

Accredit Mortgage Ltd.
Consolidated Financial Statements
September 30, 2010



Auditors' Report

To the Shareholders of Accredited Mortgage Ltd.:

We have audited the consolidated balance sheet of Accredited Mortgage Ltd. as at September 30, 2010 and the consolidated statements of earnings and deficit and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at September 30, 2010 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.

The consolidated financial statements as at September 30, 2009 and for the year then ended were audited by another firm of Chartered Accountants, who expressed an opinion without reservation on these statements in their report dated November 26, 2009.

Nanaimo, British Columbia

November 16, 2010

Meyers Norris Penny LLP

Chartered Accountants

Accredit Mortgage Ltd.
Consolidated Balance Sheet
As at September 30, 2010

| | 2010 | 2009 <i>(Restated)</i> <i>See Note 13</i> |
|---|-------------|---|
| Assets | | |
| Current | | |
| Cash | 8,559,450 | 165,143 |
| Interest receivable (including \$784,620 allowance for doubtful accounts) (Note 3) | 3,690,262 | 3,120,823 |
| Mortgages receivable (including \$4,197,240 provision for mortgage losses) (Note 4) | 41,135,899 | 50,749,738 |
| Prepaid expenses | 9,165 | 9,165 |
| Property held for sale (Note 5) | 4,192,689 | 6,297,392 |
| | 55,587,365 | 60,342,261 |
| Property (Note 6) | 12,076,498 | 11,659,800 |
| | 67,663,863 | 72,002,061 |
| Liabilities | | |
| Current | | |
| Bank indebtedness (Note 7) | - | 4,484,385 |
| Accounts payable and accruals | 31,631 | 240,428 |
| Refundable performance bonus | 45,000 | 62,100 |
| Interest received in advance | 72,403 | - |
| Demand loan | - | 641,000 |
| Unearned income | 349,781 | 315,947 |
| | 498,815 | 5,723,860 |
| Subsequent events (Note 9) | | |
| Shareholders' Equity | | |
| Share capital (Note 10) | 70,608,289 | 69,057,843 |
| Deficit | (3,443,241) | (2,779,642) |
| | 67,165,048 | 66,278,201 |
| | 67,663,863 | 72,002,061 |

Approved on behalf of the Board

Director

Director

Accredit Mortgage Ltd.
Consolidated Statement of Earnings and Deficit
For the year ended September 30, 2010

| | 2010 | 2009 (Restated) See Note 13 |
|--|--------------------------------------|--|
| Revenue | | |
| Interest - mortgages | 4,822,588 | 6,767,455 |
| Lender fees | 788,322 | 995,271 |
| Net proceeds from property sales (Note 12) | 429,519 | - |
| Performance bonus claimed | 19,000 | 13,500 |
| Deposit interest | 7,831 | 7,560 |
| | 6,067,260 | 7,783,786 |
| Expenses | | |
| Accounting and audit fees | 25,840 | 28,400 |
| Bad debts (Note 3) | 137,760 | 646,860 |
| Bank charges | 8,646 | 5,634 |
| Directors' fees | 6,000 | 6,000 |
| Financial services fees | 1,421,609 | 1,596,785 |
| Insurance | 17,418 | 12,762 |
| Interest | 51,068 | 251,831 |
| Legal fees | 45,862 | 74,867 |
| Office | 4,110 | 26,410 |
| Realized fair value adjustment for mortgages receivable (Note 4) | - | 801,424 |
| Unrealized fair value adjustment for mortgages receivable (Note 4) | 862,240 | 475,000 |
| | 2,580,553 | 3,925,973 |
| Earnings from operations | 3,486,707 | 3,857,813 |
| Other item | | |
| Gain on disposal of shares of 857312 B.C. Ltd. (Note 11) | 20,251 | - |
| Net earnings | 3,506,958 | 3,857,813 |
| Deficit, beginning of year, as previously stated | (2,463,695) | (587,048) |
| Prior period adjustment (Note 13) | (315,947) | (379,791) |
| Deficit, beginning of year, as restated | (2,779,642) | (966,839) |
| Dividends - Class A | 727,316 (4,170,557) | 2,890,974 (5,670,616) |
| Deficit, end of year | (3,443,241) | (2,779,642) |

