Financial Statements

ANTRIM BALANCED MORTGAGE FUND

antriminvestments.com

Financial Statements

Antrim Balanced Mortgage Fund Ltd.

June 30, 2021

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Grant Thornton

Independent Auditor’s Report

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To the Directors of
Antrim Balanced Mortgage Fund Ltd.

Opinion

We have audited the financial statements of Antrim Balanced Mortgage Fund Ltd., (“the Company”), which comprise the statement of financial position as at June 30, 2021, and the statements of income and comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly in all material respects, the financial position of the Company as at June 30, 2021, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Basis for opinion

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

Responsibilities of management and those charged with governance for the financial statements

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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 audit 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 achieves 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.

Grant Thornton LLP

Vancouver, Canada
September 9, 2021

Chartered Professional Accountants

Antrim Balanced Mortgage Fund Ltd.
Statement of Financial Position

June 30	2021	2020
Assets		
Cash	**$ -**	$ 9,992,731
Accounts receivable (Note 4)	**94,959**	109,463
Accrued interest receivable	**3,497,325**	3,007,521
Mortgage receivable (Note 5)	**759,043,215**	572,513,780
Prepaid expenses and other assets	**172,192**	220,960
Software and hardware	**175,671**	107,602
Total assets	**$ 762,983,362**	$ 585,952,057
Liabilities		
Bank indebtedness (Note 6)	**$ 58,129,011**	$ 10,000,000
Accounts payable (Note 9)	**1,349,519**	985,664
Dividends payable (Note 7)	**5,609,146**	7,265,513
Total liabilities	**65,087,676**	18,251,177
Shareholders' equity		
Common shares (Note 8)	**11**	11
Preferred shares - Class A (Note 8)	**208,525,471**	192,186,727
Preferred shares - Class B Series B (Note 8)	**132,841,999**	110,533,135
Preferred shares - Class B Series C (Note 8)	**356,828,986**	265,281,788
Deficit	**(300,781)**	(300,781)
Total shareholders' equity	**697,895,686**	567,700,880
Total liabilities and shareholders' equity	**$ 762,983,362**	$ 585,952,057

Management fees and related party transactions (Note 9)
Rate of return (Note 13)
Post-reporting date events (Note 14)

On behalf of the Board

__________ Director __________ Director

See accompanying notes to the financial statements.

Antrim Balanced Mortgage Fund Ltd.
Statements of Income and Comprehensive Income

Year ended June 30	2021	2020
Financial income		
Interest income	$ 47,282,153	$ 46,859,007
Fees	133,617	198,688
Total financial income	47,415,770	47,057,695
Expenses		
Management and dealer fees (Note 9)	8,818,637	7,831,330
Professional fees	702,489	704,403
Interest and bank charges	606,373	622,549
Provision for mortgage losses (Note 5)	200,000	200,000
Insurance	124,769	94,949
Promotion expense	68,492	97,025
Office	33,794	28,112
Total expenses	10,554,554	9,578,368
Income before other item and income taxes	36,861,216	37,479,327
Other item		
Dividend expense (Note 7)	(36,853,472)	(37,467,756)
Income before income taxes	7,744	11,571
Provision for income taxes	7,744	11,571
Net income and comprehensive income	$ -	$ -

See accompanying notes to the financial statements.

