

Financial statements of

**CareVest Mortgage Investment  
Corporation**

December 31, 2015

# CareVest Mortgage Investment Corporation

December 31, 2015

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## **Independent Auditor's Report**

To the Shareholders of  
CareVest Mortgage Investment Corporation

We have audited the accompanying financial statements of CareVest Mortgage Investment Corporation, which comprise the statement of financial position as at December 31, 2015, the statement of earnings and total comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

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

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

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

## Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of CareVest Mortgage Investment Corporation as at December 31, 2015 and its financial performance and 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 Mortgage Investment Corporation

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

(In Canadian dollars)

|  | 2015                | 2014               |
|--|---------------------|--------------------|
|  | \$                  | \$                 |
| <b>Revenue (Note 12)</b>                           |                     |                    |
| Finance  | 5,721,671           | 7,335,191          |
| Other  | 4,308,359           | 2,614,958          |
|  | <b>10,030,030</b>   | <b>9,950,149</b>   |
| <b>Expenses</b>                                    |                     |                    |
| Impairment of mortgages receivable (Note 7)        | 11,628,469          | 4,918,291          |
| Inventory write-down (Note 8)                      | 6,369,487           | 521,455            |
| Cost of sales - inventory                          | 3,845,285           | 2,717,181          |
| Management fee (Note 11)                           | 3,070,071           | 3,333,073          |
| Dividends on Class A shares                        | 2,145,959           | 3,327,416          |
| Inventory holding costs                            | 562,127             | 336,969            |
| Mortgage administration fee (Note 11)              | 315,750             | 353,467            |
| Mortgage recovery cost                             | 158,378             | 354,040            |
| Professional fees                                  | 59,560              | 98,990             |
| Insurance  | 17,500              | 19,366             |
| Other  | 31,052              | 11,437             |
|  | <b>28,203,638</b>   | <b>15,991,685</b>  |
| Loss before other item                             | <b>(18,173,608)</b> | <b>(6,041,536)</b> |
| Retraction gain (Note 10)                          | <b>18,112,454</b>   | <b>5,987,079</b>   |
| Loss before income taxes                           | <b>(61,154)</b>     | <b>(54,457)</b>    |
| Deferred income tax recovery (Note 13)             | <b>(1,267,789)</b>  | <b>(1,510,384)</b> |
| <b>Net earnings and total comprehensive income</b> | <b>1,206,635</b>    | <b>1,455,927</b>   |

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

# CareVest Mortgage Investment Corporation

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

(In Canadian dollars)

|  | Capital<br>stock | Retained<br>earnings | Total             |
|--|------------------|----------------------|-------------------|
|  | \$               | \$                   | \$                |
| <b>Balance, December 31, 2013</b>                    | 419              | 7,901,128            | 7,901,547         |
| Earnings for the year and total comprehensive income | -                | 1,455,927            | 1,455,927         |
| Balance, December 31, 2014                           | <b>419</b>       | <b>9,357,055</b>     | <b>9,357,474</b>  |
| Earnings for the year and total comprehensive income | -                | <b>1,206,635</b>     | <b>1,206,635</b>  |
| <b>Balance, December 31, 2015</b>                    | <b>419</b>       | <b>10,563,690</b>    | <b>10,564,109</b> |

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

# CareVest Mortgage Investment Corporation


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

(In Canadian dollars)

|   | 2015               | 2014               |
|---|--------------------|--------------------|
|   | \$                 | \$                 |
| <b>Assets</b>                                   |                    |                    |
| Cash (Note 6)                                   | 343,250            | 1,646,350          |
| Accounts receivable                             | 316,195            | 29,072             |
| Finance income receivable                       | 637,256            | 586,809            |
| Mortgages receivable, net of allowance (Note 7) | 116,309,162        | 167,241,193        |
| Inventory (Note 8)                              | 39,179,677         | 23,267,626         |
| Investments (Note 11)                           | 253,984            | 258,284            |
| Prepaid expenses and deposits                   | 17,666             | 33,332             |
| Deferred income taxes (Note 13)                 | 10,529,140         | 9,261,351          |
|   | <b>167,586,330</b> | <b>202,324,017</b> |
| <b>Liabilities</b>                              |                    |                    |
| Accounts payable and accrued liabilities        | 384,325            | 210,378            |
| Dividends payable                               | 171,172            | 227,514            |
| Due to related companies (Note 11)              | 238,284            | 356,133            |
| Demand loan payable (Note 11)                   | 534,839            | -                  |
| Class A shares (Note 10)                        | 155,693,601        | 192,172,518        |
|   | <b>157,022,221</b> | <b>192,966,543</b> |
| <b>Shareholders' equity</b>                     |                    |                    |
| Capital stock (Note 9)                          | 419                | 419                |
| Retained earnings                               | 10,563,690         | 9,357,055          |
|   | <b>10,564,109</b>  | <b>9,357,474</b>   |
|   | <b>167,586,330</b> | <b>202,324,017</b> |