Accredit Mortgage Ltd.
Consolidated Statement of Cash Flows
For the year ended September 30, 2010

| | 2010 | 2009 <i>(Restated)</i> <i>See Note 13</i> |
|--|--------------------|---|
| Cash provided by (used for) the following activities | | |
| Operating activities | | |
| Net earnings | 3,506,958 | 3,857,813 |
| Items not requiring an outlay of cash: bad debt | 137,760 | 646,860 |
| Items not requiring an outlay of cash: unrealized fair value adjustment for mortgages receivable | 862,240 | 475,000 |
| Items not requiring an outlay of cash: realized fair value adjustment for mortgages receivable | - | 801,424 |
| | 4,506,958 | 5,781,097 |
| Changes in working capital accounts | | |
| Interest receivable | (707,200) | (32,817) |
| Prepaid expenses | - | (840) |
| Accounts payable and accruals | (209,796) | 232,026 |
| Unearned income | 33,834 | (63,844) |
| Interest received in advance | 72,403 | (692,172) |
| Refundable performance bonus | (17,100) | (21,500) |
| Decrease in property held for sale | 2,104,803 | (5,384,361) |
| Increase in property | (416,698) | (12,572,831) |
| | 5,367,204 | (12,755,242) |
| Financing activities | | |
| Advances from related party | 1,000 | - |
| Proceeds from issuance of Class A shares | 1,261,966 | 4,414,141 |
| Redemption of Class A shares | (1,033,661) | (14,005,266) |
| Advance of demand loan | - | 641,000 |
| Repayment of demand loan | (641,000) | - |
| Dividends paid | (2,848,417) | (3,144,676) |
| | (3,260,112) | (12,094,801) |
| Investing activities | | |
| Funding of mortgages | (14,990,956) | 19,933,506 |
| Discharge of mortgages | 23,742,556 | - |
| | 8,751,600 | 19,933,506 |
| Increase (decrease) in cash resources | 10,858,692 | (4,916,537) |
| Cash resources, beginning of year | (4,299,242) | 617,295 |
| Cash resources, end of year | 6,559,450 | (4,299,242) |
| Cash resources are composed of: | | |
| Cash | 6,559,450 | 165,143 |
| Bank indebtedness | - | (4,464,385) |
| | 6,559,450 | (4,299,242) |
| Supplementary cash flow information | | |
| Interest paid | 51,068 | 259,577 |

1. Incorporation and operations

Accredit Mortgage Ltd. (the "Company") was incorporated under the laws of the *Business Corporations Act* of the Province of British Columbia on May 26, 1994. The Company's principal business activity is mortgage lending for residential and commercial properties. The Company is a mortgage investment corporation and is deemed to be a public corporation under the Income Tax Act.

The investment objective of the Company is, with a primary focus on capital preservation, to acquire and maintain a diversified portfolio of mortgage loan investments, which generate income allowing the Company to pay quarterly distributions to shareholders at the highest possible return.

2. Significant accounting policies

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles using the following significant accounting policies:

Basis of presentation

The Company is an investment company as defined in Canadian generally accepted accounting principles Accounting Guideline 18, Investment Companies. As a result, mortgage receivables are recorded at fair value, with any changes in the fair value recorded in the statement of operations.

Basis of consolidation

The Company has consolidated the assets, liabilities, revenues and expenses of all subsidiaries after the elimination of inter-company transactions and balances. The consolidated financial statements include the accounts of the Company, and its wholly owned subsidiaries, 803710 B.C. Ltd., 848052 B.C. Ltd., 852634 B.C. Ltd., 864657 B.C. Ltd. and 856522 B.C. Ltd. The consolidated financial statements also include the revenues and expenses, after elimination of inter-company transactions, of 857312 B.C. Ltd. prior to the disposal of its shares.

