

Financial statements of

**CareVest Blended MIC Fund Inc.**

December 31, 2018

# CareVest Blended MIC Fund Inc.

December 31, 2018

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## Independent Auditor's Report

To the Shareholders of  
CareVest Blended MIC Fund Inc.

### Opinion

We have audited the financial statements of CareVest Blended MIC Fund Inc. (the "Company"), which comprise the statements of financial position as at December 31, 2018 and 2017, and the statements of earnings (loss) and total comprehensive income (loss), statements of changes in equity and statements of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2018 and 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 ("Canadian GAAS"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company 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.

### Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with 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 Company'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 Company or to cease operations, or has no realistic alternative but to do so.

### Auditor's 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 auditor's 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 GAAS 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 these financial statements.

As part of an audit in accordance with Canadian GAAS, 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 Company'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 Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's 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 auditor's report. However, future events or conditions may cause the Company 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.

We 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.

Deloitte LLP

Chartered Professional Accountants  
March 22, 2019

# CareVest Blended MIC Fund Inc.

## Statement of earnings (loss) and total comprehensive income (loss) year ended December 31, 2018

(In Canadian dollars)

	2018	2017
	\$	\$
<b>Revenue</b>		
Finance	267,363	273,724
Proceeds on sale	139,116	504,661
Other	157	12,134
	<b>406,636</b>	<b>790,519</b>
<b>Expenses</b>		
Dividends on Preferred Shares		
Series A1 Preferred Shares	216,202	223,042
Series B1 Preferred Shares	101,069	83,380
	<b>317,271</b>	<b>306,422</b>
Cost of sales - inventory	82,161	472,516
Professional fees	32,998	30,060
Management fee (Note 8)	31,263	35,966
Other	15,712	18,415
Inventory holding costs	6,826	26,486
Mortgage recovery cost	525	(6)
Bank charges	488	672
Reversal of inventory write down (Note 7)	-	(5,259)
Recovery of impairment of mortgages receivable (Note 6)	(101,433)	(91,097)
	<b>385,811</b>	<b>794,175</b>
Earnings (loss) before income tax	20,825	(3,656)
Deferred income tax expense (recovery) (Note 9)	11,952	(987)
<b>Net earnings (loss) and total comprehensive income (loss)</b>	<b>8,873</b>	<b>(2,669)</b>

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

# CareVest Blended MIC Fund Inc.

## Statement of changes in equity year ended December 31, 2018

(In Canadian dollars)

	Capital stock	Contributed surplus	Retained earnings	Total
	\$	\$	\$	\$
<b>Balance, December 31, 2016</b>	100	6,000	48,671	54,771
Net loss for the year and total comprehensive loss	-	-	(2,669)	(2,669)
Balance, December 31, 2017	100	6,000	46,002	52,102
Opening retained earnings adjustment - IFRS 9 implementation (Note 15)	-	-	(18,024)	(18,024)
Balance, January 1, 2018	100	6,000	27,978	34,078
Net earnings for the year and total comprehensive income	-	-	8,873	8,873
<b>Balance, December 31, 2018</b>	<b>100</b>	<b>6,000</b>	<b>36,851</b>	<b>42,951</b>

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


# CareVest Blended MIC Fund Inc.

## Statement of financial position as at December 31, 2018

(In Canadian dollars)

	2018	2017
	\$	\$
<b>Assets</b>		
Cash (Note 5)	1,233,610	739,935
Accounts receivable	170	1,365
Finance income receivable	17,592	26,325
Mortgages receivable - net of allowance (Note 6)	3,268,107	4,147,977
Inventory (Note 7)	5,961	88,122
Due from related companies (Note 8)	-	12
Prepaid expenses and deposits	6,003	6,053
Deferred income taxes (Note 9)	38,527	43,813
	<b>4,569,970</b>	<b>5,053,602</b>
<b>Liabilities</b>		
Accounts payable and accrued liabilities	15,832	12,771
Dividends payable	84,441	41,531
Due to related companies (Note 8)	2,691	2,887
Series A1 Preferred Shares (Note 10)	2,949,081	3,503,860
Series B1 Preferred Shares (Note 10)	1,474,974	1,440,451
	<b>4,527,019</b>	<b>5,001,500</b>
<b>Shareholders' equity</b>		
Capital stock (Note 11)	100	100
Contributed surplus	6,000	6,000
Retained earnings	36,851	46,002
	<b>42,951</b>	<b>52,102</b>
	<b>4,569,970</b>	<b>5,053,602</b>

Approved by the Board

  
\_\_\_\_\_  
Director

  
\_\_\_\_\_  
Director

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

# CareVest Blended MIC Fund Inc.

## Statement of cash flows year ended December 31, 2018

(In Canadian dollars)

	2018	2017
	\$	\$
<b>Operating activities</b>		
Net earnings (loss)	8,873	(2,669)
Opening retained earnings adjustment - IFRS 9 implementation (Note 15)	(18,024)	-
Finance income	(267,363)	(273,724)
Dividend expense	317,271	306,422
Deferred taxes	5,286	(987)
Gain on inventory sale	(56,955)	(133,136)
Dividends reinvested (Note 10)	(117,076)	(120,863)
Changes in non-cash working capital (Note 13)	143,238	377,507
Recovery of impairment of mortgages receivable	(76,743)	(91,097)
Finance income received	276,096	272,695
Dividends paid	(157,285)	(180,840)
	<b>57,318</b>	<b>153,308</b>
<b>Investing activities</b>		
Advances of mortgages receivable	(1,872,827)	(1,842,105)
Repayments of mortgages receivable	2,829,440	2,962,252
	<b>956,613</b>	<b>1,120,147</b>
<b>Financing activities</b>		
Issuance of Series A1 and Series B1 Preferred Shares (Note 10)	122,076	120,863
Redemption and retraction of Series A1 and Series B1 Preferred Shares (Note 10)	(642,332)	(786,927)
Repayments of mortgage payable	-	(171,181)
	<b>(520,256)</b>	<b>(837,245)</b>
Net increase in cash	493,675	436,210
Cash, beginning of year	739,935	303,725
<b>Cash, end of year (Note 5)</b>	<b>1,233,610</b>	<b>739,935</b>

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



# CareVest Blended MIC Fund Inc.

## Notes to the financial statements

December 31, 2018

(In Canadian dollars)

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### 1. Nature of operations

CareVest Blended MIC Fund Inc. (the "Company") was incorporated under the Canada Business Corporations Act on March 1, 2012 and commenced operations as a mortgage investment corporation. The address of the registered office and principal place of business is Suite 1800, 555 - 4<sup>th</sup> Avenue S.W. Calgary, Alberta T2P 3E7.

The Company operates as a mortgage investment corporation, carrying on the business of investing directly or indirectly in mortgages granted as security for loans to builders, developers and owners of commercial, industrial and residential real estate located in various provinces of Canada.

The Company invests in mortgages originated, sourced, or arranged by CareVest Capital Inc. ("CCI") under an agreement with CCI.

The Company has appointed Carecana Management Corp. ("Carecana") as its investment fund manager and restricted portfolio manager pursuant to a management agreement.

These financial statements were approved by the directors Mr. Mike Helfer and Ms. Shauna Campbell and authorized for issue on March 22, 2019.

### 2. Basis of presentation

#### *Statement of compliance*

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

#### *Basis of preparation*

The financial statements have been prepared on a going-concern basis and measured at historical cost except for financial instruments classified as fair value through profit or loss ("FVTPL"), which are measured at fair value. These financial statements are presented in Canadian dollars, which is the Company's functional and presentation currency. Historical cost is based on the fair value of the consideration given in exchange at the transaction date.

#### *General*

The Company's financial statements are prepared using the significant accounting policies described in Note 3. These policies have been applied throughout the period unless otherwise stated.

### 3. Significant accounting policies

#### *Cash*

The Company's policy is to present bank deposit balances under cash, including cash and short-term investments in money market instruments (if held), including cash held in trust by Carecana Settlement Corp ("Settlement Corp") until April 2018. As of April 23, 2018 amounts are now held within the Company's own trust bank account. All components are liquid and any short-term investments have an original maturity of less than three months.

#### *Mortgages receivable – applicable to December 31, 2017*

Mortgages receivable are initially recorded at fair value plus any transaction costs and are subsequently measured at amortized cost using the effective interest method, less any impairment losses. All individual mortgages receivable are assessed at each reporting date to determine if there is any evidence of impairment and whether a loss event has an impact on future cash flows as discussed in Note 4. An impairment loss is calculated as the difference between its carrying amount and the present value of the estimated future cash flows, discounted using an appropriate discount rate. Losses are recognized in profit and loss and reflected in an allowance account against the mortgages receivable. When a subsequent event causes the impairment loss to decrease, the impairment is reversed through profit and loss at that time. Once an impaired mortgage is determined to be uncollectable at any future point in time, it is permanently written off.

