Financial Statements of

TREZ CAPITAL MORTGAGE INVESTMENT CORPORATION

Years ended December 31, 2018 and 2017

KPMG LLP
PO Box 10426 777 Dunsmuir Street
Vancouver BC V7Y 1K3
Canada
Telephone (604) 691-3000
Fax (604) 691-3031

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Trez Capital Mortgage Investment Corporation

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

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

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

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

Basis for Opinion

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

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

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

Emphasis of Matter

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

Other Information

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

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

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

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

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

We have nothing to report in this regard.

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

We also:

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

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

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

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

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

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

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

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

KPMG LLP

Chartered Professional Accountants

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

Vancouver, Canada
March 29, 2019

TREZ CAPITAL MORTGAGE INVESTMENT CORPORATION

Statements of Financial Position

December 31, 2018 and 2017

	Notes		2018		2017
Assets					
Investments in mortgages	4	$	-	$	48,133,697
Cash and cash equivalents			8,060,383		7,219,217
Amounts receivable			100,099		100,000
Total assets		$	8,160,482	$	55,452,914
Liabilities and Shareholders' Equity					
Dividends payable	5	$	-	$	691,726
Accounts payable and accrued liabilities			59,794		89,725
Management fee payable	6, 8		9,110		68,206
Incentive fee payable	7		730,878		486,416
Total liabilities			799,782		1,336,073
Shareholders' equity	5		7,360,700		54,116,841
Total liabilities and shareholders' equity		$	8,160,482	$	55,452,914

Subsequent event (note 15)

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

Approved on behalf of the Board:

"Alexander Manson" Director
(Signed) Alexander Manson

"Gregory Vorwaller" Director
(Signed) Gregory Vorwaller

TREZ CAPITAL MORTGAGE INVESTMENT CORPORATION

Statements of Income and Comprehensive Income

Years ended December 31, 2018 and 2017

	Notes	2018	2017
Revenue:			
Interest and fee income		$ 847,043	$ 4,715,783
Expenses:			
Management fees	6, 8	433,516	1,227,870
Incentive fees	7	497,145	233,732
General and administrative expenses		964,315	604,550
		1,894,976	2,066,152
Income (loss) from operations before undernoted		(1,047,933)	2,649,631
Fair value gain (loss):			
Realized mortgage investment loss	4	(1,042,602)	(8,622,490)
Fair value gain adjustments on investments in mortgages	4	3,836,500	7,599,749
Net fair value gain (loss)		2,793,898	(1,022,741)
Income (loss) from operations		1,745,965	1,626,890
Net income and comprehensive income for the year		$ 1,745,965	$ 1,626,890
Earnings per share:			
Basic and diluted	9	$ 0.15	$ 0.13

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

TREZ CAPITAL MORTGAGE INVESTMENT CORPORATION
Statements of Changes in Shareholders' Equity

Years ended December 31, 2018 and 2017

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 year		-	1,745,965	1,745,965
Dividends to shareholders	5	-	(47,895,725)	(47,895,725)
Repurchases of shares	5	(606,381)	-	(606,381)
Shareholders' equity at December 31, 2018		$ 122,183,167	$ (114,822,467)	$ 7,360,700

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 year		-	1,626,890	1,626,890
Dividends to shareholders	5	-	(48,518,414)	(48,518,414)
Repurchases of shares	5	(37,555,639)	-	(37,555,639)
Shareholders' equity at December 31, 2017		$ 122,789,548	$ (68,672,707)	$ 54,116,841

