Condensed Interim Financial Statements

STANDARD MERCANTILE ACQUISITION CORP. (FORMERLY, TREZ CAPITAL SENIOR MORTGAGE INVESTMENT CORPORATION)

For the three and nine months ended September 30, 2022 and 2021
(Unaudited)

The accompanying unaudited condensed interim financial statements of the Company as at September 30, 2022 have been prepared in accordance with the International Accounting Standard 34 – Interim Financial Reporting as issued by the International Accounting Standards Board and are the responsibility of the Company's management. The Company's independent auditor has not performed a review of these financial statements. The Company's auditor will perform an audit of the December 31, 2022 Financial Statements.

STANDARD MERCANTILE ACQUISITION CORP.

Condensed Interim Statements of Financial Position
(Unaudited)

	Notes	September 30, 2022	December 31, 2021
Assets			
Investments in mortgages	3	$ 10,379,271	$ 9,958,488
Cash		701,227	945,755
Prepaid expenses		40,208	15,333
Total assets		$ 11,120,706	$ 10,919,576
Liabilities and Shareholders' Equity			
Accounts payable and accrued liabilities		36,502	85,795
Total liabilities		36,502	85,795
Shareholders' equity		11,084,204	10,833,781
Total liabilities and shareholders' equity		$ 11,120,706	$ 10,919,576

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

STANDARD MERCANTILE ACQUISITION CORP.

Condensed Interim Statements of Income and Comprehensive Income
(Unaudited)

	Notes	For the three months ended September 30, 2022	For the three months ended September 30, 2021	For the nine months ended September 30, 2022	For the nine months ended September 30, 2021
Revenue:					
Interest and fee income		$ 201,175	$ 242,743	$ 562,342	$ 736,177
		201,175	242,743	562,342	736,177
Expenses:					
Share based compensation	7	5,263	39,854	62,965	196,442
General and administrative expenses		94,617	138,829	311,919	387,745
		99,880	178,683	374,884	579,166
Income from operations		101,295	64,060	187,458	157,011
Net income (loss) and comprehensive income (loss) for the period		$ 101,295	$ 64,060	$ 187,458	$ 157,011
Earnings (loss) per share:					
Basic	6	$0.01	$0.01	$0.03	$0.02
Diluted		$0.01	$0.01	$0.02	$0.02

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

STANDARD MERCANTILE ACQUISITION CORP.

Condensed Interim Statements of Changes in Shareholders' Equity
(Unaudited)

Nine months ended September 30, 2022:

	Notes	Common shares	Contributed surplus	Deficit	Total
Shareholders' equity, at December 31, 2021		$ 70,195,908	236,275	$(59,598,402)	$10,833,781
Net income and comprehensive income for the period		-	-	187,458	187,458
Share-based compensation		-	62,965	-	62,965
Shareholders' equity, at September 30, 2022		$ 70,195,908	299,240	$(59,410,945)	$ 11,084,204

Nine months ended September 30, 2021:

	Notes	Common shares	Contributed surplus	Deficit	Total
Shareholders' equity, at December 31, 2020		$ 70,195,908	-	$(51,875,082)	$18,320,826
Net income and comprehensive income for the period		-	-	157,011	157,011
Dividends to shareholders	4	-	-	(3,498,036)	(3,498,036)
Contributed surplus		-	196,422	-	196,422
Shareholders' equity, at June 30, 2021		$ 70,195,908	196,422	$(55,216,107)	$ 15,176,223

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

STANDARD MERCANTILE ACQUISITION CORP.

