FRONTENAC MORTGAGE INVESTMENT CORPORATION

FINANCIAL STATEMENTS

AS AT DECEMBER 31, 2013 AND 2012

FRONTENAC MORTGAGE INVESTMENT CORPORATION

DECEMBER 31, 2013 AND 2012

CONTENTS

Raymond Chabot Grant Thornton

Independent Auditor's Report

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To the Shareholders of
Frontenac Mortgage Investment Corporation

We have audited the accompanying financial statements of Frontenac Mortgage Investment Corporation, which comprise the statement of investment portfolio as at December 31, 2013, the statements of net assets as at December 31, 2013 and 2012 and the statements of operations, changes in net assets and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the statement of investment portfolio as at December 31, 2013, the financial position of Frontenac Mortgage Investment Corporation as at December 31, 2013 and 2012 and the results of its operations, changes in its net assets and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Raymond Chabot Grant Thornton LLP

Chartered Accountants,
Licensed Public Accountants

Ottawa, Canada
March 14, 2014

FRONTENAC MORTGAGE INVESTMENT CORPORATION

STATEMENTS OF NET ASSETS

AS AT DECEMBER 31

	2013	2012
ASSETS		
Cash and cash equivalents	$ 2,291	$ 8,531
Due from administrator in trust (Note 6)	1,945,120	57,748
Mortgage investments (Note 7)	122,555,191	105,712,355
Prepaid expenses	15,571	16,500
Investment in private company (Note 8)	-	587,155
Properties held for sale under foreclosure (Note 9)	917,083	424,256
	125,435,256	106,806,545
LIABILITIES		
Bank line of credit (Note 10)	$ 1,920,000	$ 5,950,000
Dividends payable	152,164	127,358
Accounts payable and accrued expenses	51,690	85,547
Deferred lender fee revenue	50,035	87,147
Prepaid mortgage payments	180,909	705,518
	2,354,798	6,955,570
NET ASSETS REPRESENTING SHAREHOLDERS' EQUITY	$ 123,080,458	$ 99,850,975
NUMBER OF SHARES ISSUED AND OUTSTANDING	4,102,680	3,328,364
NET ASSETS PER SHARE	$ 30.00	$ 30.00

APPROVED ON BEHALF OF THE BOARD:

___________________________ Director

___________________________ Director

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

FRONTENAC MORTGAGE INVESTMENT CORPORATION

STATEMENTS OF OPERATIONS

FOR THE YEAR ENDED DECEMBER 31

	2013	2012
INTEREST INCOME	$10,582,028	$ 7,187,719
EXPENSES		
Management and administration fees (Note 12)	2,409,867	1,722,765
Audit fees	63,721	52,474
Director fees	104,005	68,391
General and operating expenses	443,686	308,336
Interest on bank line of credit	35,292	18,569
Legal fees	50,442	101,951
Custodian fees	11,300	11,300
Trustee account fees	88,427	78,706
	3,206,740	2,362,492
NET INVESTMENT INCOME	7,375,288	4,825,227
Realized losses on mortgage investments	(237,243)	(667,996)
Unrealized change in fair value of mortgage investments	99,758	384,000
Unrealized change in fair value of investment in private company	(673,758)	(277,000)
Unrealized change in fair value of property held for sale under foreclosure	(62,000)	141,000
INCREASE IN NET ASSETS FROM OPERATIONS	$ 6,502,045	$ 4,405,231
WEIGHTED AVERAGE NUMBER OF SHARES ISSUED AND OUTSTANDING	3,694,344	2,669,837
INCREASE IN NET ASSETS FROM OPERATIONS PER SHARE	$ 1.76	$ 1.65

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

FRONTENAC MORTGAGE INVESTMENT CORPORATION

STATEMENTS OF CHANGES IN NET ASSETS

FOR THE YEAR ENDED DECEMBER 31

	2013	2012
NET ASSETS, beginning of year	$ 99,850,975	$ 46,048,317
Increase in net assets from operations	6,502,045	4,405,231
Share capital transactions		
Net assets acquired on amalgamation (Note 2)	-	46,152,700
Proceeds from issuance of shares for cash	26,349,820	18,494,413
Reinvested dividends	4,718,760	3,325,297
Shares redeemed	(7,839,097)	(14,169,752)
	23,229,483	53,802,658
Distributions to shareholders		
Dividends to shareholders	(6,502,045)	(4,405,231)
NET ASSETS, end of year	$123,080,458	$ 99,850,975