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

TREZ CAPITAL MORTGAGE INVESTMENT CORPORATION

Statements of Cash Flows

Years ended December 31, 2018 and 2017

	2018	2017
Cash provided by (used in):		
Operations:		
Net income and comprehensive income for the year	$ 1,745,965	$ 1,626,890
Non-cash adjustments:		
Interest income earned	(847,043)	(4,105,132)
Realized mortgage investment loss	1,042,602	8,622,490
Fair value adjustments on investment in mortgages	(3,836,500)	(7,599,749)
Incentive fee	497,145	233,732
Incentive fee paid	(252,683)	(292,861)
Interest received	1,984,430	3,774,144
	333,916	2,259,514
Changes in non-cash operating items:		
Amounts receivable	(98)	140,790
Accrued fees receivable	-	205,862
Management fees payable	(59,098)	(91,572)
Accounts payable and accrued liabilities	(29,931)	(90,814)
	244,789	2,423,780
Financing:		
Repurchase of shares	(606,381)	(37,555,639)
Dividends to shareholders	(48,587,451)	(48,788,652)
	(49,193,832)	(86,344,291)
Investing:		
Funding of investments in mortgages	(101,910)	(5,956,742)
Principal repayments or sold investments in mortgages	49,892,119	51,553,324
	49,790,209	45,596,582
Increase (decrease) in cash during the year	841,166	(38,323,929)
Cash and cash equivalents, beginning of year	7,219,217	45,543,146
Cash and cash equivalents, end of year	$ 8,060,383	$ 7,219,217

The accompanying notes are an integral part of these 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 in 2016 and all mortgage renewal activity, subject to contractual rights, and its assets are being monetized over time. As at December 31, 2018 all remaining mortgages in the Company have been monetized. Capital has been actively returned to shareholders on an ongoing basis under the supervision of the Board of Directors with the assistance of the Manager.

2. Basis of presentation:

(a) Statement of compliance:

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

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

(b) Functional and presentation currency:

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

(c) Use of estimates and judgments:

The preparation of financial statements requires the Manager to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

The most significant estimates that the Manager was required to make related to the fair value of the investments in mortgages and the incentive fee provision. As at December 31, 2018 all the mortgages in the corporation have been monetized.

3. Significant accounting policies:

(a) Cash and cash equivalents:

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

(b) Investments in mortgages:

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

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

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

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

(c) Class A shares:

The Class A shares are non-redeemable. The Company classifies financial instruments issued as either financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instrument. Accordingly, the non-redeemable Class A shares are classified as equity.

Dividends payable to holders of Class A shares are recognized, when declared, in the statement of changes in shareholders’ equity.

(d) Interest income:

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

(e) Income taxes:

During 2017, the Company ceased to maintain its status as a Mortgage Investment Corporation pursuant to the Income Tax Act (Canada) and consequently is no longer be able to deduct dividends paid to shareholders from its taxable income. The Manager expects the Company’s non-capital losses carried forward to be sufficient to offset any future taxable income.

3. Significant accounting policies (continued):

(f) Financial Instruments:

(*i*) Change in Accounting Policy:

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

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

(*ii*) Recognition and classification of financial assets and liabilities:

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

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

Under IFRS 9, on initial recognition, a financial asset is classified as measured at: amortized cost; fair value through other comprehensive income (FVOCI)-debt investment;

FVOCI-equity investment; or fair value through profit or loss (FVTPL). The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics.

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

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

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

As such the investments in mortgages were classified as FVTPL. The implementation of the new measurement categories has had no significant effect on the value of the instruments.

3. Significant accounting policies (continued):

(f) Financial Instruments (continued):

(*ii*) Recognition and classification of financial assets and liabilities (continued):

The following table summarizes the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Company's financial assets. The Company has classified its financial instruments as follows:

Classification	Old (IAS 39)	New (IFRS 9)
Financial assets:		
Investments in mortgages	FVTPL	FVTPL
Cash and cash equivalents	Loans and receivables	Amortized cost
Accounts receivable	Loans and receivables	Amortized cost
Financial liabilities:		
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost
Management fees payable	Other financial liabilities	Amortized cost

(*iii*) Impairment:

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

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 may be recognized earlier than under IFRS 39.

The Company's financial assets at amortized cost consist of accounts receivable and cash.

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 implementation of IFRS 9 on the financial assets of the Company measured at amortized cost.

3. Significant accounting policies (continued):

(f) Financial instruments (continued):

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

(A) Financial assets:

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

(B) Financial liabilities:

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

(g) Other changes in Accounting Policies:

IFRS 15, *Revenue recognition*:

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

4. Investments in mortgages:

(a) Mortgages:

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

A reconciliation of fair value adjustments on investments in mortgages for the year ended December 31, 2018 is as follows:

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

Realized mortgage investment losses (gains)	
Resolved default mortgage (note 4(b)(*i*))	$ 1,888,159
Resolved default mortgage (note 4(b)(*ii*))	(845,557)
Realized 2018 mortgage investment losses	$ 1,042,602

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

All mortgages have been repaid as at December 31, 2018.

