Financial statements of

CareVest Mortgage Investment Corporation

December 31, 2017

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Table of contents

Independent Auditor's Report 1-2

Statement of loss and total comprehensive loss 3

Statement of changes in equity 4

Statement of financial position 5

Statement of cash flows 6

Notes to the financial statements 7-30

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Independent Auditor's Report

To the Shareholders of
CareVest Mortgage Investment Corporation

We have audited the accompanying financial statements of CareVest Mortgage Investment Corporation, which comprise the statement of financial position as at December 31, 2017, and the statement of loss and total comprehensive loss, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of CareVest Mortgage Investment Corporation as at December 31, 2017, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Deloitte LLP

Chartered Professional Accountants
March 23, 2018
Calgary, Alberta

CareVest Mortgage Investment Corporation

Statement of loss and total comprehensive loss
year ended December 31, 2017

(In Canadian dollars)

	2017	2016
	$	$
Revenue (Note 13)		
Other	**7,523,507**	8,454,061
Finance	**5,946,194**	8,440,176
	13,469,701	16,894,237
Expenses		
Cost of sales - inventory	**7,912,569**	7,963,877
Dividends on Class A shares	**2,905,002**	1,867,851
Management fee (Note 12)	**2,508,288**	2,853,561
Inventory holding costs	**603,327**	759,130
Mortgage administration fee (Note 12)	**241,770**	267,471
Professional fees	**66,848**	64,967
Other	**37,756**	230,869
Mortgage recovery cost	**35,564**	79,736
Insurance	**34,648**	28,326
(Reversal of) inventory write-down (Note 8)	**(354,359)**	977,487
(Recovery of) impairment of mortgages receivable (Note 7)	**(1,338,569)**	1,722,226
	12,652,844	16,815,501
Earnings before other item	**816,857**	78,736
Retraction loss (Note 11)	**(928,114)**	-
(Loss) earnings before income taxes	**(111,257)**	78,736
Deferred income tax expense (Note 14)	**3,949,861**	168,595
Net loss and total comprehensive loss	**(4,061,118)**	(89,859)

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

CareVest Mortgage Investment Corporation

Statement of changes in equity
year ended December 31, 2017
(In Canadian dollars)

	Capital stock	Retained earnings	Total
	$	$	$
Balance, December 31, 2015	419	10,563,690	10,564,109
Loss for the year and total comprehensive loss	-	(89,859)	(89,859)
Balance, December 31, 2016	419	10,473,831	10,474,250
Loss for the year and total comprehensive loss	-	(4,061,118)	(4,061,118)
Balance, December 31, 2017	**419**	**6,412,713**	**6,413,132**

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

CareVest Mortgage Investment Corporation

Statement of financial position
as at December 31, 2017

(In Canadian dollars)

	2017	2016
	$	$
Assets		
Cash (Note 6)	**12,760,598**	10,961,560
Accounts receivable	**40,709**	97,266
Due from related companies (Note 12)	**1,037**	-
Finance income receivable	**586,148**	487,681
Mortgages receivable, net of allowance (Note 7)	**89,724,039**	101,046,137
Inventory (Note 8)	**26,424,459**	31,337,164
Investments (Note 12)	**97,284**	253,984
Prepaid expenses and deposits	**16,989**	23,545
Deferred income taxes (Note 14)	**6,410,684**	10,360,545
	136,061,947	154,567,882
Liabilities		
Accounts payable and accrued liabilities	**394,106**	580,676
Dividends payable	**252,504**	181,171
Due to related companies (Note 12)	**219,130**	256,262
Mortgage payable (Note 9)	**607,082**	2,338,827
Class A shares (Note 11)	**128,175,993**	140,736,696
	129,648,815	144,093,632
Shareholders' equity		
Capital stock (Note 10)	**419**	419
Retained earnings	**6,412,713**	10,473,831
	6,413,132	10,474,250
	136,061,947	154,567,882

Approved by the Board

Director

Director

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

CareVest Mortgage Investment Corporation

Statement of cash flows
year ended December 31, 2017
(In Canadian dollars)