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

FRONTENAC MORTGAGE INVESTMENT CORPORATION

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2013

	2013	2012
CASH FROM OPERATING ACTIVITIES		
Net investment income	$ 7,375,288	$ 4,825,227
Net changes in non-cash working capital balances:		
(Increase) in due from administrator in trust	(1,887,372)	(57,748)
Decrease in prepaid expenses	929	2,286
(Decrease) / increase in accounts payable and accrued expenses	(33,857)	11,434
(Decrease) / increase in deferred lender fee revenue	(37,112)	87,147
NET CASH PROVIDED BY OPERATING ACTIVITIES	5,417,876	4,868,346
FINANCING ACTIVITIES		
(Decrease) / increase in bank line of credit	(4,030,000)	5,950,000
Proceeds from issuance of common shares for cash	26,349,820	18,494,413
Cash dividends	(1,758,479)	(1,012,344)
Redemption of common shares	(7,839,097)	(14,169,752)
NET CASH PROVIDED BY FINANCING ACTIVITIES	12,722,244	9,262,317
INVESTING ACTIVITIES		
Increase in prepaid mortgage payments	(524,609)	655,924
Cash acquired on amalgamation (Note 2)	-	7,635,622
New mortgage investments	(68,487,622)	(66,865,882)
Repayment of mortgage investments	51,507,301	44,345,487
New investment in private company	(86,603)	(864,155)
New investment in property held for sale under foreclosure	(554,827)	(283,256)
NET CASH USED IN INVESTING ACTIVITIES	(18,146,360)	(15,376,260)
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS	(6,240)	(1,245,597)
CASH AND CASH EQUIVALENTS, beginning of year	8,531	1,254,128
CASH AND CASH EQUIVALENTS, end of year	$ 2,291	$ 8,531

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

FRONTENAC MORTGAGE INVESTMENT CORPORATION

STATEMENT OF INVESTMENT PORTFOLIO

AS AT DECEMBER 31, 2013

INVESTMENT PORTFOLIO

		Principal Value	Amortized Cost	Fair Value
Private mortgages	99.57%	$ 122,568,433	$ 122,555,191	$ 122,555,191
Investment in Bruce Young Salvage Inc.	-%		950,758	-
Property held for sale under foreclosure	0.75%		838,083	917,083
Cash & other net assets	1.24%			1,528,184
Bank line of credit	(1.56)%			(1,920,000)
Net assets	100.00%			$ 123,080,458

DISTRIBUTION OF MORTGAGE INVESTMENTS

Interest rate	Number of mortgages	Amortized cost	Fair value
5%	3	$ 1,297,616	$ 1,297,616
6%	7	3,459,712	3,459,712
7%	32	9,373,483	9,373,483
8%	28	5,960,535	5,960,535
9%	70	27,921,833	27,921,833
10%	100	31,520,230	31,520,230
11%	46	17,171,964	17,171,964
12%	103	25,849,818	25,849,818
	389	$122,555,191	$122,555,191

Mortgages are 81% residential and 19% commercial and vacant land. All mortgages are uninsured conventional mortgages and substantially all mortgages are pre-payable with terms to maturity ranging from 1 to 2 years.

The accompanying notes form an integral part of these financial statements

1. DESCRIPTION OF THE BUSINESS

Frontenac Mortgage Investment Corporation (the "Company") was incorporated on October 26, 2004 and continued under Articles of Amalgamation dated July 1, 2012 both pursuant to the *Canada Business Corporations Act*. The Company's objective is to generate income while preserving, for its beneficial shareholders, capital for re-investment. As a mortgage investment corporation, the Company expects to derive its earnings principally from the receipt of mortgage interest payments and of interest or interest-like distributions on the cash reserves of the Company.