Antrim Balanced Mortgage Fund Ltd.
Statement of Changes in Equity

Year ended June 30

	Common shares	Preferred shares - Class A	Preferred shares - Class B Series B	Preferred shares - Class B Series C	Deficit	Total
Balance, June 30, 2019	$ 10	$ 182,530,770	$ 108,237,001	$ 263,880,551	$ (300,781)	$ 554,347,551
Proceeds from issuance of shares (Note 8)	1	21,452,625	24,211,014	61,200,013	-	106,863,653
Redemption of shares (Note 8)	-	(19,842,429)	(22,950,339)	(69,800,118)	-	(112,592,886)
Dividends issued as shares (Note 8)	-	7,840,030	4,871,806	6,370,726	-	19,082,562
Transferred to another share class (Note 8)	-	205,731	(3,836,347)	3,630,616	-	-
Balance, June 30, 2020	11	192,186,727	110,533,135	265,281,788	(300,781)	567,700,880
Proceeds from issuance of shares (Note 8)	-	25,838,528	45,215,146	140,076,555	-	211,130,229
Redemption of shares (Note 8)	-	(16,191,965)	(25,450,544)	(60,229,937)	-	(101,872,446)
Dividends issued as shares (Note 8)	-	8,630,938	4,777,546	7,528,539	-	20,937,023
Transferred to another share class (Note 8)	-	(1,938,757)	(2,233,284)	4,172,041	-	-
Balance, June 30, 2021	**$ 11**	**$ 208,525,471**	**$ 132,841,999**	**$ 356,828,986**	**$ (300,781)**	**$ 697,895,686**

See accompanying notes to the financial statements.

Antrim Balanced Mortgage Fund Ltd.
Statement of Cash Flows

Year ended June 30	**2021**	2020
Cash derived from (applied to)		
Operating activities		
Net income and comprehensive income	**$ -**	$ -
Adjustments for		
Dividends	**36,853,472**	37,467,756
Provision for mortgage losses	**200,000**	200,000
Interest income	**(47,282,153)**	(46,859,007)
Interest expense	**167,594**	176,160
	(10,061,087)	(9,015,091)
Changes in non-cash items		
Accounts receivable	**14,504**	520,143
Prepaid expenses and other assets	**48,768**	20,558
Accounts payable	**363,855**	(49,165)
	427,127	491,536
Cash flows relating to interest and dividends		
Interest received	**46,792,349**	46,824,509
Interest paid	**(167,594)**	(176,160)
Dividends paid	**(17,572,816)**	(18,656,456)
	29,051,939	27,991,893
Cash flow from operating activities	**19,417,979**	19,468,338
Financing activities		
Common shares issued	**-**	1
Preferred shares - Class A, net	**7,707,806**	1,815,927
Preferred shares - Class B Series B, net	**17,531,318**	(2,575,672)
Preferred shares - Class B Series C, net	**84,018,659**	(4,969,489)
Proceeds from bank financing	**64,129,011**	33,000,000
Repayment of bank debt	**(16,000,000)**	(32,974,625)
Cash flow from (used in) financing activities	**157,386,794**	(5,703,858)
Investing activities		
New mortgages funded	**(512,856,106)**	(269,029,403)
Mortgages repaid	**326,126,671**	263,332,093
Purchase of software	**(68,069)**	(63,047)
Cash flow applied to investing activities	**(186,797,504)**	(5,760,357)
(Decrease) increase in cash	**(9,992,731)**	8,004,123
Cash		
Beginning of year	**9,992,731**	1,988,608
End of year	**$ -**	$ 9,992,731

1. Nature of operations

Antrim Balanced Mortgage Fund Ltd. (the "Company") is a mortgage investment corporation pursuant to Section 130.1 of the Income Tax Act. It was incorporated under the British Columbia Business Corporations Act on June 6, 2007 and in Alberta on August 29, 2012. The primary mandate of the Company is to invest its pooled funds into residential first, second and third mortgages that will provide an above average rate of return to its shareholders.

The address of the Company's registered office is 9089 Glover Road, Fort Langley, BC, V1M 2R8.

2. Basis of presentation

The financial statements were prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

These annual financial statements were authorized for issuance by the Board of Directors on September 9, 2021.

Basis of measurement
These financial statements are prepared on the historical cost basis, except for assets held for sale that are measured at the lower of its carrying amount and fair value less cost to sell.

Functional and presentation currency
The Company's functional and presentation currency is the Canadian dollar.

