MORTGAGE INVESTMENT CORPORATION OF EASTERN ONTARIO

FINANCIAL STATEMENTS

DECEMBER 31, 2009

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DECEMBER 31, 2009

CONTENTS

Raymond Chabot Grant Thornton

Auditors' Report

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To the Shareholders of
Mortgage Investment Corporation of Eastern Ontario

We have audited the balance sheet of Mortgage Investment Corporation of Eastern Ontario as at December 31, 2009 and the statements of income and expenses, cash flows and investment portfolio 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 December 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.

The financial statements as at December 31, 2008 and for the year then ended were audited by other auditors who expressed an opinion without reservation on those statements in their report dated April 3, 2009.

Raymond Chabot Grant Thornton LLP

Chartered Accountants,
Licensed Public Accountants

Ottawa, Canada
March 2, 2010

MORTGAGE INVESTMENT CORPORATION OF EASTERN ONTARIO

BALANCE SHEET

AS AT DECEMBER 31, 2009

ASSETS

	2009	2008
Cash	$ 633,169	$ 319,760
Temporary investments (Note 5)	5,060	756,060
Accrued interest	214,625	166,462
Prepaid expenses	2,272	2,266
Loans receivable (Note 6)	22,213	24,497
Mortgages (Note 7)	35,833,710	28,016,856
Incorporation	517	517
	$36,711,566	$29,286,418

LIABILITIES

	2009	2008
Bank line of credit (Note 8)	$ 975,000	$ -
Accounts payable and accrued liabilities	48,466	54,602
Prepaid mortgage payments	290,057	-
Advances received on share subscriptions (Note 11)	300,000	400,000
	1,613,523	454,602

SHAREHOLDERS' EQUITY

	2009	2008
SHARE CAPITAL (Note 9)	35,098,043	28,831,816
	$36,711,566	$29,286,418

APPROVED ON BEHALF OF THE BOARD:

______________________________ Director

______________________________ Director

The accompanying notes are an integral part of these statements

STATEMENT OF INCOME AND EXPENSES

FOR THE YEAR ENDED DECEMBER 31, 2009

	2009	2008
INTEREST INCOME	$ 3,031,904	$ 2,859,203
EXPENSES		
Administration fees (Note 10)	646,310	538,470
Audit fees	11,925	8,925
Directors fees	21,500	21,500
General and administrative expenses	210,456	184,007
Interest and bank charges	11,705	21,890
Legal fees	15,376	10,014
Realized losses (recoveries) on mortgages	160,615	(3,358)
Provision for mortgage losses	195,000	90,000
	1,272,887	871,448
NET INCOME BEFORE DISTRIBUTIONS	1,759,017	1,987,755
DISTRIBUTIONS TO SHAREHOLDERS	(1,759,017)	(1,987,755)
NET INCOME	$ -	$ -

The accompanying notes are an integral part of these statements

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2009

	2009	2008
CHANGES IN NON-CASH WORKING CAPITAL BALANCES		
Accrued interest	$ (48,163)	$ 491
Prepaid expenses	(6)	6
Accounts payable and accrued liabilities	(6,136)	(3,140)
Distribution due to shareholders	-	(219,691)
Prepaid mortgage payments	290,057	(26,298)
Advances received on share subscriptions	(100,000)	400,000
	135,752	151,368
FINANCING ACTIVITIES		
Proceeds from issuance of shares	9,493,254	10,585,378
Bank line of credit	975,000	(1,080,000)
Redemption of shares	(3,227,027)	(4,218,410)
	7,241,227	5,286,968
INVESTING ACTIVITIES		
Net redemption of (investment in) short term investments	751,000	(748,280)
Investment in mortgages	(27,249,558)	(23,108,276)
Repayment of mortgages	19,432,704	18,689,691
Repayment of loans receivable	2,284	49,168
	(7,063,570)	(5,117,697)
INCREASE IN CASH	313,409	320,639
CASH (BANK INDEBTEDNESS), beginning of year	319,760	(879)
CASH, end of year	$ 633,169	$ 319,760

The accompanying notes are an integral part of these statements

STATEMENT OF INVESTMENT PORTFOLIO

AS AT DECEMBER 31, 2009

	% of Net Assets	Principal Value	Amortized Cost	Market Value
MONEY MARKET				
RBC Premium Money Market Fund	**0.01%**	$ 5,060	$ 5,060	$ 5,060
MORTGAGES	**102.10%**	35,833,710	35,833,710	35,833,710
TOTAL INVESTMENTS	**102.11%**	$ 35,838,770	35,838,770	35,838,770
CASH AND OTHER NET ASSETS	**0.67%**			234,273
BANK LINE OF CREDIT	**(2.78)%**			(975,000)
NET ASSETS	**100.00%**			$ 35,098,043

Notes:
1. One year rate of return on RBC Premium Money Market Fund is 0.89% for the year ended December 31, 2009.
2. Cash and other net assets are reduced by accounts payable and accrued liabilities, advances received on share subscription, and prepaid mortgage payments as at year end.

DISTRIBUTION OF MORTGAGES

Interest Rates	Number of mortgages	Amortized Cost	Market Value
8.00%	4	$ 653,594	$ 653,594
9.00%	12	2,636,306	2,636,306
10.00%	30	8,410,277	8,410,277
11.00%	46	6,284,497	6,284,497
12.00%	86	17,659,500	17,659,500
13.00%	3	189,536	189,536
	181	$ 35,833,710	$ 35,833,710

All mortgages are pre-payable, uninsured, conventional mortgages with terms ranging from 1 to 2 years.
Percentage residential: 87%
Percentage commercial: 13%

1. PURPOSE OF THE COMPANY

Mortgage Investment Corporation of Eastern Ontario (the "Company") is a Mortgage Investment Corporation as defined by the *Income Tax Act* (Canada). Its purpose is to pool the funds of its shareholders and earn a return by investing in mortgages.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). The significant accounting policies used to prepare these financial statements are summarized below:

(a) Revenue recognition

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

(b) Allowance for mortgage and loan losses

The Company maintains an allowance for mortgage and loan losses that reduces the carrying value of mortgages and loans identified as impaired 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 loan collection experience and the estimated value of security underlying the mortgages after deducting costs of realization.

