Condensed Interim Financial Statements

TREZ CAPITAL MORTGAGE INVESTMENT CORPORATION

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

The accompanying unaudited condensed interim financial statements of the Company as at September 30, 2018 have been prepared in accordance with the International Accounting Standard 34 – Interim Financial Reporting as issued by the International Accounting Standards Board and are the responsibility of the Company's management. The Company's independent auditor has not performed a review of these financial statements. The Company's auditor will perform an audit of the December 31, 2018 Financial Statements

TREZ CAPITAL MORTGAGE INVESTMENT CORPORATION

Condensed Interim Statements of Financial Position
(Unaudited)

	Notes		As at September 30, 2018		As at December 31, 2017
Assets					
Investments in mortgages	4	$	5,091,907	$	48,133,697
Cash			2,611,480		7,219,217
Amounts receivable	4		584,885		100,000
Total assets		$	8,288,272	$	55,452,914
Liabilities and Shareholders' Equity					
Dividends payable	5	$	-	$	691,726
Accounts payable and accrued liabilities			77,638		89,725
Management fee payable	6, 8		24,034		68,206
Incentive fee provision	7, 8		730,878		486,416
Total liabilities			832,550		1,336,073
Shareholders' equity	5		7,455,722		54,116,841
Total liabilities and shareholders' equity		$	8,288,272	$	55,452,914

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

TREZ CAPITAL MORTGAGE INVESTMENT CORPORATION

Condensed Interim Statements of Income and Comprehensive Income
(Unaudited)

	Notes	For the three months ended September 30, 2018	For the three months ended September 30, 2017	For the nine months ended September 30, 2018	For the nine months ended September 30, 2017
Revenue:					
Interest and fee income		$ 246,309	$ 841,368	$ 1,519,029	$ 3,962,333
		246,309	841,368	1,519,029	3,962,333
Expenses:					
Management fees	6, 8	104,965	280,240	406,379	1,010,960
Incentive fees (reduction)	7	-	-	497,146	-
Fair value adjustments on investments in mortgages	4	-	(3,723,924)	(3,836,500)	(4,903,201)
Realized mortgage investment loss	4	-	3,774,500	1,804,231	5,696,249
General and administrative expenses		231,224	139,305	806,786	503,310
		336,189	470,121	(321,958)	2,307,318
Income (loss) from operations		(89,880)	371,247	1,840,987	1,655,015
Net income (loss) and comprehensive income (loss) for the period		$ (89,880)	$ 371,247	$ 1,840,987	$ 1,655,015
Earnings (loss) per share:					
Basic and diluted	9	$ (0.01)	$ 0.03	$ 0.16	$ 0.13

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

TREZ CAPITAL MORTGAGE INVESTMENT CORPORATION

Condensed Interim Statements of Changes in Shareholders' Equity
(Unaudited)

Nine months ended September 30, 2018

	Notes	Common shares	Deficit	Total
Shareholders' equity at December 31, 2017		$ 122,789,548	$ (68,672,707)	$ 54,116,841
Net income and comprehensive income for the period		-	1,840,987	1,840,987
Dividends to shareholders	5	-	(47,895,725)	(47,895,725)
Repurchase of shares	5	(606,381)	-	(606,381)
Shareholders' equity at September 30, 2018		$ 122,183,167	$(114,727,445)	$ 7,455,722

Nine months ended September 30, 2017

	Notes	Common shares	Deficit	Total
Shareholders' equity at December 31, 2016		$ 160,345,187	$ (21,781,183)	$ 138,564,004
Net income and comprehensive income for the period		-	1,655,015	1,655,015
Dividends to shareholders	5	-	(36,429,653)	(36,429,653)
Repurchase of shares	5	(36,409,739)	-	(36,409,739)
Shareholders' equity at September 30, 2017		$ 123,935,448	$ (56,555,821)	$ 67,379,627

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

TREZ CAPITAL MORTGAGE INVESTMENT CORPORATION

Condensed Interim Statements of Cash Flows
(Unaudited)