Approved by the Board

 \_\_\_\_\_ Director

 \_\_\_\_\_ Director

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

# CareVest Mortgage Investment Corporation

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

(In Canadian dollars)

|   | 2015                | 2014                |
|---|---------------------|---------------------|
|   | \$                  | \$                  |
| <b>Operating activities</b>                   |                     |                     |
| Net earnings                                  | 1,206,635           | 1,455,927           |
| Finance income                                | (5,721,671)         | (7,335,191)         |
| Dividends on Class A shares                   | 2,145,959           | 3,327,416           |
| Retraction gain                               | (18,112,454)        | (5,987,079)         |
| Deferred income tax recovery                  | (1,267,789)         | (1,510,384)         |
| Gain on inventory sale                        | (262,318)           | (300,416)           |
| Dividend reinvested (Note 10)                 | (302,698)           | (896,111)           |
| Changes in non-cash working capital (Note 15) | (15,846,079)        | (19,960,541)        |
| Allowance on mortgages receivable (Note 7)    | 11,628,469          | 4,918,291           |
| Finance income received                       | 5,671,224           | 6,748,382           |
| Dividends paid                                | (1,899,603)         | (2,490,037)         |
|   | <b>(22,760,325)</b> | <b>(22,029,743)</b> |
| <b>Investing activities</b>                   |                     |                     |
| Investments (Note 11)                         | 4,300               | 18,000              |
| Advances of mortgages receivable              | (70,202,452)        | (56,538,229)        |
| Repayments of mortgages receivable            | 109,487,001         | 100,755,149         |
|   | <b>39,288,849</b>   | <b>44,234,920</b>   |
| <b>Financing activities</b>                   |                     |                     |
| Demand loan repayments                        | (14,305,549)        | (4,656,747)         |
| Demand loan advances                          | 14,840,388          | 3,378,465           |
| Issuance of Class A shares (Note 10)          | 302,698             | 896,111             |
| Retraction of Class A shares (Note 10)        | (18,669,161)        | (21,233,938)        |
|   | <b>(17,831,624)</b> | <b>(21,616,109)</b> |
| Net (decrease) increase in cash               | <b>(1,303,100)</b>  | 589,068             |
| Cash, beginning of year                       | 1,646,350           | 1,057,282           |
| <b>Cash, end of year (Note 6)</b>             | <b>343,250</b>      | 1,646,350           |

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



# CareVest Mortgage Investment Corporation

## Notes to the financial statements

December 31, 2015

(In Canadian dollars)

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### 1. Nature of operations

CareVest Mortgage Investment Corporation (the “Company” or “CV MIC”) was incorporated under the Canada Business Corporations Act on November 2, 2012. On January 1, 2013, CareVest Second Mortgage Investment Corporation (“CV 2nd”), CareVest Blended Mortgage Investment Corporation (“CV Blended”), CareVest Capital Blended Mortgage Investment Corp. (“CC Blended”), Canadian Horizons Blended Mortgage Investment Corporation (“CH Blended”), and the Company (together, the “Amalgamated Entities”) were amalgamated to form the Company’s current structure. The address of the registered office and principal place of business is Suite 1800, 555 - 4th Avenue S.W. Calgary, Alberta T2P 3E7.

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

The Company invests in mortgages originated, sourced, arranged, administered and serviced by CareVest Capital Inc. (“CCI”) under an agreement with CCI.

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

The financial statements were approved by the directors, Mr. Roy Goddard and Mr. Mike Helfer, and authorized for issue on March 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 at fair value through profit or loss (“FVTPL”), which are measured at fair value. These financial statements are presented in Canadian dollars, which is the Company’s functional and presentation currency. Historical cost is based on the fair value of the consideration given in exchange at the transaction date.

#### *General*

The Company’s financial statements are prepared using the significant accounting policies described in Note 3. These policies have been applied throughout the year unless otherwise stated.