4. Investments in mortgages:

(b) Resolved default mortgages:

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

(i) A loan, classified as in default in 2014, was resolved through acquisition of the property by an affiliate of the Manager. In 2016, the affiliate sold the property to a third party through a vender take-back mortgage. 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 Company had previously recognized a fair value provision of $3.4 million of which $1.5 million was effectively reversed based on the proceeds from sale of the property.

(ii) First of the two mortgages with the same borrower with an aggregate carrying amount of $5,015,593 at December 31, 2017 was resolved in the second quarter of 2018. The second of the two mortgages with the aggregate carrying amount of $1,346,414 at December 31, 2017 was resolved in the fourth quarter of 2018. The Manager accepted an offer from the borrower and a partial paydown totaling $864,495 in June 2018. The remaining balance of the principal was repaid by the borrower in the fourth quarter. The repayments resulted in reversal of $0.4 million fair value provision previously recorded as at December 31, 2018 and recognition of $0.8 million in realized gain on mortgage investments.

5. Class A shares:

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

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 have been paid on May 15, 2018. The decision to suspend distribution was based 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 Orderly Wind-up Plan, totaled $27,959,306.

5. Class A shares (continued):

(a) Dividends (continued):

For the year ended December 31, 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 December 31, 2018, distribution payable was nil (December 31, 2017 - $691,726).

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 of available cash as the Orderly Wind-Up Plan of the Company is finalized.

(b) Normal course issuer bid:

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 year ended December 31, 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.

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 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. As part of the Orderly Wind-Up Plan, the Manager had agreed to waive the performance fee effective May 1, 2016.

7. Incentive fees:

The Manager agreed 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 waived its rights, if any, to early termination fees in exchange for an incentive fee calculated as the greater of the following:

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

- (i) The aggregate realized proceeds: and
- (ii) The Company's unrestricted cash as at April 30, 2016 exceeds $163,509,009; and

(b) $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 December 31, 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 remaining 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 December 31, 2018, cumulative realized proceeds totaled $167,283,554 (December 31, 2017 - $117,307,507).

A reconciliation of incentive fee payable for the year ended December 31, 2018 is as follows:

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

8. Related party transactions and balances:

The following are related party transactions not disclosed elsewhere in these financial statements:

(a) The Company is managed by the Manager, a related party by virtue of common management. Pursuant to the Management Agreement referred to in note 6, during the year ended December 31, 2018 the Company incurred management fees in the amount of $433,516 (2017 - $1,227,870).

At December 31, 2018, $9,110 (December 31, 2017 - $68,206) in management fees were payable.

(b) As at December 31, 2018, the Company no longer has any co-invested mortgage investments (December 31, 2017 - four mortgage investments) with other funds managed by the Manager. The total amount of the mortgage investment is nil of which the Company's share is nil (December 31, 2017 - $42,963,687, of which the Company's share was $32,961,499). During the year ended December 31, 2018, the Company purchased investments in mortgages from entities under common management of nil (2017 - nil) and sold 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. Titles to mortgages are held by Computershare Canada, (the "Custodian"), on behalf of the beneficial owners of the mortgages. In addition, mortgage broker duties are performed by the Mortgage Broker. The Manager and the Mortgage Broker are related to the Company through common control.

9. Earnings (loss) per share:

Basic and diluted earnings per share are calculated by dividing net income attributable to common shares by the weighted average number of common shares during the year:

Year ended December 31, 2018

Net income for the year	$ 1,745,965
Weighted average number of common shares (basic and diluted)	11,718,776
Earnings per share (basic and diluted)	$ 0.15

9. Earnings (loss) per share (continued):

Year ended December 31, 2017

Net income for the year	$	1,626,890
Weighted average number of common shares (basic and diluted)		12,499,271
Earnings per share (basic and diluted)	$	0.13

10. Capital management:

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

11. Fair value of financial instruments and risk management:

(a) Fair value of financial instruments:

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

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

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

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

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

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

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

December 31, 2018	Level 1	Level 2	Level 3	Total
Investments in mortgages	$ -	$ -	$ -	$ -

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 year.

