Financial Statements of

TREZ CAPITAL SENIOR MORTGAGE INVESTMENT CORPORATION

Years ended December 31, 2018 and 2017

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Trez Capital Senior Mortgage Investment Corporation

We have audited the financial statements of Trez Capital Senior Mortgage Investment Corporation (the Entity), which comprise:

- the statements of financial position as at December 31, 2018 and December 31, 2017
- the statements of income and comprehensive income for the years then ended
- the statements of changes in shareholders' equity for the years then ended
- the statements of cash flows for the years then ended
- and notes to the financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at December 31, 2018 and December 31, 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "***Auditors' Responsibilities for the Audit of the Financial Statements***" section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter

Without qualifying our opinion, we draw attention to note 1 to the financial statements. A plan to wind up the Entity was approved by shareholders on June 16, 2016. Subsequent to that date, the Company has pursued the process of monetizing its portfolio of mortgage investments in an orderly manner and distributing the net proceeds to its shareholders.

Other Information

Management is responsible for the other information. Other information comprises:

- the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards (IFRS), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion;

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control;

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern;

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation;

- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit;

- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

KPMG LLP

Chartered Professional Accountants

The engagement partner on the audit resulting in this auditors' report is Lorne Burns

Vancouver, Canada
March 29, 2019

TREZ CAPITAL SENIOR MORTGAGE INVESTMENT CORPORATION
Statements of Financial Position

December 31, 2018 and 2017

	Notes	2018	2017
Assets			
Investments in mortgages	4	$ 13,703,314	$ 19,670,075
Cash and cash equivalents		10,674,599	4,052,701
Amounts receivable		-	9,616
Total assets		$ 24,377,913	$ 23,732,392
Liabilities and Shareholders' Equity			
Accounts payable and accrued liabilities		$ 20,000	$ 58,811
Management fees payable	6, 8	36,180	18,013
Incentive fee provision	7	1,071,943	1,028,623
Total liabilities		1,128,123	1,105,447
Shareholders' equity		23,249,790	22,626,945
Total liabilities and shareholders' equity		$ 24,377,913	$ 23,732,392

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

Approved on behalf of the Board:

"Alexander Manson" Director
(Signed) Alexander Manson

"Gregory Vorwaller" Director
(Signed) Gregory Vorwaller

TREZ CAPITAL SENIOR MORTGAGE INVESTMENT CORPORATION
Statements of Income and Comprehensive Income

Years ended December 31, 2018 and 2017

	Notes	2018	2017
Revenue:			
Interest and fee income		$ 1,228,391	$ 1,929,292
Interest expense on non-recourse mortgage syndications		-	(29,329)
		1,228,391	1,899,963
Expenses:			
Management fees	6, 8	214,643	319,524
Incentive fees	7	43,320	259,727
General and administrative		366,737	367,180
		624,700	946,431
Income from operations before undernoted		603,691	953,532
Fair value loss adjustment on investments in mortgages	4	-	(700,000)
Net income and comprehensive income		$ 603,691	$ 253,532
Earnings per share:			
Basic and diluted	9	$ 0.08	$ 0.03

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

TREZ CAPITAL SENIOR MORTGAGE INVESTMENT CORPORATION

Statements of Changes in Shareholders' Equity

Year ended December 31, 2018:

	Notes	Common shares	Surplus (deficit)	Total
Shareholders' equity at December 31, 2017		$ 70,195,908	$ (47,568,963)	$ 22,626,945
Net income and comprehensive income for the year		-	603,691	603,691
Return of dividends previously declared	5	-	19,154	19,154
Shareholders' equity at December 31, 2018		$ 70,195,908	$ (46,946,118)	$ 23,249,790

Year ended December 31, 2017:

	Notes	Common shares	Surplus (deficit)	Total
Shareholders' equity at December 31, 2016		$ 70,895,983	$ (19,074,245)	$ 51,821,738
Net income and comprehensive income for the year		-	253,532	253,532
Dividends and special distribution to shareholders	5	-	(28,748,250)	(28,748,250)
Share repurchases	5	(700,075)	-	(700,075)
Shareholders' equity at December 31, 2017		$ 70,195,908	$ (47,568,963)	$ 22,626,945