### 3. Significant accounting policies

#### *Cash*

The Company’s policy is to 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.

# CareVest Mortgage Investment Corporation

## Notes to the financial statements

December 31, 2015

(In Canadian dollars)

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### 3. Significant accounting policies (continued)

#### *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.

#### *Inventory*

Inventory includes all costs associated with the cost of purchase of the lands, costs of conversion, and all directly attributable costs to bring the lands to their intended use or sale. Inventory is stated at the lower of cost and net realizable value. Net realizable value represents the estimated selling price of the completed projects less all estimated costs of completion and costs necessary to make the sale. Borrowing costs cease to be capitalized when there are no further costs of conversion.

#### *Revenue recognition*

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

#### *Finance income*

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

Upon impairment of a mortgage receivable, subsequent accreted income is recorded using the rate of interest used to discount the future cash flows in measuring impairment.

#### *Deferred tax*

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. 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

# CareVest Mortgage Investment Corporation

## Notes to the financial statements

December 31, 2015

(In Canadian dollars)

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### 3. Significant accounting policies (continued)

#### *Deferred tax (continued)*

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 amounts 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.

#### *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 |
| Investments               | Held to maturity      |

##### Financial assets – held to maturity

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

# CareVest Mortgage Investment Corporation

## Notes to the financial statements

December 31, 2015

(In Canadian dollars)

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### 3. Significant accounting policies (continued)

#### *Financial instruments (continued)*

##### 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 and are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortized cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

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

At each reporting date, the Company assesses whether there is any evidence that a financial asset or group of financial assets is impaired. The Company reviews the carrying amounts of its financial assets recorded at amortized costs to determine whether there is objective evidence that those financial assets have suffered an impairment loss. A financial asset, or group of financial assets, is impaired when objective evidence demonstrates that the estimated future cash flows for the financial asset or group of financial assets have been negatively impacted. If an impairment loss has occurred, the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows. The carrying amount of the asset is reduced through the use of an allowance account, and the loss is recognized in profit and loss and classified as an impairment expense.

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

##### Financial assets - derecognition of financial assets

The Company derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset. A transfer is considered to have occurred if the Company transfers the contractual rights of the cash flows, or if it retains the rights to the contractual cash flows, but assumes an obligation to pay these cash flows to another recipient. If it is determined that the Company has transferred a financial asset, it evaluates the extent to which it retains the risks and rewards of ownership of the financial asset. If the entity transfers substantially all the risks and rewards of ownership of the financial asset, the Company will derecognize it. If the entity retains substantially all the risks and rewards of ownership of the financial asset, the Company will continue to recognize the asset. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognizes its retained interest in the asset and an associated liability for amounts it may have to pay.

##### Financial liabilities - classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement. The Company has classified non-voting preferred shares redeemable at the option of the holder as liabilities.

Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities.

# CareVest Mortgage Investment Corporation

## Notes to the financial statements

December 31, 2015

(In Canadian dollars)

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### 3. Significant accounting policies (continued)

*Financial instruments (continued)*

*Financial liabilities - classification as debt or equity (continued)*

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 |
| Demand loan payable                      | Other financial liabilities |
| Class A shares                           | Other financial liabilities |

*Equity*

Capital stock is recorded at the value of the shares issued. Costs directly related to the issuance of shares are reported as a reduction from equity, net of tax effects.

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

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

*Class A shares*

Class A shares, which are retractable and redeemable, are initially recorded at fair value, net of any costs that are directly related to the issuance of the shares. International Accounting Standard 39, Financial Instruments: Recognition and Measurement ("IAS 39"), requires the preferred shares to be recorded at the 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 comprise the interest earned on the mortgages receivable less all expenses of the Company.

### 4. Future accounting changes

*IFRS 9, Financial Instruments*

The IASB released IFRS 9, *Financial Instruments* ("IFRS 9"), in October 2009 as the first step in replacing IAS 39, *Financial Instruments: Recognition and Measurement*. It was amended in October 2010 to include financial liabilities, most of which were carried forward unchanged from IAS 39. IFRS 9 is 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.

# CareVest Mortgage Investment Corporation

## Notes to the financial statements

December 31, 2015

(In Canadian dollars)

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#### 4. Future accounting changes (continued)

##### *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 source of estimation uncertainty

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

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

In the process of applying the Company's accounting policies, the directors have made the following judgments, estimates, and assumptions which have the most significant effect on the amounts recognized in the financial statements.