2. AMALGAMATION

On July 1, 2012, the Company amalgamated with Mortgage Investment Corporation of Eastern Ontario ("MICEO"). Like the Company, MICEO was an Ontario-based mortgage investment corporation and was managed by a common manager, W.A. Robinson Asset Management Ltd. As both the Company and MICEO operate under the same investment objectives and investment strategy, combination of the two companies allowed management to streamline the operations of the two companies and is a reflection of management's strategy for future growth. For accounting purposes, as the Company has more shareholders and directors on the Board of the post-amalgamation company than MICEO, the Company was deemed to have acquired MICEO.

The aggregate purchase price was equal to the net assets of MICEO totalling $46,152,700. The acquisition was made in exchange for 1,538,423 common shares of the new amalgamated company valued at $30 per share.

The following table summarizes the fair value of the assets acquired and liabilities assumed at the date of acquisition:

Assets:	
Cash and cash equivalents	7,635,622
Mortgage investments	38,550,047
Prepaid expenses	10,269
Total assets acquired	46,195,938
Liabilities:	
Investor distributions payable	9,579
Accounts payable and accrued expenses	17,875
Prepaid mortgage payments	15,784
Total liabilities assumed	43,238
Net assets acquired	46,152,700

As at the date of amalgamation, the mortgage investment portfolio of MICEO was similar to that of the Company in average size, geographic location, terms, and interest rate. As at June 30, 2012, MICEO held 124 mortgages with a weighted average interest rate of 10.01%. The largest mortgage was $4,769,898 and the average outstanding balance was $310,888. As at June 30, 2012, there were 6 mortgages totaling $1,832,867 that were considered past due by management.

The operating results of the Company presented in these financial statements for the year ended December 31, 2012 do not include the operating results of MICEO prior to amalgamation on July 1, 2012. Had the two companies been combined for the entire year ended December 31, 2012, total revenues would have been $9,249,614 and total increase in net assets from operations would have been $5,784,908. For the period from amalgamation to the year end the operating results presented in these financial statements include the operating results of the combined entities; however, the increases in revenues and increase to net assets from operations that resulted from the amalgamation cannot be practically determined as, once amalgamated, the individual predecessor portfolios were not separately tracked in the Company's books and records.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") included in Part V of the CPA Canada Handbook - Pre-changeover Accounting Standards including Accounting Guideline 18 Investment Companies ("AcG-18") and with National Instrument 81-106 Investment Funds Continuous Disclosure.

(a) Revenue recognition

Interest income on mortgages and other investment income are recognized on the accrual basis in the period earned. Interest is not accrued on mortgages that are identified as impaired.

An allowance for mortgage losses is recorded against mortgages identified as impaired to reduce them to their estimated realizable amounts. Impairment is assessed on a mortgage by mortgage basis taking into account experience, credit quality, payment in arrears and specific problem situations. Estimated realizable amounts are determined by reference to mortgage collection experience and the estimated value of security underlying the mortgages after deducting costs of realization.

When the prospect of recovery of a mortgage is no longer considered realistic, it is written-off first against any provision established for mortgage losses and the remaining amount, if any, to expense.

(b) Use of estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make assumptions and estimates that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses for the year. Actual amounts could differ from these estimates. Significant estimates include the fair value of the Company's mortgages and are subject to measurement uncertainty. Estimates and underlying assumptions are reviewed on an ongoing basis. Changes in estimates are recorded in the accounting period in which they are determined.

(c) Mortgage investments

Mortgage investments are stated at fair value in accordance with CPA Canada Accounting Guideline 18 ("AcG-18"). Any unrealized changes in the fair value of an investment are recorded in the statement of operations for the period. The fair value of mortgage investments is determined by discounting future cash flows at the Company's prevailing rate of return on new mortgages of similar type, term, and credit risk.

(d) Investment in private company

Investment in private company is stated at fair value in accordance with CPA Canada Accounting Guideline 18 ("AcG-18"). Any unrealized changes in the fair value of the investment are recorded in the statement of operations for the period. The fair value of investment in private company is determined by discounting future cash flows at an appropriate discount rate.