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

TREZ CAPITAL SENIOR MORTGAGE INVESTMENT CORPORATION

Statements of Cash Flows

Years ended December 31, 2018 and 2017

	2018	2017
Cash provided by (used in):		
Operations:		
Net income and comprehensive income	$ 603,691	$ 253,532
Non-cash items:		
Interest income	(1,228,391)	(1,892,706)
Interest expense	-	-
Fair value adjustment on investments in mortgages	-	700,000
Incentive fee	43,320	259,727
Incentive fee paid	-	(109,735)
Interest received	299,091	883,283
	(282,289)	94,101
Changes in non-cash operating items:		
Fees receivable	-	39,196
Management fees payable	18,167	(21,766)
Amounts receivable	9,616	(9,616)
Accounts payable and accrued liabilities	(38,812)	(75,263)
	(293,318)	26,652
Financing:		
Repurchase of shares	-	(700,075)
Dividends and special distribution to holders of Class A shares	-	(29,111,574)
Return of dividends previously declared (note 5)	19,154	-
	19,154	(29,811,649)
Investing:		
Funding of investments in mortgages	(216,599)	(1,998,637)
Principal repayments or sold investment in mortgages	7,112,661	22,014,843
	6,896,062	20,016,206
Increase (decrease) in cash and cash equivalents	6,621,898	(9,768,791)
Cash and cash equivalents, beginning of year	4,052,701	13,821,492
Cash and cash equivalents, end of year	$ 10,674,599	$ 4,052,701

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

1. Operations:

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 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, BC, 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 notes 6 and 7.

2. Basis of presentation:

(a) Statement of compliance:

The financial statements of the Company have been prepared by the Manager in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

These financial statements were approved by the Board of Directors on March 29, 2019.

(b) Functional and presentation currency:

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

2. Basis of presentation (continued):

(c) Use of estimates and judgments:

The preparation of financial statements requires the Manager to make judgments, estimates and assumptions 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 most significant estimates that the Manager is required to make relate to the fair value of the investments in mortgages.

The estimate of fair value of the investments in mortgages may include assumptions regarding local real estate market conditions, interest rates and the availability of credit, cost and terms of financing, the impact of present or future legislation or regulation, prior encumbrances and other factors affecting the investments in mortgages and underlying security of the mortgages.

The incentive fee provision is an estimate based on the risk-adjusted proceeds expected to be received on monetization of the mortgages.

These assumptions are limited by the availability of reliable comparable data, economic uncertainty, ongoing geopolitical concerns and the uncertainty of predictions concerning future events. By their nature, estimates of fair value are subjective and do not necessarily result in precise determinations. Should the underlying assumptions change, the estimated fair value could vary by a material amount.

3. Significant accounting policies:

(a) Cash and cash equivalents:

The Company considers highly liquid investments with an original maturity of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, to be cash equivalents.

(b) Investments in mortgages:

Investments in mortgages are designated at fair value through profit and loss, with any changes in fair value reflected in the statement of income and comprehensive income. The fair value of investments in mortgages is calculated based on a discounted cash flow analysis of the future expected cash flows from the period end to the maturity of the investment.

The discount rate used to discount the future expected cash flows of each applicable investment is the aggregate rate given by taking an appropriate Bank of Canada Treasury bill rate at the period end and applying the inherent credit spread of each mortgage at the time of investing in the mortgage.

When the Manager considers the collection of principal on a particular mortgage investment to be no longer reasonably assured, the fair value of the mortgage is not greater than the estimated fair value of the collateral securing the mortgage loans.

The gains or losses on disposal or repayment transactions are recorded as realized gains or losses at the time of disposal or repayment, respectively.

3. Significant accounting policies (continued):

(c) Class A shares:

The Class A shares are not redeemable. The Company classifies financial instruments issued as either financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instrument. Accordingly, the non-redeemable Class A shares are classified as equity.

Dividends payable to holders of Class A shares are recognized in the statement of changes in shareholders' equity.

(d) Interest income:

Interest income is recognized in the statement of income and comprehensive income on an accrual basis.

(e) Income taxes:

The Company is a Mortgage Investment Corporation ("MIC") 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. The Company intends to maintain its status as a MIC and intends to distribute sufficient dividends in the year and in future years to ensure that the Company is not subject to income taxes. Accordingly, for financial statement reporting purposes, the tax deductibility of the Company's dividends results in the Company being effectively exempt from taxation and no provision for current or deferred income taxes is required.

As at December 31, 2018, the Company has non-capital losses carried forward for income tax purposes of $2,663,225 (2017 - $3,995,780), which will expire between 2033 and 2037.

(f) Financial Instruments:

(*i*) Change in Accounting Policy:

On January 1, 2018, the Company adopted *IFRS 9 Financial Instruments* (IFRS 9). The standard sets out requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy and sell non-financial items. It also replaces the current loan impairment "incurred loss" model with an "expected credit loss" (ECL) model. The IFRS 9 standard replaces the previous IAS 39 *Financial Instruments: Recognition and Measurement* ("IAS 39") standard.

