

Financial statements of

**CareVest First MIC Fund Inc.**

December 31, 2015

# CareVest First MIC Fund Inc.

December 31, 2015

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## **Independent Auditor's Report**

To the Shareholders of  
CareVest First MIC Fund Inc.

We have audited the accompanying financial statements of CareVest First MIC Fund Inc., which comprise the statement of financial position as at December 31, 2015, the statement of (loss) earnings and total comprehensive (loss) 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 First MIC Fund Inc. as at December 31, 2015 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Deloitte LLP

Chartered Professional Accountants, Chartered Accountants  
March 23, 2016

# CareVest First MIC Fund Inc.

## Statement of (loss) earnings and total comprehensive (loss) income year ended December 31, 2015

(In Canadian dollars)

	2015	2014
	\$	\$
<b>Revenue</b>		
Finance	183,000	266,363
Proceeds on sale	38,753	-
Other	7,799	-
	<b>229,552</b>	266,363
<b>Expenses</b>		
Dividends on Preferred Shares		
Series A1 Preferred Shares	98,719	144,236
Series B1 Preferred Shares	28,087	62,678
	<b>126,806</b>	206,914
Cost of sales	38,537	-
Management fee (Note 9)	28,214	37,509
Professional fees	14,728	13,255
Impairment of mortgage receivable (Note 7)	1,421	219,794
Other	8,780	3,011
Inventory write down	8,388	-
Inventory holding costs	7,674	-
Mortgage recovery cost	1,893	691
Bank charges	525	505
	<b>236,966</b>	481,679
Loss before other item	(7,414)	(215,316)
Redemption gain (Note 11)	-	235,092
(Loss) earnings before income tax	(7,414)	19,776
Deferred income tax recovery (Note 10)	(6,551)	(53,830)
<b>Net (loss) earnings and total comprehensive (loss) income</b>	<b>(863)</b>	73,606

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

# CareVest First MIC Fund Inc.

## Statement of changes in equity year ended December 31, 2015

(In Canadian dollars)

	Capital stock	Contributed surplus	Retained earnings (deficit)	Total
	\$	\$	\$	\$
<b>Balance, December 31, 2013</b>	100	6,000	(21,415)	(15,315)
Net earnings for the year and total comprehensive income	-	-	73,606	73,606
Balance, December 31, 2014	100	6,000	52,191	58,291
Net loss for the year and total comprehensive loss	-	-	(863)	(863)
<b>Balance, December 31, 2015</b>	<b>100</b>	<b>6,000</b>	<b>51,328</b>	<b>57,428</b>

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

# CareVest First MIC Fund Inc.

## Statement of financial position as at December 31, 2015

(In Canadian dollars)

	2015	2014
	\$	\$
<b>Assets</b>		
Cash (Note 6)	48,305	127,676
Accounts receivable	9,508	387
Finance income receivable	17,890	18,372
Mortgages receivable - net of allowance (Note 7)	3,244,751	4,209,426
Inventory (Note 8)	458,510	126,827
Prepaid expenses and deposits	5,812	5,812
Deferred income taxes (Note 10)	67,519	60,968
	<b>3,852,295</b>	<b>4,549,468</b>
<b>Liabilities</b>		
Accounts payable and accrued liabilities	10,755	17,235
Dividends payable	3,306	4,458
Due to related companies (Note 9)	2,601	2,742
Series A1 Preferred Shares (Note 11)	2,822,458	3,291,319
Series B1 Preferred Shares (Note 11)	955,747	1,175,423
	<b>3,794,867</b>	<b>4,491,177</b>
<b>Shareholders' equity</b>		
Capital stock (Note 12)	100	100
Contributed surplus	6,000	6,000
Retained earnings	51,328	52,191
	<b>57,428</b>	<b>58,291</b>
	<b>3,852,295</b>	<b>4,549,468</b>

Approved by the Board

  
\_\_\_\_\_ Director

  
\_\_\_\_\_ Director

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

# CareVest First MIC Fund Inc.

## Statement of cash flows year ended December 31, 2015

(In Canadian dollars)