(e) Property held for sale under foreclosure

Property held for sale under foreclosure is stated at fair value in accordance with CPA Canada Accounting Guideline 18 ("AcG-18"). Any unrealized changes in the fair value of the property held for sale under foreclosure are recorded in the statement of operations for the period. The carrying value of property held for sale under foreclosure is determined by its fair value net of selling expenses. The fair value is determined taking into consideration recent appraisals of the properties by qualified third-party appraisers based on an analysis of comparative sales and any reasonable offers received from unrelated third parties to purchase the properties.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Income taxes

The Company is considered a mortgage investment corporation under the *Income Tax Act* (Canada). The Company distributes all of its net income to its shareholders in the form of dividends in order not to be subject to income taxes.

(g) Net assets per share

Net assets per share is calculated by dividing the net assets by the total number of issued and outstanding common shares at the end of the year.

(h) Deferred lender fee revenue

Some mortgagors may be required to pay a one time fee, referred to as a lender fee, upon initiation of their mortgage. These lender fees are recognized into revenue on a straight-line basis over the term of the related mortgages.

(i) Prepaid mortgage payments

Some mortgagors may prepay or may be required to prepay a portion of their periodic payments. These prepaid mortgage payments are applied against the related mortgage receivable balance in the period for which they relate.

(j) Financial instruments

The Company's most significant financial instruments consist of its mortgage investments. In accordance with AcG-18, mortgage investments are required to be recorded at fair value as defined in CPA Canada Handbook Section 3855, "Financial Instruments - Recognition and Measurement". Mortgage investments are valued on the policies described in paragraph (c) above. The financial risks associated with the Company's mortgage investments and the Company's management of those risks are discussed in Note 7.

The Company's other financial instruments consist of cash and cash equivalents, bank line of credit, accounts payable and accrued expenses, and dividends payable. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest or currency risks arising from these financial instruments. The fair value of these financial instruments approximate their carrying value, unless otherwise noted.

In accordance with Canadian GAAP, the Company is required to classify its financial assets as one of the following: held-to-maturity, loans and receivables, held-for-trading or available for sale. Financial liabilities must be classified as: held-for-trading or other liabilities. The Company has designated its financial assets and financial liabilities as follows:

(i) Financial assets:

Cash and cash equivalents are classified as held-for-trading and recorded at fair value.

(ii) Financial liabilities:

Bank line of credit, accounts payable and accrued expenses, and dividends payable are classified as other liabilities and recorded at amortized cost.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Accounting changes

In February 2009, the Accounting Standards Board of the CICA confirmed that Canadian GAAP for publically accountable enterprises will be converged with International Financial Reporting Standards (“IFRS”) effective January 1, 2011. Implementation of IFRS has been deferred for investment companies that apply the provisions of AcG-18 to January 1, 2014. As the Corporation meets the definition of a publically accountable enterprise and is classified as an investment company, the Corporation will be adopting IFRS beginning on January 1, 2014.

Based on the existing IFRS and proposed amendments, management has completed its review of the Company's internal systems and accounting policies and has presently determined that the change to IFRS will mainly result in changes to the financial presentation and additional disclosure. Management has identified the following accounting policies which will differ under IFRS and will have a significant effect on the financial statements:

(i) Mortgage Investments: Under current Canadian GAAP including AcG-18, the Company presents its mortgage investments at fair value. Under IFRS, because it is the Company's intention to hold its mortgage investments until repaid in full by the borrower, mortgage investments will be classified as loans and receivables. As loans and receivables, mortgage investments will be initially recognized at their fair value and subsequently measured at their amortized cost using the effective interest rate method. Mortgage investments will be reviewed at each reporting date for impairment with impairment losses recognized into profit or loss.

The current accounting policies for other financial assets and liabilities of the Company are expected to remain substantially unchanged after the transition to IFRS. Changes are expected to occur in the form of additional or different note disclosures.

Transition to IFRS requires that the opening financial position of the Company, in this case January 1, 2013, in the year of transition be restated to reflect the adoption of new IFRS conforming accounting policies. As at December 31, 2013 and 2012, the fair value of the Company's mortgage investments were not materially different from their amortized cost less impairment losses and, accordingly, no dollar adjustment to the Company's financial statements is expected as a result of the change in accounting policy. No other dollar adjustments to the Company's opening financial statements are expected. Once IFRS are adopted, the net asset value per share ("NAVPS") calculated for purposes of issuing and redeeming the Company's shares may differ from the accounting value presented per share as NAVPS is based on fair value measurements.