The Company has elected to not restate the prior period comparative figures as permitted by the transition provisions of this standard. Accordingly, current period results for 2018 have been prepared in accordance with IFRS 9 and the comparative information for 2017 is presented under IAS 39 as previously published.

3. Significant accounting policies (continued):

(f) Financial instruments (continued):

(*ii*) Recognition and classification 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 (FVTPL). 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.

The most significant financial assets of the Company is investments in mortgages. Due to the Orderly Wind-Up, the business model of the Company is to liquidate and monetize these financial assets and return capital to the shareholders.

As such, the investments in mortgages are classified 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

The Company has classified its financial instruments as follows:

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
Financial liabilities:		
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost
Management fees payable	Other financial liabilities	Amortized cost

3. Significant accounting policies (continued):

(f) Financial instruments (continued):

(*iii*) Impairment:

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 cash.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Company would consider 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 financial assets of the Company measured at amortized cost.

(*iv*) Policies under both IFRS 9 and IAS 39: De-recognition:

(A) Financial assets:

The Company derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire; or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred, or in which the Company neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial assets. Any interest in such transferred financial assets that qualify for de-recognition that is created or retained by the Company is recognized as a separate asset or liability. On de-recognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognized in other comprehensive income is recognized in the statement of comprehensive income (loss).

(B) Financial liabilities:

The Company derecognizes a financial liability when the obligation under the liability is discharged, cancelled or expired.

3. Significant accounting policies (continued):

(g) Other Changes in Accounting Policies:

IFRS 15, *Revenue recognition*:

The IASB issued IFRS 15, *Revenue from Contracts with Customers* ("IFRS 15") in May 2014. The new standard provides a comprehensive five-step revenue recognition model for all contracts with customers and requires management to exercise significant judgment and make estimates that affect revenue recognition. IFRS 15 is effective from January 1, 2018; it did not have a material effect on the Company's financial statements.

4. Investments in mortgages:

(a) Mortgages:

	2018		2017	
Property type	Number	Amount	Number	Amount
Residential	2	$ 15,257,332	4	$ 21,203,044
	2	15,257,332	4	21,203,044
Accrued interest and fees receivable		95,982		117,031
Fair value adjustments on investments in mortgages		(1,650,000)		(1,650,000)
		$ 13,703,314		$ 19,670,075

	2018		2017	
Property location	Number	Amount	Number	Amount
Alberta	1	$ 12,610,765	2	$ 17,374,473
Ontario	1	2,646,567	1	2,720,214
Nova Scotia	-	-	1	1,108,357
	2	$ 15,257,332	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 7.54% (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 range from plus 0.32% to plus 4.28% (2017 - between 1.07% to plus 4.21%), with the current rates ranging from 4.27% to 8.23% (2017 - between 4.27% to 7.41%), excluding loans in default.

All mortgages, except for the single mortgage under the CMBS program as discussed below, 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.

4. Investments in mortgages (continued):

(a) Mortgages (continued):

In 2014, the Company invested in a mortgage with a stated interest rate of 4.41% and principal amount of $2,646,567 which matures in September 2024. The mortgage was intended to be a short-term, one-time investment whereby the Company would hold the investment until it could be funded under a CMBS program led by Trez Commercial Finance Limited Partnership (“TCF”), a related party by virtue of common management.

Principal repayments based on contractual maturity dates are as follows:

	Number	December 31, 2018
Past due	-	$ -
2020	1	12,610,765
2024	1	2,646,567
	2	$ 15,257,332

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.

Management has estimated the value of its mortgage portfolio based on its best judgment as to the eventual cash flows that it expects to receive. However, given the illiquid nature of the assets, the time frame to realize any expected cash flows and the inherent credit risk of the underlying security, the eventual value to be realized could vary by a material amount. Furthermore, Management’s estimates are based on the assumption that it will continue to realize value from the Company’s investments in the normal course of business. Any change in management’s intended course of action would have a significant impact on the value eventually realized.

As at December 31, 2018, the Manager does not believe a significant change in credit risk occurred on any mortgage investments.

(b) Default 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.

There were no mortgages in default as at December 31, 2018 and 2017.

4. Investments in mortgages (continued):

(c) Renewed default mortgage:

Since January 1, 2017, the following default mortgage has been renewed but remains challenged:

(i) In the first quarter of 2018, the borrower for a loan that was previously in default requested a new three-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 upon between the parties, with the borrower 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, and additional payments of $500,000 every six months thereafter until December 1, 2020 when payment in full is due. All the scheduled payments for 2018 were made by the borrower.

