Condensed Interim Financial Statements

TREZ CAPITAL SENIOR MORTGAGE INVESTMENT CORPORATION

For the three and nine months ended September 30, 2018 and 2017
(Unaudited)

The accompanying unaudited condensed interim financial statements of the Company as at September 30, 2018 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, 2018 Financial Statements.

TREZ CAPITAL SENIOR MORTGAGE INVESTMENT CORPORATION

Condensed Interim Statements of Financial Position
(Unaudited)

	Notes	September 30, 2018	December 31, 2017
Assets			
Investments in mortgages	4	$ 13,485,089	$ 19,670,075
Cash		10,654,612	4,052,701
Amounts receivable		9,616	9,616
Total assets		$ 24,149,317	$ 23,732,392
Liabilities and Shareholders' Equity			
Accounts payable and accrued liabilities		53,130	58,811
Management fees payable	6, 8	17,940	18,013
Incentive fee provision	7	1,074,776	1,028,623
Total liabilities		1,145,846	1,105,447
Shareholders' equity		23,003,471	22,626,945
Total liabilities and shareholders' equity		$ 24,149,317	$ 23,732,392

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

TREZ CAPITAL SENIOR MORTGAGE INVESTMENT CORPORATION

Condensed Interim Statements of Income and Comprehensive Income
(Unaudited)

		For the three months ended September 30,		For the nine months ended September 30,	
	Notes	2018	2017	2018	2017
Revenue:					
Interest and fee income		$310,903	$437,109	$918,034	$1,549,272
Interest expense on mortgage syndications		-	-	-	(29,329)
		310,903	437,109	918,034	1,519,943
Expenses:					
Management fees	6	53,663	68,941	160,470	264,200
Incentive fees	7	-	344,201	46,144	370,772
Fair value adjustments on investments in mortgages		-	-	-	-
General and administrative expenses		78,625	151,536	334,894	361,880
		132,288	564,678	541,508	996,852
Income from operations		178,615	(127,569)	376,526	523,091
Net income (loss) and comprehensive income (loss) for the period		$178,615	$(127,569)	$376,526	$532,091
Earnings (loss) per share:					
Basic and diluted	9	$0.02	$(0.02)	$0.05	$0.07

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

TREZ CAPITAL SENIOR MORTGAGE INVESTMENT CORPORATION
Condensed Interim Statements of Changes in Shareholders' Equity
(Unaudited)

Nine months ended September 30, 2018:

	Notes	Common shares	Deficit	Total
Shareholders' equity, at December 31, 2017		$ 70,195,908	$(47,568,963)	$ 22,626,945
Net income and comprehensive income for the period		-	376,526	376,526
Dividends to shareholder	5	-	-	-
Share repurchases	5	-	-	-
Shareholders' equity, at September 30, 2018		$ 70,195,908	$(47,192,437)	$ 23,003,471

Nine months ended September 30, 2017:

	Notes	Common shares	Deficit	Total
Shareholders' equity, at December 31, 2016		$ 70,895,983	$(19,074,245)	$ 51,821,738
Net income and comprehensive income for the period		-	523,091	523,091
Dividends to shareholder	5	-	(28,036,393)	(28,036,393)
Share repurchases	5	(546,434)	-	(546,434)
Shareholders' equity, at September 30, 2017		$ 70,349,549	$(46,587,547)	$ 23,762,002

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

TREZ CAPITAL SENIOR MORTGAGE INVESTMENT CORPORATION

Condensed Interim Statements of Cash Flows
(Unaudited)

	For the three months ended September 30, 2018	2017	For the nine months ended September 30, 2018	2017
Cash provided by (used in):				
Operations:				
Net income (loss) and comprehensive income	$178,615	$(127,569)	$376,526	$523,091
Non-cash adjustments				
Interest income	(310,903)	(429,853)	(918,034)	(1,512,687)
Incentive fee	-	312,357	46,144	261,037
Interest received	64,116	165,835	239,850	725,835
Changes in non-cash operating items:				
Amounts receivable	-	39,196	-	39,196
Management fees payable	17,929	(8,263)	(73)	(20,736)
Accounts payable and accrued liabilities	(1,630)	2,463	(5,683)	(35,423)
Cash flows from operating activities before undernoted	(51,873)	(45,834)	(261,270)	(19,687)
Funding of investment in mortgages	-	(1,721,007)	(230,766)	(1,853,859)
Principal repayments or sold investment in mortgages	18,510	7,257,477	7,093,947	19,816,181
	(33,363)	5,490,636	6,601,911	17,942,635
Financing:				
Dividends to holders of Class A shares	-	(10,959,691)	-	(28,042,375)
Repurchase of shares	-	(295,570)	-	(546,434)
	-	(11,255,261)	-	(28,588,809)
Increase (decrease) in cash during the period	(33,363)	(5,764,625)	6,601,911	(10,646,174)
Cash and cash equivalents, beginning of period	$10,687,975	$8,939,943	$4,052,701	$13,821,492
Cash and cash equivalents, end of period	$10,654,612	$3,175,318	$10,654,612	$3,175,318