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

Opening balance	$ 48,133,697
Funding of investment in mortgages	101,910
Change in accrued interest and fees receivable	(291,829)
Principal repayments and sale of investment in mortgages	(49,892,119)
Fair value adjustments on investments in mortgages	3,836,500
Realized mortgage investment loss	(1,888,159)
Investment in mortgages, December 31, 2018	$ -

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 and sale of 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

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

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

The key valuation techniques used in measuring the fair values of 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 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.	- The term of the mortgage was shortened (or extended)

At December 31, 2018, since all of the mortgages have been repaid, a 25 basis point increase in the credit risk premium would have no impact on fair value (December 31, 2017 - $96,017) and a 25 basis point decrease in the credit risk premium would have no impact on fair value (December 31, 2017 - $96,329).

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

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

(b) Risk management:

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

- Credit risk;
- Liquidity risk; and
- Market risk.

(*i*) Credit risk:

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

(*ii*) Liquidity risk:

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

The Company's liquidity risk is managed on an ongoing basis by the Manager in accordance with the policies and procedures in place. The Company's overall liquidity is monitored on a quarterly basis by the Board of Directors. The Company expects cash on hand to be sufficient to settle all remaining obligations for the Company.

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

	Carrying values	Contractual cash flows	Within a year
Accounts payable and accrued liabilities	$ 59,794	$ 59,794	$ 59,794
Management fees payable	9,110	9,110	9,110
	$ 68,904	$ 68,904	$ 68,904

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

(b) Risk management (continued):

(*iii*) Market risk:

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

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

(A) Interest rate risk:

Credit risk is the risk that the fair value or future cash flows of its financial instruments will fluctuate as a result of changes in market interest rates. The Company ceased to be exposed to interest rate risk following repayment of all of its investments in mortgages.

(B) Currency risk:

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

(C) Other price risk:

Other price risk is the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in market prices. The risk arises from changes in the real estate market and could be local, national, and global in nature. Deteriorating real estate values increase the Company's risk. The Company ceased to be exposed to interest rate risk following repayment of all of its investments in mortgages.

12. Key management personnel compensation:

The Company paid $130,971 (2017 - $165,653) to the members of the Board of Directors and Independent Review Committee for their services to the Company. The compensation to the Manager is paid through the management fees paid (note 6 and 7).

13. Income taxes:

In the first quarter of 2017, as a result of the cash outlay in relation to the SIB for cancellation of shares and monetization of residential mortgages, 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 non-capital losses carried forward from prior years will be sufficient to offset all future taxable income, if any. Furthermore, the Company does not expect to realize any further taxable income as the Orderly Wind-Up progresses.

As at December 31, 2018, the Company has non-capital losses carried forward for income tax purposes of $21,574,376 (2017 - $23,538,699), which will expire between 2032 and 2036 if not used and the Company has net capital losses carried forward for income tax purposes of nil (2017 - nil).

The Company makes estimates in respect of the composition of the deferred income tax asset. Income projections for the Company taking into consideration expected interest income, expenses, dividend payments and timing of mortgage maturities. Estimates of all amounts are prepared for future years in order to determine anticipated taxable income, which might be offset by tax losses carried forward. As at December 31, 2018, as the Company expects no future taxable income, the deferred income tax asset is nil (December 31, 2017 - nil).

14. Contingencies:

Contingent assets:

At December 31, 2018, the Company was involved in litigations with borrowers, advisers and other parties to recover losses from loans where realized proceeds were less than outstanding principal amounts and interest. Due to the uncertainty as the whether the Company will prevail and ultimately be able to recover any amounts awarded, at December 31, 2018 the Company was unable to estimate accurately the potential amount or probability of successful recovery.

15. Subsequent event:

Subsequent to year end, the Manager settled a lawsuit against an advisor in relation to a mortgage that was previously in default and sold at a loss in 2017. Under the terms of the settlement, the Company expects to receive approximately $1.2 million in proceeds in the second quarter of 2019.