4. CAPITAL STRUCTURE AND FINANCIAL POLICIES

The Company's definition of capital includes net assets and bank line of credit.

The Company's objective when managing its capital is to generate income while preserving, for its beneficial shareholders, capital for re-investment. As a mortgage investment corporation, the Company expects to derive its earnings principally from the receipt of mortgage interest payments and of interest or interest-like distributions on the cash reserves of the Company.

The Company achieves its investment objective by lending on the security of mortgages on real properties situated in Canada, primarily in Eastern Ontario. The mortgages transacted by the Company will not generally meet the underwriting criteria of conventional lenders and/or involve borrowers in rural areas generally not well serviced by major lenders. As a result, the Company's investments are expected to earn a higher rate of interest than what is generally obtainable through conventional mortgage lending activities.

4. CAPITAL STRUCTURE AND FINANCIAL POLICIES (Continued)

In order to provide some liquidity to its shareholders, the Company is required to maintain approximately 5% of its net assets in cash or near cash assets and such levels of cash reserves have been adequate to meet the needs of normal share redemption levels during the year. Management regularly monitors its available cash and credit line facility to ensure that the 5% cash reserve is maintained. As at December 31, 2013 and 2012, the Company has maintained the 5% cash reserve. For unusual circumstances, the Company has redemption policies in place to restrict the payout of share redemption at levels to match the normal repayment of the mortgages receivable.

The Company's capital management objectives and strategies are unchanged from prior years.

5. FINANCIAL INSTRUMENTS

In accordance with Canadian GAAP, the Company must classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making its fair value measurements. The following hierarchy has been used in determining and disclosing fair value of financial instruments:

Level 1: quoted prices in active markets for the same instrument (i.e. without modification or repackaging);

Level 2: quoted prices in active markets for similar assets or liabilities or other valuation techniques for which all significant inputs are based on observable market data; and

Level 3: valuation techniques for which any significant input is not based on observable market data.

The Company's cash and cash equivalents are valued using Level 1 measures and the mortgage investments, investment in private company, and property held for sale under foreclosure are valued using Level 3 measures. Mortgage investments, investment in private company, and property held under foreclosure for re-sale are valued using Level 3 measures as there are no quoted prices in an active market for these investments. As explained in more detail in Note 7, management makes its determination of fair value for its mortgage investments based on its assessment of the current mortgage market for mortgages of same or similar terms. As explained in more detail in Note 8, management makes its determination of fair value of its investment in private company based on a discounted cash flow analysis of the private company's projected future cash flows. As explained in more detail in Note 9, management makes its determination of fair value of property held for sale under foreclosure based on its assessment of the net realizable value of the property taking into consideration appraisals by qualified appraisers and purchase offers received from unrelated third parties.

6. DUE FROM ADMINISTRATOR IN TRUST

As part of the mortgage underwriting and administration services provided to the Company, Pillar Financial Services Inc. (the "Administrator") collects repayments, both regular and periodic repayments and repayments of outstanding balances in full, from borrowers through the Administrator's electronic payments collection system. These repayments are electronically deposited into a trust account of the Administrator. Funds are deposited from the Administrator's trust account into the Company's bank account within a few business days once the funds have been confirmed cleared from the borrower.

7. MORTGAGE INVESTMENTS

There are 389 mortgages (2012 - 367) held which are a combination of mainly first and second mortgages secured by residential and commercial property.

7. MORTGAGE INVESTMENTS (Continued)

Credit risk

Credit risk arises from the possibility that mortgagors may experience financial difficulty and be unable to fulfil their mortgage commitments. The Company mitigates this risk by having well established lending policies in place that ensure mortgages are well secured and by limiting its exposure to any one mortgagor. There are no significant concentrations of credit risk as the average mortgage amount as at December 31, 2013 was $303,642 (2012 - $281,886) and the largest mortgage was $5,246,616 (2012 - $5,223,136). As at December 31, 2013, there are 11 mortgages totaling $2,509,000 (2012 - 12 mortgages totaling $2,589,541) that considered are past due by management and for which a demand notice has been issued.