Use of estimates and judgements
The preparation of financial statements in accordance with IFRS requires management to make estimates, assumptions and judgements that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the reporting date and the reported amounts of revenue and expenses during the reporting period. Significant areas requiring the use of management estimates relate to the valuation of mortgages and the provisions for impaired loans.

Management believes that its estimates are appropriate, however, actual results could differ from the amounts estimated. Estimates and underlying assumptions are reviewed annually and revisions to accounting estimates are recognized in the period in which the estimate is revised and any future periods affected.

3. Summary of significant accounting policies

Mortgages receivable

Mortgages receivable are classified as amortized cost, less allowances for loan impairment.

The Company capitalizes all maintenance and foreclosure costs with the intention of recovering these costs upon subsequent payout of the mortgage, providing that sufficient equity is estimated to exist in the underlying security.

3. Summary of significant accounting policies (continued)

Financial instruments

Recognition and de-recognition

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the financial instrument.

Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all the risks and rewards are transferred. A financial liability is derecognized when it is extinguished, discharged, cancelled or expires.

Classification upon recognition and initial measurement of financial assets

All financial assets are initially measured at fair value. Financial assets, other than those designated and effective as hedging instruments, are classified into the following categories:
- amortized cost;
- fair value through other comprehensive income (“FVOCI”); or
- fair value through profit or loss (“FVTPL”).

In the periods presented, the Company does not have any financial assets categorized as FVOCI or FVTPL.

The classification is determined by both:
- the entity’s business model for managing the financial asset; and
- the contractual cash flow characteristics of the financial asset.

Subsequent measurement of financial assets

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:
- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After initial recognition, these are measured at amortized cost using the effective interest method.

The Company’s financial assets are all categorized as amortized cost.

Impairment of financial assets

Impairment of financial assets is determined using forward-looking information to recognize expected credit losses – the ‘expected credit loss (ECL) model’.

The Company considers a broad range of information when assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.

3. Summary of significant accounting policies (continued)

Financial instruments (continued)

Impairment of financial assets (continued)

In applying the forward-looking approach, a distinction if made between:

- financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk (“Stage 1”); and
- financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low (“Stage 2”).

‘Stage 3’ would cover financial assets that have objective evidence of impairment at the reporting date.

‘12-month expected credit losses’ are recognized for the first category while ‘lifetime expected credit losses’ are recognized for the second category.

Measurement of the expected credit losses is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

The Company’s financial liabilities include bank indebtedness, accounts payable and dividends payable.

Financial liabilities are initially measured at fair value, and where applicable, adjusted for transaction costs unless the Company designated a financial liability at fair value through profit or loss.

Subsequently, the Company’s financial liabilities are measured at amortized cost using the effective interest method.

Revenue recognition

Interest income on mortgages is recorded using the accrual method. The majority of the mortgages receivable are for a one year term, therefore loan fees and expenses are recognized in the year received.

Interest income on impaired loans is recognized on a cash basis, but only after any specific provisions for impairments or partial write off has been recovered and provided there is no further doubt as to the collectability of the principle amount

In foreclosure situations, the Company will continue to accrue interest until management believes there will be no recovery of the mortgage and successful completion of the foreclosure action is inevitable. The Company will carefully review the situation with these mortgages and recognize any impairment when it arises.

3. Summary of significant accounting policies (continued)

Dividends

Dividends on new shares and redemptions are calculated on a pro-rated daily basis. As of July 1, 2009, the Company commenced making a quarterly distribution to its shareholders based on invested capital on September 30, December 31, March 31 and June 30. The remainder of the annual distribution is paid out upon completion of the year end financial statements.