Condensed Interim Statements of Cash Flows
(Unaudited)

	For the nine months ended September 30, 2022	For the nine months ended September 30, 2021
Cash provided by (used in):		
Operations:		
Net income and comprehensive income	$187,458	157,011
Non-cash adjustments:		
Interest income	(562,342)	(736,177)
Share based compensation	62,965	196,442
Fair values adjustment on investment in mortgages	-	-
Incentive fee	-	-
Interest received	76,145	78,875
Changes in non-cash operating items:		
Prepaids	(24,875)	(38,333)
Accounts payable and accrued liabilities	(49,293)	39,876
Management fees payable	-	(12,209)
Cash flows from operating activities before undernoted	(309,942)	(314,535)
Financing:		
Dividends to shareholders	-	(3,498,036)
Repurchase of shares		
	-	(3,498,036)
Investing:		
Funding of investment in mortgages	-	-
Principal repayments on mortgages	65,414	62,619
	65,414	62,619
Increase/ (Decrease) in cash	(244,528)	(3,749,951)
Cash and cash equivalents, beginning of period	945,755	5,606,770
Cash and cash equivalents, end of period	$ 701,227	$ 1,856,818

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

1. Operations:

Standard Mercantile Acquisition Corp. (formerly, Trez Capital Senior Mortgage Investment Corporation) (the "Company") was a non-bank lender providing residential and commercial short-term bridge and conventional real estate financing, including construction and mezzanine mortgages. The Company was incorporated on October 18, 2012 under the Canada Business Corporations Act and was managed by Trez Capital Fund Management Limited Partnership until January 1, 2021 (referred to as the "Previous Manager" throughout these financial statements). The Mortgage Broker for the Company continues to be Trez Capital Limited Partnership. The Company now is internally managed.

The shares of the Company are publicly listed on the Toronto Stock Exchange under the symbol SMA. The Company is a Canadian mortgage investment corporation and the registered office of the Company is 181 Bay Street, Suite 1800, Toronto, Ontario, M5J 2T9.

On May 9, 2016, the Special Committee of the Board of Directors announced the completion of its strategic review process and a plan for the orderly wind-up of the Company's assets and the return of capital to shareholders (the "Orderly Wind-Up Plan"). The Orderly Wind-Up Plan in its entirety was approved by shareholders at the Company's annual and special meeting of shareholders held on June 16, 2016.

Under the Orderly Wind-Up Plan, the Company ceased originating new loans and all mortgage renewal activity, subject to contractual rights, and its assets are being monetized over time. On May 6, 2021, the shareholders approved a resolution to amend the Orderly Wind-up Plan by eliminating the requirement that the Company be dissolved and to permit the Board of Directors and management of the Company to explore and enter into a transaction or series of transactions, from time to time, with the goal of monetizing the public listing of the Company. To the extent the Company is able to secure such a transaction, further value may be available to shareholders beyond the value to be realized through the dissolution process alone.

On November 23, 2020 a "Separation and Mutual Release" agreement was signed between the Company and the Previous Manager and the Management Agreement dated May 6, 2016 was terminated.

Under the "Separation and Mutual Release", management of the Company was transferred from the Previous Manager to internal management on January 1, 2021.

The Orderly Wind-Up Plan was implemented in 2016 and capital was being returned to shareholders under the supervision of the Board of Directors. In addition, the Previous Manager and its affiliates as part of the Orderly Wind-Up Plan ceased providing any financial support in respect to any of the mortgages held in the Company's portfolio.

2. Basis of presentation:

(a) Statement of compliance:

The condensed interim financial statements have been prepared in compliance with International Accounting Standard 34, *Interim Financial Statements*. The accompanying condensed interim financial statements should be read in conjunction with the notes to the Company's audited financial statements for the year ended December 31, 2021 which have been prepared in accordance with International Financial Reporting Standards ("IFRS"), since they do not contain all disclosures required by IFRS for annual financial statements. These condensed interim financial statements reflect all normal and recurring adjustments which are in the opinion of the Manager, necessary for a fair presentation of the respective interim periods presented.

These condensed interim financial statements were approved by the Board of Directors on November 10, 2022.

(b) Functional and presentation currency:

These condensed interim financial statements are presented in Canadian dollars, which is the functional currency of the Company.