Interest rate price risk

Interest rate price risk arises from the possibility that at the end of a mortgage's term it will be re-priced to a prevailing interest rate lower then the original one. This risk is mitigated by the fact that the Company is not as exposed to market mortgage rates because there is no specific market for mortgages of similar type, term and credit risk.

Substantially all of the mortgages are issued with either 1 or 2 year terms, have fixed interest rates and can be paid in full before maturity without penalty. The weighted average interest rate of the mortgages as at December 31, 2013 was 9.53% (2012 - 10.00%).

A 50 basis point increase or decrease in interest rates, with all other variables held constant, will not effect an increase or decrease in net investment income as the Company's mortgage investments are issued at fixed interest rates.

Fair values

Fair value is the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties under no compulsion to act. As the Company and its borrowers are unrelated third parties under no compulsion to act, the initial terms of the mortgage represents their fair value at the time of mortgage origination. For subsequent reporting periods, as there are no quoted prices in an active market for the Company's mortgages, management makes its determination of fair value by discounting future cash flows at the Company's prevailing rate of return on new mortgages of similar type, term, and credit risk. When collection of principal on a particular mortgage investment is no longer reasonably assured, the fair value of the mortgage is reduced to reflect the estimated net realizable recovery from the collateral securing the loan.

The following table shows a reconciliation of the opening and closing balance of fair value of mortgage investments:

	2013	2012
Mortgage investments - beginning of year	$ 105,712,355	$ 44,925,909
Realized losses	(237,243)	(667,996)
Unrealized change in fair value	99,758	384,000
Mortgages acquired on amalgamation	-	38,517,078
Net advances and repayments	16,980,321	22,553,364
Mortgage investments - end of year	122,555,191	105,712,355

7. MORTGAGE INVESTMENTS (Continued)

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations and commitments as they fall due. The Company's approach is to ensure that it will have sufficient cash and credit facilities to meet its liabilities when due, under normal and stressed circumstances. As at December 31, 2013, the Company's financial obligations and commitments consisted of accounts payable and accrued expenses totaling $51,690 (2012 - $85,547) and dividends payable totaling $152,164 (2012 - $127,358) all of which are due within normal trade terms of generally 30 days. The Company also has a bank line of credit that is repayable on demand and had a balance outstanding of $1,920,000 as at December 31, 2013 (2012 - $5,950,000).

To mitigate its liquidity risk, the Company targets to maintain significant committed borrowing facilities from its bank for credit room within a range between 10% to 15% of net assets. As at December 31, 2013, the Company's committed borrowing facilities represented approximately 12% of net assets. In addition, the Company has policies in place that can restrict the total amount of share redemptions. Those restrictions permit share redemptions to be funded through the normal repayment of the mortgages receivable.

8. INVESTMENT IN PRIVATE COMPANY

On April 30, 2012, the Company acquired a 50% interest in Bruce Young's Salvage Inc. ("BYSI"), a Canadian-owned private company based in Nova Scotia. BYSI operates as a scrap metal salvage business and currently has a contract for salvage in the Caribbean.

The investment in BYSI consists of the following:

	2013	2012
10 common shares, representing 50% of all the issued and outstanding common shares	$ 100,000	$ 100,000
Term loan bearing interest at 0% maturing April 2013	400,000	400,000
Operating loan bearing interest at 12%	450,758	364,155
Total investment at cost	950,758	864,155
Unrealized change in fair value	(950,758)	(277,000)
Fair value of investment - end of year	$ -	$ 587,155

The term loan and operating loan are secured by a general security agreement covering all assets of BYSI.

The Company's investment in BYSI, comprised of the shares held and the outstanding loans, is presented at fair value. As at December 31, 2013, due to a number of unforeseen factors, BYSI has been unable to generate sufficient revenues to execute its business plan and has incurred substantial operating losses. The Corporation has decided it will not advance further funds to support BYSI's operations. Management believes that in the absence of further financial support BYSI will be unable to continue its business operations. To date, BYSI has been unable to secure an alternate source of on-going financing. Accordingly, as at December 31, 2013, BYSI has not been valued on a going concern basis but rather on its net realizable value to the Corporation. Management believes that there are insufficient assets in BYSI to allow for any repayment of the funds advanced to date and, accordingly, the fair value of the Corporation's investment in BYSI has been written down to $nil as at December 31, 2013.