4. Accounts receivable

	2021	2020
Antrim Investments Ltd. - refund on management fees	**$ 94,959**	$ 99,639
Other receivable	**-**	9,824
	$ 94,959	$ 109,463

5. Mortgage receivable

	No.	**%**	**2021**	No.	%	2020
First mortgages	**1,197**	**87.26%**	**$ 663,127,705**	834	77.10%	$ 441,972,449
Second mortgages	**568**	**12.27%**	**93,210,281**	777	22.02%	126,215,215
Third mortgages	**15**	**0.47%**	**3,605,229**	18	0.88%	5,026,116
	1,780	**100.00%**	**759,943,215**	1,629	100.00%	573,213,780
Less allowance for credit losses			**900,000**			700,000
			$ 759,043,215			$ 572,513,780

	2021	2020
Average mortgage balance	**$ 426,934**	$ 351,881
Weighted average interest rate	**7.16%**	7.97%

As of June 30, 2021, there are 14 mortgages in foreclosure totaling $6,060,953 and no mortgages that are delinquent (2020 – 25 mortgages in foreclosure totaling $15,694,567 and no mortgages that are delinquent). Management estimates that there is sufficient equity in all the non-performing loans. Subsequent to June 30, 2021, 2 of the 14 mortgages in foreclosure were paid out for a total of $1,068,508.

As at June 30, 2021, all individual mortgages have a value below 1% of the total mortgages receivable balance (2020 - 1%).

5. Mortgage receivable (continued)

As at June 30, 2021, there are 1,726 residential mortgages, which is 96.97% of the total number of mortgages (2020 - 1,618; 99.32%). The remaining 54 mortgages include residential land and commercial mortgages (2020 - 11). 1,386 mortgages are located in the Greater Vancouver Regional District, which equals to 77.87% of total mortgages (2020 – 1,484; 91.10%), 115 (6.46%) mortgages are located in the remaining areas of British Columbia (2020 - 83; 5.10%), 77 (4.33%) mortgages are located in Alberta (2020 - 57; 3.50%) and 202 (11.34%) mortgages are located in Ontario (2020 - 5; 0.30%).

The mortgages bear interest at fixed rates, which are within the Company's guidelines and are consistent with the equity-based lending market. All mortgage contracts expire within 12 months.

The Company applies the IFRS 9 general approach in measuring ECL wherein 12-month and lifetime expected loss allowance for all mortgages receivable are recognized based on the performance and credit risk characteristic, with reference to days the receivable are past due.

The Company uses a valuation model to predict default rates on mortgage portfolios, which provides management with further insight as to when loan losses on the portfolio are likely to occur and the size of those losses. Macroeconomic variables, such as unemployment rate, GDP growth, interest rates and the housing price index, are considered. In addition, portfolio specific variables, such as portfolio growth rate, value of real estate in the portfolio, the value of delinquent loans and loans in foreclosure have been utilized by the Company.

The loss allowance was determined as follows:

				2021
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Balance beginning of year	**$ 700,000**	**$ -**	**$ -**	**$ 700,000**
Transfer from (to) Stage 1	**-**	**-**	**-**	**-**
Transfer from (to) Stage 2	**-**	**-**	**-**	**-**
Transfer from (to) Stage 3	**-**	**-**	**-**	**-**
Additions during the year	**200,000**	**-**	**-**	**200,000**
Balance end of year	**$ 900,000**	**$ -**	**$ -**	**$ 900,000**

				2020
	Stage 1	Stage 2	Stage 3	Total
Balance beginning of year	$ 480,000	$ -	$ 20,000	$ 500,000
Transfer from (to) Stage 1	-	-	(20,000)	(20,000)
Transfer from (to) Stage 2	-	-	-	-
Transfer from (to) Stage 3	20,000	-	-	20,000
Additions during the year	200,000	-	-	200,000
Balance end of year	$ 700,000	$ -	$ -	$ 700,000

6. Bank indebtedness

	2021	2020
Line of credit	$ 55,000,000	$ 10,000,000
Bank overdraft	3,129,011	-
	$ 58,129,011	$ 10,000,000

The Company has a syndicated credit facility agreement with TD Canada Trust and Royal Bank of Canada to an amount of $75,000,000 or 75% of eligible amortizing mortgages plus 65% of eligible interest only mortgages to a maximum of 40% of the borrowing base. As of June 30, 2021, the Company has utilized $55,000,000 of the available funds (2020 – $10,000,000).