# CareVest Blended MIC Fund Inc.

## Notes to the financial statements

December 31, 2018

(In Canadian dollars)

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### 3. Significant accounting policies (continued)

#### *Mortgages receivable – applicable from January 1, 2018*

Mortgages receivable are initially recorded at fair value plus any transaction costs and are subsequently measured at amortized cost using the effective interest method, less any impairment losses. The Company recognizes a loss allowance for mortgages receivable in accordance with the IFRS 9 expected credit loss (ECL) model. The ECL is estimated as the difference between all contractual cash flows that are due to the Company in accordance with the mortgage contract agreement and all the cash flows that the Company expects to receive, discounted at the original effective interest rate.

The amount of ECL is updated at each reporting date to reflect the changes in credit risk since initial recognition of the respective mortgages receivable. The Company recognizes lifetime ECL when there has been a significant increase in credit risk since initial recognition on the mortgage receivable. If, on the other hand, the credit risk on the mortgages receivable has not increased significantly since initial recognition, the Company measures the loss allowance for that mortgage receivable at an amount equal to 12-month ECL ("12m ECL").

The Company measures the mortgage loss allowance on an individual basis, as the concentration of credit risk is limited due to the customer base being large and unrelated.

#### *Inventory*

Inventory includes all costs associated with the cost of purchase of the lands, costs of conversion, and all directly attributable costs to bring the lands to their intended use or sale. Inventory is stated at the lower of cost and net realizable value. Net realizable value represents the estimated selling price of the completed projects less all estimated costs of completion and costs necessary to make the sale. Borrowing costs cease to be capitalized when there are no further costs of conversion.

#### *Revenue recognition*

The Company purchases fully serviced mortgage investments from CCI and finance income is presented net of the priority interest allocation retained by CCI from the interest paid by the borrower on the investments acquired by the Company. Finance income is accounted for on an accrual basis and is measured at the fair value of the consideration received or receivable. IFRS 15 "Revenue from Contracts with Customers" was effective January 1, 2018, focusing on the control of goods and services transferred to the customer. Due to the nature of operations of the Company, this has had no impact on the Company's revenue recognition policies.

#### *Finance income*

Interest revenue is recognized when it is probable that the economic benefits will flow to the Company and the amount of revenue can be measured reliably. Interest revenue is accrued with the passage of time, by reference to the principal outstanding balance and at the terms of the mortgage commitment it relates to.

Upon impairment of a mortgage receivable, subsequent accreted income is recorded using the rate of interest used to discount the future cash flows in measuring impairment.

#### *Deferred tax*

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

# CareVest Blended MIC Fund Inc.

## Notes to the financial statements

December 31, 2018

(In Canadian dollars)

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### 3. Significant accounting policies (continued)

#### *Deferred tax (continued)*

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

#### *Provisions*

Provisions are recognized when the Company has a present obligation (legal or constructive), as a result of a past event, if it is probable that the Company will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably. Provisions are not recognized for future operating losses.

#### *Financial instruments*

##### Financial assets – applicable to December 31, 2017

All financial assets are recognized and derecognized on trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss (“FVTPL”), which are initially measured at fair value.

Financial assets are classified into the following specified categories: financial assets at FVTPL, held-to-maturity investments (“HTM”), available-for-sale (“AFS”) financial assets and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

The Company has classified its financial assets as follows:

Cash	Loans and receivables
Accounts receivable	Loans and receivables
Finance income receivable	Loans and receivables
Mortgages receivable	Loans and receivables
Due from related companies	Loans and receivables

##### Financial assets – applicable from January 1, 2018

All financial assets are recognized and derecognized on the trade date in which the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs. All recognized financial assets are subsequently measured in their entirety at either amortized cost or fair value, depending on the classification of the financial assets.

# CareVest Blended MIC Fund Inc.

## Notes to the financial statements

December 31, 2018

(In Canadian dollars)

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### 3. Significant accounting policies (continued)

*Financial instruments (continued)*

Financial assets – applicable from January 1, 2018 (continued)

Debt instruments that meet the following conditions are subsequently measured at amortized cost:

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

Debt instruments that meet the following conditions are subsequently measured at fair value through other comprehensive income (“FVOCI”):

- The financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

By default, all other financial assets are subsequently measured at fair value through profit or loss (“FVTPL”).

Despite the aforementioned, the Company may make the following irrevocable election/designation at initial recognition of a financial asset:

- The Company may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if certain criteria are met; and
- The Company may irrevocably designate a debt investment that meets the amortized cost or FVOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

The Company has classified its financial assets as follows:

Cash	Amortized cost
Accounts receivable	Amortized cost
Finance income receivable	Amortized cost
Mortgages receivable	Amortized cost

#### Effective interest method

The effective interest method is a method of calculating the amortized cost of financial assets and liabilities and of allocating interest expense over the relevant period.

For financial instruments other than purchased or originated credit-impaired financial assets, the effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition. For purchased or originated credit impaired financial assets, a credit-adjusted effective interest rate is calculated by discounting the estimated future cash flows, including expected credit losses, to the amortized cost of the debt instrument on initial recognition.

The amortized cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortization using the effective interest method on any difference between that initial amount and the maturity amount, adjusted for any loss allowance.

# CareVest Blended MIC Fund Inc.

## Notes to the financial statements

December 31, 2018

(In Canadian dollars)

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### 3. Significant accounting policies (continued)

#### *Financial instruments (continued)*

##### Effective interest method (continued)

The gross carrying amount of a financial asset is the amortized cost of a financial asset before adjusting for any loss allowance.

Interest income is recognized using the effective interest method for debt instruments. For financial instruments other than purchased or originated credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see impairment of financial assets). For financial assets that have subsequently become credit-impaired, interest income is recognized by applying the effective interest rate to the amortized cost of the financial asset. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognized by applying the effective interest rate to the gross carrying amount of the financial asset.

For purchased or originated credit-impaired financial assets, the Company recognizes interest income by applying the credit-adjusted effective interest rate to the amortized cost of the financial asset from initial recognition. The calculation does not revert to the gross basis even if the credit risk of the financial asset subsequently improves so that the financial asset is no longer credit-impaired.

##### Financial assets – impairment of financial assets – applicable to December 31, 2017

At each reporting date, the Company assesses whether there is any evidence that a financial asset or group of financial assets is impaired. The Company reviews the carrying amounts of its financial assets recorded at amortized costs to determine whether there is objective evidence that those financial assets have suffered an impairment loss. A financial asset, or group of financial assets, is impaired when objective evidence demonstrates that the estimated future cash flows for the financial asset or group of financial assets have been negatively impacted. If an impairment loss has occurred, the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows. The carrying amount of the asset is reduced through the use of an allowance account, and the loss is recognized in profit and loss and classified as an impairment expense.

Financial assets together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Company. If, in a subsequent reporting period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If the impairment is later recovered, the recovery is credited to profit and loss and classified as finance income.

##### Impairment of financial assets – applicable from January 1, 2018

The Company recognizes a loss allowance for expected credit losses on investments in debt instruments that are measured at amortized cost or at FVOCI, as well as on loan commitments and financial guarantee contracts. No impairment loss is recognized for investments in equity instruments. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Company always recognizes the lifetime ECL for trade receivables. The expected credit losses on these financial assets are estimated using a provision matrix based on the Company's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

# CareVest Blended MIC Fund Inc.

## Notes to the financial statements

December 31, 2018

(In Canadian dollars)

### 3. Significant accounting policies (continued)

#### *Financial instruments (continued)*

#### *Impairment of financial assets – applicable from January 1, 2018 (continued)*

For all other financial instruments, the Company recognizes lifetime ECL when there has been a significant increase in credit risk since initial recognition. If, on the other hand, the credit risk on the financial instrument has not increased significantly since initial recognition, the Company measures the loss allowance for that financial instrument at an amount equal to the 12m ECL. The assessment of whether the lifetime ECL should be recognized is based on significant increases in the likelihood or risk of a default occurring since initial recognition instead of on evidence of a financial asset being credit-impaired at the reporting date or an actual default occurring.

The Company writes off a mortgage receivable and the corresponding ECL when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery. Mortgages receivable written off may still be subject to enforcement activities under the Company's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognized in profit or loss.

#### *Financial assets – derecognition of financial assets*

The Company derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset. A transfer is considered to have occurred if the Company transfers the contractual rights of the cash flows, or if it retains the rights to the contractual cash flows, but assumes an obligation to pay these cash flows to another recipient. If it is determined that the Company has transferred a financial asset, it evaluates the extent to which it retains the risks and rewards of ownership of the financial asset. If the entity transfers substantially all the risks and rewards of ownership of the financial asset, the Company will derecognize it. If the Company retains substantially all the risks and rewards of ownership of the financial asset, the Company will continue to recognize the asset. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognizes its retained interest in the asset and an associated liability for amounts it may have to pay.

Type of financial asset	Treatment upon derecognition
<b>Financial asset measured at amortized cost</b>	The difference between the financial asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.
<b>Investment in a debt instrument classified as at FVOCI</b>	The cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.
<b>Investment in equity investment which the Company has elected on initial recognition to measure at FVOCI</b>	The cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to profit or loss, but is transferred to retained earnings.

