

**ACCREDIT MORTGAGE LTD.**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2009**

**AUDITORS' REPORT**

To the Directors of Accredited Mortgage Ltd.

We have audited the consolidated balance sheet of Accredited Mortgage Ltd. as at September 30, 2009 and the consolidated statements of income and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the company as at September 30, 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the British Columbia Mortgage Brokers Act, we report that no trust funds were handled or received and no funds were received that should have been held in trust during the year.

Victoria, B.C.  
November 26, 2009

*Lee and Sharpe*  
Chartered Accountants

**ACCREDIT MORTGAGE LTD.**

**CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS**

**YEAR ENDED SEPTEMBER 30, 2009**

	2009	2008
REVENUE	<u>\$ 7,719,943</u>	<u>\$12,008,652</u>
EXPENSES		
Financial services fees (Note 14)	1,596,785	1,441,842
Provision for mortgage losses (Note 7)	1,121,860	3,643,881
Bad debt	801,424	87,191
Interest	251,831	35,318
Professional fees	103,267	59,851
Office and sundry	26,410	33,857
Insurance	12,762	9,780
Directors fees	6,000	5,700
Bank charges	<u>5,634</u>	<u>3,729</u>
	<u>3,925,973</u>	<u>5,321,149</u>
NET INCOME FOR THE YEAR	3,793,970	6,687,503
RETAINED EARNINGS (DEFICIT), beginning of year	<u>(587,048)</u>	<u>1,650,114</u>
	3,206,922	8,337,617
Class A dividends paid	(5,670,616)	(8,182,105)
Class B dividends paid	<u>-</u>	<u>(742,560)</u>
RETAINED EARNINGS (DEFICIT), end of year	<u>\$ (2,463,694)</u>	<u>\$ (587,048)</u>

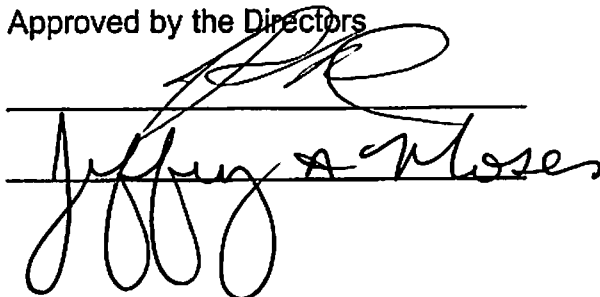
(See accompanying notes)

**ACCREDIT MORTGAGE LTD.**  
(Incorporated under the laws of British Columbia)

**CONSOLIDATED BALANCE SHEET - SEPTEMBER 30, 2009**

	2009	2008
<b>ASSETS</b>		
Current		
Cash	\$ 165,143	\$ 617,295
Interest receivable (including \$646,860 allowance for doubtful accounts)	3,120,823	3,889,430
Real estate held for resale (Note 6)	17,957,192	-
Prepaid expenses	9,165	8,325
Mortgages receivable (including \$3,335,000 provision for mortgage losses - Note 7)	<u>50,749,738</u>	<u>71,805,104</u>
	<u>\$72,002,061</u>	<u>\$76,320,154</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current		
Bank indebtedness (Note 8)	\$ 4,464,385	\$ -
Demand loan (Note 9)	641,000	-
Accounts payable and accrued liabilities	240,427	8,400
Interest received in advance (Note 10)	-	692,173
Refundable performance bonus (Note 11)	<u>62,100</u>	<u>83,600</u>
	<u>5,407,912</u>	<u>784,173</u>
Shareholders' equity		
Share capital (Note 12)	69,057,843	76,123,029
Retained earnings (deficit)	<u>(2,463,694)</u>	<u>(587,048)</u>
	<u>66,594,149</u>	<u>75,535,981</u>
	<u>\$72,002,061</u>	<u>\$76,320,154</u>

Approved by the Directors

  
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 Jeffrey A. Moses

(See accompanying notes)