	2015	2014
	\$	\$
<b>Operating activities</b>		
Net (loss) earnings	(863)	73,606
Finance income	(183,000)	(266,363)
Dividend expense	126,806	206,914
Redemption gain	-	(235,092)
Deferred taxes	(6,551)	(53,830)
Gain on inventory sale	(216)	-
Dividends reinvested (Note 11)	(85,408)	(134,083)
Changes in non-cash working capital (Note 14)	(346,310)	(78,450)
Allowance on mortgages receivable	1,421	219,794
Finance income received	183,482	247,991
Dividends paid	(42,550)	(79,707)
	<b>(353,189)</b>	<b>(99,220)</b>
<b>Investing activities</b>		
Advances of mortgages receivable	(3,865,057)	(2,887,372)
Repayments of mortgages receivable	4,827,412	4,323,753
	<b>962,355</b>	<b>1,436,381</b>
<b>Financing activities</b>		
Issuance of Series A1 and Series B1 Preferred Shares (Note 11)	85,408	134,083
Redemption of Series A1 and Series B1 Preferred Shares (Note 11)	(773,945)	(1,381,069)
	<b>(688,537)</b>	<b>(1,246,986)</b>
Net (decrease) increase in cash	(79,371)	90,175
Cash, beginning of year	127,676	37,501
<b>Cash, end of year</b>	<b>48,305</b>	<b>127,676</b>

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



# CareVest First MIC Fund Inc.

## Notes to the financial statements

December 31, 2015

(In Canadian dollars)

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### 1. Nature of operations

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

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

The Company invests in mortgages originated, sourced, 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.

These financial statements were approved by the directors Mr. Roy Goddard and Ms. Shauna Campbell and authorized for issue on March 23, 2016.

### 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 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.

#### *Mortgages receivable*

Mortgages receivable are initially recorded at fair value plus any transactions costs and are subsequently measured at amortized cost using the effective interest method, less any impairment losses. All individual mortgages receivable are assessed at each reporting date to determine if there is any evidence of impairment and whether a loss event has an impact on future cash flows as discussed in Note 5. An impairment loss is calculated as the difference between its carrying amount and the present value of the estimated future cash flows, discounted using an appropriate discount rate. Losses are recognized in profit and loss and reflected in an allowance account against the mortgages receivable. When a subsequent event causes the impairment loss to decrease, the impairment is reversed through profit and loss at that time. Once an impaired mortgage is determined to be uncollectable at any future point in time, it is permanently written off.

# CareVest First MIC Fund Inc.

## Notes to the financial statements

December 31, 2015

(In Canadian dollars)

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### 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 fully serviced mortgage investments from CCI and its finance income is presented net of the priority interest allocation retained by CCI from the interest paid by the borrower on the investments acquired by the Company. Finance income is accounted for on an accrual basis and is measured at the fair value of the consideration received or receivable.

#### *Finance income*

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

#### *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.

# CareVest First MIC Fund Inc.

## Notes to the financial statements

December 31, 2015

(In Canadian dollars)

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### 3. Significant accounting policies (continued)

#### *Provisions*

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

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

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

#### *Financial instruments*

##### Financial assets

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

Financial assets are classified into the following specified categories: financial assets at FVTPL, held-to-maturity 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

##### 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.

##### Financial assets - loans and receivables

Cash, accounts receivable, finance income receivable and mortgages receivable, that have fixed or determinable payments that 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 recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

##### Financial assets - impairment of financial assets

At each reporting date, the Company assesses whether there is any evidence that a financial asset or group of financial assets is impaired. The Company reviews the carrying amounts of its financial assets recorded at amortized costs to determine whether there is objective evidence that those financial assets have suffered an impairment loss. A financial asset, or group of financial assets, is impaired when objective evidence demonstrates that the estimated future cash flows for the financial asset or group of

# CareVest First MIC Fund Inc.

## Notes to the financial statements

December 31, 2015

(In Canadian dollars)

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### 3. Significant accounting policies (continued)

#### *Financial instruments (continued)*

#### Financial assets – impairment of financial assets (continued)

financial assets have been negatively impacted. If an impairment loss has occurred, the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows. The carrying amount of the asset is reduced through the use of an allowance account, and the loss is recognized in profit and loss and classified as an impairment expense.