#### *Financial liabilities – classification as debt or equity*

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement. The Company has classified non-voting preferred shares redeemable at the option of the holder as liabilities.

Financial liabilities are classified as either financial liabilities at FVTPL or amortized cost.

Financial liabilities measured at amortized cost, including borrowings, are initially measured at fair value, net of transaction costs. Financial liabilities measured at amortized cost are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

# CareVest Blended MIC Fund Inc.

## Notes to the financial statements

December 31, 2018

(In Canadian dollars)

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### 3. Significant accounting policies (continued)

*Financial instruments (continued)*

*Financial liabilities – classification as debt or equity (continued)*

The Company has classified its financial liabilities as follows:

Accounts payable and accrued liabilities	Amortized cost
Dividends payable	Amortized cost
Due to related companies	Amortized cost
Preferred shares	Amortized cost

*Equity*

Capital stock is recorded at the value of the shares issued. Costs directly related to the issuance of shares are reported as a reduction from equity, net of tax effects.

Retained earnings include the earnings and losses from the current period and prior periods.

Dividends are included under liabilities in the period in which the dividend is declared and approved by the board of directors, until they are paid by the Company.

*Preferred shares*

Preferred shares, which are retractable and redeemable, are initially recorded at fair value, net of any costs that are directly related to the issuance of the shares. These are recorded and subsequently measured at the redemption price as discussed in Note 10. The dividends on these preferred shares and any redemption gains or losses are recognized in profit or loss.

*Dividends*

Dividends paid on preferred shares are accounted for as an expense of the Company and are comprised of the interest earned on the mortgages receivable less all expenses of the Company.

### 4. Critical accounting judgments and key sources of estimation uncertainty

In the application of the Company's significant accounting policies, which are described in Note 3, the Company is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

In the process of applying the Company's accounting policies, the directors have made the following judgments, estimates, and assumptions which have the most significant effect on the amounts recognized in the financial statements.

*Critical judgments in applying accounting policies*

*Inventory*

The classification of items which are included in inventory requires significant judgment on the Company's part surrounding the derecognition of the related mortgage receivable (financial instrument).

# CareVest Blended MIC Fund Inc.

## Notes to the financial statements

December 31, 2018

(In Canadian dollars)

#### 4. Critical accounting judgments and key sources of estimation uncertainty (continued)

*Critical judgments in applying accounting policies (continued)*

##### Inventory (continued)

At each reporting period management reviews its outstanding mortgages in order to determine if any mortgages receivable may be required to be derecognized. A financial asset be derecognized when the contractual rights to the cash flows from the financial asset expire, or it transfers the financial asset by transferring the contractual rights to receive future cash flows of the financial asset. The Company looks to the legal structure of the action taken over mortgages that are considered to be impaired in order to determine the classification as either an impaired financial asset, or derecognition of a financial asset resulting in recognition of another class of asset. If a financial asset qualifies for derecognition, the Company uses its judgment taking into account all facts and conditions at the time of derecognition, and applying the standards of IAS 2 to determine classification of the asset as inventory after foreclosure. Additionally, calculating the net realizable value of inventory requires considerable judgment to estimate forecasted selling prices, including assumptions about demand variables.

##### Allowance for mortgage impairment – applicable to December 31, 2017

An allowance for mortgage impairment consists of specific reserves that are maintained at a level that, in management's judgment, is adequate to absorb all credit related losses in the Company's portfolio. Evidence of impairment include factors such as credit worthiness of borrower, timing of receipts on future cash flows, including repayments from the borrower and estimates of the value and timing of the collateral underlying the loan. Changes in the assumptions about these factors could result in changes to the reported fair value of financial instruments. In management's judgment, no unusual credit risk exists and the levels of mortgage impairment provisions are adequate to absorb all credit related losses in the Company's portfolio, given existing conditions. Management's policies for addressing credit risk are discussed in Note 12.

##### Recognition of ECL for mortgages – applicable from January 1, 2018

The measurement of expected credit losses is a function of the probability of default, loss given default (the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. As for the exposure at default, for mortgage assets, this is represented by the assets' gross carrying amount at the reporting date.

For mortgage assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due to the Company in accordance with the contract and all the cash flows that the Company expects to receive, discounted at the original effective interest rate.

The following table summarizes the impairment requirements under IFRS 9:

	<b>Change in credit quality since initial recognition</b>		
	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>
<i>Status</i>	Initial recognition	Significant increase in credit risk since initial recognition	Credit-impaired assets
<i>Recognition of ECL</i>	12m ECL	Lifetime ECL	Lifetime ECL
<i>Interest income recognition</i>	Applying the effective interest rate ("EIR") to the gross carrying amount of the mortgage	Applying the EIR to the gross carrying amount of the mortgage	Applying the EIR to the net carrying amount of the mortgage



# CareVest Blended MIC Fund Inc.

## Notes to the financial statements

December 31, 2018

(In Canadian dollars)

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#### 4. Critical accounting judgments and key sources of estimation uncertainty (continued)

*Critical judgments in applying accounting policies (continued)*

Recognition of ECL for mortgages – applicable from January 1, 2018 (continued)

- Lifetime ECL represents the ECL that will result from all possible default events over the expected life of a mortgage.
- 12m ECL represents the portion of lifetime ECL that is expected to result from default events on a mortgage that are possible within 12 months after the reporting date.

Significant increase in credit risk for mortgage allowance – applicable from January 1, 2018

In assessing whether the credit risk on a mortgage receivable has increased significantly since initial recognition, the Company compares the risk of a default occurring on the mortgage as at the reporting date with the risk of a default occurring on the mortgage as at the date of initial recognition. In making this assessment, the Company considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- An actual or expected significant deterioration in the mortgage's credit rating by Carecana's Credit Committee;
- Timing of receipts on future cash flows, including repayments from the borrower and estimates of the value and timing of the collateral underlying the loan;
- Existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the mortgage borrower's ability to meet its debt obligations; and
- An actual or expected significant adverse change in the regulatory or economic environment of the mortgage borrower that results in a significant decrease in the borrower's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Company presumes that the credit risk on a mortgage receivable has increased significantly since initial recognition when contractual payments are more than 30 days past due.

Definition of default – applicable from January 1, 2018

The Company considers that default on a mortgage receivable has occurred when:

- A mortgage is more than 90 days past due unless the Company has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate, or
- Information developed internally or obtained from external sources indicates that the debtor is unlikely to pay the Company, in full

Credit-impaired mortgage receivable – applicable from January 1, 2018

A mortgage receivable is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that mortgage have occurred. Evidence that a mortgage receivable is credit-impaired includes observable data about the following events:

- a) Significant financial difficulty of the mortgage borrower;
- b) A breach of contract, such as a default or past due event; or
- c) It is becoming probable that the borrower will enter bankruptcy or other financial reorganization.

# CareVest Blended MIC Fund Inc.

## Notes to the financial statements

December 31, 2018

(In Canadian dollars)

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#### 4. Critical accounting judgments and key sources of estimation uncertainty (continued)

*Critical judgments in applying accounting policies (continued)*

##### Tax position

Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that the taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based on the likely timing and level of future taxable profits together with future tax planning strategies.

When applicable, the Company adjusts the previously recorded tax provision and associated tax assets and liabilities to reflect changes in estimates and for any tax assessments levied.

##### *Critical accounting estimates and assumptions*

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

##### Impairment – applicable to December 31, 2017

Determining whether or not a mortgage is impaired requires management to make an estimation of the recoverable amount of the mortgage. At each reporting period, an impairment review is conducted. The impairment review involves assessing objective evidence which may indicate the mortgage is impaired. If an impairment is considered to have occurred, the present value of the future cash flows of the mortgages at the appropriate discount rate is compared to the carrying value, with any excess of carrying value over the present value of future cash flows booked as an impairment charge to the mortgage receivable. This involves a number of significant estimates and assumptions with respect to the value of the properties involved including, but not limited to, the value placed on collateralized assets, the timing of future cash inflows and outflows, costs to complete and costs to be incurred in making the sale. Valuation techniques include using the discounted cash flow model. Inputs into these models are taken from observable markets where possible, but where this is not feasible, estimations are required to establish fair values. A scenario analysis is used to determine the present value of future cash flows for the impaired mortgages receivable. Values are input with reference to quoted market prices when available, including third party appraisals, listing agreements, purchase agreements, and property tax assessments. Cash outflows include costs to complete and costs incurred to make the sale, including marketing and legal costs.

##### Measurement of ECL for Mortgages – applicable from January 1, 2018

The measurement of the ECL allowance for the mortgages receivable is an area that requires the use of significant assumptions about future economic conditions and credit behavior which includes the likelihood of borrower defaulting and the resulting losses. This involves a number of significant estimates and assumptions with respect to the value of the properties involved including, but not limited to, the value placed on collateralized assets, the timing of future cash inflows and outflows, costs to complete and costs to be incurred in making the sale. Valuation techniques include using the discounted cash flow model. Inputs into these models are taken from observable markets where possible, but where this is not feasible, estimations are required to establish fair values. A scenario analysis is used to determine the present value of future cash flows for the impaired mortgages receivable. Values are input with reference to quoted market prices when available, including third party appraisals, listing agreements, purchase agreements, and property tax assessments. Cash outflows include costs to complete and costs incurred to make the sale, including marketing and legal costs.