As at December 31, 2012, the fair value was determined by discounting expected cash repayments from BYSI of $175,000 per year over the next five years using a discount rate of 15%.

8. INVESTMENT IN PRIVATE COMPANY (Continued)

The following table shows a reconciliation of the opening and closing balance of fair value of investment in private company:

	2013	2012
Investment in private company - beginning of year	$ 587,155	$ -
Net cash advances/investment	86,603	864,155
Unrealized change in fair value	(673,758)	(277,000)
Investment in private company - end of year	$ -	$ 587,155

9. PROPERTIES HELD FOR SALE UNDER FORECLOSURE

As at December 31, 2013, there are 2 properties (2012 -1 property) held for sale under foreclosure as follows:

	2013	2012
Properties held for sale under foreclosure - at cost	$ 838,083	$ 283,256
Unrealized change in fair value	79,000	141,000
Fair value	$ 917,083	$ 424,256

The following table shows a reconciliation of the opening and closing balance of fair value of properties held for sale under foreclosure:

	2013	2012
Properties held for sale under foreclosure - beginning of year	$ 424,256	$ -
Additions	554,827	283,256
Unrealized change in fair value	(62,000)	141,000
Properties held for sale under foreclosure - end of year	$ 917,083	$ 424,256

10. BANK LINE OF CREDIT

The Company has established a revolving line of credit with a major Canadian chartered bank and, in July 2013, the limit of this line of credit was increased from $9,000,000 to $15,000,000. The line of credit is secured by a General Security Agreement and a first ranking interest in the mortgages and is repayable on demand. The availability of funds may be cancelled or restricted by the bank at any time. The credit facility bears interest at bank prime rate of 3.00% (2012 - 3.00%) plus 1%.

Financial covenants require the Company to maintain a minimum levels for net assets, debt to net assets ratio, and percentage of residential mortgages. As at December 31, 2013 the Company was in compliance with the bank's financial covenants.

11. CAPITAL STOCK

Authorized capital:
The authorized capital consists of an unlimited number of voting, non-cumulative common shares.

Changes during the year:

	2013		2012	
	Number of shares issued	$	Number of shares issued	$
Balance, beginning of year	3,328,364	99,850,975	1,534,943	46,048,317
Issued on amalgamation			1,538,423	46,152,700
Issued for cash	878,327	26,349,820	616,480	18,494,413
Issued through dividend reinvestment plan	157,292	4,718,760	110,843	3,325,297
Redeemed for cash	(261,303)	(7,839,097)	(472,325)	(14,169,752)
Balance, end of year	4,102,680	123,080,458	3,328,364	99,850,975

Dividend reinvestment plan and direct share purchase plan
Unless a shareholder elects to receive their dividends as cash, the dividends issued to shareholders are automatically reinvested in the Company by the direct purchase of shares at the current market price.

Redemptions
Shareholders may only redeem common shares once per year, on November 30, except in certain unusual circumstances. During the year the Company redeemed for cash 261,303 common shares at the price of $30.00 per share for total proceeds of $7,839,097. For the year ended December 31, 2012, 472,325 common shares were redeemed for cash at the price of $30.00 per share for total proceeds of $14,169,752.

12. RELATED PARTIES

Pillar Financial Services Inc. ("Pillar") is the administrator for the Company. Its responsibilities include originating loan transactions, underwriting the mortgages, collecting mortgage payments, and the internal audit and accounting for the Company.

W.A. Robinson Asset Management Ltd. ("W.A.") provides portfolio management advice and investment counsel and acts as share registrar and transfer agent for the Company.

The companies are related in that they share common management. Pillar and W.A. each charge an annual fee of 1% of the total asset value calculated on a monthly basis. Total fees paid to Pillar for the year ended December 31, 2013 were $1,130,332 (2012 - $809,871) and the total fees paid to W.A. for the year ended December 31, 2013 including applicable sales taxes were $1,279,535 (2012 - $912,894) under these contracts. These 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 parties.

13. COMPARATIVE FIGURES

Certain of the comparative figures presented in these financial statements for the year ended December 31, 2012 have been reclassified in order to conform to the financial statement presentation adopted in the current year.