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

#### Financial assets - derecognition of financial assets

The Company derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset. A transfer is considered to have occurred if the Company transfers the contractual rights of the cash flows, or if it retains the rights to the contractual cash flows, but assumes an obligation to pay these cash flows to another recipient. If it is determined that the Company has transferred a financial asset, it evaluates the extent to which it retains the risks and rewards of ownership of the financial asset. If the entity transfers substantially all the risks and rewards of ownership of the financial asset, the Company will derecognize it. If the 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 recognises 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 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
Preferred 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 (deficit) includes the earnings and losses from the current period and prior periods.

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

# CareVest First MIC Fund Inc.

## Notes to the financial statements

December 31, 2015

(In Canadian dollars)

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### 3. Significant accounting policies (continued)

#### *Preferred shares*

Preferred shares, which are retractable and redeemable, are initially recorded at fair value, net of any costs that are directly related to the issuance of the shares. International Accounting Standard 39, *Financial Instruments: Recognition and Measurement* ("IAS 39"), requires the preferred shares to be recorded at the redemption price. The shares are subsequently measured at amortized cost method and are recorded at the redemption price. The redemption price is calculated using the net asset value ("NAV") which approximates fair value. The dividends on these preferred shares and any redemption gains or losses are recognized in profit or loss.

#### *Dividends*

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

### 4. 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 a forward looking expected loss model, under which impairment would be recognized before a credit loss event has occurred, which would be achieved using an approach which incorporates all relevant information about past events, current conditions and reasonable and supportable forecasts about the future. Using this model, a charge for some expected losses would be recognized upon initial recognition of a financial asset, with changes in the expected loss provision being based on the extent of deterioration in credit quality since the initial recognition. 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 determine the impact this will have on its future reporting of financial assets, namely its mortgages receivable.

#### *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. IFRS 15 is effective for annual periods beginning on or after January 1, 2018. The Company continues to monitor this project and the financial reporting implications.

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

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

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

# CareVest First MIC Fund Inc.

## Notes to the financial statements

December 31, 2015

(In Canadian dollars)

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

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. IAS 39 requires that a financial asset be derecognized when the contractual rights to the cash flows from the financial asset expire, or it transfers the financial asset by transferring the contractual rights to receive future cash flows of the financial asset. The Company looks to the legal structure of the action taken over mortgages that are considered to be impaired in order to determine the classification as either an impaired financial asset, or derecognition of a financial asset resulting in recognition of another class of asset. If 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. Evidence of impairment include factors such as credit worthiness of borrower, timing of receipts on future cash flows, including repayments from the borrower and estimates of the value and timing of the collateral underlying the loan. Changes in the assumptions about these factors could result in changes to the reported fair value of financial instruments. In management's judgment, no unusual credit risk exists and the levels of mortgage impairment provisions are adequate to absorb all credit related losses in the Company's portfolio, given existing conditions. Management's policies for addressing credit risk are discussed in Note 13.

##### 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 upon the likely timing and level of future taxable profits together with future tax planning strategies.

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

#### *Critical accounting estimates and assumptions*

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting year, 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. At each reporting period, an impairment review is conducted. The impairment review involves assessing objective evidence, which may indicate the mortgage is impaired. If an impairment is considered to have occurred, the present value of the future cash flows of the mortgages at the appropriate discount rate is compared to the carrying value, with any excess of carrying value over the present value of future cash flows booked as an impairment charge to the mortgage receivable. This involves a number of significant estimates and assumptions with respect to

# CareVest First MIC Fund Inc.

## Notes to the financial statements

December 31, 2015

(In Canadian dollars)

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

*Critical accounting estimates and assumptions (continued)*

#### Allowance for mortgage impairment (continued)

the value of the properties involved including, but not limited to, the value placed on collateralized assets, the timing of future cash inflows and outflows, costs to complete and costs to be incurred in making the sale. Valuation techniques include using the *discounted cash flow model*. Inputs into these models are taken from observable markets where possible, but where this is not feasible, estimations are required to establish fair values. A scenario analysis is used to determine the present value of future cash flows for the impaired mortgages receivable. Values are input with reference to quoted market prices when available, including third party appraisals, listing agreements, purchase agreements, and property tax assessments. Cash outflows include costs to complete and costs incurred to make the sale, including marketing and legal costs.