When the mortgage or loan is considered beyond realistic prospect of recovery it is written-off first against any allowance for mortgage and loan loss setup for it and the remaining amount if any to income.

(c) 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, the reported amounts of revenue and expenses for the year, as well as the disclosure of contingent assets and liabilities at the date of the financial statements. Significant estimates include the determination of mortgage impairment, and are subject to uncertainty. Changes in estimates are recorded in the accounting period in which they are determined.

(d) Income taxes

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued...)

(e) 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.

(f) Financial instruments

The Company's financial instruments consist of cash, temporary investments, accrued interest receivable, loans receivable, mortgages, bank line of credit, accounts payable and accrued liabilities, and prepaid mortgage payments. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit 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 temporary investments are classified as held-for-trading and recorded at fair value.

Accrued interest receivable, loans receivable, and mortgages are classified as loans and receivables and recorded at amortized cost.

(ii) Financial liabilities:

Bank line of credit, accounts payable and accrued liabilities, and prepaid mortgage payments are classified as other liabilities and recorded at amortized cost.

(g) Accounting changes

In March 2009, the Accounting Standards Board ("AcSB") of the CICA amended Handbook Section 3862, Financial Instruments - Disclosures. The amendments enhanced disclosure requirements regarding fair value measurements and liquidity risk. The Company has adopted these amendments for its year ended December 31, 2009. The enhanced disclosures are presented in Note 4.

3. CAPITAL STRUCTURE FINANCIAL POLICIES

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

The Company's objective when managing its share 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.

3. CAPITAL STRUCTURE FINANCIAL POLICIES (Continued)

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.

In order to provide some liquidity to its shareholders, the Company is required to maintain 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. For unusual circumstances, the Company has redemption policies in place to retrict 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.

4. 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 temporary investments are valued using Level 1 measures.

5. TEMPORARY INVESTMENTS

For the purpose of meeting short-term cash commitments, the Company maintains short-term investments in highly liquid money market securities earning a return of approximately 0.89% (2008 - 3.49%). The temporary investments are readily convertible to cash and are not subject to significant risk of change in value. Consequently, their fair value approximates their carrying amount.

6. LOANS RECEIVABLE

There are 3 loans held which are due on demand, require blended monthly payments of principal and interest and are secured by promissory notes.

7. MORTGAGES

There are 181 mortgages (2008 -167) held which are a combination of mainly first and second mortgages secured by residential and commercial property.

	2009	2008
Mortgages	$36,118,710	$28,016,856
Allowance for mortgage losses	(285,000)	(90,000)
	$35,833,710	$27,926,856

To assess impairment, management has reviewed each mortgage taking into account experience, credit quality, payment in arrears, and specific problem situations. As of December 31, 2009 there are 12 mortgages totaling $2,971,316 (2008 - 8 mortgages totaling $2,058,724) that are considered impaired by management. When the estimated realizable amounts for each of the impaired mortgages is greater than their carrying values, no allowance for mortgage loss is made.

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 at December 31, 2009 was $196,422 (2008 - $167,912) and the largest mortgage was $2,227,718 (2008 - $976,557).

Interest rate 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 than the original one. This risk is mitigaged 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. This has allowed the Company to renew its mortgages at good rates.

Mortgages are issued with either 1 or 2 year terms, have fixed interest rates and can be repaid in full without penalty. The weighted average interest rate of the mortgages as at December 31, 2009 was 11.00% (2008 - 11.44%).

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. The Company maintains significant committed borrowing facilities from its bank for credit room at least equal to ten percent of net assets. In additions, 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. LINE OF CREDIT

The Company has established a revolving line of credit with a limit of $3,000,000. It 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 2.25% (2008 - 3.50%) plus 1% as at December 31, 2009.

Financial covenants require the Company to maintain a minimum; level of equity, debt to equity ratio and percentage of residential mortgages. As at December 31, 2009 the Company was in compliance with the bank's financial covenants.

9. SHARE CAPITAL

Authorized capital:
The authorized capital consists of an unlimited number of voting common shares.

Changes during the years:

	2009		2008	
	Number of shares issued	$	Number of shares issued	$
Balance, beginning of year	2,883,182	28,831,816	2,246,485	22,464,848
Issued	773,423	7,734,237	859,763	8,597,623
Issued through dividend reinvestment plan	175,902	1,759,017	198,775	1,987,755
Redeemed	(322,703)	(3,227,027)	(421,841)	(4,218,410)
Balance, end of year	3,509,804	35,098,043	2,883,182	28,831,816

Dividend reinvestment plan and direct share purchase plan
The dividends issued to shareholders are automatically reinvested in the Company by the direct purchase of shares at the current market price.

10. 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 of the Company.

W.A. Robinson & Associates 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, 2009 were $316,128 (2008 - $457,245) and the total fees paid to W.A. for the year ended December 31, 2009 were $330,182 (2008 - $81,225) 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.

11. ADVANCES ON SHARE SUBSCRIPTIONS

The Company processes new common share issuances on the first of the month only. Promissory notes bear interest at an annual rate equal to bank prime rate and are issued for any funds received by the Company at other times of a month on account of share subscriptions. These promissory notes together with any interest calculated on a perdiem basis are converted to common shares of the Company on the first day of the next month.