	For the three months ended September 30,		For the nine months ended September 30,	
	2018	2017	2018	2017
Cash provided by (used in):				
Operations:				
Net income (loss) and comprehensive income (loss) for the period	$ (89,880)	$ 371,247	$ 1,840,987	$ 1,655,015
Non-cash adjustments:				
Interest income earned	(246,309)	(833,362)	(1,519,029)	(3,954,322)
Incentive fees (recoveries)	-	-	497,146	-
Realized mortgage investment loss	-	3,774,500	1,804,231	5,696,249
Fair value adjustment on investments in mortgages	-	(3,723,924	(3,836,500)	(4,903,201)
Incentive fee paid	(126,956)	(100,052)	(252,683)	(207,541)
Interest received	183,168	823,476	1,718,951	3,743,277
	(279,977)	311,885	253,103	2,029,477
Changes in non-cash operating items:				
Accounts Receivable	(484,885)	(402,098)	(484,885)	(402,098)
Mortgage reclassification to AR	-	402,098	-	402,098
Accrued fees receivable	-	205,862	-	205,862
Management fees payable	(53,058)	(35,545)	(44,173)	(85,473)
Accounts payable and accrued liabilities	38,250	(5,385)	(12,087)	(106,707)
Cash flows from operating activities before undernoted	(779,670)	476,817	(288,042)	2,043,159
Funding of investment in mortgages	-	(292,345)	(101,910)	(890,330)
Principal repayments on investments in mortgages	481,920	7,596,840	44,976,047	41,164,976
	(297,750)	7,781,312	44,586,095	42,317,805
Financing:				
Cash held in trust	-	14,447	-	(160,577)
Repurchase of shares	-	(801,971)	(606,380)	(36,409,739)
Dividends to shareholders	(27,959,306)	(31,898,141)	(48,587,452)	(36,686,551)
	(27,959,306)	(32,685,665)	(49,193,832)	(73,256,867)
Increase (decrease) in cash during the period	(28,257,056)	(24,904,353)	(4,607,737)	(30,939,062)
Cash, beginning of period	30,868,536	39,508,437	7,219,217	45,543,146
Cash, end of period	$ 2,611,480	$ 14,604,084	$ 2,611,480	$ 14,604,084

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

1. Operations:

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

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

On May 9, 2016, the Special Committee of the Board of Directors announced the completion of its strategic review process and a plan for the orderly wind-up of the Company's assets and the return of capital to shareholders (the "Orderly Wind-Up Plan"). The Orderly Wind-Up Plan in its entirety was approved by shareholders at the Company's annual and special meeting of shareholders held on June 16, 2016.

Under the Orderly Wind-Up Plan, the Company ceased originating new loans and all mortgage renewal activity, subject to contractual rights, and its assets are being monetized over time. Management has estimated the value of its mortgage portfolio based on its best judgment as to the eventual cash flows that it expects to receive in the normal course of business. Eventual cash flows could vary by a material amount as outlined in note 4. The Orderly Wind-Up Plan has been implemented and capital is being returned to shareholders under the supervision of the Board of Directors with the assistance of the Manager. The fees to the Manager have been restructured as outlined in notes 6 and 7.

In the first quarter of 2017, as a result of a cash outlay in relation to cancellation of shares and monetization of residential mortgages related to the Orderly Wind–Up Plan, the Company ceased to maintain its status as a Mortgage Investment Corporation pursuant to the Income Tax Act (Canada) and consequently is no longer able to deduct dividends paid to shareholders from its taxable income. However, the Company expects its non-capital losses ($19,704,285 as of December 31, 2017) carried forward from prior years are sufficient to offset any future taxable income.

2. Basis of presentation:

(a) Statement of compliance:

The condensed interim financial statements have been prepared in compliance with International Accounting Standard 34, *Interim Financial Statements*. The accompanying condensed interim financial statements should be read in conjunction with the notes to the Company's audited financial statements for the year ended December 31, 2017 which have

2. Basis of presentation (continued):

(a) Statement of compliance (continued):

been prepared in accordance with International Financial Reporting Standards ("IFRS"), since they do not contain all disclosures required by IFRS for annual financial statements. These condensed interim financial statements reflect all normal and recurring adjustments which are, in the opinion of the Manager, necessary for a fair presentation of the respective interim periods presented.

These condensed interim financial statements were approved by the Board of Directors on November 8, 2018.

(b) Functional and presentation currency:

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

(c) Basis of measurement:

These condensed interim financial statements have been presented on a historical cost basis, except for investments in mortgages which are measured at fair value.