	2017	2016
	$	$
Operating activities		
Net loss	**(4,061,118)**	(89,859)
Finance income	**(5,946,194)**	(8,440,176)
Dividends on Class A shares	**2,905,002**	1,867,851
Retraction loss	**928,114**	-
Deferred income tax expense	**3,949,861**	168,595
Gain on inventory sale	**(1,486,170)**	(547,082)
Dividend reinvested (Note 11)	**(242,123)**	(188,133)
Changes in non-cash working capital (Note 16)	**6,237,249**	8,816,974
(Recovery of) allowance of mortgages receivable (Note 7)	**(1,338,569)**	1,722,226
Finance income received	**5,847,727**	8,589,751
Dividends paid	**(2,591,546)**	(1,669,719)
	4,202,233	10,230,428
Investing activities		
Investments (Note 12)	**156,700**	-
Advances of mortgages receivable	**(43,356,079)**	(42,314,954)
Repayments of mortgages receivable	**56,016,746**	55,855,753
	12,817,367	13,540,799
Financing activities		
Demand loan repayments	**-**	(534,839)
Issuance of Class A shares (Note 11)	**242,123**	188,133
Retraction of Class A shares (Note 11)	**(13,730,940)**	(15,145,038)
Advances of mortgages payable	**1,081,253**	2,915,813
Repayments of mortgages payable	**(2,812,998)**	(576,986)
	(15,220,562)	(13,152,917)
Net increase in cash	**1,799,038**	10,618,310
Cash, beginning of year	**10,961,560**	343,250
Cash, end of year (Note 6)	**12,760,598**	10,961,560

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

1. Nature of operations

CareVest Mortgage Investment Corporation (the "Company" or "CV MIC") was incorporated under the Canada Business Corporations Act on November 2, 2012. On January 1, 2013, CareVest Second Mortgage Investment Corporation ("CV 2nd"), CareVest Blended Mortgage Investment Corporation ("CV Blended"), CareVest Capital Blended Mortgage Investment Corp. ("CC Blended"), Canadian Horizons Blended Mortgage Investment Corporation ("CH Blended"), and the Company (together, the "Amalgamated Entities") were amalgamated to form the Company's current structure. The address of the registered office and principal place of business is Suite 1800, 555 - 4th 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.

The financial statements were approved by the directors, Mr. Mike Helfer and Ms. Shauna Campbell, and authorized for issue on March 23, 2018.

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 at 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 year 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), net of outstanding bank overdrafts including cash held in trust by Carecana Settlement Corp. ("Settlement Corp."). All components are liquid and any short-term investments have an original maturity of less than three months.

3. Significant accounting policies (continued)

Mortgages receivable

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 5. 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.

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 mortgage investments from CCI. Finance income is accounted for on an accrual basis and is measured at the fair value of the consideration received or receivable.

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 on a timely basis, 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.

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.

3. Significant accounting policies (continued)

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

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 ("HTM") investments, 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
Due from related companies	Loans and receivables
Finance income receivable	Loans and receivables
Mortgages receivable	Loans and receivables
Investments	HTM

Financial assets – held to maturity

Investments which are non-derivative financial assets with fixed or determinable payment that the entity has the intention and ability to hold until maturity are classified as HTM. HTM financial assets are originally recorded at fair value and subsequently measured at amortized cost using the effective interest method.

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. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

3. Significant accounting policies (continued)

Financial instruments (continued)

Financial assets - loans and receivables

Cash, accounts receivable, due from related companies, finance income receivable and mortgages receivable that have fixed or determinable payments and are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortized cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Financial assets - impairment of financial assets

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.

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.

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 other financial liabilities.

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

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	Other financial liabilities
Dividends payable	Other financial liabilities
Due to related companies	Other financial liabilities
Mortgage payable	Other financial liabilities
Class A shares	Other financial liabilities

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 from the Amalgamated Entities and current and prior period earnings from the Company.

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.

Class A shares

Class A 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. International Accounting Standard 39, Financial Instruments: Recognition and Measurement ("IAS 39"), requires the preferred shares to be recorded at the retraction price. The shares are subsequently measured and recorded at the retraction price. The retraction price is calculated using the net asset value ("NAV") which approximates fair value. The dividends on these preferred shares and any retraction 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 comprise the interest earned on the mortgages receivable less all expenses of the Company.

4. Future accounting changes

IFRS 9, Financial Instruments

IFRS 9, "Financial Instruments" ("IFRS 9"), issued by the IASB on November 12, 2009 and subsequently revised in July 2014, will replace IAS 39, "Financial Instruments: Recognition and Measurement" ("IAS 39") and is effective for annual periods beginning on or after January 1, 2018.

IFRS 9 includes new guidance on classification and measurement for financial assets and a new framework for impairment on financial assets. IFRS 9 replaces the actual incurred loss accounting model for credit deterioration in IAS 39 with an expected credit loss model that requires forecasting and projection of loss allowances for financial assets based on various risk and economic factors.

IFRS 9 requires reclassification of financial instruments from the categories in which they currently reside (Note 3) to those available under IFRS 9. IFRS 9 primarily has two categories: amortized cost and fair value, which includes both fair value through other comprehensive income ("FVOCI") and fair value through profit or loss ("FVTPL"). Under IFRS 9, the classification and measurement of financial assets will be driven by the Company's business model for managing the financial assets and their contractual cash flows.