Allowance for loan impairment

Allowance for loan impairment represents specific provisions established as a result of reviews of individual loans and groups of loans. Specific allowances are established by reviewing the credit worthiness of individual borrowers and the value of the collateral underlying the loan.

Restructured loans are not considered impaired where reasonable assurance exists that the borrower will meet the terms of the modified debt agreement.

Loans are classified as impaired, and a provision for loss is established, when there is no longer reasonable assurance of the timely collection of the full amount of principal or interest.

In such cases, a specific provision is established to write down the loan to the estimated future net cash flows from the loan discounted at the rate inherent in the loan when impairment was recognized. In cases where it is impractical to estimate the future cash flows, the carrying amount of the loan is reduced to its estimated realizable value.

Accrual of interest is discontinued and any previously accrued but unpaid interest on the loan is charged to allowance for loan impairment.

Foreclosed assets

Foreclosed assets held for sale are recorded at the lower of cost and estimated net realizable value. Cost is comprised of the balance of the loan at the date on which the Company obtains title to the assets plus subsequent disbursements related to the assets, less any revenues or lease payments received.

2. **Significant accounting policies** *(Continued from previous page)*

Revenue recognition

Interest income is accrued as earned. When a loan is identified as impaired, recognition of interest income in accordance with the terms of the original loan agreement ceases and interest income is recognized on a cash basis only, after specific provisions or write-offs have been recovered and provided there is no further doubt about the collectability of the remaining principal balance. Certain mortgages require the prepayment of interest, which is recorded as interest received in advance when received and is recorded as income when earned.

Revenue from the sale of land or property is recorded on closing, or, where sold by way of an agreement of purchase and sale, when the agreement is duly executed and delivered. Profit from the sale of property is recorded when the collection of the sale proceeds is reasonably assured and all other material conditions are met.

Lender fee income is recorded when all contractual obligations have been satisfied and collectability is reasonably assured. Lender fees received are amortized to income over the contractual terms of the mortgages.

The amount of 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.

Mortgage Investment Corporation ("MIC") eligibility criteria

To qualify as a MIC for Canadian income tax purposes the Fund must comply with the following:

- ii) At least 50% of the Fund's assets must consist of residentially orientated mortgages and/or cash;
- iii) The fund's only business activity is investing funds of the corporation and not managing or developing any real property;
- iii) The Fund must not hold any investments secured by real property situated outside Canada; and
- iv) No shareholder may own more than 25% of the issued shares of any class and must have at least 20 shareholders

Income taxes

The Company is a mortgage investment corporation ("MIC") for income tax purposes. As such, the Company is able to deduct, in computing its income for a taxation year, dividends paid to its shareholders during the year or within 90 days of the end of the year. The Company intends to maintain its status as a MIC and pay dividends to its shareholders in the year and in future years to ensure that it will not be subject to income taxes. Accordingly, for financial statement reporting purposes, the tax deductibility of the Company's distribution results in the Company being effectively exempt from taxation and no provision for current or future income taxes is required for the Company.

Shareholders who received dividends from the Company, other than capital gains dividends, will be deemed for income tax purposes to have received interest payable on a bond issued by the Company and will be subject to Canadian income or withholding taxes accordingly.

Measurement uncertainty (use of estimates)

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period.

Accrued interest receivable and mortgages receivable are stated after evaluation as to their collectability and an appropriate allowance for doubtful accounts is provided where considered necessary. Property held for sale are stated at the lower of cost and estimated net realizable value (estimated fair value less selling costs). Property are stated at the lower of cost and fair value.

These estimates and assumptions are reviewed periodically and, as adjustments become necessary they are reported in earnings in the periods in which they become known. Changes to the underlying assumptions and estimates or legislative changes in the near term could have a material impact on the provision recognized.