#### Inventory

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

#### Redemption price

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

### 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:

	2015	2014
	\$	\$
Operating deposit bank account	4,733	581
Cash held in trust (Note 9)	43,572	127,095
	<b>48,305</b>	<b>127,676</b>

### 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.

# CareVest First MIC Fund Inc.

## Notes to the financial statements

December 31, 2015

(In Canadian dollars)

### 7. Mortgages receivable (continued)

As at December 31, 2015, the Company has mortgages receivable which earn interest at rates of 3.0% to 9.0% (2014: 3.65% to 11.50%) and are secured by real property. The mortgages receivable are typically due within six to eighteen months.

	2015	2014
	\$	\$
Mortgages due within the next 12 month period - net of allowance	2,523,024	4,106,907
Mortgages due after the next 12 month period - net of allowance	721,727	102,519
	<b>3,244,751</b>	<b>4,209,426</b>

Mortgages receivables disclosed above include amounts that may be in arrears 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. A mortgage is defined as being in arrears when the principal is not received in accordance with the terms of the original agreement. A mortgage is defined as being impaired when evidence received during the impairment review suggests that the security provided for the mortgage may not be sufficient to repay the amounts owing under the loan. When a loan is defined as impaired, an allowance for mortgage impairment is recognized to reflect the potential loss. The Company does not hold any additional collateral or other credit enhancements over these balances nor does it have a legal right of offset against any amounts owed by the Company to the counterparty.

#### *Aging of mortgage receivables in arrears but not impaired*

Mortgages receivable in arrears are broken out as follows:

	2015	2014
	\$	\$
0-90 days past due	-	-
91-365 days past due	-	23,240
Over 365 days past due	52,721	465,948
	<b>52,721</b>	<b>489,188</b>

#### *Mortgages receivable impairment provision*

	2015	2014
	\$	\$
Balance, beginning of year	254,119	34,325
Impairment losses recognized	1,421	219,794
Amounts written off during the year as uncollectable	(1,215)	-
Balance, end of year	<b>254,325</b>	<b>254,119</b>

The mortgages receivable has been divided for information purposes as follows:

	2015	2014
	\$	\$
Residential mortgages - net of allowance (\$254,325, 2014 - \$254,119)	2,165,640	4,109,426
Commercial mortgages	1,079,111	100,000
	<b>3,244,751</b>	<b>4,209,426</b>



# CareVest First MIC Fund Inc.

## Notes to the financial statements

December 31, 2015

(In Canadian dollars)

### 7. Mortgages receivable (continued)

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

	2015	2014
	\$	\$
Alberta	719,740	349,343
British Columbia	2,525,011	3,443,170
Ontario	-	416,913
	<b>3,244,751</b>	<b>4,209,426</b>

  

	2015	2014
	\$	\$
Land	1,725,278	2,625,397
Construction	1,458,346	1,580,011
Inventory	12,700	1,500
Servicing	48,427	2,518
	<b>3,244,751</b>	<b>4,209,426</b>

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

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

Valuation techniques and assumptions are discussed in Note 5.

### 8. Inventory

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

Inventory may consist of land made available for sale, full serviced lots, and residential and commercial buildings. Inventories are valued at the lower of cost and net realizable value. The valuation techniques to determine net realizable value are discussed in Note 5.

# CareVest First MIC Fund Inc.

## Notes to the financial statements

December 31, 2015

(In Canadian dollars)

### 8. Inventory (continued)

*Total inventory*

	2015	2014
	\$	\$

Foreclosed mortgages inventory (derecognized financial asset), net of write down (\$8,388, 2014 - \$nil)	<b>458,510</b>	126,827
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*Accumulated write-down of inventory to net realizable value*

	2015	2014
	\$	\$

Balance, beginning of year	-	-
Write-down recognized	<b>8,388</b>	-
Balance, end of year	<b>8,388</b>	-

### 9. 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 is entitled to a priority allocation of the interest accruing and payable on all mortgage loans up to 2.5% of the outstanding principal balance calculated daily, aggregated and paid monthly. CCI retains a priority interest allocation of up to 2.5% from the interest paid by the borrowers on the mortgage investments acquired by the Company. These Agreements have an unspecified term and may be terminated by the parties as specified therein.

The Company pays a management fee of 0.5% per annum of the proportionate share of the total assets of the Company attributable to the Series A1 and 1.0% per annum of the proportionate share of the total assets of the Corporation attributable to the Series B1 Preferred Shares, plus applicable taxes, calculated daily, aggregated and payable monthly in arrears, to Carecana for acting as its investment fund manager and portfolio manager. The companies are members of the same corporate group.

