</u>	<u>-</u>
Share Capital, End of Year		<u>112,435</u>	<u>\$ 1,123,450</u>	<u>100</u>	<u>\$ 100</u>
<u>Retained Earnings</u>					
Beginning of Year			-		-
Comprehensive income for period			47,085		-
Dividend Declared			(46,930)		-
Retained Earnings End of Year			<u>\$ 155</u>		<u>\$ -</u>
<u>Shareholders Equity</u>			<u>\$ 1,123,605</u>		<u>\$ 100</u>

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

Approved on behalf of the Board:

Frank Pa (President & CEO)

Jeffrey Wong (CFO)

AUDITED FINANCIAL STATEMENTS

NOTES TO AUDITED FINANCIAL STATEMENTS

As at June 30, 2015

1 OPERATIONS

Atlantic Advantage Mortgage Investment Corporation (the "Corporation" or "AAMIC") is incorporated as a private corporation under the *Business Corporations Act* (Ontario) by Articles of Incorporation February 24, 2014. The Corporation's principal place of business and registered office is in Ontario, Canada.

The Corporation's main activity is that of a Mortgage Investment Corporation ("MIC") operating solely in Canada as defined in Section 130.1(6) of the *Income Tax Act* (Canada) ("ITA").

The Corporation is managed by Atlantic Advantage Management Inc. (the "Manager"). The mortgage broker for the Corporation is Atlantic (HS) Financial Corporation (the "Investment Manager").

These financial statements were approved by the Board of Directors on January 25, 2016.

2 SIGNIFICANT ACCOUNTING POLICIES

a) Basis of Presentation

The financial statements of the Corporation have been prepared by the Manager in accordance with International Financial Reporting Standards ("IFRS").

b) Investment Portfolio

Mortgage investments are recorded at amortized cost using the effective interest method and net of allowance for credit losses. Interest income is recorded on an accrual basis. Accrued but uncollected interest is reversed whenever loans are classified as impaired. The Corporation classifies a loan as impaired when, in the opinion of management, there is significant doubt as to collectability, either in whole or in part, of principal or interest. Loans for which interest is contractually past due 90 days are automatically classified as impaired, unless management determines that there is no reasonable doubt as to the ultimate collectability of principal and interest.

Impairment is measured as the difference between the recorded value of the mortgage loan and its estimated realizable amount, determined by discounting the expected future cash flows at the effective interest rate inherent in the loan at the date of origination. When the amounts and timing of future cash flows cannot be estimated with reasonable reliability, either the fair value of any security underlying the loan, net of any expected realization costs, or the observable market price for the loan is used to measure the estimated realizable amount. When a mortgage

AUDITED FINANCIAL STATEMENTS

NOTES TO AUDITED FINANCIAL STATEMENTS

As at June 30, 2015

loan is classified as impaired, recognition of interest in accordance with the terms of the original loan agreement ceases. Subsequent payments [interest or principal] received on an impaired loan are recorded as a reduction of the recorded investment in the loan.

c) Allowance for Loan Losses

The allowance for loan losses consists of allowances assessed on an individual basis, being provisions against individual credit exposures determined on an item-by-item basis, and allowances assessed on a collective basis, being provisions of a collective nature which cannot be determined on an item-by-item basis, but where a provision should be made due to incurred loss events of which there is objective evidence, whose effects are not yet evident. The balance in the allowance for loan losses account is deducted from the related asset category, except for any provisions against acceptances and off-balance sheet items which will be included in other liabilities. Mortgage provisions are charged to income is the amount required to establish a balance in the allowance for credit losses account which management considers adequate to absorb all credit related losses in its portfolio of on- and off-balance sheet items.

d) Interest Income

Interest income is recognized in the statement of operations on an accrual basis.

e) Dividends to Holders of Redeemable Class A Preference Shares

Dividends payable to holders of redeemable Class A Preference Shares are recognized in the statement of changes in equity when they are authorized.

f) Income Taxes

The Corporation is a MIC pursuant to the *Income Tax Act* (Canada). As such, the Corporation is entitled to deduct from its taxable income dividends paid to shareholders during the year or within 90 days of the end of the year to the extent the dividends were not deducted previously. The Corporation intends to maintain its status as a MIC and intends to distribute sufficient dividends in the year and in future years to ensure that the Corporation is not subject to income taxes. Accordingly, for financial statement reporting purposes, the tax deductibility of the Corporation's dividends results in the Corporation being effectively exempt from taxation and no provision for current or future income taxes is required.

g) Share Capital

Class A Preference Shares are classified as equity. Incremental costs directly attributable to the issue of Class A Preference Shares are recognized as a deduction from equity.