2. **Significant accounting policies** *(Continued from previous page)*

Financial Instruments

Held for trading:

The Company has designated cash and mortgages receivable as held for trading. These instruments are initially recognized at their fair value which is the amount of consideration that would be agreed upon in an arms length transaction between knowledgeable, willing parties under no compulsion to act. Transactions to purchase or sell these items are recorded on the settlement date, and transaction costs are immediately recognized in income.

Any unrealized changes in the fair value of a mortgage receivable are recorded in the statement of operations as an unrealized fair value adjustment. A realized change in the fair value of a mortgage as a result of a disposition or repayment is recorded as a realized fair value adjustment. Held for trading financial instruments are subsequently measured at their fair value, without any deduction for transactions costs incurred on sale or other disposal. Net gains and losses arising from changes in fair value are recognized immediately in income.

Loans and receivables:

The Company has classified the following financial asset as loans and receivables: accrued interest receivable. This asset is initially recognized at its fair value. Fair value is approximated by the instrument's initial cost in a transaction between unrelated parties. Transactions to purchase or sell these items are recorded on the settlement date and transaction costs are immediately recognized in income.

Loans and receivables are subsequently measured at their amortized cost, using the effective interest method. Under this method, estimated future cash receipts are exactly discounted over the asset's expected life, or other appropriate period, to its net carrying value. Amortized cost is the amount at which the financial asset is measured at initial recognition less principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount, and less any reduction for impairment or uncollectability. Net gains and losses arising from changes in fair value recognized in net income upon derecognition or impairment.

Other financial liabilities:

The Company has classified the following financial liabilities as other financial liabilities: bank indebtedness, accounts payable and accruals, interest received in advance, unearned income and refundable performance bonus. These liabilities are initially recognized at their fair value. Fair value is approximated by the instrument's initial cost in a transaction between unrelated parties. Transactions to purchase or sell these items are recorded on the settlement date and transaction costs are immediately recognized in income.

Other financial liabilities are subsequently measured at their amortized cost, using the effective interest method. Under this method, estimated future cash payments are exactly discounted over the liability's expected life, or other appropriate period, to its net carrying value. Amortized cost is the amount at which a financial liability is measured at initial recognition less principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount, and less any reduction for impairment or uncollectability. Net gains and losses arising from changes in fair value recognized in net income upon derecognition or impairment.

Comprehensive income (loss)

Comprehensive income (loss) includes all changes in equity of the Company, except those resulting from investments by owners and distributions to owners. Comprehensive income (loss) is the total of net income (loss) and other comprehensive income (loss). Other comprehensive income (loss) comprises revenues, expenses, gains and losses that, in accordance with Canadian generally accepted accounting principles, require recognition, but are excluded from net income (loss). The Company does not have any items giving rise to other comprehensive income, nor is there any accumulated balance of other comprehensive income. All gains and losses, including those arising from measurement of all financial instruments have been recognized in net income for the period.

2. **Significant accounting policies** (Continued from previous page)

Recent accounting pronouncements

Adoption of International Financial Reporting Standards

The Canadian Accounting Standards Board (AcSB) has confirmed that International Financial Reporting Standards (IFRS) will replace current Canadian GAAP for fiscal years beginning on or after January 1, 2011, for publicly accountable enterprises. In September 2010, the Accounting Standards Board (AcSB) approved an amendment to the CICA Handbook that allows investment companies that are required to adopt IFRS and who are currently applying Accounting Guideline 18 (AcG-18) Investment Companies under Canadian GAAP to defer adoption of IFRS by one year. For the Company, financial statements, including comparative information, for annual and interim periods beginning on or after January 1, 2012 will be prepared in accordance with IFRS, with restatement of the 2011 comparative information.

Management is required to provide progress updates on the entity's IFRS changeover plan at each interim and annual reporting period up until the changeover date.