4. Future accounting changes (continued)

IFRS 9, Financial Instruments (continued)

Based on the Company's initial assessment, IFRS 9 is not expected to have a material impact on the classification and measurement of financial instruments, since the financial assets continue to be held in a business model whereby the objective is to collect contractual cash flows, representing a repayment of principal, along with any interest payments on that principal amount. Under IFRS 9, this model results in financial assets being classified and recorded using amortized cost. Under IAS 39, such financial assets were classified as loans and receivables, which are also measured using amortized cost, therefore there should be no change to classification or measurement.

IFRS 9 also introduces the expected credit loss ("ECL") model for impairment of financial assets measured at amortized cost. The impairment approach in IFRS 9 is based on expected credit losses. Therefore, it is not necessary for a loss event to have occurred before credit losses are recognised. Instead, a loss allowance will always be recognised for expected credit losses and will be re-measured at each reporting date for changes in those expected credit losses. The majority of the impact of IFRS 9 on the Company relates to the implementation of the ECL model.

The Company is in the final stages of its evaluation of the impact of this standard. The Company will adopt IFRS 9 for the annual period commencing January 1, 2018 and will apply the standard on a retrospective basis as required. Under this approach, the comparative period will not be restated and a cumulative transitional adjustment to the opening retained earnings balance will be recognized on January 1, 2018.

IFRS 15, Revenue from Contracts with Customers

IFRS 15, "Revenue from Contracts with Customers" ("IFRS 15"), issued by the IASB in May 2014, will replace IAS 18 "Revenue" ("IAS 18"). IFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. It sets out the core principle that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled. A five step approach to recognizing revenue is prescribed by IFRS 15 and focusses on control of the goods or services being transferred to the customer. Enhanced disclosure requirements are also required by the new standard. IFRS 15 is effective for annual periods beginning on or after January 1, 2018, with earlier application permitted. The Company does not expect a material impact from IFRS 15 on its Financial Statements due to the nature of its revenue stream.

5. Critical accounting judgments and key source 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.

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

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 its the related mortgage receivable (financial instrument). At each reporting period management reviews its outstanding mortgages following the requirements of IAS 39 in order to determine if any mortgages receivable may be required to be derecognized. IAS 39 requires that 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

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 15.

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.

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

Impairment

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.

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.

Retraction price

The retraction price of a Class A share is determined by the directors on a monthly basis, for which they must make estimates and assumptions over factors involved. Retraction price is set at NAV.

The intent of NAV is to provide additional useful information to investors to make investment decisions and does not have any standardized meaning under IFRS. NAV should therefore not be considered in isolation or used in substitute for measures of performance prepared in accordance with IFRS. Other issuers may calculate NAV differently. Factors that may be considered in determining NAV include the valuation of certain assets and liabilities to be included or deducted for the purpose of calculating NAV. The directors will review and, if required from time to time, consider the appropriateness of the valuation guidelines adopted by the Company.

6. 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 statement of financial position as follows:

	2017	2016
	$	$
Operating deposit bank account	**273,051**	171,171
Cash held in trust (Note 12)	**12,487,547**	10,790,389
	12,760,598	10,961,560

7. 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, Alberta, and Ontario.

As at December 31, 2017, the Company had mortgages receivable which earn interest at rates from 5.0% to 15.0% (2016 - 5.0% to 15.0%) per annum and are secured by real property. The mortgages receivable are typically due within 6-18 months.

	2017	2016
	$	$
Mortgages due within the next 12-month period, net of allowance	**73,583,798**	85,799,670
Mortgages due after the next 12-month period, net of allowance	**16,140,241**	15,246,467
	89,724,039	101,046,137

Aging of mortgages receivable in arrears but not impaired

Mortgage receivables disclosed above at points in time can include amounts that may be in arrears but against which the Company has not recognized an allowance for mortgage impairment on specific mortgages because there has not been a significant change in credit quality and the amounts are still considered recoverable. A mortgage is defined as being in arrears when the principal is not received in accordance with the terms of the original agreement. A mortgage is defined as being impaired when evidence received during the impairment review suggests that the security provided for the mortgage may not be sufficient to repay the amounts owing under the loan. When a loan is defined as impaired, an allowance for mortgage impairment is recognized to reflect the potential loss. 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.