##### *Critical judgments in applying accounting policies*

###### *Inventory*

The classification of items which are included in inventory requires significant judgment on the Company's part surrounding the derecognition of its financial instruments. At each reporting period management reviews its outstanding mortgages following the requirements of IAS 39 in order to determine if any mortgages receivable may be required to be derecognized. 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

# CareVest Mortgage Investment Corporation

## 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 judgments in applying accounting policies (continued)*

Allowance for mortgage impairment (continued)

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 14.

Tax position

Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that the taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based on the likely timing and level of future taxable profits together with future tax planning strategies.

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

*Critical accounting estimates and assumptions*

*The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.*

Determining whether or not a mortgage is impaired requires management to make an estimation of the recoverable amount of the mortgage. At each reporting period, an impairment review is conducted. The impairment review involves assessing objective evidence which may indicate the mortgage is impaired. If an impairment is considered to have occurred, the present value of the future cash flows of the mortgages at the appropriate discount rate is compared to the carrying value, with any excess of carrying value over the present value of future cash flows booked as an impairment charge to the mortgage receivable. This involves a number of significant estimates and assumptions with respect to the value of the properties involved including, but not limited to, the value placed on collateralized assets, the timing of future cash inflows and outflows, costs to complete and costs to be incurred in making the sale. Valuation techniques include using the discounted cash flow model. Inputs into these models are taken from observable markets where possible, but where this is not feasible, estimations are required to establish fair values. A scenario analysis is used to determine the present value of future cash flows for the impaired mortgages receivable. Values are input with reference to quoted market prices when available, including third party appraisals, listing agreements, purchase agreements, and property tax assessments. Cash outflows include costs to complete and costs incurred to make the sale, including marketing and legal costs.

Inventory

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

Retraction price

The retraction price of a Class A share is determined on a monthly basis by the directors, for which they must make estimates and assumptions over factors involved. Retraction price is set at net asset value ("NAV"). NAV is defined as aggregate value of all assets of the Company less the value of all liabilities of

# CareVest Mortgage Investment Corporation

## Notes to the financial statements

December 31, 2015

(In Canadian dollars)

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

*Critical accounting estimates and assumptions (continued)*

*Retraction price (continued)*

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

### 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 | 330,471        | 57,258           |
| Cash held in trust (Note 11)   | 12,779         | 1,589,092        |
|                                | <b>343,250</b> | <b>1,646,350</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.

As at December 31, 2015, the Company had mortgages receivable which earn interest at rates from 5.00% to 13.00% (2014 - 5.00% to 14.00%) per annum and are secured by real property. The mortgages receivable are typically due within 6-18 months.

|   | 2015               | 2014               |
|---|--------------------|--------------------|
|   | \$                 | \$                 |
| Mortgages due within the next 12-month period, net of allowance | 96,801,683         | 147,908,063        |
| Mortgages due after the next 12-month period, net of allowance  | 19,507,479         | 19,333,130         |
|   | <b>116,309,162</b> | <b>167,241,193</b> |

Mortgage 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.



# CareVest Mortgage Investment Corporation

## Notes to the financial statements

December 31, 2015

(In Canadian dollars)

### 7. Mortgages receivable (continued)

*Aging of mortgages receivable in arrears but not impaired*

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

|                        | 2015             | 2014              |
|------------------------|------------------|-------------------|
|                        | \$               | \$                |
| 0-90 days past due     | -                | -                 |
| 91-365 days past due   | -                | 14,686,097        |
| Over 365 days past due | <b>3,188,546</b> | 9,493,999         |
|                        | <b>3,188,546</b> | <b>24,180,096</b> |

*Mortgages receivable impairment provision*

|  | 2015              | 2014              |
|--|-------------------|-------------------|
|  | \$                | \$                |
| Balance, beginning of year                           | <b>22,809,797</b> | 27,298,945        |
| Impairment losses recognized                         | <b>11,628,469</b> | 4,918,291         |
| Amounts written off during the year as uncollectable | <b>(25,705)</b>   | -                 |
| Impairment losses transferred to inventory           | -                 | (9,407,439)       |
|  | <b>34,412,561</b> | <b>22,809,797</b> |

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

|  | 2015               | 2014               |
|--|--------------------|--------------------|
|  | \$                 | \$                 |
| Residential mortgages, net of allowance<br>(\$34,412,561, 2014 - \$22,809,797) | <b>97,665,760</b>  | 164,416,830        |
| Commercial mortgages   | <b>18,643,402</b>  | 2,824,363          |
|  | <b>116,309,162</b> | <b>167,241,193</b> |