The Company is evaluating the potential impact of adopting IFRS on its consolidated financial statements and is developing a changeover plan to adopt the standards. The key elements of the plan include assessing the impact of adopting IFRS on:

- Accounting policies;
- IT and data systems;
- Internal controls over financial reporting;
- Disclosure controls and procedures;
- Business activities as well as matters that may be influenced by GAAP measures such as debt covenants, capital requirements and compensation arrangements;

The changeover plan is still in the early stages of development and, as a result, the impact of adopting IFRS on the Company's financial reporting is not reasonably determinable.

3. **Interest receivable**

Interest receivable consists of the following:

| | 2010 | 2009 |
|---------------------------------------|-----------|-----------|
| Interest receivable | 4,474,882 | 3,767,683 |
| Less: allowance for doubtful accounts | (784,620) | (646,860) |
| | 3,690,262 | 3,120,823 |

Of the total interest outstanding, two receivables with a total carrying value of \$1,034,606 (2009 - \$646,860), before an allowance for doubtful accounts, have been determined to be impaired. These receivables were previously allowed for in the amount of \$646,860 and management believes that the net realizable value of these receivables are not adequate to cover the receivable balances and, accordingly has increased the allowance to \$784,620. The charge to income during the year related to this write-down is \$137,760 and is included in earnings as bad debts.

Accredit Mortgage Ltd.
Notes to the Consolidated Financial Statements
For the year ended September 30, 2010

4. Mortgages receivable

Mortgages receivable consist of the following:

| | 2010 | 2009 |
|-------------------------------------|-------------|-------------|
| Mortgages receivable | 45,333,139 | 54,084,738 |
| Less: provision for mortgage losses | (4,197,240) | (3,335,000) |
| | 41,135,899 | 50,749,738 |

Mortgages receivable bear interest between 6 and 16 percent (2009 - 8 to 17 percent) and are secured by charges against land and building. All mortgages are due within the next twelve months. Principal and/or interest only payments are due monthly and early payment of principal is permitted.

Of the total mortgages outstanding, three mortgages with a total carrying value of \$9,379,128 (2009 - \$9,853,386), before an impairment provision, have been determined to be impaired. These loans were previously allowed for in the amount of \$3,335,000 and management believes that the net realizable value of these mortgages are not adequate to cover the loan balances and, accordingly has increased the allowance to \$4,197,240. The charge to income during the year related to this write-down is \$862,240 and is included in earnings as an unrealized fair value adjustment for mortgages receivable.

5. Property held for sale

Property held for sale consists of three foreclosed properties acquired by subsidiary companies in the prior year. As management has committed to a plan of sale within the next year, the foreclosed properties have been separately presented as held for sale.

6. Property

Property consists of a foreclosed property acquired in the prior year in order to protect the Company's interests. This property was transferred to subsidiary subsequent to year-end. During the year, the listing agreement expired and management is currently in discussions with the municipality to amend certain environmental covenants and obtain a final certificate of environmental compliance in order to make the property available for sale. This foreclosed property has now been reclassified out of held for sale at the lower of the carrying amount before it was classified as held for sale and the fair value at the date of the subsequent reclassification.

7. Bank indebtedness

Bank indebtedness includes an operating loan amounting to \$nil (2009 - \$4,464,385) bearing interest at prime plus 3%. The purpose of this credit facility is to assist with liquidity for interim mortgage fund investments only and is not to be used for shareholder redemptions without the prior consent of the bank. This operating loan is secured by a general security agreement over all property of the Company both present and future. This operating line facility, authorized to a maximum of \$6,000,000, cannot exceed 12% of the carrying amount of total issued share capital. The aggregate balance of loans outstanding under this credit facility shall not exceed 75% of eligible assigned mortgages.

Accredit Mortgage Ltd.
Notes to the Consolidated Financial Statements
For the year ended September 30, 2010

8. Related party transactions

Included in expenses for the current year are financial services fees of \$1,421,609 (2009 - \$1,596,785) paid to Great Pacific Mortgage Investments Ltd. ("GPMI") who is related by virtue of common officers and directors. GPMI is responsible for the day-to-day operations and providing all general management and administration services to the Company. Under a financial services agreement, GPMI is entitled to a fee equal to 2% per annum of the outstanding balance of the assets under management calculated monthly and payable monthly. These transactions were conducted in the normal course of operations and measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

9. Subsequent event

Subsequent to the date of the financial statements, the Company issued 4,000 Class A shares for consideration of \$4,000.