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

CH Settlement Corp., a Company related through common management, holds the funds in trust for interest earned from mortgage investment, interest paid to investors throughout the period and idle funds available for investment. Any amounts receivable or payable at period end remain in this trust. Advances and repayments are made to 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	
	2015	2014
	\$	\$
Management fee Carecana Management Corp.	<b>28,214</b>	37,509

# CareVest First MIC Fund Inc.

## Notes to the financial statements

December 31, 2015

(In Canadian dollars)

### 9. Related party transactions (continued)

	2015	2014
	\$	\$
Priority interest retained by CCI	61,694	86,874

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

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

	2015	2014
	\$	\$
Due to		
Carecana Management Corp.	2,250	2,742
CareVest Capital Inc.	351	-
	2,601	2,742

#### 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.

### 10. Incomes 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:

	2015	2014
	\$	\$
Deferred income tax asset		
Non-capital loss carry forwards	242,896	243,870
Cumulative inventory write down	8,388	-
	251,284	243,870
Tax rate	27.00%	25.00%
	67,847	60,968
Amounts not considered realizable	(328)	-
	67,519	60,968

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 \$242,896 (2014 - \$243,870) which expire by 2035 (2014 - 2034).

# CareVest First MIC Fund Inc.

## Notes to the financial statements

December 31, 2015

(In Canadian dollars)

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### 11. Preferred shares

Class A Preferred Share, restricted voting

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

Class B Preferred Share, restricted voting

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

Class C Preferred Share, restricted voting

Class D Preferred Share, restricted voting

Class E Preferred Share, restricted voting

Class F Preferred Share, restricted voting

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

Class G Preferred Share, restricted voting

First Preferred Share, restricted voting

Second Preferred Share, restricted voting

Third Preferred Share, restricted voting

Fourth Preferred Share, restricted voting

Fifth Preferred Share, restricted voting

*Issued*

	<b>2015</b>	2014
	\$	\$
2,967,053 Series A1 Preferred Shares (2014 - 3,464,546)	<b>2,822,458</b>	3,291,319
1,005,510 Series B1 Preferred Shares (2014 - 1,237,288)	<b>955,747</b>	1,175,423
	<b>3,778,205</b>	4,466,742

# CareVest First MIC Fund Inc.

## Notes to the financial statements

December 31, 2015

(In Canadian dollars)

### 11. Preferred shares (continued)

The following table details the transactions that occurred during the year:

	Series A1 Preferred shares	Series B1 Preferred shares
Number of shares outstanding December 31, 2013	3,664,259	2,284,561
Shares issued	109,554	24,529
Shares redeemed	(309,267)	(1,071,802)
Number of shares outstanding December 31, 2014	3,464,546	1,237,288
Shares issued	75,156	10,252
Shares redeemed	(572,649)	(242,030)
Number of shares outstanding December 31, 2015	<b>2,967,053</b>	<b>1,005,510</b>

	Series A1 Preferred shares	Series B1 Preferred shares
	\$	\$
Value of shares outstanding December 31, 2013	3,664,259	2,284,561
Shares issued for dividends	109,554	24,529
Shares redeemed	(309,267)	(1,071,802)
Redemption gain	(173,227)	(61,865)
Value of shares outstanding December 31, 2014	3,291,319	1,175,423
Shares issued for dividends	75,156	10,252
Shares redeemed	(544,017)	(229,928)
Value of shares outstanding December 31, 2015	<b>2,822,458</b>	<b>955,747</b>

At December 31, 2015, there are \$Nil (2014 - \$Nil) Series A1 Preferred Shares and \$12,298 (2014 - \$Nil) Series B1 Preferred Shares scheduled for redemption in the next fiscal year.

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

#### *Retraction rights*

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

# CareVest First MIC Fund Inc.

## Notes to the financial statements

December 31, 2015

(In Canadian dollars)

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### 11. Preferred shares (continued)

#### *Redemption features*

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

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

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

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

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

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

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

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

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

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

# CareVest First MIC Fund Inc.

## Notes to the financial statements

December 31, 2015

(In Canadian dollars)

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### 11. Preferred shares (continued)

#### *Redemption features(continued)*

less any reductions, amounts or fees payable in respect of the Redeemable Share, will be paid on or within 10 Business Days of the Redemption Date.