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

1. Operations:

Trez Capital Senior Mortgage Investment Corporation (the "Company") is a non-bank lender providing residential and commercial short-term bridge and conventional real estate financing, including construction and mezzanine mortgages. Trez Capital Senior Mortgage Investment Corporation was incorporated on October 18, 2012 under the Canada Business Corporations Act. The Company is managed by Trez Capital Fund Management Limited Partnership (the "Manager"). The Mortgage Broker for the Company is Trez Capital Limited Partnership.

The shares of the Company are publicly listed on the Toronto Stock Exchange under the symbol TZS. The Company is a Canadian mortgage investment corporation and the registered office of the Company is 1700-745 Thurlow Street, Vancouver, B.C., V6E 0C5.

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. Management has estimated the value of its mortgage portfolio based on its best judgement as to the eventual cash flows that it expects to receive in the normal course of business. Eventual cash flows could vary by a material amount as outlined in Note 4. The Orderly Wind-Up Plan was implemented in 2016 and capital is being returned to shareholders under the supervision of the Board of Directors with the assistance of the Manager. In addition, the 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. The fees to the Manager have been restructured as outlined in note 6 & 7.

The Company continues to be a Mortgage Investment Corporation pursuant to the Income Tax Act (Canada). As such, the Company is entitled to deduct from its taxable income, dividends paid to shareholders during the year or within 90 days of the end of the year to the extent the dividends were not deducted previously.

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, 2017 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 8, 2018.

(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, except for new judgements and estimation uncertainty related to the application of IFRS 9, which is described in Note 3.

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

3. Changes in significant accounting policies:

Except as described below, the accounting policies applied in these interim financial statements are the same as those applied in the Company's audited financial statements as at and for the year ended December 31, 2017.

The changes in accounting policies are also expected to be reflected in the Company's financial statements for the year ended December 31, 2018.

The Company has adopted IFRS 9 *Financial Instruments* from January 1, 2018. A number of other new standards are effective from January 1, 2018 but they do not have a material effect on the Company's financial statements.

3. Changes in significant accounting policies (continued):

(a) IFRS 9 Financial Instruments:

IFRS 9 sets out requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 *Financial Instruments: Recognition and Measurement.*

There was no impact of transition to IFRS 9 on the opening fair value of loss provisions and retained earnings of the Company.

(i) Classification and measurement of financial assets and liabilities

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities. However, it eliminates the previous IAS 39 categories for financial assets of held to maturity, loans and receivables, and available for sale.

The adoption of IFRS 9 has not had a significant effect on the Company's accounting policies related to financial liabilities. The impact of IFRS 9 on the classification and measurement of financial assets is set out below.

Under IFRS 9, on initial recognition, a financial asset is classified as measured at: amortized cost; fair value through other comprehensive income (FVOCI)-debt investment; FVOCI-equity investment; or fair value through profit or loss (FVPTL). The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics.

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL.

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Though investments in mortgages meet the above requirements, the Company has designated these as FVTPL. The implementation of the new measurement categories has had no significant effect on the value of the instruments. The following table summarizes the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Company's financial assets as at January 1, 2018.

3. Changes in significant accounting policies (continued):

Classification	Old (IAS 39)	New (IFRS 9)
Financial assets:		
Investments in mortgages	FVTPL	FVTPL
Cash	Loans and receivables	Amortized cost
Accounts receivable	Loans and receivables	Amortized cost

ii) Impairment of financial assets

IFRS 9 replaces the ‘incurred loss’ model in IAS 39 with an “Expected Credit Loss” (ECL) model. The new impairment model applies to financial assets measured at amortized cost, contract assets and debt investments at FVOCI. Under IFRS 9, credit losses are recognized earlier than under IFRS 39.

