

**FIRST ACCREDIT MORTGAGE CORPORATION**  
**Financial Statements**  
**Year Ended October 31, 2009**

# LL Brougham Inc.

CHARTERED ACCOUNTANT

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## AUDITOR'S REPORT

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To the Shareholders of First Accredited Mortgage Corporation

I have audited the balance sheet of First Accredited Mortgage Corporation as at October 31, 2009 and the statements of earnings and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I 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 my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at October 31, 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, BC  
November 19, 2009

  
CHARTERED ACCOUNTANT

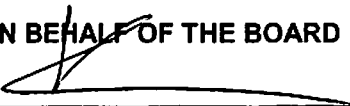
**FIRST ACCREDIT MORTGAGE CORPORATION**

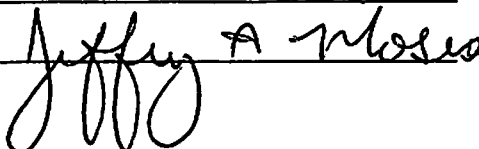
**Balance Sheet**

**October 31, 2009**

	<u>2009</u>	<u>2008</u>
<b>ASSETS</b>		
Cash	\$ 2,362,009	\$ 1,138,726
Interest receivable - including \$161,414 provision for interest loss (Note 4)	196,294	39,507
Mortgages receivable - including \$122,749 provision for mortgage loss (Note 4)	<u>9,039,656</u>	<u>4,991,712</u>
	<u>\$ 11,597,959</u>	<u>\$ 6,169,945</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Accounts payable	\$ 7,500	\$ 5,598
Dividends payable	100,000	74,277
Interest reserve (Note 7)	-	22,323
Refundable performance bonus (Note 8)	21,000	20,000
Class A shares (Note 9)	<u>11,465,459</u>	<u>6,043,747</u>
	11,593,959	6,165,945
<b>SHAREHOLDERS' EQUITY</b>		
Class B shares (Note 9)	4,000	4,000
Retained earnings	<u>-</u>	<u>-</u>
	<u>\$ 11,597,959</u>	<u>\$ 6,169,945</u>

ON BEHALF OF THE BOARD

  
\_\_\_\_\_  
Director

  
\_\_\_\_\_  
Director

**LL Brougham Inc.**  
CHARTERED ACCOUNTANT

**FIRST ACCREDIT MORTGAGE CORPORATION****Statement of Earnings and Retained Earnings****Year Ended October 31, 2009**

	2009	2008
<b>REVENUE</b>		
Mortgage investment income	\$ 933,469	\$ 448,292
Other fees and interest	2,313	850
Renewal fees and bonuses	149,973	108,390
	<u>1,085,755</u>	<u>557,532</u>
<b>EXPENSES</b>		
Bad debts	36,646	-
Financial services contract <i>(Note 10)</i>	168,333	99,837
Insurance	818	743
Interest and bank charges	10,017	6,289
Office	1,895	322
Professional fees	19,176	8,693
Provision for mortgage losses	144,372	1,912
Securities fees	2,719	2,161
	<u>383,976</u>	<u>119,957</u>
<b>NET EARNINGS</b>	<b>701,779</b>	<b>437,575</b>
<b>RETAINED EARNINGS - BEGINNING OF YEAR</b>	<u>-</u>	<u>-</u>
	701,779	437,575
<b>CLASS A DIVIDENDS</b>	<b>(656,779)</b>	<b>(404,158)</b>
<b>CLASS B DIVIDENDS</b>	<b>(45,000)</b>	<b>(33,419)</b>
<b>RETAINED EARNINGS - END OF YEAR</b>	<u>\$ -</u>	<u>\$ -</u>

**FIRST ACCREDIT MORTGAGE CORPORATION****Statement of Cash Flows****Year Ended October 31, 2009**

	<b>2009</b>	<b>2008</b>
<b>OPERATING ACTIVITIES</b>		
Cash receipts from borrowers	\$ 1,049,109	\$ 557,532
Cash paid to suppliers	(331,013)	(151,420)
Interest received	(156,787)	19,138
Interest paid	(10,017)	(6,288)
Cash flow from operating activities	<u>551,292</u>	<u>418,962</u>
<b>INVESTING ACTIVITIES</b>		
Mortgage payments received	2,290,544	3,383,966
Mortgages advanced	(6,338,486)	(4,786,272)
Cash flow used by investing activities	<u>(4,047,942)</u>	<u>(1,402,306)</u>
<b>FINANCING ACTIVITIES</b>		
Dividends paid	(701,779)	(437,577)
Shares issued for cash	5,815,423	3,420,032
Shares issued by dividend reinvested	240,240	208,601
Shares redeemed	(633,951)	(1,473,703)
Cash flow from financing activities	<u>4,719,933</u>	<u>1,717,353</u>
<b>INCREASE IN CASH FLOW</b>	<b>1,223,283</b>	<b>734,009</b>
Cash - beginning of year	<u>1,138,726</u>	<u>404,717</u>
<b>CASH - END OF YEAR</b>	<b>\$ 2,362,009</b>	<b>\$ 1,138,726</b>