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

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

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

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

#### *Redemption price*

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

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

# CareVest First MIC Fund Inc.

## Notes to the financial statements

December 31, 2015

(In Canadian dollars)

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### 12. Capital stock

*Authorized*, unlimited number

Class A common shares, voting, retractable

Class B common shares, restricted voting

Class C common shares, restricted voting

*Issued*

	2015	2014
	\$	\$
100 Class A common shares (2014 - 100)	<b>100</b>	100

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

### 13. 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, finance income receivable, accounts payable and accrued liabilities, due to related companies and dividends payable, approximate their fair values due to their short-term nature.

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



# CareVest First MIC Fund Inc.

## Notes to the financial statements

December 31, 2015

(In Canadian dollars)

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

*Financial instruments (continued)*

*Fair value of financial instruments (continued)*

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

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

		2015		
	Carrying value	Fair value measurements using		
		Level 1	Level 2	Level 3
	\$	\$	\$	\$
Financial assets				
Mortgages receivable - impaired	603,276	-	-	603,276
Mortgages receivable - not impaired	2,641,475	-	-	2,641,475
	<b>3,244,751</b>	-	-	<b>3,244,751</b>
Financial liabilities				
Series A1 Preferred Shares	2,822,458	-	-	2,822,458
Series B1 Preferred Shares	955,747	-	-	955,747
	<b>3,778,205</b>	-	-	<b>3,778,205</b>
		2014		
	Carrying value	Fair value measurements using		
		Level 1	Level 2	Level 3
	\$	\$	\$	\$
Financial assets				
Mortgages receivable - impaired	634,962	-	-	634,962
Mortgages receivable - not impaired	3,574,464	-	-	3,574,464
	4,209,426	-	-	4,209,426
Financial liabilities				
Series A1 Preferred Shares	3,291,319	-	-	3,291,319
Series B1 Preferred Shares	1,175,423	-	-	1,175,423
	4,466,742	-	-	4,466,742

There were \$Nil (2014 - \$Nil) transfers into or out of Level 3 of the fair value hierarchy during the year.

# CareVest First MIC Fund Inc.

## Notes to the financial statements

December 31, 2015

(In Canadian dollars)

### 13. 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, 2015 is as follows:

	Not impaired	Impaired	Total
	\$	\$	\$
Mortgages receivable - December 31, 2014	3,574,464	634,962	4,209,426
Advances of mortgages receivable	3,863,943	1,114	3,865,057
Repayments of mortgages receivable	(4,796,932)	(30,480)	(4,827,412)
Impairment losses recognized	-	(1,421)	(1,421)
Impairment losses written off	-	(899)	(899)
<b>Mortgages receivable - December 31, 2015</b>	<b>2,641,475</b>	<b>603,276</b>	<b>3,244,751</b>
Series A1 and Series B1 Preferred Shares, December 31, 2014			4,466,742
Issuance of Series A1 and Series B1 Preferred Shares			85,408
Redemption of Series A1 and Series B1 Preferred Shares			(773,945)
<b>Series A1 and Series B1 Preferred Shares, December 31, 2015</b>			<b>3,778,205</b>

#### *Risk management*

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

#### *i) Credit risk*

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

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

- a) We will invest in commercial, industrial and residential mortgages;
- b) We will make investments by purchasing interests in investments originated, sourced or arranged by CCI and its affiliates and associates;
- c) Following funding, all of our mortgages will be registered on title to the subject property in our name, CCI or its affiliates' name, or a nominee bare trustee for us or CCI;
- d) All mortgage investments will be made in Canada;
- e) We will generally invest only in mortgages on properties for which we have reviewed and evaluated an independent appraisal and generally we will receive a Phase I Environmental Audit of the property;
- f) We will generally not invest in a mortgage or loan any funds to be secured by a mortgage unless at the date the mortgage is acquired or funds are initially committed (as the case may be) the indebtedness secured by such mortgage plus the amount of additional secured third party indebtedness of the borrower in priority to us, if any, generally does not exceed, on a property by property basis, (a) 75% of the appraised value of the real property securing the mortgage, as determined by our directors or such person(s) authorized by the directors from

# CareVest First MIC Fund Inc.

## Notes to the financial statements

December 31, 2015

(In Canadian dollars)