The Company’s financial assets at amortized cost consist of accounts receivable and cash. Investments in mortgages are classified as FVTPL. 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; therefore IFRS 9 does not impact investments in mortgages as they are already assessed as at fair value.

Under IFRS 9, loss allowances are measured on either of the following bases:

- 12 month ECLs: these are ECLs that result from possible default events within the 12 months after the reporting date
- Lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

The Company has elected to measure loss allowances for accounts receivable at an amount equal to lifetime ECLs. When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information analysis, based on the Company’s historical experience and informed assessment of forward looking information.

There was no impact on the assets of the Company measured at amortized cost and no impairments were recorded.

4. Investments in mortgages:

(a) Mortgages:

Property type	Number	September 30, 2018
Residential	2	$ 15,036,979
Accrued interest and fees receivable		98,110
Fair value adjustments on investments in mortgages		(1,650,000)
		$ 13,485,089

Property type	Number	December 31, 2017
Residential	4	$ 21,203,044
Accrued interest and fees receivable		117,031
Fair value adjustments on investments in mortgages		(1,650,000)
		$ 19,670,075

4. Investments in mortgages (continued):

(a) Mortgages (continued):

Location	Number	September 30, 2018
Alberta	1	$ 12,371,698
Ontario	1	2,665,281
	2	$ 15,036,979

Location	Number	December 31, 2017
Alberta	2	$ 17,374,473
Ontario	1	2,720,214
Nova Scotia	1	1,108,357
	4	$ 21,203,044

The mortgages are secured by the real property to which they relate, bear interest at a weighted average interest rate of 7.83% (December 31, 2017 – 6.59%) and mature between 2020 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 premium to the Prime Rate ranges from 0.57% to 4.90% (December 31, 2017 - plus 1.07% to plus 4.21%), with the current minimum rates ranging from 4.27% to 8.60% (December 31, 2017 - 4.27% to 7.41%).

4. Investments in mortgages (continued):

(a) Mortgages (continued):

Principal repayments based on contractual maturity dates are as follows:

	Number	September 30, 2018
Past due	-	$ -
2020	1	12,371,698
2024	1	2,665,281
	2	$ 15,036,979

Both mortgages are conventional uninsured mortgages which contain a prepayment option, whereby the borrower may repay the principal at any time prior to maturity without penalty or yield maintenance subject to minimum interest provisions.

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.

As at September 30, 2018, the Manager does not believe a significant change in credit risk occurred on any mortgage investments.

(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.

There were no mortgages in default or past due as at September 30, 2018 (December 31, 2017 - none).

(c) Resolved default mortgages:

Since January 1, 2016 the following default mortgage has been resolved but remains challenged:

4. Investments in mortgages (continued):

(c) Resolved default mortgages (continued):

(*i*) In the first quarter of 2018, the borrower for a loan that was previously in default requested a new 3 year loan agreement with pay down of $1,000,000. Management approached the loan-sharing partner which still holds the senior portion of the loan and requested their input regarding a potential renewal. A new term for 31 months was agreed to between the parties, with the borrower also agreeing to pay on a go forward basis the portion of the principal that was being paid by the Company. The borrower also agreed to make the requested $1,000,000 pay down on June 1, 2018, which was received, and additional payments of $500,000 every six months thereafter until December 1, 2020 when payment in full is due.

At the time of renewal due to continued risk and the challenged nature of the loan, the Manager reassessed the cash flows expected from the borrower and the obligations to the loan-sharing partner and recognized a further fair value provision of $700,000 adding to the existing $950,000 provision recorded in prior years. The Manager applied a discount rate of 15% to the expected cash flows based on the revised payment terms of the new loan agreement.

At September 30, 2018, as a result of the renewal of the loan and agreed to pay down schedule, which has been adhered to, the Manager considers this loan to be currently performing and did not record any further fair value loss provisions against the loan. The total fair value provision at September 30, 2018 is $1,650,000.

5. Class A shares:

As at September 30, 2018 and December 31, 2017, there were an unlimited number of Class A common shares and an unlimited number of Class B common shares authorized. As at September 30, 2018, there were 7,318,067 Class A shares outstanding (December 31, 2017 – 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.

(a) Dividends:

The Company made no dividend payments for the nine months to September 30, 2018 (September 30, 2017 - $28,042,375). Regular monthly distributions were discontinued in December 2017. The monthly distributions have constituted returns of capital since the distribution of August 15, 2016.