# FIRST ACCREDIT MORTGAGE CORPORATION

## Notes to Financial Statements

Year Ended October 31, 2009

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### 1. DESCRIPTION OF OPERATIONS

First Accredit Mortgage Corporation (the "Corporation") was incorporated under the British Columbia *Business Corporation Act* on September 21, 2001 and commenced operations as a mortgage investment corporation, as defined in the *Income Tax Act*, in November 2001. Its business is to obtain a stable source of income by investing in a conservative portfolio of first mortgages against residential, commercial, construction and other properties.

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### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Basis of Presentation

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) which necessarily involves the use of estimates. The financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of significant accounting policies summarized below.

#### Mortgages receivable

Mortgages receivable are recorded at the lesser of the principle amount of the loan less any principle repayments, plus accrued interest, loan fees, costs and fair market value of the loan.

When a mortgage is identified as impaired, recognition of interest income in accordance with the terms of the original agreement ceases and the carrying amount becomes the lower of the recorded investment and the fair value.

#### Revenue Recognition

The Corporation's main source of revenue is interest from its mortgages and fee income. 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.

Mortgage investment income consists of interest earned from the mortgage portfolio.

Mortgage commitments, renewal fees, and mortgage bonuses are generally recognized in the year received as the term for the mortgage investments are generally less than one year.

#### Future income taxes

The liability method of tax allocation is used in accounting for income taxes. Under this method, future tax assets and liabilities are determined based on differences between the financial reporting and tax basis of assets and liabilities, and measured using the substantially enacted tax rates and laws that will be in effect when the differences are expected to reverse.

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# FIRST ACCREDIT MORTGAGE CORPORATION

## Notes to Financial Statements

Year Ended October 31, 2009

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### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

#### Measurement uncertainty

When preparing financial statements according to GAAP, management makes estimates and assumptions relating to:

- reported amounts of revenues and expenses
- reported amounts of assets and liabilities
- disclosure of contingent assets and liabilities.

We base our estimates on a number of factors, including historical experience, current events, actions that the Corporation may undertake in the future, and other assumptions that we believe are reasonable under the circumstances. By their nature, these estimates are subject to measurement uncertainty and actual results could differ. In particular, we use estimates when accounting for certain items such as revenues, provision for mortgage losses, mortgage impairments, determination of mortgage fair value, legal and tax contingencies.

#### International Financial Reporting Standards (IFRS)

First Accredit Mortgage Corporation prepares its financial statements in accordance with Canadian GAAP as defined by Canada's Accounting Standards Board (AcSB). The AcSB has announced its intention to converge Canadian GAAP with International (IFRS). Effective November 1, 2011, as a Canadian publicly accountable enterprise, the Corporation will be required to apply IFRS as the basis for financial reporting for interim and year end financial statements. This change is part of a worldwide shift to IFRS intended to facilitate global capital flows and to bring greater clarity and consistency to financial reporting in the global marketplace.

While the Corporation has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition cannot be reasonably estimated at this time.

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# FIRST ACCREDIT MORTGAGE CORPORATION

## Notes to Financial Statements

Year Ended October 31, 2009

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### 3. FINANCIAL INSTRUMENTS

#### Capital Management

Credit risk arises from the potential that a counterparty will fail to perform its obligations. The Corporation is exposed to credit risk from mortgagors. In order to reduce its credit risk, the Corporation reviews a new mortgagor's credit history before extending credit and conducts regular reviews of its existing mortgagors' credit performance. An allowance for mortgage loss is established based upon factors surrounding the credit risk of specific accounts, historical trends and other information. The Corporation has a significant number of mortgagors which minimizes concentration of credit risk.

#### Fair Value

The Corporation's carrying value of cash and cash equivalents, mortgages receivable, and accounts payable approximates its fair value due to the immediate or short term maturity of these instruments.

The fair value of the amounts due to shareholders are less than carrying value, as the amounts are non-interest bearing. As the amounts have no terms of repayment, the fair value cannot be calculated with any degree of certainty.

The carrying value of the long term debt approximates the fair value as the interest rates are consistent with the current rates offered to the Corporation for debt with similar terms.