(c) Basis of measurement:

These condensed interim financial statements have been presented on a historical cost basis, except for investments in mortgages and mortgage syndication liabilities which are measured at fair value.

(d) Use of estimates and judgments:

In preparing these interim financial statements, management has made judgements and estimates that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

The significant judgements made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those described in the last annual financial statements.

The most significant estimates that the Manager is required to make relate to the fair value of the investments in mortgages.

3. Investments in mortgages:

(a) Mortgages:

Property type	Number	September 30, 2022
Residential	2	$ 10,647,604
Accrued interest and fees receivable		72,167
Fair value adjustments on investments in mortgages		(340,500)
		$ 10,379,271

Property type	Number	December 31, 2021
Residential	2	$ 10,238,936
Accrued interest and fees receivable		60,052
Fair value adjustments on investments in mortgages		(340,500)
		$ 9,958,488

3. Investments in mortgages (continued):

(a) Mortgages (continued):

Location	Number	September 30, 2022
Alberta	1	$ 8,307,702
Ontario	1	2,339,902
	2	$ 10,647,604

Location	Number	December 31, 2021
Alberta	1	$ 7,833,620
Ontario	1	2,405,316
	2	$ 10,238,936

The mortgages are secured by the real property to which they relate, bear interest at a weighted average interest rate of 7.52% (December 31, 2021 – 6.81%) and mature between 2022 and 2024.

The mortgage agreements stipulate a minimum interest rate and a variable interest rate based on the Prime Rate for Canadian Dollar Loans established by HSBC ("Prime Rate"). Current discount and premium to the Prime Rate ranges from 1.68 % to 2.48% (December 31, 2021 - plus 1.82% to plus 5.14%), with the current minimum rates ranging from 4.27% to 8.43% (December 31, 2021 - 4.27% to 7.59%).

3. Investments in mortgages (continued):

(a) Mortgages (continued):

Principal repayments based on contractual maturity dates are as follows:

	Number	September 30, 2022
Past due	-	$ -
2022	1	8,307,702
2024	1	2,339,902
	2	$ 10,647,604

As part of the assessment of fair value, the Manager routinely reviews each mortgage for changes in credit risk to determine whether or not the fair value of a mortgage should be adjusted for the change in credit risk.

(b) Default or past due mortgages:

A mortgage is considered in default when a payment has not been received by the contractual due date, or a term in the mortgage agreement has been breached. Mortgages that are in default are not subject to a fair value adjustment if they are fully secured and collection efforts are reasonably expected to result in repayment of principal plus all associated costs and accrued interest.

As a result of the Fifth Renewal on November 21, 2020 and consideration of market and borrower-specific factors, management has reassessed the market discount rate applied to the cash flows expected from the borrower, the obligations to the loan-sharing partner and reasonability of being repaid on maturity. The total fair value provision at September 30, 2022 is $340,500 (2021 - $665,500).

4. Class A shares:

At September 30, 2022 and December 31, 2021, there were an unlimited number of Class A common shares and an unlimited number of Class B common shares authorized. As at September 30, 2022, there were 7,318,067 Class A shares outstanding (December 31, 2021 – 7,318,067).

The holders of the Class A shares are entitled to receive dividends as and when declared by the Board of Directors of the Company.

Dividends:

As of September 30, 2022, the Company did not declare a special distribution. The Company declared a special dividend of $0.478 per Class A share of the Company totaling, $3,498,036 on March 29, 2021. Regular monthly distributions were discontinued in December 2017. Distributions have constituted returns of capital since the distribution of August 15, 2016.

5. Related party transactions and balances:

All related party transactions are measured at the amount of consideration established and agreed to by the related parties. The Company paid $64,152 as of September 30, 2022 to the members of the Board of Directors and management for their services to the Company, these expenses are included in general and administrative expenses.

6. Earnings per share:

(a) Basic:

Basic per share is calculated by dividing net income attributable to common shares by the weighted average number of common shares.