Mortgages receivable in arrears at December 31 are broken out as follows:

	2017	2016
	$	$
0-90 days past due	**-**	-
91-365 days past due	**-**	-
Over 365 days past due	**-**	-
	-	-

7. Mortgages receivable (continued)

Mortgages receivable impairment provision

	2017	2016
	$	$
Balance, beginning of year	**32,683,907**	34,412,561
Impairment losses recognized	**877,442**	6,817,249
Impairment losses reversed	**(2,216,011)**	(5,095,023)
Amounts written off during the year as uncollectable	**(2,520,504)**	(3,450,880)
	28,824,834	32,683,907

In 2017, the Company recovered $2,216,011 (2016 - $5,095,023) 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 mortgages receivable have been divided for information purposes as follows:

	2017	2016
	$	$
Residential mortgages, net of allowance ($28,824,834, 2016 - $32,683,907)	**71,699,635**	82,023,388
Commercial mortgages	**18,024,404**	19,022,749
	89,724,039	101,046,137

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.

	2017	2016
	$	$
Alberta	**29,713,128**	33,138,182
British Columbia	**59,909,434**	67,713,676
Ontario	**101,477**	194,279
	89,724,039	101,046,137

	2017	2016
	$	$
Land	**50,385,977**	55,866,337
Construction	**36,863,927**	42,902,813
Inventory	**2,348,126**	2,108,155
Servicing	**126,009**	168,832
	89,724,039	101,046,137

7. Mortgages receivable (continued)

Mortgages receivable impairment provision (continued)

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.

In determining the recoverability of a mortgage receivable, the Company considers any change in the credit quality of the receivable from the date credit was granted up to the end of the reporting period. The concentration of credit risk is limited due to the customer base being large and unrelated.

Valuation techniques and assumptions are discussed in Note 5.

8. Inventory

Inventory consists of different components: purchased inventory related to impaired mortgages and foreclosures, and derecognized financial assets reclassified as inventory. The table below distinguishes between these.

The Company also purchased lots directly from a borrower to expedite the sales of these lots. The project consisted of 29 single family lots. As at December 31, 2017, 23 (December 31, 2016 - 19) of these lots have been sold. The remaining 6 lots are available for sale and expect to be sold in the future.

The Company also purchased 55 completed strata units directly from a borrower in order to expedite the sale of these units. The amount of consideration was established at current market pricing for the units. At December 31, 2017, all 55 (2016 - 35) of these units have sold. Of the sales that occurred in 2017, 5 had closing dates subsequent to year in January and February 2018 and will be recorded in fiscal 2018.

Additionally, under the guidance of IAS 39, Financial Instruments, certain mortgages receivable qualified for derecognition as a result of past legal actions taken by the Company, which terminated the Company's contractual rights to cash flows from the borrower. Following the guidelines of IAS 2, *Inventory,* the asset qualifies for classification as inventory as once court proceedings are completed, the Company obtains title to the land which it now intends to sell. 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 consists of land made available for sale, fully serviced lots, and residential and commercial buildings. Inventory is valued at the lower of cost and net realizable value. The valuation techniques to determine net realizable value are discussed in Note 5.

Total inventory

	2017	2016
	$	$
Units (purchased inventory related to impaired mortgages and foreclosures), net of write-down ($94,420, 2016 - $186,634)	**1,360,892**	4,255,718
Foreclosed mortgages inventory (derecognized financial asset), net of write-down ($18,703,300, 2016 - $18,965,445)	**25,063,567**	27,081,446
	26,424,459	31,337,164

8. Inventory (continued)

Accumulated write-down of inventory to net realizable value

	2017	2016
	$	$
Balance, beginning of year	**19,152,079**	18,174,592
Write-down recognized	**1,726,688**	1,495,689
Reversal of write-down	**(2,081,047)**	(518,202)
Balance, end of year	**18,797,720**	19,152,079

9. Mortgage payable

The Company has one mortgage payable outstanding (2016 - two), which were entered into in the prior years in order to assist in financing certain inventories to ready them for sale.

The mortgage with Vancouver City Savings Credit Union (“VanCity”) was a variable rate mortgage with interest of VanCity prime + 0.75%. As at December 31, 2017 the VanCity mortgage has been fully paid off and terminated. As at December 31, 2016 VanCity prime was 2.70% and the amount of the mortgage payable outstanding was $1,784,835.

The mortgage with Canadian Western Bank (“CWB”) consists of a loan and a letter of credit. The loan bears a floating interest rate of 1.50% per annum above the bank’s prime lending rate (“Prime”). As at December 31, 2017, Prime is 3.20% (2016 - 2.70%). Interest is calculated daily, payable monthly in arrears up to and including the month end of the 18th month from the first advance and thereafter unless the loan maturity date has been extended. If extended, the interest rate would then increase to Prime plus 5.0% per annum calculated and payable monthly in arrears. The loan is repayable in full the earlier of 18 months from the first advance which occurred October 4, 2016, or the date payment is demanded by the bank as a result of default of the Company. The amount of the loan outstanding at December 31, 2017 is $607,082 (2016 - $553,992).