(d) Use of estimates and judgments:

In preparing these interim financial statements, management has made judgements and estimates that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

The significant judgements made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those described in the last annual financial statements, except for new judgements and estimation uncertainty related to the application of IFRS 9, which is described in Note 3.

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

3. Changes in significant accounting policies:

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

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

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

3. Changes in significant accounting policies (continued):

(a) IFRS 9 Financial Instruments:

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

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

(i) Classification and measurement of financial assets and liabilities:

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

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

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

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

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

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

3. Changes in significant accounting policies (continued):

(i) Classification and measurement of financial assets and liabilities (continued):

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

ii) Impairment of financial assets:

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

The Company's financial assets at amortized cost consist of accounts receivable and cash. Investments in mortgages are classified as FVTPL. As part of the assessment of fair value, the Manager routinely reviews each mortgage for changes in credit risk to determine whether or not the fair value of a mortgage should be adjusted for the change in credit risk; therefore IFRS 9 does not impact investments in mortgages as they are already assessed as at fair value.

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

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

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

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

4. Investments in mortgages:

(a) Mortgages:

	September 30, 2018		December 31, 2017	
Property type	Number	Amount	Number	Amount
Residential	1	$ 5,000,000	7	$ 27,256,040
Office	-	-	2	24,422,329
	1	5,000,000	9	51,678,369
Accrued interest and fees receivable		91,907		291,828
Fair value adjustments on investments in mortgages		-		(3,836,500)
		$ 5,091,907		$ 48,133,697

A reconciliation of fair value adjustments on investments in mortgages for the nine months ended September 30, 2018 is as follows:

Opening balance, December 31, 2017		$ 3,836,500
Previous fair value adjustments recognized:		
Resolved default mortgage (note 4(c)(*i*))	($3,395,000)	
Resolved default mortgage (note 4(c)(*ii*))	(441,500)	(3,836,500)
Ending balance, September 30, 2018		$ -

Realized mortgage investment losses	
Resolved default mortgage (note 4(c)(*i*))	$1,804,231
Realized mortgage investment losses for the period	$ 1,804,231

	September 30, 2018		December 31, 2017	
Property location	Number	Amount	Number	Amount
Alberta	-	$ -	1	$ 4,000,000
Ontario	1	5,000,000	3	26,768,743
Nova Scotia	-	-	5	20,909,626
	1	$ 5,000,000	9	$ 51,678,369

4. Investments in mortgages (continued):

(a) Mortgages (continued):

The remaining mortgage is secured by the real property to which it relates, and bears interest at a weighted average interest rate of 7.0% (December 31, 2017 – 3.4%) and it matures in January 2019. The mortgage agreement stipulates a minimum interest rate and a variable interest rate based on the Prime Rate for a Canadian Dollar Loan established by HSBC (“Prime Rate”). Current premium to the Prime Rate is plus 3.3% (in 2017 the premium ranged from plus 1.8% to plus 6.5%), with the current minimum rate of 7.0% (in 2017 the rate ranged from 5.0% to 9.7%), excluding mortgages in default.

Principal repayments based on contractual maturity dates are as follows:

	September 30, 2018		December 31, 2017	
	Number	Amount	Number	Amount
Past due	-	$ -	2	$ 6,362,007
2018	-	-	4	12,247,822
2019	1	5,000,000	3	33,068,540
	1	$ 5,000,000	9	$ 51,678,369

The remaining mortgage is conventional uninsured mortgage which contains a prepayment option, whereby the borrower may repay the principal at any time prior to maturity without penalty or yield maintenance, subject to minimum interest provisions.

As part of the assessment of fair value, the Manager routinely the mortgages for changes in credit risk to determine whether or not fair value of a mortgage should be adjusted for the change in credit risk.

As at September 30, 2018, the Manager estimated the changes in credit risk for the remaining mortgage were nil and has unrealized losses on its investment in fair value of mortgages totaling nil (December 31, 2017 - $3,836,500).

(b) Default or past due mortgages:

A mortgage is considered in default when a payment has not been received by the contractual due date, or a term in the mortgage agreement has been breached.

As at September 30, 2018, the remaining mortgage was performing.