(b) Diluted:

Diluted earnings per share is calculated by dividing net income attributable to common shares by the total of weighted average number of common shares and options exercisable as if it has occurred at the beginning of the year. The number of options exercisable as of September 30, 2022 is 390,297 (2021 – 195,150).

Three months ended September 30, 2022

Total income and comprehensive income for the period	$ 101,295
Earnings attributable to common shares	$ 101,195
Weighted average number of common shares (basic)	7,318,067
Earnings per share (basic and diluted)	$ 0.01
Weighted average number of common shares (diluted)	7,708,364
Earnings per share (diluted)	$ 0.01

Three months ended September 30, 2021

Total income and comprehensive income for the period	$ 64,060
Earnings attributable to common shares	$ 64,060
Weighted average number of common shares (basic and diluted)	7,318,067
Earnings per share (basic and diluted)	$ 0.01

Nine months ended September 30, 2022

Total income and comprehensive income for the period	$ 187,458
Earnings attributable to common shares	$ 187,458
Weighted average number of common shares (basic)	7,318,067
Earnings per share (basic)	$ 0.03
Weighted average number of common shares (diluted)	7,708,364
Earnings per share (diluted)	$ 0.02

Nine months ended September 30, 2021

Total income and comprehensive income for the period	$ 157,011
Earnings attributable to common shares	$ 157,011
Weighted average number of common shares (basic and diluted)	7,318,067
Earnings per share (basic and diluted)	$ 0.02

7. Stock options

The Company maintains a Stock Option Plan (the "Plan") for the benefit of employees, officers and directors. Unless otherwise determined by the Board, all Options granted to any individual Optionee shall vest, in three (3) equal installments over a period of 24 months, with the first installment vesting immediately and the remaining Options vesting in equal installments at 12 months and 24 months after the date of grant. The maximum number of common shares reserved for issuance under the Plan, together with any other employee stock option plans, options for services and employee share purchase plans, will not exceed 10% of the issued and outstanding Shares at the time of the Option grant (on a non-diluted basis). Options granted pursuant to the Plan are granted at an option price which will not be less than the fair market price at the time the options are granted. The exercise price pursuant to the Plan can be adjusted downwards in the event of a special dividend cash distribution. Any such reduction in the exercise price shall be subject to regulatory approval and the exercise price shall not be less than $0.01 per share.

The following summarizes the stock option activities under the Plan:

	Three Months Ended			
	September 30, 2022		September 30, 2021	
	Number of Options	**Weighted Average Exercise Price**	Number of Options	Weighted Average Exercise Price
Beginning Balance	**585,443**	**$ 1.08**	-	-
Granted	**-**	**-**	219,540	$ 1.97
Exercised	**-**	**-**	-	-
Cancelled/Expired	**-**	**-**	-	-
Forfeited	**-**	**-**	-	-
Ending Balance	**585,443**	**$ 1.08**	219,540	1.97
Exercisable	**-**	**-**	-	-

	Nine Months Ended			
	September 30, 2022		September 30, 2021	
	Number of Options	**Weighted Average Exercise Price**	Number of Options	Weighted Average Exercise Price
Beginning Balance	**585,443**	**$ 1.08**	-	-
Granted	**-**	**-**	585,443	$ 1.75
Exercised	**-**	**-**	-	-
Cancelled/Expired	**-**	**-**	-	-
Forfeited	**-**	**-**	-	-
Ending Balance	**585,443**	**1.08**	585,443	1.75
Exercisable	**390,297**	**$ 1.08**	195,150	$ 1.75

As at September 30, 2022, the outstanding options to acquire common shares of the Company were as follows:

Grant date	Number of Options	Range of Exercise Prices	Weighted average time to maturity
January 13, 2021	365,903	$ 0.95	5.3 years
May 19, 2021	219,540	$ 1.31	5.6 years