The letter of credit with CWB has a floating interest rate of 1.50% per annum above Prime on all sums paid by CWB under the credit facility. The letter of credit has an expiry date of August 2, 2018. As at December 31, 2017 or 2016 the credit facility has not been drawn on.

10. Capital stock

Authorized, unlimited number

Voting shares redeemable

Issued

	2017	2016
	$	$
114 (2016 - 114) voting shares	**419**	419

Voting shares are fully paid, without a par value and carry one vote per share.

11. Class A shares

Authorized, unlimited number

Class A shares, non-voting, purchasable for cancellation, retractable and redeemable

Class B shares, non-voting, purchasable for cancellation, retractable and redeemable

Class C shares, terms to be fixed by directors

Class I shares, non-voting, purchasable for cancellation, retractable and redeemable

The following table details the transactions that occurred during the year and total shares issued as at December 31, 2017 and December 31, 2016:

	Class A shares
	#
Number of shares outstanding, December 31, 2015	18,672,633
Shares issued	22,551
Shares retracted	(1,816,748)
Number of shares outstanding, December 31, 2016	16,878,436
Shares issued	28,990
Shares retracted	(1,645,547)
Number of shares outstanding, December 31, 2017	**15,261,879**

	Class A shares
	$
Value of shares outstanding, December 31, 2015	155,693,601
Shares issued for dividends	188,133
Shares retracted	(15,145,038)
Value of shares outstanding, December 31, 2016	140,736,696
Shares issued for dividends	242,123
Shares retracted	(13,730,940)
Retraction loss	928,114
Value of shares outstanding, December 31, 2017	**128,175,993**

At December 31, 2017, there were $Nil (2016 - $Nil) Class A shares scheduled for retraction in the next fiscal year.

11. Class A shares (continued)

Class A, B and I shares are not entitled to vote. The Class A, B and I shares are entitled to receive dividends, payments on a reduction of stated capital or any combination of any such distribution. Class A, B and I shares can be purchased for cancellation or redeemable, at the option of the Company. Class A, B and I shares are retractable at the option of the holder. Class B and I shares are exchangeable for Class A shares. In the event of a liquidation, dissolution or winding up or distribution of assets of the Company, the holders Class A, B and I shares rank equally with each other and any other shares of the Company ranking junior to the Class A, B and I shares, and are entitled to receive payment pari passu with voting shares. Class C designation, rights, privileges, restrictions and conditions to be fixed by the directors prior to the issue thereof.

Cancellation rights

The Company may at any time purchase shares for cancellation at a price per share not exceeding NAV per share of that class of share on the business day immediately prior to such purchase.

Redemption rights

The Company may redeem at any time and from time to time in its sole discretion, by providing written notice to the holder, any outstanding Class A, B or I shares on payment in cash for each share of an amount not less than the NAV per share, calculated as at the end of the business day immediately preceding the redemption date.

Retraction rights

Each holder of shares shall be entitled to present and surrender for redemption at any time during a monthly retraction notice period any or all shares for retraction on the following monthly retraction date, which payment is to be made on or before the monthly retraction payment date at a price per share equal to the applicable monthly retraction price. In addition, each holder of shares shall be entitled to require the Company to redeem all or any part of the shares on an annual retraction Date at the applicable annual retraction price. Each holder of shares who elects to present and surrender to the Company for redemption on a monthly retraction date all or any shares registered must, by no later than the end of the relevant prior monthly retraction notice period, deliver a notice of retraction in the form specified by the Company at such places in Canada as specified by the Company. Each holder of shares who elects to present and surrender to the Company for redemption on an annual retraction date all or any shares registered must, by no later than the end of the applicable annual retraction notice period, deliver a notice of retraction in the form specified by the Company at such places in Canada as specified by the Company. Payment for shares deposited shall be calculated as of the annual retraction date immediately following the date upon which the shares are deposited and shall be made on or before the first annual retraction payment date.

The Company will not accept for redemption on any monthly retraction date shares representing more than 1% of the average number of shares of each class outstanding during the 90 day period immediately preceding the applicable monthly retraction date. The Company will not accept for redemption on any annual retraction date, shares that represent more than 10% of the average number of shares of each class outstanding for the 90 day period immediately preceding the annual retraction date. The Company will not accept for redemption in any 365 day period shares representing more than 12% of the average number of shares of each class outstanding for the 365 day period immediately preceding the relevant monthly or annual retraction date. In the event that the number of shares tendered for redemption in respect of a monthly or annual retraction date exceeds the limits above, the Company shall redeem such shares tendered for redemption on a pro-rata basis.

11. Class A shares (continued)

Retraction price

The annual retraction price in respect of a class of shares, means a retraction price per share equal to 100% of the applicable NAV per share of that class as determined on the applicable annual retraction date.

