Financial statements of

CareVest Senior Mortgage Investment Corporation

December 31, 2014

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Independent Auditor's Report

To the Shareholders of
CareVest Senior Mortgage Investment Corporation

We have audited the accompanying financial statements of CareVest Senior Mortgage Investment Corporation, which comprise the statement of financial position as at December 31, 2014, the statement of earnings and total comprehensive income, 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 Senior Mortgage Investment Corporation as at December 31, 2014 and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Deloitte LLP

Chartered Accountants
March 27, 2015

CareVest Senior Mortgage Investment Corporation

Statement of earnings and total comprehensive income
year ended December 31, 2014

(In Canadian dollars)

	2014	2013
	$	$
Revenue (Note 14)		
Finance income	**6,745,116**	12,745,802
Other income	**2,824,252**	1,497,378
	9,569,368	14,243,180
Expenses		
Management fee (Note 13)	**3,268,015**	3,652,726
Dividends on Class A shares	**2,941,874**	8,367,452
Cost of sales - inventory	**2,626,246**	1,635,783
Impairment of mortgages receivable (Note 7)	**2,444,438**	3,912,963
Inventory holding costs	**447,680**	160,277
Mortgage administration fee (Note 13)	**347,183**	391,963
Mortgage recovery cost	**325,070**	106,327
Professional fees	**58,241**	89,660
Inventory write-down (Note 8)	**48,185**	12,243
Interest	**24,782**	29,599
Insurance	**19,325**	32,989
Other	**6,526**	14,591
	12,557,565	18,406,573
Loss before other item	**(2,988,197)**	(4,163,393)
Retraction gain (Note 11)	**3,131,553**	4,063,718
Earnings (loss) before income taxes	**143,356**	(99,675)
Deferred income tax recovery (Note 15)	**(747,049)**	(1,040,848)
Net earnings and total comprehensive income	**890,405**	941,173
Basic and diluted earnings per share (Note 12)	**7,545.81**	7,976.04

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

CareVest Senior Mortgage Investment Corporation

Statement of changes in equity
year ended December 31, 2014

(In Canadian dollars)

	Capital stock	Retained earnings	Total
	$	$	$
Balance, December 31, 2012	99	-	99
Issuance of capital stock	353	-	353
Amalgamation of retained earnings (Note 19)	-	6,884,564	6,884,564
Earnings for the year and total comprehensive income	-	941,173	941,173
Balance, December 31, 2013	452	7,825,737	7,826,189
Earnings for the year and total comprehensive income	-	890,405	890,405
Balance, December 31, 2014	**452**	**8,716,142**	**8,716,594**

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

CareVest Senior Mortgage Investment Corporation

Statement of financial position
as at December 31, 2014

(In Canadian dollars)

	2014	2013
	$	$
Assets		
Cash (Note 6)	**3,573,939**	958,071
Accounts receivable	**19,757**	12,826
Finance income receivable	**437,719**	-
Mortgages receivable, net of allowance (Note 7)	**158,365,315**	208,612,527
Inventory (Note 8)	**24,611,905**	11,543,446
Investments (Note 13)	**258,284**	276,284
Prepaid expenses and deposits	**44,488**	26,058
Deferred income taxes (Note 15)	**8,690,647**	7,943,598
	196,002,054	229,372,810
Liabilities		
Accounts payable and accrued liabilities	**242,462**	101,593
Dividends payable	**134,782**	308,613
Due to related companies (Note 13)	**343,355**	771,009
Bank indebtedness (Note 9)	**-**	1,560,000
Class A shares (Note 11)	**186,564,861**	218,805,406
	187,285,460	221,546,621
Shareholders' equity		
Capital stock (Note 10)	**452**	452
Retained earnings	**8,716,142**	7,825,737
	8,716,594	7,826,189
	196,002,054	229,372,810

Approved by the Board

_______________ Director

_______________ Director

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

CareVest Senior Mortgage Investment Corporation

Statement of cash flows
year ended December 31, 2014
(In Canadian dollars)