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL; and
- Establishing the number and relative weightings of forward-looking scenarios for each type of mortgage and the associated ECL.

# CareVest Blended MIC Fund Inc.

## Notes to the financial statements

December 31, 2018

(In Canadian dollars)

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#### 4. Critical accounting judgments and key sources of estimation uncertainty (continued)

*Critical accounting estimates and assumptions (continued)*

##### Inventory

The Company makes estimates in determining the net realizable value of its inventory. Estimates of net realizable value are based on the most reliable evidence available at the time the estimates are made. Estimating the net realizable value requires the Company to determine the present value of the estimated future cash flows, which involves a number of significant estimates and assumptions with respect to the value of the properties involved including but not limited to the value placed on the land and property to be sold, the timing of future cash inflows, costs to maintain and complete, and costs to be incurred in making the sale. These estimates take into consideration fluctuations of price or cost directly relating to events occurring after the end of the period to the extent that such events confirm conditions existing at the end of the period. Changes to these estimates could be caused by a variety of factors including change in market demand and changing market prices. A new assessment of net realizable value is made in each subsequent period.

##### Redemption price

The redemption price of a preferred share is determined by the directors, for which they must make estimates and assumptions over factors involved. Factors that may be considered include the last redemption price of that series of preferred share, the last offering price of that series of preferred share, the fair value of assets and liabilities attributable to that series of preferred share, the net sale, issue and holding costs of such preferred share, specific class or series expenses attributable to such preferred share and the liquidity reasonably available to the Company.

#### 5. Cash

For the purposes of the statement of cash flows, cash includes cash on deposit and cash held in trust. Cash at the end of the reporting period as shown in the statement of cash flows can be reconciled to the related items in the statements of financial position as follows:

	2018	2017
	\$	\$
Operating deposit bank account	570	4,096
Cash held-in-trust (Note 8)	1,233,040	735,839
	<u>1,233,610</u>	<u>739,935</u>

#### 6. Mortgages receivable

The mortgages receivable consist of short-term financing for commercial, industrial, and residential mortgages and term loans for completed or substantially completed income producing properties in British Columbia and Alberta (2017 - British Columbia and Alberta).

As at December 31, 2018, the Company has mortgages receivable, which earn interest at fixed and variable rates ranging from 3.0% to 13.0% (2017 - 3.0% to 13.0%) and are secured by real property. The mortgages receivable are typically due within 6 to 18 months.

	2018	2017
	\$	\$
Mortgages due within the next 12-month period - net of allowance	3,263,708	3,544,191
Mortgages due after the next 12-month period - net of allowance	4,399	603,786
	<u>3,268,107</u>	<u>4,147,977</u>

# CareVest Blended MIC Fund Inc.

## Notes to the financial statements

December 31, 2018

(In Canadian dollars)

### 6. Mortgages receivable (continued)

The gross mortgage and loss allowance balances at the end of the period are impacted by a variety of factors, as described below:

- Transfers between Stage 1 and Stages 2 or 3 due to mortgages receivables experiencing significant increases (or decreases) of credit risk or becoming credit-impaired in the year, and the consequent “step up” (or step down”) between 12m or lifetime ECL;
- Additional allowance for new mortgages recognized during the period, as well as releases for mortgages de-recognized during the period;
- Impact on the measurement of ECL due to changes in probability of default, loss given default and the exposure at default
- Impact on the measurement of ECL due to changes made to models and assumptions;
- Discount unwind within ECL due to the passage of time, as ECL is measured on a present value basis;
- Mortgages receivables derecognized during the year and write-offs of allowances related to assets that were written-off during the year.

The following is a reconciliation of the mortgage gross carrying amounts between the beginning and end of the annual period.

#### Reconciliation of mortgage gross carrying amount

	2018				2017
	Stage 1	Stage 2	Stage 3	Total	Total
	12m ECL	Lifetime ECL	Lifetime ECL		
<b>Gross carrying amount as at January 1</b>	3,857,878	-	540,775	4,398,653	5,551,392
<i>Transfers</i>					
Transfer from Stage 1 to Stage 2	-	-	-	-	-
Transfer from Stage 1 to Stage 3	-	-	-	-	-
Transfer from Stage 2 to Stage 3	-	-	-	-	-
Transfer from Stage 3 to Stage 2	-	-	-	-	-
Transfer from Stage 2 to Stage 1	-	-	-	-	-
Mortgage assets derecognized other than write-offs	-	-	-	-	-
New mortgages originated	<b>1,872,827</b>	-	-	1,872,827	1,842,105
Paydowns on mortgages	<b>(2,763,245)</b>	-	(66,195)	(2,829,440)	(2,962,252)
Write offs	-	-	(10,873)	(10,873)	(32,592)
<b>Gross carrying amount as at December 31</b>	<b>2,967,460</b>	-	<b>463,707</b>	<b>3,431,167</b>	<b>4,398,653</b>

The following table is a reconciliation of the mortgage loss allowance between the beginning and the end of the annual period. Comparative amounts for 2017 represent allowance account for credit losses and reflect measurement basis under IAS 39. Balances as January 1, 2018 have been adjusted to reflect IFRS 9 transitional requirements (Note 15) with differences recorded to retained earnings in equity.

# CareVest Blended MIC Fund Inc.

## Notes to the financial statements

December 31, 2018

(In Canadian dollars)

### 6. Mortgages receivable (continued)

#### Reconciliation of mortgage loss allowance

	2018				2017
	Stage 1	Stage 2	Stage 3	Total	Total
	12m ECL	Lifetime ECL	Lifetime ECL		
<b>Gross carrying amount as at January 1</b>	<b>24,690</b>	-	250,676	275,366	374,365
<i>Transfers</i>					
Transfer from Stage 1 to Stage 2	-	-	-	-	-
Transfer from Stage 1 to Stage 3	-	-	-	-	-
Transfer from Stage 2 to Stage 3	-	-	-	-	-
Transfer from Stage 3 to Stage 2	-	-	-	-	-
Transfer from Stage 2 to Stage 1	-	-	-	-	-
Impairments losses recognized	-	-	5,370	5,370	43,474
Impairment losses reversed	<b>(7,908)</b>	-	(98,895)	(106,803)	(134,571)
Write offs	-	-	(10,873)	(10,873)	(32,592)
<b>Gross carrying amount as at December 31</b>	<b>16,782</b>	-	<b>146,278</b>	<b>163,060</b>	<b>250,676</b>

In 2018, the Company recovered \$106,803 (2017 - \$134,571) for mortgages that were previously impaired as they had been deemed to be uncollectible. This amount has been netted against impairment of mortgages receivable.

The Company does not hold any additional collateral or other credit enhancements over these balances nor does it have a legal right of offset against any amounts owed by the Company to the counterparty.

# CareVest Blended MIC Fund Inc.

## Notes to the financial statements

December 31, 2018

(In Canadian dollars)

### 6. Mortgages receivable (continued)

#### Maximum exposure to credit risk

	Commercial Mortgages				2017
	As at December 31, 2018				
	Stage 1 12m ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total	
<b># of days outstanding</b>					<b>Total</b>
current	423,821	-	-	423,821	1,215,221
less than 30 days	-	-	-	-	-
between 30 and 90 days	-	-	-	-	-
greater than 90 days	-	-	-	-	-
<b>Gross carrying amount</b>	<b>423,821</b>	<b>-</b>	<b>-</b>	<b>423,821</b>	<b>1,215,221</b>
Loss allowance	3,863	-	-	3,863	-
<b>Carrying amount</b>	<b>419,958</b>	<b>-</b>	<b>-</b>	<b>419,958</b>	<b>1,215,221</b>

	Residential Mortgages				2017
	As at December 31, 2018				
	Stage 1 12m ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total	
<b># of days outstanding</b>					<b>Total</b>
current	2,543,639	-	-	2,543,639	2,642,616
less than 30 days	-	-	-	-	-
between 30 and 90 days	-	-	-	-	-
greater than 90 days	-	-	463,707	463,707	540,816
<b>Gross carrying amount</b>	<b>2,543,639</b>	<b>-</b>	<b>463,707</b>	<b>3,007,346</b>	<b>3,183,432</b>
Loss allowance	12,919	-	146,278	159,197	250,676
<b>Carrying amount</b>	<b>2,530,720</b>	<b>-</b>	<b>317,429</b>	<b>2,848,149</b>	<b>2,932,756</b>

Mortgages classified as residential are provided for buildings and structures which are intended for human habitation, together with any property that is intended to be improved, converted or developed to provide housing accommodation, or services in support of housing accommodation, and property that is associated with housing accommodation. Commercial mortgages, in this context, would pertain to properties that are intended to generate ongoing income producing cash flow, including but not limited to office buildings, shopping complexes or industrial warehouses.