AUDITED FINANCIAL STATEMENTS

NOTES TO AUDITED FINANCIAL STATEMENTS

As at June 30, 2015

h) Net Assets per Share

The Net Assets per Share is calculated by dividing the net assets of Class A Preference Shares by the total number of outstanding Class A Preference Shares at the end of the period.

i) Use of Estimates and Judgements

The preparation of financial statements in conformity with IFRS requires Management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

The most significant estimates that Management is required to make relate to the allowance for loan losses for the mortgage portfolio. These estimates may include assumptions regarding local real estate market conditions, interest rates and the availability of credit, cost and terms of financing, the impact of present or future legislation or regulation, prior encumbrances and other factors affecting the investments in mortgages and underlying security of the mortgages.

j) Future Accounting Changes

A number of new standards, amendments to standards and interpretations have been issued but are not yet effective for the financial period ended June 30, 2015 and, accordingly, have not been applied in preparing these financial statements. A summary of these new standards, amendments and interpretations that may impact the Corporation include: -

IFRS 9 - Financial Instruments, ("IFRS 9")

The IASB issued a new standard, IFRS 9, which will ultimately replace International Accounting Standard 39, Financial Instruments - Recognition and Measurement ("IAS 39"). IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2018 and is available for early application. The Corporation is in the process of assessing the impact of the new standard on its financial statements.

IFRS 15 - Revenue Recognition ("IFRS 15")

The IASB issued IFRS 15, Revenue from Contracts with Customers ("IFRS 15") in May 2014. The

AUDITED FINANCIAL STATEMENTS

NOTES TO AUDITED FINANCIAL STATEMENTS

As at June 30, 2015

new standard provides a comprehensive five-step revenue recognition model for all contracts with customers and requires management to exercise significant judgment and make estimates that affect revenue recognition. IFRS 15 is effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. The Corporation is in the process of assessing the impact of IFRS 15 on the financial statements.

3 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

IFRS 13 establishes enhanced disclosure requirements for fair value measurements of financial instruments and liquidity assets.

a) Risk Management

The Corporation has exposure to the following risks from financial instruments: -

- Credit Risk;
- Liquidity Risk; and
- Market Risk.

The Corporation's strategy is to acquire and maintain a diversified portfolio of mortgages on real property in Canada to generate attractive returns in order to pay monthly distributions to its Class A Preference Share shareholders and also preserve capital.

The Manager is given discretionary authority to manage the assets in line with the Corporation's investment restrictions and objectives. Compliance with the target asset allocations and the composition of the portfolio are monitored by the Board of Directors on an ongoing basis.

i) 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, and resulting in a financial loss to the Corporation. This risk arises solely from the mortgages held by the Corporation. For risk management reporting purposes, the Corporation considers and consolidates all elements of credit risk exposure (such as loan-to-value, sector risk, location risk, and individual obligor default risk).

The Corporation minimizes its exposure to counterparties' credit risks by adherence to established credit policies and underwriting approval procedures of the Corporation. For the 12 months period to June 30, 2015, the Corporation further managed its credit risk exposure by only funding mortgages with maturity terms of one year or less.

AUDITED FINANCIAL STATEMENTS

NOTES TO AUDITED FINANCIAL STATEMENTS

As at June 30, 2015

Credit Risk is monitored on an ongoing basis by the Manager in accordance with policies and procedures in place and on an annual basis by the Board of Directors.

The Corporation's maximum credit risk exposure (without taking into account collateral and other credit enhancements) at June 30, 2015 is \$1,300,000.

ii) Liquidity Risk

Liquidity Risk is the risk that the Corporation will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

The Corporation's policy and the Manager's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stress conditions, including estimated redemptions of shares, without incurring unacceptable losses or risking damage to the Corporation's reputation.

As part of mortgage lending liquidity management, the founders (holders of common shares of the Corporation) have agreed and committed to provide interest free demand loans to the Corporation in order to secure mortgage lending on a short-term basis and repayable as the Corporation acquires new or additional investment funds from new or existing investors. In turn, the founders are entitled to the mortgage interests earned on outstanding balances funded by such shareholder loans calculated on a daily basis and only that portion of earned mortgage interests attributable from the Corporation invested principal portion were earned by the Corporation. The Corporation had used such an arrangement on two subordinated mortgages which totalled \$1,450,000. The outstanding balance of such shareholder loans as at June 30, 2015 is \$176,650.

The Corporation's Offering Memorandum provides for the monthly cancellation of shares and is therefore exposed to Liquidity Risk in meeting shareholder redemptions at each redemption date.