	2014	2013
	$	$
Operating activities		
Net earnings	**890,405**	941,173
Finance income	**(6,745,116)**	(12,745,802)
Dividend expense	**2,941,874**	8,367,452
Retraction gain	**(3,131,553)**	(4,063,718)
Deferred taxes	**(747,049)**	(1,040,848)
Gain on inventory sale	**(314,672)**	(17,246)
Dividend reinvested (Note 11)	**(667,025)**	(3,312,944)
Changes in non-cash working capital (Note 17)	**(24,523,195)**	(3,058,101)
Allowance on mortgages receivable	**2,444,438**	4,050,712
Finance income received	**6,307,397**	12,745,802
Dividends paid	**(2,448,680)**	(5,019,513)
	(25,993,176)	(3,153,033)
Investing activities		
Cash acquired on amalgamation (Note 19)	**-**	4,461,730
Investments (Note 13)	**18,000**	-
Advances of mortgages receivable	**(25,392,006)**	(49,849,509)
Repayments of mortgages receivable	**84,652,042**	69,827,660
	59,278,036	24,439,881
Financing activities		
Bank indebtedness	**(1,560,000)**	1,560,000
Issuance of Class A shares (Note 11)	**667,025**	3,312,944
Retraction of Class A shares (Note 11)	**(29,776,017)**	(25,201,820)
	(30,668,992)	(20,328,876)
Net increase in cash	**2,615,868**	957,972
Cash, beginning of year	**958,071**	99
Cash, end of year (Note 6)	**3,573,939**	958,071

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

1. Nature of operations

CareVest Senior Mortgage Investment Corporation (the “Company” or “CV Sr MIC) was incorporated under the Canada Business Corporations Act on November 2, 2012. On January 1, 2013 CareVest First Mortgage Investment Corporation (“CV 1st”), CareVest Capital First Mortgage Investment Corp. (“CC 1st”), Canadian Horizons First Mortgage Investment Corporation (“CH 1st”), 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 900, 645 - 7th Avenue S.W. Calgary, Alberta T2P 4G8.

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, arranged, administered and serviced by CareVest Capital Inc. (“CCI”) under an agreement with CCI.

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

The financial statements were approved by the directors, Mr. Roy Goddard and Mr. Mike Helfer, and authorized for issue on March 27, 2015.

2. Basis of presentation

Statement of compliance

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

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 period unless otherwise stated.

3. Significant accounting policies

Cash

The Company’s policy is to disclose 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 Canadian Horizons Settlement Corp. (“CH 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)

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 effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

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. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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 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, 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
Investments	Available for sale

Financial assets - available for sale

Investments, which are investments in equity instruments, are classified as AFS financial assets. AFS financial assets are originally recorded at fair value. As the investments do not have a quoted market price in an active market and fair value cannot be reliably measured, subsequent measurement is at 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. 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, 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 recorded at amortized cost

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 cost, including mortgages receivable 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. Objective evidence that a financial asset is impaired can include significant financial difficulty of the borrower or issuer, default or delinquency by a borrower on interest and principal repayments, restructuring of a loan or advance by the Company on terms that the Company would not otherwise consider, or other observable data which indicates that there is a measureable decrease in the estimated cash flows.

Financial assets - impairment of cash, accounts receivable, finance income receivable and mortgages receivable

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 (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account, and the loss is recognized in net earnings or loss and classified as an impairment expense. Interest income ("accreted income") continues to be accrued in accordance with the Company's significant accounting policy for finance income, on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The total amount to be realized as interest income is equal to the difference between the present value of the future cash flows of the mortgage and the non-discounted value, resulting in this portion of the loss being accreted back into income through the recording of interest income. The interest income is classified as finance income.

Receivables 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 impairment is later recovered, the recovery is credited to net earnings or loss and classified as finance income.

3. Significant accounting policies (continued)

Financial instruments (continued)

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 entity 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. The effective interest method is a method of calculating the amortized cost of a financial liability 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.

The Company has classified its financial liabilities as follows:

Accounts payable and accrued liabilities	Other financial liabilities
Due to related companies	Other financial liabilities
Dividends 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. The shares are subsequently measured at amortized cost using the effective interest method. International Accounting Standard (“IAS”) 39, Financial Instruments: Recognition and Measurement, requires the Class A shares to be recorded at the retraction price. The dividends on these preferred shares, and any retraction or redemption gains and losses, are recognized in net earnings or loss.