**ACCREDIT MORTGAGE LTD.**

**CONSOLIDATED STATEMENT OF CASH FLOWS**

**YEAR ENDED SEPTEMBER 30, 2009**

	2009	2008
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income for the year	\$ 3,793,970	\$ 6,687,503
Items not affecting cash:		
Bad debt	801,424	87,191
Provision for mortgage losses	<u>1,121,860</u>	<u>3,643,881</u>
	<u>5,717,254</u>	<u>10,418,575</u>
Cash provided by (used for) non-cash working capital items:		
Interest receivable	(32,817)	(2,550,159)
Real estate held for resale	(17,957,192)	-
Prepaid expenses	(840)	(209)
Accounts payable and accrued liabilities	232,026	440
Interest received in advance	(692,173)	247,690
Refundable performance bonus	<u>(21,500)</u>	<u>(23,000)</u>
	<u>(12,755,242)</u>	<u>8,093,337</u>
<b>CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES</b>		
(Increase) decrease in mortgages receivable	<u>19,933,506</u>	<u>(22,269,471)</u>
<b>CASH PROVIDED BY (USED FOR) FINANCING ACTIVITIES</b>		
Proceeds from demand loan	641,000	-
Cash dividends paid	(3,144,676)	(4,027,844)
Shares issued for cash	4,414,141	19,032,228
Shares redeemed for cash	<u>(14,005,266)</u>	<u>(9,385,162)</u>
	<u>(12,094,801)</u>	<u>5,619,222</u>
<b>INCREASE (DECREASE) DURING THE YEAR</b>	(4,916,537)	(8,556,912)
<b>CASH POSITION, beginning of year</b>	<u>617,295</u>	<u>9,174,207</u>
<b>CASH POSITION, end of year</b>	<u>\$ (4,299,242)</u>	<u>\$ 617,295</u>
<b>REPRESENTED BY:</b>		
Cash	\$ 165,143	\$ 617,295
Bank indebtedness	<u>(4,464,385)</u>	<u>-</u>
	<u>\$ (4,299,242)</u>	<u>\$ 617,295</u>
<b>SUPPLEMENTARY CASH FLOW INFORMATION:</b>		
Cash paid for interest	<u>\$ 259,577</u>	<u>\$ 35,318</u>

(See accompanying notes)

# ACCREDIT MORTGAGE LTD.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2009

### Note 1 - Nature of Business

The Company was incorporated on May 26, 1994 under the Business Corporations Act of British Columbia for the purpose of operating as a Mortgage Investment Corporation (MIC) as defined in the Income Tax Act.

### Note 2 - Basis of Consolidation

These consolidated financial statements include the accounts of the parent company and its wholly owned subsidiaries. All significant intercompany transactions and balances have been eliminated on consolidation.

### Note 3 - Significant Accounting Policies

#### Mortgages Receivable

Mortgages are recorded at cost, less any provision for losses on mortgages that are identified as impaired or in default.

#### Provision for mortgage losses

A provision 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 for realization.

#### Real estate held for resale

Real estate held for resale is carried at the lower of cost and net realizable value. Changes in net realizable value are recognized as an expense or a recovery in the period in which the write down or the reversal occurs.

#### Revenue Recognition

Interest is accrued on mortgage investments in the period in which the interest becomes payable under the terms of the mortgage. Interest is not accrued on mortgages that are identified as impaired. Other fees, including mortgage fees, are recognized as income as related services are provided.

## ACCREDIT MORTGAGE LTD.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2009

#### Note 3 - Significant Accounting Policies - continued

##### Income taxes

As long as the Company remains classified as a mortgage investment corporation under the Income Tax Act, taxable income is reduced by dividends paid during the year or within 90 days of year end. As a result, the Company can distribute its net earnings to shareholders without the payment of corporation income tax.

##### Use of Estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reported period. These estimates are reviewed periodically, and, as adjustments become necessary, they are reported in earnings in the period in which they become known. Significant estimates, which are subject to measurement uncertainty include the determination of mortgage impairments, the provision for mortgage losses and the determination of mortgage fair value.

##### Future accounting pronouncements

The Accounting Standards Board ("AcSB") of the CICA confirmed that Canadian GAAP for publicly accountable enterprises will converge with International Financial Reporting Standards ("IFRS") effective in the calendar year 2011. IFRS will replace current Canadian GAAP for these enterprises. The conversion to IFRS may be required for the Company for interim and annual financial statements for fiscal years beginning on or after January 1, 2011. Management is in the process of determining what potential changes these new standards may require in its financial reporting.

#### Note 4 - Capital Risk Management

The Company manages its capital structure in order to support ongoing operations while focusing on its primary objectives of preserving shareholder capital and generating a stable cash dividend to shareholders. The Company defines its capital structure to include Class A and Class B shares.

The Company reviews its capital structure on an ongoing basis and adjusts this structure in response to mortgage investment opportunities, the availability of capital, and anticipated changes in general economic conditions. As at September 30, 2009, the Company was required to obtain bank approval before redeeming any Class A shares.

**ACCREDIT MORTGAGE LTD.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2009**

Note 5 - Financial Instruments

Fair value of financial instruments

The Company's financial instruments consist of cash, interest receivable, mortgages receivable, accounts payable and accrued liabilities, interest received in advance and refundable performance bonus. The carrying amount of these financial assets and liabilities approximate their fair value, unless otherwise noted.

Interest rate risk

Interest rate risk arises from the possibility that at the end of a term a mortgage will be re-priced to a prevailing interest rate lower than the original one. This risk is mitigated by the fact that the Company is generally not subject to market pressure in respect of interest rates because there is no specific market for mortgages of similar type, term and credit risk.

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 to ensure that mortgages are well secured (mostly using charges on collateral property, guarantees, and charges on the properties being mortgaged) and by limiting its exposure to any one mortgagor.