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 in 2017 which resulted in a cumulative fair value provision of $1,650,000 provision as at December 31, 2017. The Manager applied a discount rate of 15% to the expected cash flows based on the revised payment terms of the new loan agreement.

During 2018, as a result of the renewal of the loan and pay down schedule, which has been adhered to, the Manager considers this loan to be performing and did not record any additional fair value loss provisions against the loan. The total fair value provision at December 31, 2018 is $1,650,000 (2017 $1,650,000).

5. Class A shares:

As at December 31, 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 December 31, 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 year ended December 31, 2018 (December 31, 2017 - $28,748,250). Regular monthly distributions were discontinued in December 2017. The monthly distributions have constituted returns of capital since the distribution of August 15, 2016.

During 2018, $19,154 of dividends declared during 2017 was returned to the Company as they were issued on cancelled shares.

5. Class A shares (continued):

(a) Dividends (continued):

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.

(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 could purchase, 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 were being made through the facilities of the TSX at market prices and in accordance with the rules of the TSX.

For the year ended December 31, 2018, the NCIB has expired and the Company purchased no Class A shares (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 that 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 monthly and paid monthly in arrears.

7. Incentive fees:

The Manager is assisting in the Orderly Wind-Up Plan and had agreed 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.

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 December 31, 2018, the estimated total amount of the incentive fee is $1,302,623 (December 31, 2017 - $1,259,303) of which $230,680 (December 31, 2017 - $230,680) has been paid to date, with the remaining incentive fee obligation totaling $1,071,943 (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 December 31, 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 December 31, 2018 is $36,854 (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 December 31, 2018, realized proceeds totaled $55,530,630 (December 31, 2017 - $49,368,320).

Incentive fee provision at December 31, 2017	$	1,028,623
Increase in incentive fee provision		43,320
Incentive fees realized and paid		-
Incentive fee provision at December 31, 2018	$	1,071,943

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 year ended December 31, 2018, the Company incurred management fees of $214,643 (2017 - $319,524). At December 31, 2018, $36,180 (December 31, 2017 - $18,013) of these fees were payable.

(b) As at December 31, 2018, the Company has co-invested in one mortgage (December 31, 2017 - three) mortgage investments with other funds managed by the Manager. The total amount of the co-invested mortgages is $29,315,281 (December 31, 2017 - $51,670,573), of which the Company's share is $12,610,765 (December 31, 2017 - $18,482,831). During the year ended December 31, 2018, the Company sold investments in mortgages of nil (December 31, 2017 - $10,331,681) to entities under common management.

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:

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 year. There are no options outstanding that would dilute the earnings per share:

Year ended December 31, 2018

Total income and comprehensive income for the period	$	603,691
Weighted average number of common shares (basic and diluted)		7,318,067
Earnings per share (basic and diluted)	$	0.08

Year ended December 31, 2017

Total income and comprehensive income for the period	$	253,532
Weighted average number of common shares (basic and diluted)		7,414,340
Earnings per share (basic and diluted)	$	0.03

10. Capital management:

As a result of the Orderly Wind-Up Plan, the Company's objective has shifted away from maintaining to be a going concern and generating returns to a more increased focus on monetization of its current asset base. It has ceased originating new loans and all mortgage renewal activity, subject to contractual rights, and its assets are being monetized over time. The Orderly Wind-Up Plan has been implemented and capital is being returned to shareholders under the supervision of the Board of Directors with the assistance of the Manager. The Company's primary objective with respect to capital management is to ensure sufficient cash resources to maintain operations and facilitate the Orderly Wind-Up process. The Company is not subject to externally imposed capital requirements.

11. Fair value of financial instruments and risk management:

(a) 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).

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

2018	Level 1	Level 2	Level 3	Total
Investments in mortgages	$ -	$ -	$ 13,703,314	$ 13,703,314

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

There were no transfers between levels during 2018 and 2017.

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

(a) Fair value of financial instruments (continued):

A reconciliation of Level 3 assets at December 31, 2018 is as follows:

Investment in mortgages, December 31, 2017	$ 19,670,075
Funding of investment in mortgages	216,599
Interest capitalized to investment in mortgages	950,350
Change in accrued interest and fees receivable	(21,049)
Principal repayments or sale of investment in mortgages	(7,112,661)
Investment in mortgages, December 31, 2018	$ 13,703,314

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	1,098,828
Change in accrued interest and fees receivable	(128,603)
Principal repayments or sale of 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

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

(a) Fair value of financial instruments (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)

At December 31, 2018, a 25 basis point increase in the credit risk premium would decrease the fair value by $87,202 (December 31, 2017 - $64,987) and a 25 basis point decrease in the credit risk premium would increase the fair value by $87,908 (December 31, 2017 - $65,682).