3. Significant accounting policies (continued)

Earnings per share

Basic earnings per share are calculated by dividing the net earnings for the period attributable to equity owners of the Company by the weighted-average number of common shares outstanding during the period. Diluted earnings per share are calculated based on the weighted-average number of common shares plus dilutive common share equivalents outstanding.

Dividends

Dividends paid 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

The IASB released IFRS 9, *Financial Instruments* ("IFRS 9"), in October 2009 as the first step in replacing IAS 39, *Financial Instruments: Recognition and Measurement*. It was amended in October 2010 to include financial liabilities, most of which were carried forward unchanged from IAS 39. IFRS 9 is based on how an entity manages its financial instruments in the context of its business model, the contractual cash flow characteristics of the financial assets and uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple classification options in IAS 39. In December 2011, the IASB amended IFRS 9 to require application for annual periods beginning on or after January 1, 2015 and not to require restatement of comparative period financial statements upon initial application. In July 2014, the IASB published the final version of IFRS 9. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. The Company continues to monitor this project and the financial reporting implications.

IFRS 15, Revenue from Contracts with Customers

IFRS 15 *Revenue from Contracts with Customers* ("IFRS 15") was issued by the IASB in May 2014 to replace *International Accounting Standards* 15, *Construction Contracts* ("IAS 15"), *International Accounting Standards* 18 *Revenue* ("IAS 18"), *International Financial Reporting Interpretations Committee* 13 *Customer Loyalty Programs* ("IFRIC 13"), *International Financial Reporting Interpretations Committee* 15 *Agreements for the Construction of Real Estate* ("IFRIC 15"), *International Financial Reporting Interpretations Committee* 18 *Transfers of Assets from Customers* ("IFRIC 18") and *Standard Interpretations Committee* 31 *Revenue – Barter Transactions Involving Advertising Services* ("SIC-31"). IFRS 15 provides a single, principles based five-step model to be applied to all contracts with customers, replacing the multiple rules in IAS 15, IAS 18, IFRIC 13, IFRIC 15 and SIC-31. The Company continues to monitor this project and the financial reporting implications.

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.

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 financial instruments. 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. The Company looks to the legal structure of the action taken over mortgages that are or may 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 an item 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. The judgments include inputs such as liquidity risk, credit risk, and volatility. 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 16.

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.

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

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.

Allowance for mortgage impairment

Determining whether or not a mortgage is impaired requires management to make an estimation of the recoverable amount of the mortgage. Estimating the recoverable amount requires the Company to determine the present value of the estimated future cash flows, using an appropriate discount rate for the related mortgage, 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 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. Note 7 provides detailed information about the key assumptions used in the determination of impairment of financial instruments. Management believes that the chosen valuation techniques and assumptions used are appropriate in determining the future cash flows of its financial instruments.

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, for which they must make estimates and assumptions over factors involved. Retraction price is set at net asset value (“NAV”). NAV is an additional GAAP financial measure, which is defined as aggregate value of all assets of the Company less the value of all liabilities of the Company and less, for the purpose only of calculating NAV, the stated capital of any shares to the extent that such stated capitals are included in the value of liabilities of the Company. 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.

(In Canadian dollars)

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:

	2014	2013
	$	$
Operating deposit bank account	**93,942**	98,395
Cash held in trust (Note 13)	**3,479,997**	859,676
	3,573,939	958,071

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. At each reporting period, an impairment review is conducted on all financial instruments except those designated as at FVTPL, including mortgages receivable. 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 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.

As at December 31, 2014, the Company had mortgages receivable which earn interest at rates from 5.00% to 14.00% (2013 – 5.00% to 12.50%) per annum and are secured by real property. The mortgages receivable are typically due within 6-18 months.

	2014	2013
	$	$
Mortgages due within the next 12-month period, net of allowance	**126,461,470**	151,445,024
Mortgages due after the next 12-month period, net of allowance	**31,903,845**	57,167,503
	158,365,315	208,612,527

Mortgage receivables disclosed above include amounts that may be past due at the end of the reporting period 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. The Company does not hold any 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.