Interest is charged at the bank's prime lending rate plus 0.75% per annum and/or bankers acceptances with a stamping fee of 2.05% plus varying discount rates.

Eligible mortgages are determined by criteria set by the bank. The credit facility is secured by a general security agreement covering all eligible mortgages in the portfolio.

7. Dividends

The Company follows a dividend policy in accordance with the provisions of the Income Tax Act related to Mortgage Investment Corporations. Dividends are paid on an annual basis after the year end and will be paid at $0.0579 per Class A share, $0.0529 per Series B share and $0.0630 per Series C share (2020 – $0.0651 per Class A share, $0.0601 per Series B share and $0.0701 per Series C share).

Dividends previously declared on the preferred shares of the Company were distributed as follows:

	2021	2020
Dividends payable, beginning of year	$ 7,265,513	$ 7,536,775
Dividends paid in cash	(17,572,816)	(18,656,456)
Dividends issued as shares	(20,937,023)	(19,082,562)
Dividends declared during the year	36,853,472	37,467,756
Dividends payable, end of year	$ 5,609,146	$ 7,265,513

8. Share capital

Authorized

200 Common voting shares without par value
Unlimited Class A non-voting, redeemable preferred shares without par value
Unlimited Class B Series A non-voting, redeemable preferred shares without par value
Unlimited Class B Series B non-voting, redeemable preferred shares without par value
Unlimited Class B Series C non-voting, redeemable preferred shares without par value

Preferred shares

				2021
	Preferred shares - Class A	**Preferred shares - Class B Series B**	**Preferred shares - Class B Series C**	**Total**
Shares ourstanding, beginning of year	**$ 192,186,727**	**$ 110,533,135**	**$ 265,281,788**	**$ 568,001,650**
Issued	**25,838,528**	**45,215,146**	**140,076,555**	**211,130,229**
Redeemed	**(16,191,965)**	**(25,450,544)**	**(60,229,937)**	**(101,872,446)**
Dividends issued as shares	**8,630,938**	**4,777,546**	**7,528,539**	**20,937,023**
Transferred to another share class	**(1,938,757)**	**(2,233,284)**	**4,172,041**	**-**
Shares outstanding, end of year	**$ 208,525,471**	**$ 132,841,999**	**$ 356,828,986**	**$ 698,196,456**

				2020
	Preferred shares - Class A	Preferred shares - Class B Series B	Preferred shares - Class B Series C	Total
Shares ourstanding, beginning of year	$ 182,530,770	$ 108,237,001	$ 263,880,551	$ 554,648,322
Issued	21,452,625	24,211,014	61,200,013	106,863,652
Redeemed	(19,842,429)	(22,950,339)	(69,800,118)	(112,592,886)
Dividends issued as shares	7,840,030	4,871,806	6,370,726	19,082,562
Transferred to another share class	205,731	(3,836,347)	3,630,616	-
Shares outstanding, end of year	$ 192,186,727	$ 110,533,135	$ 265,281,788	$ 568,001,650

8. Share capital (continued)

		2021		2020
Common shares				
Shares oustanding, beginnning of the year	$	11	$	10
Issued		-		1
Shares oustanding, end of the year	$	11	$	11

Each dollar represents one share of each class.

All common shares are not eligible to receive dividends or repayment of capital. Each common share represents one vote at the shareholders meeting.

9. Management fees and related party transactions

The Company has contracted with Antrim Investments Ltd. (the "management company") to manage the mortgage portfolio for a fee which is calculated at one twelfth of 1.5% of the mortgage portfolio per month.

On a monthly basis the management company remits a portion of its fee to referral agents (Note 4).

The management company is controlled by Mr. William R. Granleese and his immediate family members. Mr. Granleese is one of the three directors of the Antrim Balanced Mortgage Fund Ltd. The other directors are William Granleese and Chris Worsnup.