The monthly retraction price means

(a) In respect of the retraction of a Class A Share on a monthly retraction date, an amount equal to the lesser of (i) 95% of the trading price of the Class A Share, and (ii) the market price

(b) In respect of the retraction of a Class B Share on a monthly retraction date, an amount equal to the lesser of (i) 95% of the trading price of the Class A Share multiplied by the Class B exchange ratio and, (ii) the market price multiplied by the Class B exchange ratio

(c) In respect of the retraction of a Class I Share on a monthly retraction date, an amount equal to the lesser of (i) 95% of the trading price of the Class A Share multiplied by the Class I exchange ratio and, (ii) the market price multiplied by the Class I exchange ratio

(d) Notwithstanding A, B and C above, the monthly retraction price before the listing date means, in respect of each class of shares, the class NAV as at the relevant monthly retraction date

The annual retraction rights and annual retraction price are dependent on the Company attaining a Listing Date. The Company shall not be required to fulfill its obligations to make, and the shareholders shall not be entitled to request or receive annual retractions of any shares prior to the Listing Date of the Company. The Listing Date is defined as the date on which the Class A shares first become listed for trading on the TSX or such other stock exchange on which the Class A shares are listed.

NAV

The Net Asset Value of the Company at any time means the aggregate value of all assets of the Company less the value of all liabilities of the Company at such time (including any accrual of any performance fee provided for in the management agreement) and less, for the purpose only of calculating the NAV, the stated capital of any shares to the extent that such stated capitals are included in the liabilities of the Company.

12. Related party transactions

The Company invests in mortgages structured, advanced and serviced by CCI under an agreement with CCI. The entities are related by virtue of common shareholders. Under this agreement, CCI receives a mortgage administration fee of 0.15% of the outstanding aggregate principal balance of all mortgage loans, plus applicable taxes, calculated daily and payable monthly.

The Company has appointed Carecana as its investment fund manager and restricted portfolio manager pursuant to a management agreement. The entities are related by virtue of common management and shareholders. Under this agreement, Carecana receives a management fee of 1.35% per annum of the gross assets of the Company attributable to the Class A shares, plus applicable taxes, calculated daily and payable monthly. Also, Carecana receives a performance fee equal to 20% of the amount by which the net return of the Class A shares exceeds the product of (a) the average month-end NAVs during such year, and (b) the average of the two-year Government of Canada bond yield on the last day of each calendar month during the year plus 400 basis points. The performance fee is payable within 30 days following the end of each fiscal year.

The Company owns shares in CareVest First MIC Fund Inc. (2016 - CareVest First MIC Fund Inc and Canadian Horizons First MIC Fund Inc). The companies are related by way of common officers, directors and shareholders. These investments meet the guidelines of the Company's investment policy and are a result of management decisions regarding optimal utilization of idle funds.

12. Related party transactions (continued)

In prior years, the Company had a demand loan facility for up to $5,000,000 with CCI. The loan facility was secured by property of the Company. Interest was charged at Scotiabank's prime lending rate plus 1.5% per annum with interest and principal payable in full 30 days following the date of the Lender's written demand for repayment. As at December 31, 2016, $Nil of this loan facility was in use. This facility was terminated on December 31, 2017.

Settlement Corp., a company related through common shareholders, holds the 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 remain in trust.

Advances and repayments are made to and from Settlement Corp. throughout the period at the request of the Company.

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

	Expenses	
	2017	2016
	$	$
Management fee		
Carecana Management Corp.	**2,508,288**	2,853,561
Mortgage administration fee		
CareVest Capital Inc.	**241,770**	267,471
Loss on investment		
Canadian Horizons First MIC Fund Inc.	**2,114**	-
	2,752,172	3,121,032

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 parties.

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

	2017	2016
	$	$
Due from		
CareVest Capital Inc.	**1,037**	-
	1,037	-
Due to		
Carecana Management Corp.	**199,609**	233,123
CareVest Capital Inc.	**19,521**	23,139
	219,130	256,262
Investment in		
CareVest First MIC Fund Inc.	**97,284**	148,284
Canadian Horizons First MIC Fund Inc.	**-**	105,700
	97,284	253,984

12. Related party transactions (continued)

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 (2016 - Nil).

13. Revenue

The following is an analysis of the Company's revenue for the year from continuing operations:

	2017	2016
	$	$
Finance revenue from mortgage principal	**5,842,723**	8,353,115
Finance revenue from banking deposits	**103,471**	87,061
Proceeds on sale of inventory	**7,317,692**	7,992,757
Miscellaneous	**205,815**	461,304
	13,469,701	16,894,237

Other revenue consists of proceeds from sale of inventory and miscellaneous revenue related to inventory.