#### Interest rate

Interest rate risk is the risk that the value of the financial instrument might be adversely affected by a change in the interest rates. In seeking to minimize the risks from interest rate fluctuations, the Corporation manages exposure through its normal operating and financing activities. The risk is mitigated by the fact that the Corporation is not as exposed to market mortgage rates because there is no specific market for mortgages of similar types, terms, and credit risk.

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# FIRST ACCREDIT MORTGAGE CORPORATION

## Notes to Financial Statements

Year Ended October 31, 2009

### 4. MORTGAGES RECEIVABLE

The mortgage investments are first mortgages and consist of term financing for residential and commercial projects and term loans for completed or substantially completed income-producing properties in British Columbia. The mortgages bear interest at the rate of 8% - 15% per annum and are due within twelve months.

The provision for mortgage losses represents management's adjustment to reflect the recoverable amount of the mortgage portfolio in accordance with accounting policies set out in note 2. There are 20 mortgages with a combined principle and interest value of \$9,162,405 for which these provisions have been established. Of these mortgages, two with a principle value totaling \$1,732,953 are in collections.

	<u>2009</u>	<u>2008</u>
<b>Interest receivable</b>		
Interest receivable	\$ 357,709	\$ 83,742
Allowance for interest losses	<u>(161,414)</u>	<u>(44,235)</u>
Total interest receivable	<u>196,295</u>	<u>39,507</u>
<b>Mortgages receivable</b>		
Mortgage advances	9,162,405	5,119,712
Allowance for mortgage loss	<u>(122,749)</u>	<u>(128,000)</u>
Total mortgage receivable	<u>9,039,656</u>	<u>4,991,712</u>
	<u>\$ 9,235,951</u>	<u>\$ 5,031,219</u>

### 5. PROPERTY HELD FOR RESALE

Based on the Canadian Institute of Chartered Accountants requirement, financial assets are required to be classified as held for trading, held to maturity, loans and receivables, or available for sale, and financial liabilities are required to be classified as held for trading or other. The property held for resale is classified as available for sale and is recorded at fair value. The impact of the property being classified as available for sale on the balance sheet will be a re-evaluation to the fair value of the asset on an annual basis.

During the year, the fair value of the property held for sale was determined based on the BC Assessment Roll Report which is expected price to be received for the property. In addition, costs related to the property have been capitalized and added to this fair market value. (2009 - \$32,444, 2008 - \$0)

There is currently a provision for loss on this property of \$32,444.

# FIRST ACCREDIT MORTGAGE CORPORATION

## Notes to Financial Statements

Year Ended October 31, 2009

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### 6. BANK LOAN

The Corporation maintains a 364 Day Committed Operating Line Facility with the Canadian Imperial Bank of Commerce (CIBC). This operating line facility, authorized to a maximum of \$2,000,000, is secured by personal property of the business now owned (including inventory, equipment and receivables) and all personal property acquired in the future. The purpose of this credit facility is to assist with liquidity for interim mortgage fund investments.

The interest rate is prime plus 1.5% per annum.

The sum of the loans outstanding under this Credit shall not exceed 75% of eligible assigned mortgages. The Corporation is required to provided to CIBC; a monthly mortgage list, quarterly statement of mortgage portfolio, quarterly financial statements, and annual audited financials statements.

As covenants, the Corporation is required to maintain a debt to equity ratio not exceeding 1.0:1.0 and minimum shareholders equity of \$2,500,000.

As at October 31, 2009 the Corporation has met all the above covenants.

The balance of this account as at October 31, 2009 was \$nil (2008 - \$nil).

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### 7. INTEREST RESERVE

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

The balance of this account as at October 31, 2009 was \$nil (2008 - \$22,322)

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### 8. REFUNDABLE PERFORMANCE BONUS

Refundable performance bonus is a contracted amount received by the Corporation at the onset of the mortgage. The bonus may be repaid to the borrower when the mortgage is repaid. In the event the mortgage defaults, the amount is taken into revenue at that time. Amounts held as refundable performance bonus are non-interest bearing.

The balance of this account as at October 31, 2009 was \$21,000 (2008 - \$20,000)

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**FIRST ACCREDIT MORTGAGE CORPORATION**

**Notes to Financial Statements**

**Year Ended October 31, 2009**

**9. SHARE CAPITAL**

Authorized:			
500,000,000	Class "A" Common voting shares, no par value, one vote per share		
500,000,000	Class "B" Common voting shares, no par value, 1000 votes per share		
		<u>2009</u>	<u>2008</u>
Issued:			
11,465,459	Class A shares	\$ 11,465,459	\$ 6,043,747
400,000	Class B shares	4,000	4,000
		<u>\$ 11,469,459</u>	<u>\$ 6,047,747</u>

The registered holders of common shares are entitled to have voting rights for the election of directors or for any other purpose. Each class A share carries one vote. Each class B share carries 1,000 votes.