(In Canadian dollars)

7. Mortgages receivable (continued)

Aging of mortgages receivable in arrears but not impaired

A mortgage is defined as being in arrears when the principal is not received in accordance with the terms of the original agreement. Mortgages receivable in arrears are broken out as follows:

	2014	2013
	$	$
0-90 days past due	**1,278,999**	51,458,652
91-365 days past due	**21,080,559**	10,692,313
Over 365 days past due	**46,746,407**	16,920,399
	69,105,965	79,071,364

Mortgages receivable impairment provision

	2014	2013
	$	$
Balance, beginning of year	**30,211,780**	26,161,069
Impairment losses recognized	**2,444,438**	4,050,712
Impairment losses transferred on financial asset derecognition	**(11,457,262)**	-
Balance, end of year	**21,198,956**	30,211,781

The Company recovered $49,141 (2013 - $137,749) for a mortgage that was previously impaired as it 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:

	2014	2013
	$	$
Residential mortgages, net of allowance	**153,515,315**	204,458,095
Commercial mortgages, net of allowance	**4,850,000**	4,154,432
	158,365,315	208,612,527

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 applied for the purpose of measuring the present value of future cash flows

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. Assumptions used in calculating the above are discussed in Note 5.

(In Canadian dollars)

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.

As a result of mortgage foreclosures, the Company has obtained an undivided interest in certain townhouse units to facilitate sales of these units. The amount of consideration was established at current market pricing for the units. The twenty one units are available for sale and will be listed at current market pricing with the intention that they are sold in the future.

The Company purchased lots directly from a borrower to expedite the sales of these lots. The project consisted of twenty nine single family lots. As at December 31, 2014, 12 (December 31, 2013 – 4) of these lots have been sold. The remaining 17 lots are available for sale and expect to be sold in the future.

The Company also purchased ten 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. The ten units are available for sale and will be listed at current market pricing with the intention that they are sold in the future.

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 held for sale. 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

	2014	2013
	$	$
Units (purchased inventory related to impaired mortgages and foreclosures), net of write-down	**5,627,356**	4,694,140
Foreclosed mortgages inventory (derecognized financial asset), net of write-down	**18,984,549**	6,849,306
	24,611,905	11,543,446

Accumulated write-down of inventory to net realizable value

	2014	2013
	$	$
Balance, beginning of year	**1,509,557**	1,497,314
Write-down recognized	**545,569**	374,057
Impairment transferred from derecognition of financial asset	**11,457,262**	-
Reversal of write-down	**(497,384)**	(361,814)
Balance, end of year	**13,015,004**	1,509,557

(In Canadian dollars)

9. Bank indebtedness

The Company has entered into an operating credit line facility for up to $4,000,000. The facility is secured by a demand debenture and a general assignment of book debts. Interest is charged at the financial institution's prime lending rate plus 1.50% per annum with interest payable monthly. The interest rate at December 31, 2014 is 4.50% (2013 – 4.50%) per annum. As at December 31, 2014, $nil (2013 - $1,560,000) of this credit facility was in use.

10. Capital stock

Authorized, unlimited number

Voting shares redeemable

Issued

	2014	2013
	$	$
118 (2013 - 118) voting shares	**452**	452

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

Issued

	2014	2013
	$	$
19,572,206 (2013 - 22,576,209) Class A shares	**186,564,861**	218,805,406

	Class A shares
	#
Number of shares outstanding, December 31, 2013	22,576,209
Shares issued	68,882
Shares retracted	(3,072,885)
Number of shares outstanding, December 31, 2014	**19,572,206**

(In Canadian dollars)

11. Class A shares (continued)

	Class A shares
	$
Value of shares outstanding, December 31, 2012	-
Shares converted to Class A shares due to amalgamation January 1, 2013	244,758,000
Shares issued for dividends	3,312,944
Shares retracted	(25,201,820)
Retraction gain	(4,063,718)
Value of shares outstanding, December 31, 2013	218,805,406
Shares issued for dividends	667,025
Shares retracted	(29,776,017)
Retraction gain	(3,131,553)
Value of shares outstanding, December 31, 2014	**186,564,861**

At December 31, 2014, there are no (2013 - $9,217,738) Class A shares scheduled for retraction in the next fiscal year.

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.

12. Earnings per share

	2014	2013
	$	$
Net earnings	890,405	941,173
Weighted-average number of common shares	118	118
Earnings per share	**7,545.81**	7,976.04

The diluted earnings per share is equal to the basic earnings per share as there are no dilutive instruments.