Management and dealer fees for the period total $8,818,637 (2020 - $7,831,330) and an amount of $1,002,930 (2020 - $756,291) was unpaid at June 30, 2021. Other payables, included in accounts payable, to the management company totalled $100,249 (2020 - $76,882). Unpaid and receivable amounts are in the normal course of business, non-interest bearing and were paid/received within 30 days of the year end.

Directors, officers and related family members who have investments in the Company received $1,176,394 (2020 - $1,209,995) in dividend income. Employees who also have investments in the Company received $22,222 (2020 - $22,347) in dividend income. In all cases, the dividends received were based on the same criteria as all other investors holding the same class of shares in the Company.

The above transactions are in the normal course of operations and are measured at the exchange amount of consideration established and agreed to by the related parties.

As at June 30, 2021, two (2020 – two) of the Directors owned one voting common share each. The Directors also hold or control through personal holding companies an aggregate total of 11.30% of the non-voting Class A preferred shares which is 3.38% of the total preferred shares (June 30, 2020 – 14.21%; 4.81%)

10. Fair value of financial instruments

The following provides an analysis of financial instruments that are measured, subsequent to initial recognition, at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

Level 1 – quoted prices in active markets for identical investments

Level 2 – inputs other than quoted prices included in Level 1 that are observable for the investment, either directly (i.e. as prices) or indirectly (i.e. derived from prices)

Level 3 – inputs for the investments that are not based on observable market data

The level in the fair value hierarchy within which the financial asset or financial liability is categorized is determined on the basis of the lowest level of input that is significant to the fair value measurement. Financial assets and financial liabilities are classified in their entirety into only one of three levels.

As at June 30, 2021, there are no financial instruments carried at fair value and consequently, no financial instruments categorized into Levels 1, 2 or 3 or transfers between levels for the year then ended.

11. Financial instruments

The Company's financial instruments consist of cash, accounts receivable, accrued interest receivable, mortgage receivable, bank indebtedness, accounts payable and dividends payable. The Company is exposed to various risks through its financial instruments and has a comprehensive risk management framework to monitor, evaluate and manage these risks. The following analysis provides information about the Company's risk exposure and concentration as of June 30, 2021.

Credit risk
Credit risk arises from the potential that a counterparty will fail to perform its obligations. The Company is exposed to credit risk in that the mortgagor will fail to discharge the obligation causing the Company to incur a financial loss. In order to reduce its credit risk, the Company ensures that the collateral value of the security fully protects first, second and subsequent mortgage advances and that there is a viable exit strategy for each loan. Credit risks policies include the following:

- General mortgage policy statements including approval of lending policies, eligibility for loans, exceptions to policy, policy violations, liquidity and loan administration;
- Mortgage lending limits and criteria set by the Board of Directors;
- Review of mortgages by the Credit Committee; and
- Mortgage delinquency controls regarding procedures followed for loans in arrears.

11. Financial instruments (continued)

Liquidity risk
Liquidity risk is the risk that the Company cannot meet a demand for cash or fund its obligations as they come due. The Company's management oversees the liquidity risk to ensure the Company has access to enough readily available funds to cover its financial obligations as they come due. The assessment of the Company's liquidity position reflects management's estimates, assumptions and judgments pertaining to current and prospective firm specific and market conditions.

The Company manages liquidity risk by:
- Continuously monitoring actual daily cash flows and longer-term forecasted cash flows;
- Maintaining adequate liquidity support facilities, such as lines of credit and bankers acceptances; and
- Monitoring the maturity profiles of financial assets.

The Company is exposed to this risk mainly in respect of its receipt of funds from its mortgages, share purchases and redemptions and accounts payable.

An analysis of mortgage due dates is provided in Note 5; all other sources of funds have terms of less than twelve months.

Market risk
Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises four types of risk: currency risk, interest rate risk, fair value risk and other price risk.