On January 12, 2017, May 10, 2017 and July 20, 2017, the Company announced special distributions constituting a return of capital of $1.33, $0.66 and $1.34 per Class A Share outstanding at February 6, 2017, May 19, 2017 and August 15, 2017, respectively. Amounts of $9,963,344, $4,940,487 and $9,965,670 were paid on February 21, 2017, May 29, 2017 and August 28, 2017, respectively. There have been no special distributions made in 2018.

Effective August 30, 2016, the Company's shareholder distribution reinvestment plan (the "DRIP") was terminated. As a result the DRIP was not available in connection with monthly distributions beginning with the distribution paid on September 15, 2016, or any subsequent monthly distributions. Shareholders, including those who had previously participated in the

5. Class A shares (continued):

DRIP, continue to be entitled to monthly cash distributions as and when declared by the Board of Directors of the Company.

(b) Normal Course Issuer Bid:

The previous NCIB announced on May 9, 2016, which was subsequently approved by the Toronto Stock Exchange (“TSX”) on May 18, 2016, expired on May 18, 2017 and 92,401 shares were purchased in the period.

On May 9, 2017, the Company submitted the application for an NCIB, which was approved by the Toronto Stock Exchange (“TSX”) on May 17, 2017. Under this NCIB the Company intends to consider purchasing, from time to time over a period of 12 months commencing May 19, 2017 up to an aggregate maximum of 746,066 Class A shares, representing approximately 10% of its issued and outstanding Class A shares. All purchases are being made through the facilities of the TSX at market prices and in accordance with the rules of the TSX.

For the nine months ended September 30, 2018, the Company purchased no Class A shares (year ended December 31, 2017, 173,659 Class A shares at an aggregate cost of $700,075) on the TSX. Of the 173,659 Class A shares repurchased in the year ended December 31, 2017, 167,520 relate to the NCIB commenced on May 19, 2017.

6. Management fees:

The Manager is responsible for the day-to-day operations, including administration of the Company's mortgage portfolio. Pursuant to the Management Agreement dated November 21, 2012 (amended November 30, 2013 and May 6, 2016), the Manager is entitled to a fee of 0.85% per annum of the gross assets of the Company (the “Management Fee”), plus applicable taxes, calculated daily and paid monthly in arrears.

7. Incentive fees:

The Manager has agreed to assist in the Orderly Wind-Up Plan and to certain amendments to the Company’s management agreement to facilitate the Orderly Wind-Up Plan. Pursuant to those amendments, the Manager is currently providing full asset management services necessary to support the Orderly Wind-Up Plan. The Manager has also waived its rights, if any, to early termination fees, in exchange for an incentive fee calculated as the greater of the following:

(a) 20% of the amount by which the sum of:

(*i*) The aggregate realized proceeds; and

(*ii*) The Company’s unrestricted cash as at April 30, 2016 exceeds $65,549,596; and

(b) $300,000.

Aggregate realized proceeds are defined as the amount of proceeds on the sale, repayment or maturity of mortgages or any other transaction resulting in the monetization of the mortgages under the Orderly Wind-Up Plan.

7. Incentive fees (continued):

Unrestricted cash is defined as the amount of Company's cash derived from the proceeds on the sale, repayment on maturity of mortgages or any other transaction resulting in the monetization of the mortgages on or prior to April 30, 2016.

At September 30, 2018, the estimated total amount of the incentive fee is $1,305,456 (December 31, 2017 - $1,259,303) of which $230,680 (December 31, 2017 - $230,680) has been paid to date, with the future incentive fee obligation totaling $1,074,776 (December 31, 2017 - $1,028,623). The provision has been calculated using the projected realized proceeds at the current fair value of investments in mortgages at September 30, 2018. The amount of the provision is subject to change with any changes to realized proceeds as a result of timing or fair value adjustments of the mortgage portfolio. The provision is assessed each quarter and adjusted accordingly.

The current realized portion of the obligation payable to the Manager at September 30, 2018 is $37,927 (December 31, 2017 - $8,649). This amount is a percentage of the lower threshold level, determined by adding the sum of total realized proceeds received to the period end, plus the unrestricted cash as at April 30, 2016, divided by the upper threshold. At September 30, 2018, realized proceeds totaled $55,765,151 (December 31, 2017 - $49,368,320).