The Corporation's financial assets include a portfolio of mortgages, which are generally illiquid. As a result, the Corporation may not be able to liquidate some of its investments in these instruments in due time in order to meet its liquidity requirements.

The Corporation's Liquidity Risk is managed on an ongoing basis by the Manager in accordance with the policies and procedures in place. The Corporation's overall liquidity is monitored on an annual basis by the Board of Directors.

AUDITED FINANCIAL STATEMENTS

NOTES TO AUDITED FINANCIAL STATEMENTS

As at June 30, 2015

The Corporation's redemption policy only allows for redemptions from the 10th to the 15th day of the month with a payment to be provided on or before the 15th day of the following month. It is the Manager's policy to have liquid assets comprising cash or access to shareholder loans from founders of the Corporation and bank facilities in order to meet anticipated redemptions. As at June 30, 2015, the Corporation has not entered into banking facilities agreement with financial institutions.

iii) Market Risk

Market Risk is the risk that changes in market factors, such as interest rates, currency and other price risks will affect the Corporation's income or the fair value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposure within acceptable parameters, while optimizing the return.

The Corporation's strategy for the management of Market Risk is driven by the Corporation's investment objective, which is to invest in a diversified portfolio of mortgages on real property located within Canada that preserves capital and generates returns in order to permit the Corporation to pay monthly distributions to its Class A Preference Share shareholders.

The Corporation's Market Risk is managed on a daily basis by the Manager in accordance with policies and procedures in place.

iv) Interest Rate Risk

The Corporation is exposed to the risk that the fair value or future cash flows of its financial instruments will fluctuate as a result of changes in market interest rates. In respect of the Corporation's interest-bearing financial instruments, the Corporation's policy is to transact in financial instruments that mature in the short term, i.e. no longer than 12 months and the mortgage investment agreements for all mortgages held by the Corporation stipulate an interest rate floor for the respective mortgage.

Accordingly, the Corporation would be subject to limited exposure to fair value or cash flow interest rate risk due to fluctuations in the prevailing levels of market interest rates.

v) Currency Risk

Currency Risk is the risk that the fair value of financial instruments will fluctuate due to changes in foreign exchange rates. The Corporation is not currently exposed to Currency Risk.

AUDITED FINANCIAL STATEMENTS

NOTES TO AUDITED FINANCIAL STATEMENTS

As at June 30, 2015

4 RELATED PARTY TRANSACTIONS AND BALANCES

- a) The Corporation is managed by the Manager, a related party by virtue of common management. The Manager is responsible for the management and administration of the Corporation's mortgage investment portfolio. Pursuant to the Management Agreement, the Manager is entitled to a Management Fee of up to 4.00% per annum of the investors' pool of the Corporation, calculated daily and paid monthly in arrears. Upon approval by the Corporation's Board, the Manager is also entitled to receive a performance fee equal to 12.50% of the Corporation's net operating income remaining after distribution of dividend to its Class A Preference Shares shareholders of at least 8% on a per annum basis, failing which no performance fee shall be payable to the Manager for such annual period. The Manager will calculate the final Performance Fee of a completed calendar year based on the year-end financial results for that year. This Performance Fee will become payable to the Manager within 15 days after the issuance of the Corporation's audited financial statements for that year. During this first fiscal period of the Corporation, the Manager earned management fees of \$8,667, equivalent to approximately 1.47% on the average investor pool balance for the year.
- b) Mr. Frank S. Pa is the President and CEO of the Corporation, the Manager and the Investment Manager. In addition, the Manager and the Investment Manager are related to the Corporation through common control.
- c) All related party transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. The Corporation will invest in mortgages on its own right or on a participation basis with parties related to the Manager. In addition, certain mortgage broker duties are performed by the Investment Manager.
- d) As part of mortgage lending liquidity management, the founders (holders of the Corporation's common shares) have agreed and committed to provide interest free demand loans to the Corporation in order to secure mortgage lending on a short-term basis and repayable as the Corporation acquires new or additional investment funds from new or existing investors. In turn, the founders are entitled to the mortgage interests earned on that portion of outstanding balances funded by such shareholder loans calculated on a daily basis and only on that portion of earned mortgage interests attributable to the Corporation invested principal is earned by the Corporation. During the fiscal year ended June 30, 2015, the Corporation funded two subordinated mortgages from such shareholder loans.