Currency risk
Currency risk is the risk to the Company's earnings that arise from fluctuations of foreign exchange rates and the degree of volatility of these rates. As at June 30, 2021, the Company does not hold any financial instruments in foreign currency, therefore it is not exposed to foreign currency risk.

Interest rate risk
Interest rate risk is the risk that the value of a financial instrument might be adversely affected by a change in the interest rates. The mortgages receivable are advanced for mainly one year terms, with the rate of interest fixed for that term. Interest rates on mortgages receivable reflect credit risk and prime interest rates. Upon renewal of the mortgage, the Company has the option of adjusting the interest rate to respond to changes in credit risk or the prime interest rate.

In seeking to minimize the risks from interest rate fluctuations, the Company manages exposure through its normal operating and financing activities. The Company is also exposed to interest rate risk through its floating interest rate bank indebtedness and credit facilities.

If interest rates on debt had been one percent higher (lower) during the year ended June 30, 2021, earnings would have been reduced (increased) by approximately $53,372 during the year (2020 - $80,946), assuming that no changes had been made to the interest rates at which new mortgage loans were entered into.

11. Financial instruments (continued)

Fair value risk
Fair value risk is the potential for loss from an adverse movement in the value of a financial instrument. The Company incurs fair value risk on a property held for resale. The Company does not hedge its fair value risk. As at June 30, 2021, the Company does not hold any property held for resale, therefore it is not exposed to fair value risk.

Other price risk
Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. As at June 30, 2021, the Company does not hold any financial instruments that are traded in the market.

Included in other price risk is the real estate property that provides the underlying security for mortgages receivable. The Company aims to minimize other price risk through maintaining sufficient loan to value ratios on the advance of mortgages.

12. Capital management

The Company's objective when managing capital is to continue operations as a going concern so that it can provide its shareholders with a safe, superior-yielding and liquid investment that also qualifies as an eligible investment for Registered Retirement Savings Plans, Registered Retirement Income Funds and Tax-Free Savings Accounts.

The Company defines capital as being the funds raised through bank indebtedness and the issuance of common shares and preferred shares of the Company. The overall objective of capital management is to ensure that the Company has sufficient capital to maintain its operations based on current activities and expected business developments in the future and to provide a return to the shareholders commensurate with the risk of the business and comparable to other similar companies.

The Company intends on expanding its capital raising through an increasing number of investment dealers. Management will work to increase distribution through more dealers via the FundSERV network. FundSERV is an electronic settlement system that allows investment dealers to purchase and redeem shares of the Company far more efficiently than dealing in physical certificates. Additional costs will be associated with FundSERV, but management feels the advantages of a diversified dealer network outweigh the additional costs associated with this form of distribution.

The Company is required to comply with Section 130.1(6) of the Income Tax Act which defines the requirements for Mortgage Investment Corporations. These guidelines give specific externally imposed capital requirements. During the year the Company complied with these requirements.

Under the Company's bank credit facilities, the Company is required to comply with certain financial covenants including a borrowing base condition and an annual debt to tangible net worth requirement. As at June 30, 2021, the Company is in compliance with all financial covenants.

13. Rate of return

All share classes for the 2021 fiscal year earned 5.79% (2020 - 6.51%).

Shares held with investment dealers may be subject to additional fees that are in part collected by the Company as an agent according to the Financial Services Agreement and/or Fee Schedule for that Dealer.

The net rate of return by share class after dealer fees is as follows:

	2021	2020
Class A	**5.79%**	6.51%
Class B Series B	**5.29%**	6.01%
Class B Series C	**6.30%**	7.01%

The weighted average number of shares for 2021 fiscal year was:

Class A - $195,155,092 (2020 - $189,618,820)
Class B Series B - $125,268,167 (2020 - $112,741,631)
Class B Series C - $302,951,158 (2020 - $267,614,852)

14. Post-reporting date events

On July 22, 2021, the Company executed an amendment to increase its syndicated credit facility agreement with TD Canada and Royal Bank of Canada from an amount of $75,000,000 to $100,000,000.