10. Share capital

| | 2010 | 2009 |
|---|-------------------|-------------------|
| Authorized | | |
| Common shares | | |
| 500,000,000 Class "A" redeemable, 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 | | |
| Common shares | | |
| 70,604,129 Class "A" shares | 70,604,129 | 69,053,683 |
| 272,000 Class "B" shares | 4,160 | 4,160 |
| | 70,608,289 | 69,057,843 |

The registered holders of the 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 as specified in the Articles. Shares are redeemed on a best efforts basis as determined by the board of directors. 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 as declared by the directors are payable in cash or in shares, or partly in cash and partly in shares, at the option of the shareholder as approved by the Board of Directors. The directors may declare a dividend on one class of shares to the exclusion of another class of shares.

| | 2010 | | 2009 | |
|---------------------------------------|-------------------|-------------------|-------------------|-------------------|
| | Number | Amount | Number | Amount |
| Common shares | | | | |
| Opening balance at October 1, 2009 | 69,057,843 | 69,057,843 | 76,123,029 | 76,123,029 |
| Class A stock dividends | 1,321,524 | 1,321,524 | 2,525,939 | 2,525,939 |
| Class A shares issued for cash | 1,262,583 | 1,262,583 | 4,414,141 | 4,414,141 |
| Class A shares redeemed for cash | (1,033,661) | (1,033,661) | (14,005,266) | (14,005,266) |
| | 70,608,289 | 70,608,289 | 69,057,843 | 69,057,843 |
| Closing balance at September 30, 2010 | 70,608,289 | 70,608,289 | 69,057,843 | 69,057,843 |

Accredit Mortgage Ltd.
Notes to the Consolidated Financial Statements
For the year ended September 30, 2010

11. Gain on disposal of shares of 857312 B.C. Ltd.

On February 11, 2010, the Company disposed of its interest in a wholly owned subsidiary, 857312 B.C. Ltd. (Joyce Street, Vancouver) to a third party.

12. Net proceeds from property sales

During the year, lots were sold for gross proceeds of \$2,639,000. The cost of the properties sold plus selling costs incurred was \$2,209,481.

13. Prior period adjustment

Canadian generally accepted accounting principles require that the lender fees received be amortized to income over the contractual terms of the mortgages. During the year the Company determined that the unearned portion of lender fees had not been recorded and unearned income was understated by \$315,947 in 2009 (2008 - \$379,791). This deferral has been recorded and corrected with retroactive effect in these financial statements, and the 2009 comparative figures have been restated as follows:

- unearned income increased by \$315,947
- lender fee revenue increased by \$63,844
- net earnings increased by \$63,844
- deficit, opening increased by \$379,791
- deficit, ending increased by \$315,947

14. Financial instruments

The Company as part of its operations carries a number of financial instruments. It is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments except as otherwise disclosed.

Risk management policy

The Company, due to its size and limited operations, does not have formal risk management policies in place.

Credit Risk

Credit risk is the possibility that a borrower may be unable to honour its mortgage commitments that could result in a loss to the Company. The Company mitigates this risk by adhering to investment restrictions and operating policies, ensuring a comprehensive due diligence process is conducted on each investment prior to funding, and actively monitoring the mortgage portfolio and initiating recovery procedures where required.

The maximum exposure to credit risk as at September 30, 2010 is the fair value of its interest receivable and mortgages, which total \$44,826,161 (2009 - \$53,870,561). The Company has recourse under these mortgages in the event of default by the borrower, in which case the Company would have claim against the underlying property.