14. 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:

	2017	2016
	$	$
Deferred income tax asset		
Non-capital loss carry-forwards	**44,784,314**	45,550,859
Cumulative inventory write-down	**9,539,110**	9,589,419
	54,323,424	55,140,278
Tax rate	**27.00%**	27.00%
	14,667,324	14,887,875
Amounts not considered realizable	**(8,256,640)**	(4,527,330)
	6,410,684	10,360,545

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 recorded deferred income tax assets will be realized. The Company has tax loss carry-forwards of $44,784,314 (2016 - $45,550,859) which expire by 2037 (2016 - 2036).

15. 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.

The carrying values of cash, accounts receivable, due from related companies, finance income receivable, accounts payable and accrued liabilities, dividends payable, due to related companies, and mortgages payable 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 at rates that approximate current market rates. The carrying values of Class A shares are measured and recorded at the retraction price which approximates their fair values.

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

				2017
		Fair value measurements using		
	Carrying value	**Level 1**	**Level 2**	**Level 3**
	$	**$**	**$**	**$**
Financial assets				
Mortgages receivable - impaired	**23,882,111**	**-**	**-**	**23,882,111**
Mortgages receivable - not impaired	**65,841,928**	**-**	**-**	**65,841,928**
	89,724,039	**-**	**-**	**89,724,039**
Financial liabilities				
Class A shares	**128,175,993**	**-**	**-**	**128,175,993**

15. Financial instruments and risk management (continued)

Financial instruments (continued)

Fair value of financial instruments (continued)

2016				
		Fair value measurements using		
	Carrying value	Level 1	Level 2	Level 3
	$	$	$	$
Financial assets				
Mortgages receivable - impaired	28,160,647	-	-	28,160,647
Mortgages receivable - not impaired	72,885,490	-	-	72,885,490
	101,046,137	-	-	101,046,137
Financial liabilities				
Class A shares	140,736,696	-	-	140,736,696

There were $Nil (2016 - $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, 2017 is as follows:

	Not impaired	Impaired	Total
	$	$	$
Mortgages receivable - December 31, 2015	73,761,886	42,547,276	116,309,162
Advances of mortgages receivable	42,253,519	61,435	42,314,954
Repayments of mortgages receivable	(39,941,371)	(15,914,382)	(55,855,753)
Impairment losses recognized	-	(1,722,226)	(1,722,226)
Impairment losses written off	(3,188,544)	3,188,544	-
Mortgages receivable - December 31, 2016	72,885,490	28,160,647	101,046,137
Advances of mortgages receivable	43,356,079	-	43,356,079
Repayments of mortgages receivable	(50,152,266)	(5,864,480)	(56,016,746)
Reversal of impairment losses	-	1,338,569	1,338,569
Reclassified impaired mortgages receivable	(247,375)	247,375	-
Mortgages receivable - December 31, 2017	**65,841,928**	**23,882,111**	**89,724,039**

Class A shares, December 31, 2015	155,693,601
Issuance of Class A shares	188,133
Retraction of Class A shares	(15,145,038)
Class A shares, December 31, 2016	140,736,696
Issuance of Class A shares	242,123
Retraction of Class A shares	(13,730,940)
Retraction loss	928,114
Class A shares, December 31, 2017	**128,175,993**

15. Financial instruments and risk management (continued)

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, due from related companies, finance income receivable, mortgages receivable and investments, the carrying amount of which represents the Company's exposure to credit risk in relation to financial assets.

The Company's credit risk is primarily attributable to its mortgages receivable. The amounts disclosed in the statement of financial position are net of mortgage impairment provisions estimated by the Company. In order to reduce its risk, the Company has adopted investment restrictions that it will not:

a) make any investment or conduct any activity that would result in its failing to qualify as a mortgage investment corporation;

b) invest in securities other than mortgages, mortgage related investments and authorized interim investments;

c) 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 registered in priority to the Company, if any, does not exceed 75% of the appraised value of the real property securing the mortgage, as determined by Carecana or such person(s) authorized by Carecana from time to time, provided that the appraised value may be based on stated conditions including, without limitation, construction, "as complete" or other conditions or assumptions;

d) guarantee securities or obligations of any person or company;

e) engage in securities lending;

f) engage in derivative transactions for any purpose, other than derivative transactions to hedge interest rate risk and not for speculative purposes; or

g) invest in asset-backed commercial paper or in securitized pools of mortgage loans, including pools of sub-prime mortgages.