# CareVest Blended MIC Fund Inc.

## Notes to the financial statements

December 31, 2018

(In Canadian dollars)

### 6. Mortgages receivable (continued)

Province	As at December 31, 2018				2017
	Stage 1 12m ECL	Stage 2 ECL	Stage 3 ECL	Total	Total
Alberta	207,129	-	-	<b>207,129</b>	869,061
British Columbia	2,743,549	-	317,429	<b>3,060,978</b>	3,278,916
	<b>2,950,678</b>	-	317,429	<b>3,268,107</b>	4,147,977

Type of Mortgage	As at December 31, 2018				2017
	Stage 1 12m ECL	Stage 2 ECL	Stage 3 ECL	Total	Total
Land	2,619,614	-	6,210	<b>2,625,824</b>	2,470,654
Construction	315,635	-	311,219	<b>626,854</b>	1,509,546
Inventory	6,366	-	-	<b>6,366</b>	155,691
Servicing	9,063	-	-	<b>9,063</b>	12,086
	<b>2,950,678</b>	-	317,429	<b>3,268,107</b>	4,147,977

Mortgages classified as land are provided to support land development, typically construction of services to produce serviced lots for sale. This could also include raw land expected to become actively developed within the short term. Mortgages classified as construction support the construction of buildings for eventual occupancy, including single family homes, townhomes and condominiums, as well as properties that are or have the potential to become income producing. Mortgages classified as inventory are provided to finance projects that are available for sale. Lastly, mortgages classified as servicing provide financing for completed projects that will produce business income, which are typically rental properties or owner/occupied businesses.

The Company recognizes lifetime ECL when there has been a significant increase in credit risk since initial recognition on the mortgage receivable. If, on the other hand, the credit risk on the mortgages receivable has not increased significantly since initial recognition, the Company measures the loss allowance for that mortgage receivable at an amount equal to the 12 month ECL.

In assessing whether the credit risk on a mortgage receivable has increased significantly since initial recognition, the Company compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Company considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort

The Company measures the mortgage loss allowance on an individual basis as the concentration of credit risk is limited due to the customer base being large and unrelated.

Valuation techniques and assumptions are discussed in Note 4.

# CareVest Blended MIC Fund Inc.

## Notes to the financial statements

December 31, 2018

(In Canadian dollars)

### 7. Inventory

Inventory consists of purchased inventory related to mortgage foreclosures. Additional expenditures relating to the asset that are eligible for capitalization are added to the cost of inventory until it is substantially complete and ready for sale.

Inventory may consist of land made available for sale, fully serviced lots, and residential and commercial buildings. Inventories are valued at the lower of cost and net realizable value. The valuation techniques to determine net realizable value are discussed in Note 4.

#### *Total inventory*

	2018	2017
	\$	\$
Foreclosed mortgages inventory (derecognized financial asset)	<b>5,961</b>	88,122

#### *Accumulated write-down of inventory to net realizable value*

	2018	2017
	\$	\$
Balance, beginning of year	-	5,259
Write-down recognized	-	95,732
Reversal of write-down	-	(100,991)
Balance, end of year	-	-

### 8. Related party transactions

The Company invests in mortgages originated, sourced or arranged by CCI under an agreement with CCI. The entities are related by virtue of common shareholders. Under this agreement, CCI is entitled to a priority allocation of the interest accruing and payable on all mortgage loans up to 2.5% of the outstanding principal balance calculated daily, aggregated and paid monthly. CCI retains a priority interest allocation of up to 2.5% from the interest paid by the borrowers on the mortgage investments acquired by the Company. These Agreements have an unspecified term and may be terminated by the parties as specified therein.

The Company pays a management fee of 0.5% per annum of the proportionate share of the total assets of the Company attributable to the Series A1 and 1.0% per annum of the proportionate share of the total assets of the Company attributable to the Series B1 Preferred Shares, plus applicable taxes, calculated daily, aggregated and payable monthly in arrears, to Carecana for acting as its investment fund manager and portfolio manager. The entities are related by virtue of common management, directors and shareholders.

The Company pays to CVC Market Point Inc., its agent, any amounts it deducts from any redemption payments. The companies are related through common shareholders.

Settlement Corp. is a company related through common shareholders. Until April 2018, Settlement Corp. held funds in trust for interest earned from mortgage investments, interest paid to investors throughout the period and idle funds available for investment. Any amounts receivable or payable at period end remained in this trust. Advances and repayments were made to Settlement Corp. throughout the prior period at the request of the Company. As of April 23, 2018 these amounts are now held within the Company's own trust bank account.



# CareVest Blended MIC Fund Inc.

## Notes to the financial statements

December 31, 2018

(In Canadian dollars)

### 8. Related party transactions (continued)

During the year, the Company entered into the following transactions with related companies:

	Expenses	
	2018	2017
	\$	\$
Management fee		
Carecana Management Corp.	<b>31,263</b>	35,966
		Other
	2018	2017
	\$	\$
Priority interest retained by CareVest Capital Inc.	<b>79,962</b>	88,297

These transactions were in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related companies.

The following balances were outstanding at the end of the reporting period:

	2018	2017
	\$	\$
Due from		
CareVest Capital Inc.	-	12
	-	12
Due to		
Carecana Management Corp.	<b>2,691</b>	2,887
	<b>2,691</b>	2,887

#### *Compensation of key management personnel*

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of the Company. The Company had no employees and there was no remuneration for directors during the year (2017 - Nil).

# CareVest Blended MIC Fund Inc.

## Notes to the financial statements

December 31, 2018

(In Canadian dollars)

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### 9. Income taxes

Deferred income tax reflects the net tax effects of the temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax assets are as follows:

	2018	2017
	\$	\$
Deferred income tax asset		
Non-capital loss carry forwards	<b>142,693</b>	162,272
Tax rate	<b>27.00%</b>	27.00%
	<b>38,527</b>	43,813

The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible and during the loss carry-forward periods. Management considers the scheduled reversal of deferred tax assets and liabilities, projected future taxable income, and tax planning strategies in making this assessment. Due to future expected operating results, management has determined that it is probable that the deferred income tax assets will be realized. The Company has tax loss carry-forwards of \$142,693 (2017 - \$162,272), which expire by 2038 (2017 - 2037).

# CareVest Blended MIC Fund Inc.

## Notes to the financial statements

December 31, 2018

(In Canadian dollars)

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### 10. Preferred shares

*Authorized*, unlimited number

Class A Preferred Share, restricted voting

Series A1 Preferred Share, non-voting, retractable redeemable shares

Class B Preferred Share, restricted voting

Series B1 Preferred Share, non-voting, retractable redeemable shares

Class C Preferred Share, restricted voting

Class D Preferred Share, restricted voting

Class E Preferred Share, restricted voting

Class F Preferred Share, restricted voting

Series F1 Preferred Share, non-voting, retractable redeemable shares

Class G Preferred Share, restricted voting

First Preferred Share, restricted voting

Second Preferred Share, restricted voting

Third Preferred Share, restricted voting

Fourth Preferred Share, restricted voting

Fifth Preferred Share, restricted voting

# CareVest Blended MIC Fund Inc.

## Notes to the financial statements

December 31, 2018

(In Canadian dollars)

### 10. Preferred shares (continued)

The following table details the transactions that occurred during the year and total shares issued as at December 31, 2018 and December 31, 2017:

	Series A1 Preferred Shares	Series B1 Preferred Shares
	#	#
Number of shares outstanding December 31, 2016	3,975,808	1,619,482
Shares issued	90,990	29,873
Shares redeemed and retracted	(574,397)	(212,530)
Number of shares outstanding December 31, 2017	3,492,401	1,436,825
Shares issued	87,553	34,523
Shares redeemed and retracted	(642,332)	-
<b>Number of shares outstanding December 31, 2018</b>	<b>2,937,622</b>	<b>1,471,348</b>

	Series A1 Preferred Shares	Series B1 Preferred Shares
	\$	\$
Value of shares outstanding December 31, 2016	3,987,267	1,623,108
Shares issued for dividends	90,990	29,873
Shares redeemed	(574,397)	(212,530)
Value of shares outstanding December 31, 2017	3,503,860	1,440,451
Shares issued	5,000	-
Shares issued for dividends	82,553	34,523
Shares redeemed and retracted	(642,332)	-
<b>Value of shares outstanding December 31, 2018</b>	<b>2,949,081</b>	<b>1,474,974</b>

At December 31, 2018, there are 579,029 (\$579,029) (2017 - 642,332 (\$642,332)) Series A1 Preferred Shares and 324,000 (\$324,000), (2017 - Nil (\$Nil)) Series B1 Preferred Shares scheduled for redemption and retraction in the next fiscal year.