There are no conversion or exercise prices.

There are no redemption or retraction rights specified in the Articles shares are redeemed on a best efforts basis if cash flow allows. There will be no charge for the first redemption of shares by a Shareholder during any calendar year. All subsequent redemptions by the Shareholder, during the same calendar year, will be subject to a \$50 administration fee.

The holders of all Class A shares are entitled to receive pari passu all of the regular dividends declared by the directors, usually quarterly. Dividends are payable in cash or in shares, or partly in cash and partly in shares, at the option of the shareholder.

**Class A shares**

	<u>2009</u>		<u>2008</u>	
	Shares	Amount	Shares	Amount
Shares outstanding at the beginning of the year	6,043,747	\$ 6,043,747	3,888,817	\$ 3,888,817
Issued for cash	5,815,423	5,815,423	3,420,032	3,420,032
Issued by way of reinvested dividend	240,240	240,240	208,601	208,601
Redeemed	(633,951)	(633,951)	(1,473,703)	(1,473,703)
Shares outstanding at the end of the year	<u>11,465,459</u>	<u>\$ 11,465,459</u>	<u>6,043,747</u>	<u>\$ 6,043,747</u>

# FIRST ACCREDIT MORTGAGE CORPORATION

## Notes to Financial Statements

Year Ended October 31, 2009

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### 10. FINANCIAL SERVICES CONTRACT

There is a Financial Services Contract dated January 30, 2006 in place between Great Pacific Mortgage & Investments Ltd. (GPMI) a related party, and the Corporation under which GPMI is solely responsible for sourcing mortgage investments and managing the operation of the Corporation in accordance with its investment policies and is responsible, among other things for;

- (a) originating and administering mortgages and other security interest in real property;
- (b) providing financial services for the operations of the Corporation including operating and administering general security agreements and other forms of security of the Corporation; and
- (c) providing administrative services required by the Corporation in carrying on business as a MIC.

The financial services contract has an indefinite term, but may be terminated upon one of the following events:

- (a) if any proceeding in insolvency, bankruptcy, receivership or liquidation be taken against either party;
- (b) if either party makes an assignment for the benefit of any creditors or commits an act of bankruptcy within the meaning of the Bankruptcy Act (Canada);
- (c) upon 90 days written notice by either party; or
- (d) by mutual consent, in writing, by the Corporation and GPMI.

GPMI has some common directors involved in GPMI's business operations.

The Financial Services Contract provides that in consideration of the services provided by GPMI, the Corporation has agreed to pay GPMI an annual fee not to exceed two (2.0%) of the yearly outstanding balance of the assets under management. This fee is paid monthly on the 1st day of each month on the basis of the principal balance of all assets under management on the last business day of the preceding month. If need be, there shall be a reconciliation and, if applicable, payment to GPMI after the yearly yield to the shareholders is determined.

During the year management fees amounted to \$168,333 (2008 - \$99,837).

GPMI will bear the cost of administration of the mortgages in the Corporation's asset portfolio and other expenses as provided for in the Financial Services Contract.

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# FIRST ACCREDIT MORTGAGE CORPORATION

## Notes to Financial Statements

Year Ended October 31, 2009

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### 11. INCOME TAXES

Under the terms of the Canadian Income Tax Act, for each year that the Corporation qualifies as a Mortgage Investment Corporation, no income taxes will be payable on net earnings from which dividends will be paid. Income in excess of allowable deductible reserves under the Act which is not disturbed to shareholders within ninety days of the fiscal year-end will be subject to corporate taxation.

The Corporation intends to continue conducting its affairs in such a manner as to continue qualifying as a Mortgage Investment Corporation under the Income Tax Act.

The Corporation has determined that \$100,000 (2008 - \$74,277), being the undistributed net income, be distributed subsequent to year end as dividends to common shareholders.

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### 12. SUBSEQUENT EVENTS

The following events occurred subsequent to the fiscal year end:

#### Shares

The Corporation redeemed 130,000 Class A common shares for a total consideration of \$130,000 and issued \$20,100 Class A common shares for a total consideration of \$20,100.

#### Mortgages

The Corporation advanced one mortgage totaling \$290,000. No mortgages were paid out in this period.

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### 13. Commitments

As at October 31, 2009, the Company was committed to funding \$2,734,250 for five mortgages approved before year-end. One of these mortgages was paid out in November, as represented in the above note.

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