AUDITED FINANCIAL STATEMENTS

NOTES TO AUDITED FINANCIAL STATEMENTS

As at June 30, 2015

- e) The first one is a subordinated mortgage the Corporation co-invested with other parties, one of which was related by virtue of common management. The total amount of this subordinated mortgage was \$3 million, of which the Corporation's share was \$1 million. The corporation ranks parri-passu with all other subordinated lenders on this mortgage. This \$1 million mortgage demanded a 13% interest rate per annum for a one-year term maturing on December 12, 2015. Loan-To-Value (the "LTV") was 15.79%. As at June 30, 2015, the amount of shareholders mortgage advance outstanding was \$177,942, comprised of principal of \$176,650 and accrued interests of \$1,292. Mortgage interests earned by founders from their shareholder loans was \$42,385 and that earned by the Corporation was \$29,476. The second subordinated mortgage that was likewise initiated with shareholders mortgage advance loan was for \$450,000 at 8% interest per annum with a LTV of 59.37% for a one-year term but it was discharged after only one month in April 2015. Mortgage interests earned by founders from their shareholder loans was \$3,369 and that earned by the Corporation was \$518.

5 MORTGAGE INVESTMENTS

- a) Mortgages by Type, Geographic Allocation & Ranking

June 30, 2015	# Mtg	Province	Ranking	Original Cost	FairValue
Residential	2	ON	2nd	\$ 1,150,000	\$1,150,000
Commercial	-	-	-	-	-
Retail	1	ON	2nd	150,000	150,000
	3			\$ 1,300,000	\$1,300,000

AUDITED FINANCIAL STATEMENTS

NOTES TO AUDITED FINANCIAL STATEMENTS

As at June 30, 2015

b) Mortgage Portfolio Details

June 30, 2015	City	Prov.	Property Value	Original Loan \$	LTV	Interest Rate	Months Remain
3143 Nineteenth Ave.	Markham	ON	\$84,000,000	\$1,000,000	15.79%	13.00%	5
Unit 182, 196, 3255 Hwy 7 E	Markham	ON	570,000	150,000	69.42%	14.00%	7
93 Churchill Ave.	Toronto	ON	800,000	150,000	67.55%	12.00%	6
				\$1,300,000	Average Duration		5

* In cases where AAMIC does not have the primary interest in a property, the LTV takes into account primary interest on the mortgage property in addition to AAMIC interest.

c) Mortgage Default & Mortgage Provisions

A mortgage is considered in default when a payment has not been received by the contractual due date, or a term in the mortgage agreement has been breached. Mortgages that are in default are not classified as impaired if they are fully secured and collection efforts are reasonably expected to result in repayment of principal plus all associated costs and accrued interest.

As at June 30, 2015, total allowance for loans losses was \$5,379, representing 41 basis points of the carrying value of the mortgage portfolio. No losses were incurred in the 12 months period to June 30, 2015 and all existing mortgages are active and in good standing. The allowance for loan losses is based on assumptions relating to the mortgage portfolio and also reflects the less than 6 months weighted average duration and low LTV of the portfolio.

6 SHARE CAPITAL

As at the date of incorporation on June 30, 2015, there were an unlimited number of Voting Common Shares and 10 million Non-voting Class A Preferred Shares (nominal value of \$10 each) authorized of which 100 Voting Common Shares were issued and outstanding.

a) Voting Common Shares

The holders of the Common shares shall be entitled to receive notice of and to attend all meetings of shareholders of the Corporation and to exercise one vote for each share, in person or by proxy, at all such meetings of shareholders of the Corporation.

The holders of the Common shares shall not be entitled to receive dividends of the Corporation. In the event of the liquidation, dissolution or winding-up of the Corporation or other distribution of assets or property of the Corporation among shareholders for the purpose of

AUDITED FINANCIAL STATEMENTS

NOTES TO AUDITED FINANCIAL STATEMENTS

As at June 30, 2015

winding-up its affairs, the holders of the Common shares shall be entitled, subject to the prior rights attaching to the Class A Preferred shares or any other shares entitled to share or participate in any distribution of the property or assets of the Corporation, to receive the remaining property of the Corporation.

b) Non-voting Class A Preferred Shares

The holders of the Class A Preferred shares shall not be entitled to receive notice of or to attend or vote at meetings of the shareholders of the Corporation but shall be entitled to notice of meetings of shareholders called for the purpose of authorizing the dissolution of the Corporation or the sale of its undertaking or a substantial part thereof.