All Class A, B, C, D, E, F, G, First, Second, Third, Fourth and Fifth Preferred Shares shall not be entitled to vote separately as a class or series or to dissent upon a proposal to amend the articles of the Company to: (a) increase or decrease any maximum number of authorized shares of such class or series, or increase any maximum number of authorized shares of a class or series having rights or privileges equal or superior to the shares of such class or series; or (b) effect an exchange, reclassification or cancellation of all or part of the shares of such class or series; or (c) create a new class or series of shares equal or superior to the shares of such class or series.

#### *Retraction rights*

The Company may retract at any time and from time to time in its sole discretion any outstanding Series A1, B1 or F1 Preferred Share on such terms and conditions, including without limitation the method and payment therefore, as are established or set by resolution of the directors in their sole discretion from time to time.

# CareVest Blended MIC Fund Inc.

## Notes to the financial statements

December 31, 2018

(In Canadian dollars)

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### 10. Preferred shares (continued)

#### *Redemption features*

The registered holder of a Series A1 or Series B1 Preferred Share, by giving a duly completed and properly executed written notice to the Company (the "Redemption Notice"), is entitled to request that the Company redeem the whole or any part of the Preferred Shares of that series held by such holder:

- (a) once every twelve months (an "Annual Redemption"); or
- (b) upon approval of the directors in their sole discretion, at any other time (a "Discretionary Redemption").

Upon acceptance by the directors of the Redemption Notice and the redemption request, the Redemption Notice will thereafter be irrevocable by the holder without the consent of the Company and the preferred shares specified therein (the "Redeemable Shares") shall be considered to be tendered for redemption as at the acceptance date (the "Notice Date"). The holder of the Redeemable Shares shall continue to have all of the holder's rights as a shareholder in respect of each Redeemable Share until the Redemption Payment (as defined below) for that Redeemable Share has been paid in full.

The redemption payment for an Annual Redemption will be the Redemption Price of the Redeemable Share, calculated as at the end of business on the Business Day immediately preceding the Redemption Date (as defined below), plus the pro rata share of any dividend distributions declared on such Redeemable Share which have accrued up to and including the Redemption Date, to the extent same are not included in the calculation of the Redemption Price and remain unpaid (the "Annual Redemption Payment").

The redemption payment for a Discretionary Redemption will be the Redemption Price of the Redeemable Share, calculated as at the end of business on the Business Day immediately preceding the Redemption Date (as defined below), plus the pro rata share of any dividend distributions declared on such Redeemable Share which have accrued up to and including the Redemption Date, to the extent same are not included in the calculation of the Redemption Price and remain unpaid, less a discount in an amount set by the directors as at the Redemption Date (the "Discretionary Redemption Payment"), but not exceeding 3% of the Redemption Price.

For the purposes of these redemption provisions, the Annual Redemption Payment and the Discretionary Redemption Payment will together be referred to as the "Redemption Payment".

The Redemption Payment for each Redeemable Share will be reduced by a percentage of the original purchase price of the Redeemable Share in accordance with the following schedule:

(1)	Series A1	Series B1
Year 1	6%	3%
Year 2	5.5%	2%
Year 3	5%	1%
Year 4	3%	
Year 5	2%	

- (1) For the purpose of determining the applicable percentage, "year" is the year in which the Notice Date falls and each year is calculated from the issue date of a Redeemable Share to and including the next annual anniversary date.

# CareVest Blended MIC Fund Inc.

## Notes to the financial statements

December 31, 2018

(In Canadian dollars)

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### 10. Preferred shares (continued)

#### *Redemption features (continued)*

Subject to the limitations set out below, on the last day of the calendar month (or the next following Business Day if the last day of the calendar month falls on a day that is not a Business Day) which is five full months following the month in which the Notice Date falls or such earlier date as determined by the directors in their sole discretion (the "Redemption Date"), the Company will redeem the Redeemable Shares. Subject to the directors' right to extend the time for payment of any Redemption Payment if in their sole discretion the directors determine that such payment would be prejudicial to the interests of the remaining shareholders of the Company, and any limitations on the payment of the Redemption Payment set out in these redemption provisions, the Redemption Payment, less any reductions, amounts or fees payable in respect of the Redeemable Share, will be paid on or within 10 Business Days of the Redemption Date.

Notwithstanding any other provision of this redemption feature, the aggregate amount of the Redemption Payments that the Company is obliged to make on or in respect of each Redemption Date is limited to an amount that is equal to 1% of the aggregate Redemption Price of all Preferred Shares calculated as at the first day of the month in which the Redemption Date falls. Such aggregate amount of Redemption Payments includes amounts payable to shareholders who have previously tendered their Preferred Shares for redemption and the Redemption Payment for which has not been paid in full as of that Redemption Date. Redeemable Shares will be redeemed and Redemption Payments will be paid in order of receipt of Redemption Notices or *pari passu* if, in their sole discretion, the directors determine that *pari passu* would be better suited to the interests of the shareholders or the operations of the Company, on the next following Redemption Dates, or such earlier dates as determined by the directors in their sole discretion, until the Redemption Payment for such shares has been paid in full.

Notwithstanding any other provision of this redemption feature, the directors may, in their sole discretion at any time and from time to time suspend the redemption feature in respect of any or all of the Preferred Shares for such period of time as the directors determine, in their sole discretion, that: (a) conditions exist which render imprudent or impractical the Company's ability to obtain the cash on hand required to make any or all Redemption Payments; or (b) the suspension is in the best interests of the shareholders of the Company as a whole. The suspension may, in the sole discretion of the directors, apply to Preferred Shares tendered for redemption prior to the suspension but as to which payment in full has not been made, as well as to Preferred Shares tendered for redemption while the suspension is in effect. Any declaration of suspension by the directors is conclusive.

A shareholder may, with the consent of the Company, which may be given or withheld in its sole discretion, withdraw its redemption request and revoke its Redemption Notice by providing written notice to the Company.

Notwithstanding any other provision of this redemption feature, the directors may, but are not obliged to, in their sole discretion at any time and from time to time waive or alter the amount or payment of a fee or discount, or the reduction or limitation of any Redemption Payment, on any terms and conditions they so determine for any particular redemption request.

#### *Redemption price*

The Redemption Price of a Series A1 Preferred Share or Series B1 Preferred Share (collectively a "Preferred Share") at any time means the price of such Preferred Share as determined by the directors, acting reasonably, but in their sole discretion.

Factors that may be considered in determining Redemption Price at any time may include, without limitation, the last Redemption Price of that series of Preferred Share, the last offering price of that series of Preferred Share, fair value of the assets and liabilities attributable to that series of Preferred Share, the net sale, issue and holding costs of such Preferred Share, specific class or series expenses attributable to such Preferred Share, market prices for similar investments that are traded on a stock exchange in Canada, the variation inherent in any estimates used in the calculation of the Redemption Price of the Preferred Share to be redeemed, the liquidity reasonably available to the Company and/or general economic conditions in Canada.

# CareVest Blended MIC Fund Inc.

## Notes to the financial statements

December 31, 2018

(In Canadian dollars)

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### 11. Capital stock

*Authorized*, unlimited number

Class A common shares, voting, retractable

Class B common shares, restricted voting

Class C common shares, restricted voting

*Issued*

	2018	2017
	\$	\$
100 Class A common shares (2017 - 100)	<b>100</b>	100

All Class A common shares are fully paid, without a par value, carry one vote per share and are retractable at the option of the Company only. All Class B and C common shares shall not be entitled to vote separately as a class or series or to dissent upon a proposal to amend the articles of the Company to: (a) increase or decrease any maximum number of authorized shares of such class or series, or increase any maximum number of authorized shares of a class or series having rights or privileges equal or superior to the shares of such class or series; or (b) effect an exchange, reclassification or cancellation of all or part of the shares of such class or series; or (c) create a new class or series of shares equal or superior to the shares of such class or series.

### 12. Financial instruments and risk management

*Financial instruments*

*Fair value of financial instruments*

In determining the fair value of financial instruments, the Company maximizes the use of observable inputs and minimizes the use of unobservable inputs. Observable inputs reflect market-driven or market-based information obtained from independent sources, while unobservable inputs reflect the Company's estimate about market data. Based on the observability of significant inputs used, the Company classifies its fair value measurements in accordance with a three-level hierarchy. This hierarchy is based on the quality and reliability of the information used to determine fair value.

Level 1: Valuations are based on quoted prices in active markets for identical assets or liabilities. Since the valuations are based on quoted prices that are readily available in an active market, they do not entail a significant degree of judgment.

Level 2: Valuations are based on observable inputs other than quoted prices.

Level 3: Valuations are based on at least one unobservable input that is supported by little or no market activity and is significant to the fair value measurement.

In assigning the appropriate levels, the Company performs a detailed analysis of the financial assets and liabilities. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. The level within which the fair value measurement is categorized is based on the lowest level input that is significant to the fair value measurement in its entirety. Therefore, an item may be classified in Level 3 even though there may be other significant inputs that are readily observable.