13. Related party transactions

The Company invests in mortgages originated, sourced, arranged, administered and serviced by CCI under an agreement with CCI. The entities are related by virtue of common officers, directors or 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.

(In Canadian dollars)

13. Related party transactions (continued)

The Company has appointed Carecana as its investment fund manager and portfolio manager pursuant to a management agreement. 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. and Canadian Horizons First MIC Fund Inc., companies related by way of common management. These investments meet the guidelines of the Company's investment policy and are a result of management decisions regarding optimal utilization of idle funds.

In 2013 the Company has entered into a demand loan facility for up to $5,000,000 with CHI Funding Corp., a company related through common management. The loan facility was secured by property of the Company. Interest was charged at Scotiabank's prime lending rate plus 1% per annum with interest and principal payable within 30 days following the demand from the lender. The interest rate in 2013 was 4.00% per annum. No amounts were ever drawn upon this facility. This demand loan facility was terminated in 2014.

CH Settlement Corp., a company related through common management, 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 CH 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
	2014	2013
	$	$
Management fee		
Carecana Management Corp.	**3,268,015**	3,652,726
Mortgage administration fee		
CaveVest Capital Inc.	**347,183**	391,963
	3,615,198	4,044,689

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.

(In Canadian dollars)

13. Related party transactions (continued)

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

	2014	2013
	$	$
Due to		
Carecana Management Corp.	**262,920**	298,720
CareVest Capital Inc.	**80,435**	472,289
	343,355	771,009
Investments		
CareVest First MIC Fund Inc.	**148,284**	148,284
Canadian Horizons Blended MIC Fund Inc.	**-**	18,000
Canadian Horizons First MIC Fund Inc.	**110,000**	110,000
	258,284	276,284

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.

14. Revenue

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

	2014	2013
	$	$
Interest revenue from mortgage principal	**6,713,741**	12,704,395
Interest income from banking deposits	**31,375**	41,407
Proceeds on sale of inventory	**2,433,722**	1,292,858
Miscellaneous	**390,530**	204,520
	9,569,368	14,243,180

Other income consists of proceeds from sale of inventory and other revenue related to inventory which has been classified as miscellaneous.

(In Canadian dollars)

15. 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:

	2014	2013
	$	$
Deferred income tax asset		
Non-capital loss carry-forwards	**33,524,292**	30,747,267
Cumulative inventory write-down	**1,238,296**	1,027,124
	34,762,588	31,774,391
Tax rate	**25%**	25%
	8,690,647	7,943,598

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 $33,524,292 (2013 - $30,747,267) which expire by 2034 (2013 - 2033).

16. 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, accounts payable and accrued liabilities, due to related companies and dividends payable approximate their fair values due to their short-term nature.

(In Canadian dollars)

16. Financial instruments and risk management (continued)

Financial instruments (continued)

Fair value of financial instruments *(continued)*

The carrying values of mortgages receivable that are not impaired 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 using the amortised cost method and are recorded at the retraction price which approximates their fair values.

The Company's financial instruments recorded at fair value has been categorized as follows:

				2014
		Fair value measurements using		
	Carrying value	**Level 1**	**Level 2**	**Level 3**
	$	**$**	**$**	**$**
Financial assets				
Mortgages receivable				
- not impaired	**88,467,863**	**-**	**-**	**88,467,863**
Financial liabilities				
Class A shares	**186,564,861**	**-**	**-**	**186,564,861**

				2013
		Fair value measurements using		
	Carrying value	Level 1	Level 2	Level 3
	$	$	$	$
Financial assets				
Mortgages receivable				
- not impaired	120,107,194	-	-	120,107,194
Financial liabilities				
Class A shares	218,805,406	-	-	218,805,406

There were no (2013 – Nil) transfers into or out of Level 3 of the fair value hierarchy during the year.