Incentive fee provision at December 31, 2017	$	1,028,622
Increase in incentive fee provision		46,144
Incentive fees realized & paid		-
Incentive fee provision at September 30, 2018	$	1,074,776

8. Related party transactions and balances:

The following are related party transactions not disclosed elsewhere in the financial statements:

(a) The Company is managed by the Manager, a related party by virtue of common management. Pursuant to the Management Agreement referred to in note 6, during the nine months ended September 30, 2018, the Company incurred management fees of $160,470 (2017 - $264,200). At September 30, 2017, $17,940 (December 31, 2017 - $18,013) of these fees were outstanding.

Pursuant to the Orderly Wind-Up Plan referred to in note 7, the Company currently has an estimated incentive fee obligation to the Manager in the amount of $1,074,776 (December 31, 2017 - $1,028,623). The current realized portion of the incentive fee obligation paid and payable to the Manager as at September 30, 2018 is $268,607 (December 31, 2017 - $239,329).

(b) As at September 30, 2018, the Company has co-invested in one (December 31, 2017 – three) mortgage investments with other funds managed by the Manager. The total amount of the co-invested mortgage is $31,422,034 (December 31, 2017 - $51,670,573), of which the Company's share is $12,371,698 (December 31, 2017 - $18,482,831). During the nine months ended September 30 2018, the Company sold investments in mortgages of Nil (September 30, 2017 - $8,356,412) to entities under common management.

8. Related party transactions and balances (continued):

All related party transactions are measured at the amount of consideration established and agreed to by the related parties. The Company invests in mortgages on a participation basis with parties related to the Manager. Title to mortgages is held by Computershare Canada, (the "Custodian"), on behalf of the beneficial owners of the mortgages. In addition, certain Mortgage Broker duties are performed by the Mortgage Broker. The Manager and the Mortgage Broker are related to the Company through common management.

9. Earnings per share:

(a) Basic and diluted earnings per share:

Basic and diluted earnings per share are calculated by dividing net income attributable to common shares by the weighted average number of common shares during the three month periods ended September 30, 2018 and 2017:

Three months ended September 30, 2018

Total income and comprehensive income for the period	$	178,615
Earnings attributable to common shares	$	178,615
Weighted average number of common shares (basic and diluted)		7,318,067
Earnings per share (basic and diluted)	$	0.02

Three months ended September 30, 2017

Total income and comprehensive income for the period	$	(127,569)
Earnings attributable to common shares	$	(127,569)
Weighted average number of common shares (basic and diluted)		7,399,683
Earnings per share (basic and diluted)	$	(0.02)

Nine months ended September 30, 2018

Total income and comprehensive income for the period	$	376,526
Earnings attributable to common shares	$	376,526
Weighted average number of common shares (basic and diluted)		7,318,067
Earnings per share (basic and diluted)	$	0.05

9. Earnings per share (continued):

(a) Basic and diluted earnings per share (continued):

Nine months ended September 30, 2017

Total income and comprehensive income for the period	$	532,091
Earnings attributable to common shares	$	532,091
Weighted average number of common shares (basic and diluted)		7,441,356
Earnings per share (basic and diluted)	$	0.07

10. 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).

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

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

September 30, 2018	Level 1	Level 2	Level 3	Total
Investments in mortgages	$ -	$ -	$ 13,485,089	$ 13,485,089

December 31, 2017	Level 1	Level 2	Level 3	Total
Investments in mortgages	$ -	$ -	$ 19,670,075	$ 19,670,075

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

A reconciliation of Level 3 assets at September 30, 2018 is as follows:

Investments in mortgages, December 31, 2017	$ 19,670,075
Funding of investments in mortgages	230,766
Interest capitalized to investments in mortgages	697,116
Change in accrued interest and fees receivable	(18,920)
Principal repayments or sold investments in mortgages	(7,093,948)
Change in mortgage syndication liabilities	-
Fair value adjustment on investments in mortgages	-
Investments in mortgages, September 30, 2018	$ 13,845,089

A reconciliation of Level 3 assets at December 31, 2017 is as follows:

Investment in mortgages, December 31, 2016	$ 41,378,272
Funding of investment in mortgages	1,998,637
Interest capitalized to investment in mortgages	1,098,637
Change in accrued interest and fees receivable	(128,603)
Principal repayments on investment in mortgages	(22,014,843)
Change in mortgage syndications	(1,962,216)
Fair value adjustment on investments in mortgages	(700,000)
Investment in mortgages, December 31, 2017	$ 19,670,075

10. 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 (lower) higher
	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)