# CareVest Blended MIC Fund Inc.

## Notes to the financial statements

December 31, 2018

(In Canadian dollars)

### 12. Financial instruments and risk management (continued)

*Financial instruments (continued)*

*Fair value of financial instruments (continued)*

The carrying values of cash, accounts receivable, finance income receivable, accounts payable and accrued liabilities, dividends payable and due to related companies approximate their fair values due to their short-term nature.

The carrying values of mortgages receivable approximate their fair values as they have a short-term to maturity and bear interest rates that approximate current market rates.

The carrying values of Series A1 and B1 Preferred Shares are measured and recorded at the redemption price which approximates their fair values.

The carrying value, fair value and fair value category for the Company's financial instruments are as follows:

		<b>2018</b>		
		<b>Fair value measurements using</b>		
	<b>Carrying value</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
	\$	\$	\$	\$
Financial assets				
Mortgages receivable - Stage 1 (Performing)	2,950,678	-	-	2,950,678
Mortgages receivable - Stage 2 (Doubtful)	-	-	-	-
Mortgages receivable - Stage 3 (Credit-impaired)	317,429	-	-	317,429
	<b>3,268,107</b>	-	-	<b>3,268,107</b>
Financial liabilities				
Series A1 Preferred Shares	2,949,081	-	-	2,949,081
Series B1 Preferred Shares	1,474,974	-	-	1,474,974
	<b>4,424,055</b>	-	-	<b>4,424,055</b>



# CareVest Blended MIC Fund Inc.

## Notes to the financial statements

December 31, 2018

(In Canadian dollars)

### 12. Financial instruments and risk management (continued)

*Financial instruments (continued)*

*Fair value of financial instruments (continued)*

	2017			
	Fair value measurements using			
Carrying value	Level 1	Level 2	Level 3	
\$	\$	\$	\$	\$
<b>Financial assets</b>				
Mortgages receivable - Stage 1 (Performing)	3,857,837	-	-	3,857,837
Mortgages receivable - Stage 2 (Doubtful)	-	-	-	-
Mortgages receivable - Stage 3 (Credit-impaired)	290,140	-	-	290,140
	<b>4,147,977</b>	<b>-</b>	<b>-</b>	<b>4,147,977</b>
<b>Financial liabilities</b>				
Series A1 Preferred Shares	3,503,860	-	-	3,503,860
Series B1 Preferred Shares	1,440,451	-	-	1,440,451
	<b>4,944,311</b>	<b>-</b>	<b>-</b>	<b>4,944,311</b>

There were \$Nil (2017 - \$Nil) transfers into or out of Level 3 of the fair value hierarchy during the year.

A reconciliation of mortgages receivable and preferred shares at December 31, 2018 is as follows:

	Total
	\$
Series A1 and Series B1 Preferred Shares, December 31, 2016	5,610,375
Issuance of Series A1 and Series B1 Preferred Shares	120,863
Redemption and retraction of Series A1 and Series B1 Preferred Shares	<u>(786,927)</u>
Series A1 and Series B1 Preferred Shares, December 31, 2017	4,944,311
Issuance of Series A1 and Series B1 Preferred Shares	122,076
Redemption and retraction of Series A1 and Series B1 Preferred Shares	<u>(642,332)</u>
Series A1 and Series B1 Preferred Shares, December 31, 2018	<b><u>4,424,055</u></b>

#### *Risk management*

The Company holds various financial instruments and its activities expose it to a variety of financial risks: credit risk, interest rate risk, and liquidity risk. The Company's directors have overall responsibility for the establishment and oversight of the Company's risk management framework.

#### *i) Credit risk*

The Company's principal financial assets are cash, accounts receivable, finance income receivable and mortgages receivable, the carrying amount of which represents the Company's exposure to credit risk in relation to financial assets.

# CareVest Blended MIC Fund Inc.

## Notes to the financial statements

December 31, 2018

(In Canadian dollars)

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### 12. Financial instruments and risk management (continued)

#### *Risk management (continued)*

##### *i) Credit risk (continued)*

The Company's credit risk is primarily attributable to its mortgages receivable. The amounts disclosed in the statements of financial position are net of mortgage impairment provisions estimated by the Company. In order to reduce its risk, the Company has adopted investment policies, practices and restrictions are as follows:

- (a) The Company will invest in commercial, industrial and residential mortgages;
- (b) The Company will make investments by purchasing interests in investments originated, sourced or arranged by CCI and its affiliates and associates;
- (c) Following funding, all of our mortgages will be registered on title to the subject property in our name, CCI or its affiliates' name, or a nominee bare trustee for us or CCI;
- (d) All mortgage investments will be made in Canada;
- (e) The Company will generally invest only in mortgages on properties for which we have reviewed and evaluated an independent appraisal and generally we will receive a Phase I Environmental Audit of the property;
- (f) The Company will generally not invest in a mortgage or loan any funds to be secured by a mortgage unless at the date the mortgage is acquired or funds are initially committed (as the case may be) the indebtedness secured by such mortgage plus the amount of additional secured third party indebtedness of the borrower in priority to us, if any, generally does not exceed, on a property by property basis, (a) 75% of the appraised value of the real property securing the mortgage, as determined by our directors or such person(s) authorized by the directors from time to time; or (b) in the case of a mortgage on a residential construction project which has been pre-sold, 80% of the sale price; provided that the appraised value may be based on stated conditions including without limitation, construction, completion, rehabilitation or lease-up of improvements located on the real property;
- (g) If the independent appraisal reports an appraised value for the real property securing the mortgage other than on an "as is basis", we may advance funds under a loan by way of progress payments upon completion of specified stages of construction or development supported by receipt of reports of qualified inspectors, which may include professional engineers, architects or quantity surveyors, as applicable, or upon completion of other specified milestones;
- (h) The Company will not make any investment that would result in our failing to qualify as a mortgage investment corporation as that term is defined in the Tax Act, as amended from time to time;
- (i) To the extent that, from time to time, our funds are not invested in mortgages or mortgage backed securities, we will hold such funds in cash deposited with a Canadian chartered bank or such funds may be invested in short term investments, deposits, savings accounts or government guaranteed income certificates or treasury bills so as to maintain a level of working capital for our ongoing operations considered acceptable by our directors in their sole discretion; and
- (j) The Company may, as a means of investing indirectly in mortgages, invest in mortgage backed securities, provided that the securitized portion of the mortgages in which we invest and which secure the bond, unit or other financial obligations that comprise the mortgage backed securities meet the requirements of paragraph (f) above.

# CareVest Blended MIC Fund Inc.

## Notes to the financial statements

December 31, 2018

(In Canadian dollars)

### 12. Financial instruments and risk management (continued)

#### *Risk management (continued)*

##### *i) Credit risk (continued)*

The Company assesses the credit worthiness of its customers on an ongoing basis as well as monitoring the amount and age of balances outstanding. Mortgages receivable are fully secured by a charge against the underlying assets. Mortgages receivable that are considered to be neither outstanding nor impaired have a high credit quality as the Company only invests in mortgages receivable with counterparties that have been independently reviewed by CCI and are considered to be in good credit standings and have the ability to make both principal and interest payments as required. Accordingly, the Company views the credit risk on these amounts as normal for the industry.

The Company has tasked its credit committee to develop and maintain the Company's credit risk grading to categorize exposures according to their degree of risk of default. The Company's exposure and the credit ratings of its counterparties are continuously monitored.

Category	Description	Basis for recognizing expected credit losses
<b>Performing</b>	The counterparty has a low risk of default and does not have any past-due amounts	12m ECL (Stage 1)
<b>Doubtful</b>	Amount is >30 days past due or there has been a significant increase in credit risk since initial recognition	Lifetime ECL – not credit impaired (Stage 2)
<b>Credit-impaired</b>	Amount is >90 days past due or there is evidence indicating the asset is credit-impaired	Lifetime ECL – credit impaired (Stage 3)
<b>Write-off</b>	There is evidence indicating that the debtor is in severe financial difficulty and the Company has no realistic prospect of recovery	Amount is written off

The credit risk on cash on deposit is with Canadian chartered banks with high credit ratings assigned by Moody's and Standard and Poor's.

The tables below detail the credit quality of the Company's financial assets and other items, as well as the Company's maximum exposure to credit risk by credit risk rating grades:

December 31, 2018	# days past due	Category	12m of Lifetime ECL	Gross carrying amount	Loss allowance	Net carrying amount
Cash (Note 5)	-	N/A	N/A	1,233,610	-	1,233,610
Accounts receivable	-	Stage 1	12m	170	-	170
Finance income receivable	-	Stage 1	12m	18,977	1,385	17,592
Mortgages receivable	-	Stage 1	12m	2,967,460	16,782	2,950,678
Mortgages receivable	>90	Stage 3	Lifetime	463,707	146,278	317,429
				<b>4,683,924</b>	<b>164,445</b>	<b>4,519,479</b>

# CareVest Blended MIC Fund Inc.

## Notes to the financial statements

December 31, 2018

(In Canadian dollars)

### 12. Financial instruments and risk management (continued)

*Risk management (continued)*

*i) Credit risk (continued)*

<u>December 31, 2017</u>	<u>Gross carrying amount</u>	<u>Loss allowance</u>	<u>Net carrying amount</u>
Cash (Note 5)	739,935	-	739,935
Accounts receivable	1,365	-	1,365
Finance income receivable	26,325	-	26,325
Mortgages receivable	3,857,837	-	3,857,837
Mortgages receivable	540,816	250,676	290,140
Due from related companies (Note 8)	12	-	12
	<b>5,166,290</b>	<b>250,676</b>	<b>4,915,614</b>

The credit exposure related to mortgages receivable are outlined in Note 6.