The Company is exposed to credit risk as it has \$12,928,964 (2008 - \$17,541,307) owing from one corporate group. The average individual receivable balance (mortgage and interest) in the Company's portfolio as at September 30, 2009 was \$1,406,033 (2008 - \$1,312,714) and the largest individual balance receivable was \$8,323,006 (2008 - \$8,000,000).

ACCREDIT MORTGAGE LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2009

Note 6 - Real Estate Held For Resale

Real estate held for resale consists of four properties acquired during the fiscal year by foreclosure. These properties are owned by wholly owned subsidiaries of the parent company.

Note 7 - Mortgages Receivable

Interest Rates	Number of Mortgages	Amortized Cost	Current Value
8-11%	1	\$ 977,568	\$ 977,568
12-13%	16	30,608,878	30,608,878
14-15%	22	19,495,490	19,495,490
16-17%	1	3,002,802	3,002,802
Provision	-	(3,335,000)	(3,335,000)
	<u>40</u>	\$ <u>50,749,738</u>	\$ <u>50,749,738</u>

The mortgage portfolio consists of mortgages with terms to maturity ranging from 3 to 12 months.

As at September 30, 2009 mortgages totaling \$24,404,499 (2008 - \$4,600,298) were past due (from 3 to 17 months past due) but not impaired. Management has determined that these mortgages were not impaired due to the presence of collateral security and the expectation of future payment.

As at September 30, 2009 mortgages totaling \$16,947,428 (2008 - \$24,426,425) were in various stages of foreclosure. Management has recorded a provision for mortgage losses in the amount of \$3,335,000 (2008 - \$5,645,000) to recognize situations where full recovery is uncertain.

## ACCREDIT MORTGAGE LTD.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2009

#### Note 8 - Bank Indebtedness

The Company maintains an operating line facility with the Canadian Imperial Bank of Commerce. This operating line facility, authorized to a maximum of \$6,000,000, can not exceed 15% of the carrying amount of total issued share capital. It is secured by all property of the Company owned now and in the future. The purpose of this credit facility is to assist with liquidity for interim mortgage fund investments only. The operating line is not to be used for shareholder redemptions without prior consent of the bank.

The interest rate is bank prime rate plus 3.0% per annum.

The aggregate balance of the loans outstanding under this facility shall not exceed 75% of eligible assigned mortgages.

#### Note 9 - Demand Loan

Demand loan with Coast Capital Savings Credit Union bears interest at bank prime rate plus 2.5% per annum, is repayable by sale proceeds from lot sales, and is secured by a charge on certain real estate of the Company. The loan is due May 1, 2010.

#### Note 10 - Interest Received In Advance

Interest is received in advance on certain mortgages. This interest is taken into revenue monthly based on the terms of the specific mortgage.

#### Note 11 - Refundable Performance Bonus

The amount of the refundable performance bonus is determined pursuant to contracts with each borrower and is received by the Company when each mortgage is issued. The bonus is repaid to the borrower when the mortgage is repaid. In the event that the mortgage defaults, the bonus is forfeited by the borrower and is recognized as revenue by the Company. Funds held as refundable performance bonuses are non-interest bearing.

# ACCREDIT MORTGAGE LTD.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2009

### Note 12 - Share Capital

#### Authorized

500,000,000 Class A voting shares without par value, one vote per share.

500,000,000 Class B voting shares without par value, 1,000 votes per share.

Issued	2009	2008
69,053,683 Class A shares (Note 13)	\$69,053,683	\$76,118,869
272,000 Class B shares	<u>4,160</u>	<u>4,160</u>
	<u>\$69,057,843</u>	<u>\$76,123,029</u>

### Note 13 - Changes In Share Capital

Details of changes in the issued Class A shares are as follows:

	Number	2009 Amount	2008 Amount
Balance, beginning of year	76,118,869	\$76,118,869	\$61,574,983
Stock dividends	2,525,939	2,525,939	4,896,820
Shares issued for cash	4,414,141	4,414,141	19,032,228
Shares redeemed for cash	<u>(14,005,266)</u>	<u>(14,005,266)</u>	<u>(9,385,162)</u>
Balance, end of year	<u>69,053,683</u>	<u>\$69,053,683</u>	<u>\$76,118,869</u>

### Note 14 - Related Party Transactions

The Company and Great Pacific Mortgage Investments Ltd. (GPMI) share common officers and directors. GPMI provides financial services to the Company for an annual fee of 2% of the assets under management.

These 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

**ACCREDIT MORTGAGE LTD.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2009**

**Note 15 - Subsequent Events**

Subsequent to year-end, the following events occurred:

Mortgages totaling \$320,000 were approved and issued.

The Company paid out a first charge against security of a mortgage receivable for \$997,650.

The Company transferred a mortgage to a subsidiary which then foreclosed on the mortgage and took title to the underlying security valued at \$3,400,000. An offer has been received to purchase the shares of the subsidiary.

**Note 16 - Commitments**

As at year end, the Company was committed to funding \$333,500, representing the remaining balance of draw mortgages already issued. This amount was drawn subsequent to year-end.