(c) Resolved default mortgages:

Since January 1, 2018, the following default mortgages have been resolved:

(*i*) In the second quarter of 2017, a mortgage went into default when a borrower breached the terms of a forbearance agreement. The Manager took legal action and a receiver was appointed. The property was marketed for sale and ultimately sold in the second quarter of 2018. The sale resulted in partial reversal of the $3.4 million fair value provision. Of the recorded fair value provision $1.8 million was realized as a loss and $1.6 million of the provision was effectively reversed.

4. Investments in mortgages (continued):

(ii) One of the two mortgages with the same borrower (see note below for the other) with an aggregate carrying amount of $5,015,593 at December 31, 2017 was resolved in the second quarter of 2018. Subsequent to the year end, the borrower made an offer which the Manager accepted. The borrower repaid the full principal and interest in June 2018, resulting in the reversing of the full amount of the $0.4 million provision.

(iii) The second of the two mortgages with the same borrower (note 4c (ii)) with the aggregate carrying amount of $1,346,414 at December 31, 2017 was resolved in the third quarter of 2018. Subsequent to the year end, the Manager accepted an offer from the borrower and a partial paydown totaling $864,495 was received in June 2018. The remaining balance and a portion of unpaid interest was repaid by the borrower in the third quarter. As at September 30, 2018, the proceeds from the sale totaling $545,060 were held by the receiver and included in Accounts Receivable by the Company.

5. Class A shares:

As at September 30, 2018 and December 31, 2017, there were an unlimited number of Class A common shares and an unlimited number of Class B common shares authorized. As at September 30, 2018, there were 11,649,711 Class A shares outstanding (December 31, 2017 – 11,864,941 Class A Shares).

The holders of the Class A shares are entitled to receive dividends as and when declared by the Board of Directors of the Company.

(a) Dividends:

On March 23, 2018, the Company announced that its board of directors suspended regular monthly distribution commencing with the April 2018 distribution which would otherwise be paid on May 15, 2018. The decision to suspend distribution was premised on a review of the last remaining mortgages and cash requirements. At the same time the Company announced that its board of directors had declared a special distribution of $1.52 per Class A share. Pursuant to the Orderly Wind-up Plan, the distribution constituted a return of capital and was paid on April 20, 2018 to holders of Class A shares of record at the close of business on April 9, 2018. The distribution totaled $17,863,771.

On August 8, 2018, the Board of Directors approved a second special distribution of $2.40 per Class A share which was paid on September 17, 2018 to holders of Class A shares of record at the close of business on August 31, 2018. The distribution, which constituted a return of capital pursuant to the winding-up of the Company’s business as approved by Shareholders on June 16, 2016, totaled $27,959,306.

For the nine months ended September 30, 2018, the Company had declared and paid regular monthly dividends totaling $2,072,648 or $0.175 per share and two special distributions totaling $45,823,077 (December 31, 2017 - $8,744,490 or $0.70 per share). As at September 30, 2018, distribution payable was nil (December 31, 2017 - $691,726).

5. Class A shares (continued):

(a) Dividends (continued):

All dividends have constituted a return of capital since and including the distribution paid on August 15, 2016.

The board anticipates making further special distributions as the mortgage portfolio matures or the remaining mortgage is sold, subject to reasonable expected operating expenditures.

(b) Normal course issuer bid ("NCIB"):

Under the most recent NCIB that commenced on May 17, 2017 and expired on May 16, 2018, the Company purchased 633,660 Class A shares at a weighted average price of $4.99 per share of which 215,230 Class A share were purchased during the nine months ended September 30, 2018 at a weighted average price of $2.82 per share.

Under the previous NCIB that commenced on May 19, 2016 and expired on May 18, 2017, the Company purchased 736,116 Class A Shares at a weighted average price of $8.25 per share.

Prior to that, pursuant to a bid that expired on January 11, 2016, the Company acquired a total of 314,900 shares at a weighted average price of $6.65 per share.

All purchases under the NCIB were made through the facilities of the TSX at market prices and in accordance with the rules of the TSX.