(In Canadian dollars)

16. Financial instruments and risk management (continued)

Financial instruments (continued)

Fair value of financial instruments (continued)

A reconciliation of Level 3 financial instruments at December 31, 2014 is as follows:

	$
Mortgages receivable - not impaired, December 31, 2013	120,107,194
Advances of mortgages receivable	24,030,109
Repayments of mortgages receivable	(52,406,448)
Impairment losses recognized	(970,634)
Reclassified impaired mortgages receivable	(2,292,358)
Mortgages receivable - not impaired, December 31, 2014	**88,467,863**
Class A shares, December 31, 2013	218,805,406
Issuance of Class A shares	667,025
Retraction of Class A shares	(29,776,017)
Retraction gain	(3,131,553)
Class A shares, December 31, 2014	**186,564,861**

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, 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 based on previous experience and its assessment of the current economic environment. 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 quality 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;

(In Canadian dollars)

16. Financial instruments and risk management (continued)

Risk management (continued)

i) Credit risk (continued)

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 creditworthiness 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.

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

	2014	2013
	$	$
Cash	**3,573,939**	958,071
Accounts receivable	**19,757**	12,826
Finance income receivable	**437,719**	-
Mortgages receivable, net of allowance	**158,365,315**	208,612,527
Investments	**258,284**	276,284
	162,655,014	209,859,708

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 fixed interest rate mortgages receivable and bank indebtedness to the extent of changes in the prime interest rate. The Company currently has variable interest bearing loans and investments.

(In Canadian dollars)

16. Financial instruments and risk management (continued)

Risk management (continued)

ii) Interest rate risk (continued)

Interest rate risk sensitivity analysis

As at December 31, 2014, an increase or decrease of 0.5% in interest revenue earned on the ending mortgage receivables would have the following impact on net earnings and comprehensive income:

	2014	2013
	$	$
0.5% increase in interest revenue	**791,827**	1,043,063
0.5% decrease in interest revenue	**(791,827)**	(1,043,063)

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.

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.

(In Canadian dollars)

16. Financial instruments and risk management (continued)

Risk management (continued)

iii) Liquidity risk (continued)

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

2014	**Carrying value**	**Current**	**Due between 61 to 365 days**	**Due greater than 365 days**
	$	**$**	**$**	**$**
Accounts payable and accrued liabilities	**242,462**	**242,462**	**-**	**-**
Due to related companies	**343,355**	**343,355**	**-**	**-**
Dividends payable	**134,782**	**134,782**	**-**	**-**
Class A shares (Note 11)	**186,564,861**	**-**	**-**	**186,564,861**
	187,285,460	**720,599**	**-**	**186,564,861**

2013	Carrying value	Current	Due between 61 to 365 days	Due greater than 365 days
	$	$	$	$
Accounts payable and accrued liabilities	101,593	101,593	-	-
Due to related companies	771,009	771,009	-	-
Bank indebtedness	1,560,000	1,560,000	-	-
Dividends payable	308,613	308,613	-	-
Class A shares (Note 11)	218,805,406	4,295,839	4,921,899	209,587,668
	221,546,621	7,037,054	4,921,899	209,587,668

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.

(In Canadian dollars)

17. Changes in non-cash working capital

	2014	2013
	$	$
Accounts receivable	**(6,931)**	40,195
Additions to inventory	**(13,309,168)**	(3,835,649)
Inventory write-down (Note 8)	**555,381**	372,414
Transfer of mortgage impairment to inventory	**(11,457,262)**	-
Prepaid expenses and deposits	**(18,430)**	9,744
Due to related companies	**(427,654)**	771,009
Accounts payable and accrued liabilities	**140,869**	(415,814)
	(24,523,195)	(3,058,101)

18. 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.

(In Canadian dollars)

19. Amalgamation

On December 21, 2012, by way of a Special Meeting of the Shareholders, CareVest First Mortgage Investment Corporation (“CV 1st”), CareVest Capital First Mortgage Investment Corp. (“CC 1st”), Canadian Horizons First Mortgage Investment Corporation (“CH 1st”), and CareVest Senior Mortgage Investment Corporation (“CV Sr”), together “the Amalgamated Entities”, received shareholder approval to amalgamate. Pursuant to the terms of the Amalgamation Agreement, the Amalgamated Entities amalgamated to form CareVest Senior Mortgage Investment Corporation (“CV Sr MIC”) on January 1, 2013. The address of the registered office and principal place of business is Suite 900, 645 - 7th Avenue SW, Calgary, Alberta T2P 4G8.