Although the Company seeks to manage its credit risk exposure, there can be no assurance that the Company will be successful in eliminating the potential adverse impact of such risks.

*ii) Interest rate risk*

The Company is exposed to interest rate risk on the variable interest rate mortgages receivable to the extent of changes in the prime interest rate. As of December 31, 2018 the Company currently has six variable interest bearing mortgages receivable totalling \$634,797 (2017 - two mortgages, \$944,730). These mortgages are protected by individual floor rates. One of these mortgages is currently earning 0.25% above its floor rate (2017 - One mortgage earning floor rate). At December 31, 2018 this mortgage would be impacted by a 0.5% increase in prime rate but only a 0.25% decrease in prime rate, while the other mortgages would be impacted by both an increase or decrease of 0.5% in prime rate. With all other variables constant, a 0.5% increase in prime rate would result in an increase in net earnings of \$3,174 (2017 - \$4,724), while a 0.5% decrease in prime rate would result in a decrease of net earnings of \$2,799 (2017 - \$2,999).

*iii) Liquidity risk*

Ultimate responsibility for liquidity risk management rests with management, which has established an appropriate liquidity risk management for the management of the Company's short, medium, and long-term funding and liquidity management requirements. The Company's objective is to have sufficient liquidity to meet its liabilities when due. The Company manages liquidity risk by maintaining adequate reserves and banking facilities, by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities.

The following table details the Company's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Company can be required to pay. The tables include both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curves at the end of the reporting period. The contractual maturity is based on the earliest date on which the Company may be required to pay.

# CareVest Blended MIC Fund Inc.

## Notes to the financial statements

December 31, 2018

(In Canadian dollars)

### 12. Financial instruments and risk management (continued)

*Risk management (continued)*

#### iii) Liquidity risk

The Company has the following financial liabilities at the reporting date:

			2018	
	Carrying value	Current	Due between 61 to 365 days	Due greater than 365 days
	\$	\$	\$	\$
Accounts payable and accrued liabilities	15,832	15,832	-	-
Dividends payable	84,441	84,441	-	-
Due to related companies	2,691	2,691	-	-
Series A1 Preferred shares	2,949,081	579,029	-	2,370,052
Series B1 Preferred shares	1,474,974	324,000	-	1,150,974
	<b>4,527,019</b>	<b>1,005,993</b>	<b>-</b>	<b>3,521,026</b>

			2017	
	Carrying value	Current	Due between 61 to 365 days	Due greater than 365 days
	\$	\$	\$	\$
Accounts payable and accrued liabilities	12,771	12,771	-	-
Dividends payable	41,531	41,531	-	-
Due to related companies	2,887	2,887	-	-
Series A1 Preferred shares	3,503,860	642,332	-	2,861,528
Series B1 Preferred shares	1,440,451	-	-	1,440,451
	<b>5,001,500</b>	<b>699,521</b>	<b>-</b>	<b>4,301,979</b>

Mortgage investments tend to be relatively illiquid, with the degree of liquidity generally fluctuating in relation to demand for and the perceived desirability of the investment. Such illiquidity may tend to limit the Company's ability to vary its mortgage investments promptly in response to changing economic or investment conditions. If the Company were required to liquidate its real property mortgage investments, the proceeds to the Company might be significantly less than the total value of its investments. The Company will be subject to the risks associated with debt financing, including the risk that mortgage indebtedness secured by the properties of the Company will not be able to be refinanced or that the terms of refinancing will not be as favourable as the terms of the existing indebtedness.

# CareVest Blended MIC Fund Inc.

## Notes to the financial statements

December 31, 2018

(In Canadian dollars)

### 13. Changes in non-cash working capital

	2018	2017
	\$	\$
Accounts receivable and due from related companies	1,207	2,719
(Additions) reductions to inventory	-	(122,215)
Accounts payable and accrued liabilities and due to related companies	2,865	(9,903)
Sales of inventory	139,116	504,661
Prepaid expenses and deposits	50	2,245
	<b>143,238</b>	<b>377,507</b>

### 14. Capital disclosures

The Company defines capital as Common and Series A1 and Series B1 Preferred Shares as recognized in the financial statements. The Company's management of capital is to safeguard the Company's ability to continue as a going concern in order to provide shareholders with sustainable income while preserving capital for distribution or re-investment by investing in mortgages receivable commensurately with the Company's investment policies.

The Company manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, or sell assets.

There have been no changes in how the Company defines or manages its capital structure.

The Company has the following capital outstanding as at December 31, 2018.

	2018	2017
	\$	\$
Series A1 Preferred Shares	2,949,081	3,503,860
Series B1 Preferred Shares	1,474,974	1,440,451
Capital stock	100	100
	<b>4,424,155</b>	<b>4,944,411</b>

### 15. Application of new and revised International Financial Reporting Standards

#### *IFRS 9 – Financial Instruments*

Effective January 1, 2018, the Company has applied IFRS 9 Financial Instruments. Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except for comparative periods, which have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognized in retained earnings, net of tax and reserves as at January 1, 2018. Accordingly, the information presented for 2017 does not reflect the requirements for IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9.

# CareVest Blended MIC Fund Inc.

## Notes to the financial statements

December 31, 2018

(In Canadian dollars)

### 15. Application of new and revised International Financial Reporting Standards (continued)

#### *IFRS 9 – Financial Instruments (continued)*

The table below illustrates the classification and measurement of financial assets and financial liabilities under IFRS 9 and IAS 39 at the date of initial application, January 1, 2018.

	Original measurement category under IAS 39	New measurement category under IFRS 9
1. Cash	Loans and receivables	Amortized cost
2. Accounts receivable	Loans and receivables	Amortized cost
3. Finance income receivable	Loans and receivables	Amortized cost
4. Mortgages receivable	Loans and receivables	Amortized cost
5. Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost
6. Dividends payable	Other financial liabilities	Amortized cost
7. Due to related companies	Other financial liabilities	Amortized cost
8. Preferred shares	Other financial liabilities	Amortized cost

#### *Financial impact of initial application of IFRS 9*

Statement of financial position line item impact

	As at December 31, 2017	Effect of IFRS 9 Adoption	After Adoption As at January 1, 2018
	\$	\$	\$
Mortgage receivable - net of allowance	4,147,977	(24,690)	4,123,287
Deferred tax asset	43,813	6,666	50,479
Retained earnings	46,002	(18,024)	27,978

The additional loss allowance recognized upon the initial application of IFRS 9, as discussed below, resulted entirely from a change in the measurement attribute of the loss allowance relating to mortgages receivable. The change in measurement category of the different financial assets has had no impact on their respective carrying amounts on initial application.

There were no financial assets or financial liabilities which the Company had previously designated as at FVTPL under IAS 39 that were subject to reclassification, or which the Company has elected to reclassify upon the application of IFRS 9. There were no financial assets or financial liabilities which the Company has elected to designate as at FVTPL at the date of initial application of IFRS 9.

The additional credit loss allowance of \$24,690 as at January 1, 2018 has been recognized against retained earnings on the respective date, net of their related deferred tax impact of \$6,666, resulting in a net decrease in retained earnings of \$18,024.

The application of IFRS 9 has had no impact on the consolidated cash flows of the Company.

#### *IFRS 15 – Revenue from Contracts with Customers*

Effective January 1, 2018 the Company has applied IFRS 15 – Revenue from Contracts from Customers, which replaces IAS 8 – Revenue. This new standard focuses on revenue recognition principles to depict the control and transfer of goods or services to customers. As these types of transactions do not apply to the operations of the Company, IFRS 15 does not have an impact on the financial position or cash flows of the Company.

# CareVest Blended MIC Fund Inc.

## Notes to the financial statements

December 31, 2018

(In Canadian dollars)

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### 16. Subsequent events

#### *Contingent claims*

In the normal course of business, the Company may be subject to legal proceedings and other claims which may arise. The prediction of the outcome of such uncertain events (i.e. being likely, unlikely or not determinable), the determination of whether recognition in the financial statements is required, and the estimation of potential financial effects are all matters for judgment.

The Company is pursuing a claim for damages arising from a failure to remove a registration from title to certain lands held in trust for the Company. In the opinion of management, the resolution of these actions is not expected to materially affect the Company's financial position or results of operations. The amount and timing of the damage recoveries cannot be determined at this time, therefore for the year ended December 31, 2018, no amounts have been recognized in the financial statements.