(c) Substantial issuer bids ("SIB"):

On July 21, 2016, the Company announced that its Board of Directors had authorized a SIB to purchase for cancellation Class A shares ("Shares") for an aggregate purchase price not to exceed $20 million (the "Offer"). On August 15, 2016, the Company announced the commencement of the Offer with revised terms. Specifically, the Company announced that pursuant to the Offer, the Company would offer to purchase up to $17 million of its Shares by way of a modified "Dutch auction" whereby shareholders were able to tender all or a portion of their Shares (i) at a price not more than $8.70 and not less than $8.50 per Share, in increments of $0.05 per Share; or (ii) without specifying a purchase price, in which case the Shares were to be purchased at the purchase price to be determined by the Board of Directors in accordance with the terms of the Offer.

On September 20, 2016, the Company repurchased 2,000,000 shares at a price of $8.50 per share under SIB for a total consideration of $17,000,000. The shares purchased under the bid represented 10.7% of the shares outstanding as at August 15, 2016.

On December 5, 2016, the Company announced that its Board of Directors had authorized a second substantial issuer bid ("SIB") to purchase for cancellation of Shares for an aggregate purchase price not to exceed $35 million (the "Second Offer"). Pursuant to the second Offer, the Company would offer to purchase up to $35 million of its Shares by way of a modified "Dutch auction" whereby shareholders may tender all or a portion of their Shares (i) at a price not more than $8.30 and not less than $8.00 per Share, in increments of $0.05 per Share; or

5. Class A shares (continued):

(c) Substantial issuer bids ("SIB") (continued):

(ii) without specifying a purchase price, in which case their Shares will be purchased at the purchase price to be determined by the Board in accordance with the terms of the Offer.

On January 10, 2017, the Company issued a circular offering to purchase for cancellation Class A shares for an aggregate purchase price not to exceed $35 million. Pursuant to the Second Offer, the Company purchased 4,216,867 Shares at $8.30 per Share for total consideration of $35,000,000 on February 14, 2017. As a result of the purchase, the Company ceased to maintain its status as a mortgage investment corporation pursuant to the Income Tax Act (Canada).

6. Management fees:

The Manager is responsible for the day-to-day operations, including administration of the Company's mortgage portfolio. Pursuant to the Management Agreement dated May 25, 2012, (amended November 30, 2013) the Manager is entitled to a fee of 1.25% per annum of the gross assets of the Company (the "Management Fee"), plus applicable taxes, calculated monthly and paid monthly in arrears.

Prior to approval on June 16, 2016 of the Orderly Wind-Up Plan by the shareholders, the Manager was also entitled to a performance fee. In any calendar year where the Company had a net return in excess of the Hurdle Rate (Hurdle Rate is defined as the average two-year Government of Canada Bond Yield for the 12 month period then ended plus 450 basis points), the Manager was entitled to receive from the Company a performance fee equal to 20% of the net return of the Company over the Hurdle Rate (the "Performance Fee"). The Manager calculated the final Performance Fee in respect of a completed calendar year based on the audited financial statements for that year. The Performance Fee in respect of a calendar year was payable to the Manager within 15 days of the issuance of the Company's audited financial statements for that year.

As part of the Orderly Wind-Up Plan, the Manager waived the performance fee beginning May 1, 2016.

7. Incentive fees:

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

7. Incentive fees (continued):

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

(A) The aggregate realized proceeds: and

(B) The Company's unrestricted cash as at April 30, 2016 Exceeds $163,509,009; and

(ii) $1,000,000.

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

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

At September 30, 2018, the estimated total amount of the incentive fee is $1,730,878 (December 31, 2017 - $1,233,732) of which $1,000,000 (2017 - $747,317) has been paid with the future incentive fee obligation totaling $730,878. This amount is a percentage of the lower threshold level, determined by adding the sum of total realized proceeds received to the period end, plus the unrestricted cash as at April 30, 2016, divided by the upper threshold. As at September 30, 2018, cumulative realized proceeds totaled $161,801,634 (December 31, 2017 - $117,307,507).

A reconciliation of incentive fee provision for the nine months ended September 30, 2018 is as follows:

Opening balance, December 31, 2017	$	486,416
Increase in provision		497,145
Incentive fees realized & paid		(252,683)
Incentive fee provision, September 30, 2018	$	730,878

8. Related party transactions and balances:

The following are related party transactions:

(a) The Company is managed by the Manager, a related party by virtue of common management. Pursuant to the Management Agreement referred to in note 6, during the nine months ended September 30, 2018 the Company incurred management fees in the amount of $406,379 (September 30, 2017 - $1,010,960). At September 30, 2018, $24,034 (December 31, 2017 - $68,206) in management fees and $19,437 of incentive fees were outstanding.