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

15. Financial instruments and risk management (continued)

Risk management (continued)

i) *Credit risk (continued)*

The carrying amount of financial assets represents the maximum credit exposure, and therefore the credit risk at the reporting date was as follows:

	2017	2016
	$	$
Cash (Note 6)	**12,760,598**	10,961,560
Accounts receivable	**40,709**	97,266
Due from related companies (Note 12)	**1,037**	-
Finance income receivable	**586,148**	487,681
Mortgages receivable, net of allowance (Note 7)	**89,724,039**	101,046,137
Investments (Note 12)	**97,284**	253,984
	103,209,815	112,846,628

The credit exposure related to mortgages receivable is outlined in Note 7.

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 and bank indebtedness to the extent of changes in the prime interest rate. As of December 31, 2017 the Company currently has two variable interest bearing mortgages totalling $12,016,043 (2016 - two mortgages, $12,378,246); however these amounts are protected by a floor rate. One of these mortgages is currently earning this floor rate (2016 – two mortgages), at December 31, 2017 therefore would only be impacted by an increase in prime rate, while the other mortgage would be impacted by both an increase or decrease in prime rate. A 0.5% increase in prime rate, with all other variables constant, would result in an increase in net earnings of $60,080 (2016 - $44,584) while a 0.5% decrease in prime rate on the mortgage earning a rate above the floor rate would result in a decrease to net earnings of $38,944 (2016 - $Nil).

The Company is also exposed to interest rate risk on its variable rate mortgages payable which totals $Nil (2016 - $1,784,835) and $607,082 (2016 - $553,992) with VanCity and CWB respectively. Interest on the outstanding CWB mortgage is calculated at prime rate + 1.50%. Therefore an increase or decrease in the prime rate of 0.5% with all other variables constant, would result in an increase or decrease in net earnings of $3,035 (2016 - $11,694).

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, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities.

15. Financial instruments and risk management (continued)

Risk management (continued)

iii) Liquidity risk (continued)

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.

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

				2017
	Carrying value	**Current**	**Due between 61 to 365 days**	**Due greater than 365 days**
	$	**$**	**$**	**$**
Accounts payable and accrued liabilities	**394,106**	**394,106**	**-**	**-**
Dividends payable	**252,504**	**252,504**	**-**	**-**
Due to related companies	**219,130**	**219,130**	**-**	**-**
Mortgage payable	**607,082**	**-**	**607,082**	**-**
Class A shares (Note 11)	**128,175,993**	**-**	**-**	**128,175,993**
	129,648,815	**865,740**	**607,082**	**128,175,993**

				2016
	Carrying value	Current	Due between 61 to 365 days	Due greater than 365 days
	$	$	$	$
Accounts payable and accrued liabilities	580,676	580,676	-	-
Dividends payable	181,171	181,171	-	-
Due to related companies	256,262	256,262	-	-
Mortgage payable	2,338,827	-	1,784,835	553,992
Class A shares (Note 11)	140,736,696	-	-	140,736,696
	144,093,632	1,018,109	1,784,835	141,290,688

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.

16. Changes in non-cash working capital

	2017	2016
	$	$
Accounts receivable	**55,520**	218,929
Additions to inventory	**(2,645,505)**	-
Sales of inventory	**7,317,692**	6,893,906
Inventory write-down (Note 8)	**1,726,688**	1,495,689
Prepaid expenses and deposits	**6,556**	(5,879)
Accounts payable and accrued liabilities	**(223,702)**	214,329
	6,237,249	8,816,974

17. Capital disclosures

The Company defines capital as Class A shares and capital stock 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 reinvestment 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.

The Company has the following capital outstanding as at December 31, 2017.

	2017	2016
	$	$
Class A shares	**128,175,993**	140,736,696
Capital stock	**419**	419
	128,176,412	140,737,115

18. Subsequent events

Future retractions

During the February 2018 retraction notice period, the Company received valid retraction requests that are sufficient to fill the Company's retraction limits for 2018. As the number of shares tendered for retraction exceeds the monthly limit, the Company will retract such shares tendered for retraction on a pro rata basis. In accordance with the Company's Class A Share terms, there are ten monthly retraction dates in 2018, on the last business day of each month except December and January. The first retraction date is February 28, 2018 and the first retraction payment will be sent on March 29, 2018. On the February 28, 2018 retraction date, in accordance with the share terms, the pro rata percentage of valid requests tendered for retraction was approximately 1.3% (2017 - 1.4%).

As the calculation of the retraction limitation is 1% of the average number of shares outstanding for the 90-days immediately preceding a given retraction date, the pro rata amount may change on future retraction dates. The valid retraction requests received represent approximately 74% (2017 - 72%) of the Class A Shares outstanding at February 28, 2018. The retraction price will be the NAV per Class A Share on the relevant retraction date, and therefore the amount of the retraction payments can vary.

18. Subsequent events (continued)

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, 2017, no amounts have been recognized in the financial statements.