On January 13, 2021, the Company issued 365,903 stock options to an executive. Each option entitles the holder thereof to acquire one common share for a period of seven years at an exercise price of $2.09 per common share. Of the 365,903 options, 121,968 vested immediately, and 121,968 will vest one year after the date of grant, and the remaining 121,967 will vest two years after the date of grant provided that the executive is still providing services to the Company at that time. The fair value of these options was calculated using the Black-Scholes option pricing model. Under the assumptions of: (a) risk free interest rate of 0.53%, (b) expected volatility of 23%, (c) expected life of 7.00 years, and (d) dividend yield of 0.0%, the fair value attributed to each option was $0.52. The exercise price was reduced to $0.95 per common share. The reduction reflects the value of the special dividend distribution of $0.478 per share and $0.66 per share.

On May 19, 2021, the Company issued 219,540 stock options to board members. Each option entitles the holder thereof to acquire one common share for a period of 7 years at an exercise price of $1.97 per common share. Of the 219,540 options, 73,182 vested immediately, and 73,179 will vest one year after the date of grant, and the remaining 73,179 will vest two years after the date of grant provided that the executive is still providing services to the Company at that time. The fair value of these options was calculated using the Black-Scholes option pricing model. Under the assumptions of: (a) risk free interest rate of 1.24%, (b) expected volatility of 24.75%, (c) expected life of 7.00 years, and (d) dividend yield of 0.0%, the fair value attributed to each option was $0.57. The exercise price was reduced to $1.31 per common share. The reduction reflects the value of the special dividend distribution of $0.66 per share.

The Company expensed $62,965 as of September 30, 2022 (2021 – 196,442) in share-based compensation as a result of the fair value assumptions and calculations described above.

8. Fair value of financial instruments and risk management:

Fair value of financial instruments:

The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced liquidation or sale. The Company's investments in mortgages and mortgage syndication liabilities are carried at fair value in the financial statements.

The following table shows a hierarchy for disclosing fair value based on inputs used to value the Company's investments. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurements).

The three levels of the fair value hierarchy are as follows:

— Quoted prices (unadjusted) in active markets for identical assets and liabilities (Level 1);

— Inputs other than quoted prices in active markets included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices) (Level 2); and

— Inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

8. Fair value of financial instruments and risk management (continued):

The Company's assets recorded at fair value have been categorized as follows:

September 30, 2022	Level 1	Level 2	Level 3	Total
Investments in mortgages	$ -	$ -	$ 10,379,271	$ 10,379,271

December 31, 2021	Level 1	Level 2	Level 3	Total
Investments in mortgages	$ -	$ -	$ 9,958,488	$ 9,958,488

There were no transfers between Level 1 and Level 2 during the period.

A reconciliation of Level 3 assets at September 30, 2022 is as follows:

Investments in mortgages, December 31, 2021	$ 9,958,488
Interest capitalized to investments in mortgages and change in accrued interest and fees receivable	486,196
Principal repayments or sold investments in mortgages	(65,414)
Investments in mortgages, September 30, 2022	$ 10,379,271

A reconciliation of Level 3 assets at December 31, 2021 is as follows:

Investment in mortgages, December 31, 2020	$ 12,755,999
Interest capitalized to investment in mortgages and change in accrued interest and fees receivable	854,751
Principal repayments on investment in mortgages	(3,977,262)
Unrealized increase (decrease) in fair value	325,000
Investments in mortgages, December 31, 2021	$ 9,958,488

8. Fair value of financial instruments and risk management (continued):

The key valuation techniques used in measuring the fair values of investments in mortgages include:

Valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurement
Discounted cash flow model	The adjusted credit risk premium based on the change in the borrower's credit risk utilizing the knowledge gained since the loan was originated.	The estimate of fair value would increase (decrease) if: - The adjusted risk premium rate was lower (higher)
	Assessment of fair value of collateral of loans in default where payments expected from sale of property.	- Estimated fair value of collateral was higher (lower)
	The projected length of time the mortgage will remain in default without the underlying property being liquidated or foreclosed upon.	- The term of the mortgage was shortened (or extended)