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

#### *Risk management (continued)*

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

- time to time; or (b) in the case of a mortgage on a residential construction project which has been pre-sold, 80% of the sale price; provided that the appraised value may be based on stated
- g) conditions including without limitation, construction, completion, rehabilitation or lease-up of improvements located on the real property;
- h) If the independent appraisal reports an appraised value for the real property securing the mortgage other than on an "as is basis", we may advance funds under a loan by way of progress payments upon completion of specified stages of construction or development supported by receipt of reports of qualified inspectors, which may include professional engineers, architects or quantity surveyors, as applicable, or upon completion of other specified milestones;
- i) We will not make any investment that would result in our failing to qualify as a Mortgage Investment Corporation as that term is defined in the Tax Act, as amended from time to time;
- j) To the extent that, from time to time, our funds are not invested in mortgages or mortgage backed securities, we will hold such funds in cash deposited with a Canadian chartered bank or such funds may be invested in short term investments, deposits, savings accounts or government guaranteed income certificates or treasury bills so as to maintain a level of working capital for our ongoing operations considered acceptable by our directors in their sole discretion; and
- k) We may, as a means of investing indirectly in mortgages, invest in mortgage backed securities, provided that the securitized portion of the mortgages in which we invest and which secure the bond, unit or other financial obligations that comprise the mortgage backed securities meet the requirements of paragraph (f) above.

The Company assesses the credit worthiness of its customers on an ongoing basis as well as monitoring the amount and age of balances outstanding. Mortgages receivable are fully secured by a charge against the underlying assets. Mortgages receivable 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 pay 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.

	2015	2014
	\$	\$
Cash	48,305	127,676
Accounts receivable	9,508	387
Finance income receivable	17,890	18,372
Mortgages receivable - net of allowance	3,244,751	4,209,426
	<b>3,320,454</b>	<b>4,355,861</b>

The credit exposure related to mortgages receivable are 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.

# CareVest First MIC Fund Inc.

## Notes to the financial statements

December 31, 2015

(In Canadian dollars)

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

*Risk management (continued)*

ii) Interest rate risk

The Company is exposed to interest rate risk on the variable interest rate mortgages receivable and bank indebtedness to the extent of changes in the prime interest rate. As of December 31, 2015 the Company currently has two variable interest bearing mortgages; however these amounts are protected by a floor rate that is the prime lending rate. As these mortgages are currently earning this floor rate, at December 31, 2015 only an increase in the prime rate would impact the net income; a 0.5% increase in prime rate, with all other variables constant, would result in an increase in net earnings of \$1,948.

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.

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

			2015	
	Carrying value	Current	Due between 61 to 365 days	Due greater than 365 days
	\$	\$	\$	\$
Accounts payable and accrued liabilities	10,755	10,755	-	-
Due to related companies	2,601	2,601	-	-
Dividends payable	3,306	3,306	-	-
Series A1 Preferred Shares	2,822,458	-	-	2,822,458
Series B1 Preferred Shares	955,747	-	12,298	943,449
	<b>3,794,867</b>	<b>16,662</b>	<b>12,298</b>	<b>3,765,907</b>

# CareVest First MIC Fund Inc.

## Notes to the financial statements

December 31, 2015

(In Canadian dollars)

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

*Risk management (continued)*

(iii) Liquidity risk (continued)

	Carrying value	Current	Due between 61 to 365 days	2014 Due greater than 365 days
	\$	\$	\$	\$
Accounts payable and accrued liabilities	17,235	17,235	-	-
Due to related companies	2,742	2,742	-	-
Dividends payable	4,458	4,458	-	-
Series A1 Preferred Shares	3,291,319	-	308,493	2,982,826
Series B1 Preferred Shares	1,175,423	-	138,964	1,036,459
	<b>4,491,177</b>	<b>24,435</b>	<b>447,457</b>	<b>4,019,285</b>

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

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

	2015	2014
	\$	\$
Accounts receivable	(9,121)	(387)
Additions to inventory	(378,608)	(76,820)
Sale of inventory	38,753	-
Due to related companies	(141)	(1,605)
Accounts payable and accrued liabilities	(6,480)	4,017
Write down of mortgage receivable	899	-
Inventory write-down (Note 8)	8,388	-
Prepaid expenses and deposits	-	(3,655)
	<b>(346,310)</b>	<b>(78,450)</b>

### 15. Capital disclosures

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

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