The holders of the Class A Preferred Shares shall be entitled to receive dividends in such amounts and at such times as and when declared by the directors of the Corporation. In the event of the liquidation, dissolution or winding-up of the Corporation or other distribution of property or assets of the Corporation among its shareholders for the purposes of winding-up its affairs, the holders of the Class A Preferred shares shall be entitled to receive, in priority to any distribution to the holders of the Common shares or any other shares ranking junior to the Class A Preferred shares, an amount equal to the Redemption Amount (as hereinafter defined) thereof together with all declared and unpaid dividends. After payment to the holders of the Class A Preferred shares of the amounts so payable to them as above provided, they shall not be entitled to share or participate in any further distribution of the property or assets of the Corporation.

Monthly and annual redemptions for shareholders of Class A Preferred Shares will be according to the following procedures: -

i) Redemption by the Corporation

The Corporation may redeem all or any part of its outstanding Class A Preferred Shares upon due notice or consent from the holder of the Class A Preferred Shares. The amount to be paid by the Corporation in respect of each Share to be redeemed shall be an amount equal to the original amount paid up on the Class A Preferred Shares to be redeemed together with all dividends declared thereon and unpaid as at the Redemption Date.

ii) Retraction Rights of Shareholders

A Class A Preferred Share shareholder may apply to the Corporation for redemption of all or part of the shareholder's shares, provided the date of application for redemption is at least 90 days prior to the redemption date, subject to certain conditions: -

- No retraction during the first 4 months from first issuance date.

AUDITED FINANCIAL STATEMENTS

NOTES TO AUDITED FINANCIAL STATEMENTS

As at June 30, 2015

- The Corporation has the discretion to reject or defer any redemption application by a holder of Class A Preferred Shares where, in the view of the Corporation, such redemption will result in the Corporation failing to qualify as a MIC under the ITA or which would otherwise be contrary to applicable laws.
- The Redemption Amount is further subject to following reduction: -
 - During the period that is 4 months and one day up to and including the date which is 12 months from the date of issuance of the Shares to be redeemed (the “Issuance Date”), the Redemption Amount shall be reduced by 5%;
 - During the period that is 12 months and one day up to and including the date which is 24 months from the Issuance Date, the Redemption Amount shall be reduced by 3%;
 - During the period that is 24 months and one day up to and including the date which is 36 months from the Issuance Date, the Redemption Amount shall be reduced by 2%; and
 - Where a holder of Class A Preferred Shares is a Substantial Shareholder (as defined in the ITA) holds a total number of shares equal to or greater than 10% of the total number of Class A Preferred Shares outstanding, such a Substantial Shareholder will be restricted to redeeming no more than 20% of its shares in any quarter.

As a result of the above, the corporation has recorded the preferred shares as equity on the statement of financial position.

7 KEY MANAGEMENT PERSONNEL COMPENSATION

The Corporation paid \$Nil to the members of the Board and Independent Review Committee for their services to the Corporation. The compensation to senior management and staff of the Manager is remunerated through the management fees paid to the Manager (Note 4a).

8 SUBSEQUENT EVENTS

Subsequent to June 30, 2015 and up to the date of this report, the Corporation has funded 8 new mortgages totalling \$4,422,600. 5 of these new mortgages totalling \$3,508,000 were partially funded by shareholders advances of \$2,070,430 and participation by an affiliated entity of \$600,000. The

AUDITED FINANCIAL STATEMENTS

NOTES TO AUDITED FINANCIAL STATEMENTS

As at June 30, 2015

Corporation also issued 191,382 Class A Preferred Shares (\$1,913,820) to 17 new and 5 existing investors during this period.

9 CONTINGENT LIABILITIES

In the ordinary course of business activities, the Corporation may be contingently liable for litigation and claims arising from its operations including the investing in mortgages and loans. Where required, management records adequate provisions in the accounts. As at June 30, 2015, the Corporation did not have and was not aware of any outstanding litigations against the Corporation or its Board and Executives pertaining to matters of the Corporation.

BOARD OF DIRECTORS

Frank S. Pa, AMP
President & CEO, Director
Atlantic (HS) Financial Corporation
Markham ON Canada
Director since 2014

Jeffrey L. Wong, C.A. (ICAS)
General Manager & CFO, Treasurer
Markham ON Canada
Director since 2014

Shing B. Tung, B.A.
Corporate Director, Secretary
Markham ON Canada
Director since 2014

Dr. Collin Hong, M.D., F.R.C.S. (C)
Founder & President
Cosmetic Surgery & Skin Management Inc.
Toronto ON Canada
Director since 2014

Debbie M.K. Lui,
Corporate Director
Toronto ON Canada
Director since 2014

INDEPENDENT ADVISORS

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Toronto ON Canada

Randall (Randy) Rutherford, HBA, M. Phil.
Vice President
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