As at September 30, 2010, two mortgage investments accounted for 44% of the mortgages receivable (2009 - two borrowers and 38%). The Company believes that there is no unusual exposure associated with the collection of these receivables other than noted in Note 3.

14. **Financial instruments** (Continued from previous page)

Fair value of financial instruments

The carrying amount of cash, interest receivable, bank indebtedness, accounts payable and accruals, interest received in advance, unearned income, refundable performance bonus and advances from related parties approximates their fair value due to the short-term maturities of these items.

Canadian generally accepted accounting principles require the disclosure of fair value information for all financial instruments, except in the cases where time and cost constraints make such information too difficult to reliably determine. As relevant and reliable fair value information was not obtainable, the Company has not disclosed the fair value information for its share capital. These shares do not trade in an organized/active market and no quoted market prices or prices from recent market transactions are available.

As there is no quoted prices in an active market for mortgage receivables, the Fund Manager makes its determination of fair value based on its assessment of the current mortgage market investments of same or similar terms. Typically, the mortgage investments approximate their carrying values given the mortgage investments consist of short-term loans that are repayable at the option of the borrower without yield maintenance or penalties. When collection of the principal amount of a mortgage is no longer reasonably assured, the fair value of the mortgage is reduced to the estimated net realizable value of the underlying security.

Fair value estimates are made at a specific point in time, based on available relevant market information and details of the financial instrument. However, in cases where they may not be fully supported by observable market prices or rates, assumptions may be subjective, and fair value cannot be estimated with precision.

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. Changes in market interest rates may have an effect on the cash flows associated with some financial assets and liabilities, known as cash flow risk, and on the fair value of other financial assets or liabilities, known as price risk. This risk is mitigated by ensuring the mortgages receivable are all short term and the interest rate charged is at a fixed rate.

A 1% change in interest rates, with all other variables held constant, will increase/decrease interest income by approximately \$328,000.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting its financial obligations as they become due. This risk arises in normal operations from fluctuations in cash flow as a result of the timing of mortgage investment fundings and repayments and redemptions of shares. Management routinely forecasts future cash flow sources and requirements to ensure cash is efficiently utilized.

The Company manages liquidity risk by investing in mortgages receivable with short-term maturities and declaring dividends based on cash availability.

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 foreign 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. The Company enters into transactions to advance funds on mortgages where an interest rate based upon current mortgage interest rates is charged on the advance date. Should market mortgage interest rates fluctuate in the short-term, the fair value of the mortgages receivable will fluctuate.

The Company manages its other price risk by investing in mortgages receivable with short-term maturities to minimize fluctuations in fair value as a result of market mortgage interest rate changes.

Accredit Mortgage Ltd.
Notes to the Consolidated Financial Statements
For the year ended September 30, 2010

15. Capital management

The Company's objectives when managing capital are to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders and provide an adequate return to shareholders by charging interest rates on mortgages commensurate with the level of risk.

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.

The Company manages the following as capital:

| | 2010 | 2009 |
|---------------|-------------------------|-------------------------|
| Share capital | 70,608,289 | 69,057,843 |
| Deficit | (3,443,241) | (2,779,642) |
| | <hr/> 67,165,048 | <hr/> 66,278,201 |

The Company monitors capital on the basis of a return on investment calculation and endeavours to provide shareholders with the highest possible return each year. During the year, the Company's strategy, which was unchanged from the prior year, was to advance an adequate amount of mortgages at an acceptable risk level to provide the maximum return to shareholders.

The Company is subject to capital requirement imposed by the Canadian Imperial Bank of Commerce with regards to maintaining total share capital of at least 12% of the bank indebtedness and the aggregate bank indebtedness should not exceed 75% of eligible assigned mortgages. In order to meet these aforementioned requirements, the Company adjusts the amount of dividends paid to shareholders, issues new shares or adjusts the amount of mortgage advances. During the year ended September 30, 2010, the Company complied with the capital requirements.

16. Comparative figures

Certain comparative figures have been reclassified to conform with current year presentation.