(b) As at September 30, 2018, the Company has co-invested in one mortgage investment (December 31, 2017 – four mortgage investments) with other funds managed by the Manager. The total amount of the mortgage investment is $5,500,000 of which the Company's share is $5,000,000 (December 31, 2017 - $42,963,687 of which the Company's share was $32,961,499). During the nine months ended September 30, 2018, the Company purchased investments in mortgages from entities under common management of nil (2017 - nil) and sold

8. Related party transactions and balances (continued):

investments in mortgages of $4,000,000 (2017 - $7,822,416) to entities under common management.

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

9. Earnings per share:

(a) Basic and diluted earnings per share:

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

Three months ended September 30, 2018:

Total income (loss) and comprehensive income (loss) for the period	$	(89,880)
Earnings (loss) attributable to common shares	$	(89,880)
Weighted average number of common shares (basic and diluted)		11,649,711
Earnings (loss) per share (basic and diluted)	$	(0.01)

Three months ended September 30, 2017:

Total income and comprehensive income for the period	$	371,247
Earnings attributable to common shares	$	371,247
Weighted average number of common shares (basic and diluted)		12,098,978
Earnings per share (basic and diluted)	$	0.03

9. Earnings per share (continued):

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

Nine months ended September 30, 2018:

Total income and comprehensive income for the period	$ 1,840,987
Earnings attributable to common shares	$ 1,840,987
Weighted average number of common shares (basic and diluted)	11,741,798
Earnings per share (basic and diluted)	$ 0.16

Nine months ended September 30, 2017:

Total income and comprehensive income for the period	$ 1,655,015
Earnings attributable to common shares	$ 1,655,015
Weighted average number of common shares (basic and diluted)	12,681,500
Earnings per share (basic and diluted)	$ 0.13

10. Fair value of financial instruments and risk management:

(a) Fair value of financial instruments:

The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced liquidation or sale. The Company's investments in mortgages are carried at fair value in the financial statements.

The following table shows a hierarchy for disclosing fair value based on inputs used to value the Company's investments. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurements).

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

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

The three levels of the fair value hierarchy are as follows:

- Quoted prices (unadjusted) in active markets for identical assets and liabilities (Level 1);
- Inputs other than quoted prices in active markets included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices) (Level 2); and
- Inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

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

September 30, 2018	Level 1	Level 2	Level 3	Total
Investments in mortgages	$ -	$ -	$ 5,091,907	$ 5,091,907

December 31, 2017	Level 1	Level 2	Level 3	Total
Investments in mortgages	$ -	$ -	$ 48,133,697	$ 48,133,697

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

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

Opening balance	$ 48,133,697
Funding of investment in mortgages	101,910
Accrued interest and fees receivable	(199,921)
Principal repayments or sold investments in mortgages	(44,976,048)
Fair value adjustments on investments in mortgages	3,836,500
Realized mortgage investment loss	(1,804,231)
Investment in mortgages, September 30, 2018	$ 5,091,907

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

Opening balance	$ 94,868,684
Funding of investment in mortgages	5,956,742
Interest capitalized to investment in mortgages	642,806
Change in accrued interest and fees receivable	(517,680)
Principal repayments on investment in mortgages	(51,553,324)
Fair value adjustments on investments in mortgages	7,599,749
Realized mortgage investment loss	(8,622,490)
Reclassification to amounts receivable	(240,790)
Investment in mortgages, December 31, 2017	$ 48,133,697

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

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

The key valuation techniques used in measuring the fair values of default mortgages include:

Valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurement
Discounted cash flow model	The adjusted credit risk premium based on the change in the borrower's credit risk utilizing the knowledge gained since the loan was originated	The estimate of fair value would increase (decrease) if: - The term of the mortgage was shortened (or extended) - The adjusted risk premium rate was lower (higher)
	Assessment of fair value of collateral of mortgages in default where payments expected from sale of property.	- Estimated fair value of collateral was (lower) higher
	The projected length of time the mortgage will remain in default without the underlying property being liquidated or foreclosed upon.	