The fair values of cash and cash equivalents, amounts receivable, dividends payable, accounts payable and accrued liabilities, and management fees payable approximate their carrying amounts due to their short-term nature.

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

(b) Risk management:

The Company has exposure to the following risks from financial instruments:

- credit risk;
- liquidity risk; and
- market risk.

The Company's revised strategy is to maintain a diversified portfolio of mortgages on real property in Canada in order to facilitate the Orderly Wind-Up Plan.

Progress of the Orderly Wind-Up Plan is monitored by the Board of Directors on an ongoing basis.

(*i*) Credit risk:

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Company, resulting in a financial loss to the Company. This risk arises principally from the mortgages held, and also from cash, and receivables. For risk management reporting purposes, the Company considers and consolidates all elements of credit risk exposure (such as loan-to-value, sector risk, location risk, and individual obligor default risk).

The Company's policy over credit risk is to minimize its exposure to counterparties with perceived higher risk of default by dealing only with counterparties meeting the credit standards set out by the Manager's Credit Committee.

Credit risk is monitored on an on-going basis by the Manager in accordance with policies and procedures in place. The Company's credit risk is monitored on a quarterly basis by the Board of Directors.

The Company's maximum credit risk exposure (without taking into account collateral and other credit enhancements) at December 31, 2018 and 2017 is represented by the respective carrying amounts of the relevant financial assets in the statement of financial position.

(*ii*) Liquidity risk:

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

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

(b) Risk management (continued):

(*ii*) Liquidity risk (continued):

The Company's liquidity risk is managed on an ongoing basis by the Manager in accordance with the policies and procedures in place. The Company's overall liquidity is monitored on a quarterly basis by the Board of Directors.

The following are the contractual maturities of financial liabilities as at December 31, 2018:

	Carrying values	Contractual cash flows	Within a year	Within (12-24 months)
Accounts payable and accrued liabilities	$ 20,000	$ 20,000	$ 20,000	$ -
Management fees payable	36,180	36,180	36,180	-
	$ 56,180	$ 56,180	$ 56,180	$ -

(*iii*) Market risk:

Market risk is the risk that changes in market factors, such as interest rates, currency and other price risks will affect the Company's income or the fair value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposure within acceptable parameters, while optimizing the return.

The Company's strategy for the management of market risk is driven by the Company's revised strategy to maintain a diversified portfolio of mortgages on real property in Canada in order to facilitate the Orderly Wind-Up Plan.

The Company's market risk is managed on a daily basis by the Manager in accordance with policies and procedures in place.

(A) Interest rate risk:

The Company is exposed to the risk that the fair value or future cash flows of its financial instruments will fluctuate as a result of changes in market interest rates. In respect of the Company's interest-bearing financial instruments, the Company's policy is to transact in financial instruments that mature in the short-term, i.e., no longer than 36 months and the mortgage investment agreements for all mortgages held by the Company stipulate an interest rate floor for the respective mortgage. Accordingly, the Company would be subject to limited exposure to fair value or cash flow interest rate risk due to fluctuations in the prevailing levels of market interest rates.

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

(b) Risk management (continued):

(*iii*) Market risk (continued):

(A) Interest rate risk (continued):

A 0.25% decrease in interest rates, with all other variables held constant, would decrease income from operations by $64,865 due to decreased interest income on variable rate investments and the amount of cash held. A 0.25% increase in interest rates, with all other variables held constant, would increase income from operations by $64,865 arising from higher interest income generated on variable rate investments in mortgages and increased interest income on cash held.

(B) Currency risk:

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The Company is not currently exposed to currency risk.

(C) Other price risk:

Other price risk is the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in market prices. The Company is exposed to price risk because of its investments in mortgages. The risk arises from changes in the real estate market and could be local, national, and global in nature. Deteriorating real estate values increase the Company's risk. The Company manages the risk by actively maintaining strong borrower relationship and active monitoring of all loans. Further, the Company has diversified its portfolio of investments in mortgages geographically to manage this risk.

12. Key management personnel compensation:

The Company paid $92,440 (2017 - $118,376) to the members of the Board of Directors and Independent Review Committee for their services to the Company. The compensation to the Manager is paid through the management fees paid to the Manager (note 6).