Previous Share Class	**Number and Class of Shares of CV Sr MIC issued upon amalgamation**
<u>CV 1st</u>	
Common shares	One voting share per 20 CV 1st Common shares
First Preferred shares	0.090 Class A shares per CV 1st First Preferred shares
Series A Second Preferred shares	0.090 Class A shares per CV 1st Series A Second Preferred shares
Series 1 Second Preferred shares	0.090 Class A shares per CV 1st Series 1 Second Preferred shares
Series 2 Second Preferred shares	0.090 Class A shares per CV 1st Series 2 Second Preferred shares
<u>CC 1st</u>	
Common shares	One voting share per 20 CC 1st Common shares
Series A First Preferred shares	0.095 Class A shares per CC 1st Series A First Preferred shares
Series 1 First Preferred shares	0.095 Class A shares per CC 1st Series 1 First Preferred shares
Series 2 First Preferred shares	0.095 Class A shares per CC 1st Series 2 First Preferred shares
<u>CH 1st</u>	
Common shares	One voting share per 20 CH 1st Common shares
Series “A” First Preferred shares	0.093 Class A shares per CH 1st Series “A” First Preferred shares

(In Canadian dollars)

19. Amalgamation (continued)

The total number of voting shares issued on January 1, 2013 is 118 and the total number of Class A shares issued on January 1, 2013 is 24,790,601.

Since CV 1st, CC 1st and CH 1st are all under the same common control, the amalgamation was excluded from the scope of IFRS 3 – Business Combinations. As there is currently no specific guidance for common control transactions under IFRS, entities involved in a common control transactions are required to select an appropriate accounting policy using the hierarchy in IAS 8 - *Accounting Policies, Changes to Accounting Estimates and Errors* which permits the consideration of pronouncements in other standard setting bodies. Such guidance resulted in the common control transaction being accounted for by CV Sr MIC recording the transactions at the carrying amounts of the Amalgamated Entities.

January 1, 2013	**CV 1st**	**CC 1st**	**CH 1st**	**CV Sr**	**Adjustments (a)**	**CV Sr MIC**
	$	$	$	$		**$**
Assets						
Cash	2,023,935	1,692,404	745,391	99	-	**4,461,829**
Accounts receivable	7,450	2,725	894	-	-	**11,069**
Mortgages receivable - net of allowance	114,096,711	18,496,544	100,048,135	-	-	**232,641,390**
Inventory	4,022,068	261,084	3,737,060	-	-	**8,020,212**
Investments	-	-	276,284	-	-	**276,284**
Other assets	14,246	1,345	26,361	-	-	**41,952**
Prepaid expenses and deposits	18,460	3,989	13,353	-	-	**35,802**
Deferred income taxes	4,346,332	285,737	2,270,681	-	-	**6,902,750**
	124,529,202	20,743,828	107,118,159	99	-	**252,391,288**
Liabilities						
Accounts payable and accrued liabilities	78,843	38,387	271,925	-	85,499	**474,654**
Dividends payable	141,781	23,553	108,284	-	-	**273,618**
Class A Preferred shares	119,940,058	20,400,082	104,503,359	-	(85,499)	**244,758,000**
	120,160,682	20,462,022	104,883,568	-	-	**245,506,272**
Shareholders' deficit						
Capital stock	153	100	100	99	-	**452**
Retained earnings	4,368,367	281,706	2,234,491	-	-	**6,884,564**
	4,368,520	281,806	2,234,591	99	-	**6,885,016**
	124,529,202	20,743,828	107,118,159	99	-	**252,391,288**

(a) Certain shareholders dissented from the amalgamation and were deemed to have transferred their shares to each of the respective Amalgamated Entities at the time of amalgamation and were entitled to receive a payment amount equal to the fair value of the shares and will be considered to have disposed of the shares.

20. Subsequent event

Future retractions

During the February 2015 retraction notice period, the Company received valid retraction requests that are sufficient to fill the Company’s retraction limits for 2015. 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 10 monthly retraction dates in 2015, on the last business day of each month except December and January. The first retraction date is February 28, 2015 and the first retraction payment will be sent on March 31, 2015. On the February 28, 2015 retraction date, in accordance with the share terms, the pro rata percentage of valid requests tendered for retraction was approximately 1.3% (2013 - 1.7%).

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 75% (2013 - 58%) of the Class A Shares outstanding at February 28, 2015. 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.