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          | <b>36,541,119</b>  | 58,888,376         |
| British Columbia | <b>79,483,603</b>  | 104,892,064        |
| Ontario          | <b>284,440</b>     | 3,460,753          |
|                  | <b>116,309,162</b> | <b>167,241,193</b> |

# CareVest Mortgage Investment Corporation

## Notes to the financial statements

December 31, 2015

(In Canadian dollars)

### 7. Mortgages receivable (continued)

|              | 2015               | 2014               |
|--------------|--------------------|--------------------|
|              | \$                 | \$                 |
| Land         | 69,381,900         | 113,970,752        |
| Construction | 43,575,354         | 50,580,093         |
| Inventory    | 2,168,827          | 1,877,671          |
| Servicing    | 1,183,081          | 812,677            |
|              | <b>116,309,162</b> | <b>167,241,193</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 applied for the purpose of measuring the present value of future cash flows*

A scenario analysis is used to determine the present value of future cash flows for the impaired mortgages receivable. Values are input with reference to quoted market prices when available, including third party appraisals, listing agreements, purchase agreements and property tax assessments. Cash outflows include costs to complete and costs incurred to make the sale, including marketing and legal costs. Assumptions used in calculating the above are discussed in Note 5.

### 8. Inventory

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

As a result of mortgage foreclosures, the Company obtained an undivided interest in certain townhouse units to facilitate sales of these units. The amount of consideration was established at current market pricing for the units. During 2015 all of these units were sold.

The Company also purchased lots directly from a borrower to expedite the sales of these lots. The project consisted of twenty nine single family lots. As at December 31, 2015, 13 (December 31, 2014 – 12) of these lots have been sold. The remaining 16 lots are available for sale and expect to be sold in the future.

The Company also purchased fifty-five completed strata units directly from a borrower in order to expedite the sale of these units. The amount of consideration was established at current market pricing for the units. At December 31, 2015, 5 of these units have been sold. The remaining units are available for sale and will be listed at current market pricing with the intention that they are sold in the future.

Additionally, under the guidance of IAS 39, Financial Instruments, certain mortgages receivable qualified for derecognition as a result of past legal actions taken by the Company, which terminated the Company's contractual rights to cash flows from the borrower. Following the guidelines of IAS 2, *Inventory*, the asset qualifies for classification as inventory as once court proceedings are completed, the Company obtains title to the land which it now intends to sell. Additional expenditures relating to the

# CareVest Mortgage Investment Corporation

## Notes to the financial statements

December 31, 2015

(In Canadian dollars)

### 8. Inventory (continued)

asset that are eligible for capitalization are added to the cost of inventory until it is substantially complete and ready for sale.

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

#### *Total inventory*

|  | 2015              | 2014              |
|--|-------------------|-------------------|
|  | \$                | \$                |
| Units (purchased inventory related to impaired mortgages and foreclosures), net of write-down (\$78,703, 2014 - \$nil) | 10,169,854        | 5,140,947         |
| Foreclosed mortgages inventory (derecognized financial asset), net of write-down (\$18,095,889, 2014 - \$11,805,105)   | 29,009,823        | 18,126,679        |
|  | <b>39,179,677</b> | <b>23,267,626</b> |

#### *Accumulated write-down of inventory to net realizable value*

|  | 2015              | 2014              |
|--|-------------------|-------------------|
|  | \$                | \$                |
| Balance, beginning of year                                 | 11,805,105        | 1,876,211         |
| Write-down recognized                                      | 6,560,160         | 1,134,259         |
| Impairment transferred on derecognition of financial asset | -                 | 9,407,439         |
| Reversal of write-down                                     | (190,673)         | (612,804)         |
| Balance, end of year                                       | <b>18,174,592</b> | <b>11,805,105</b> |

### 9. Capital stock

*Authorized*, unlimited number

Voting shares redeemable

*Issued*

|                                | 2015 | 2014 |
|--------------------------------|------|------|
|                                | \$   | \$   |
| 114 (2015 - 114) voting shares | 419  | 419  |

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

# CareVest Mortgage Investment Corporation

## Notes to the financial statements

December 31, 2015

(In Canadian dollars)

### 10. Class A shares

*Authorized*, unlimited number

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

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

Class C shares, terms to be fixed by directors

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

*Issued*

|  | 2015               | 2014        |
|--|--------------------|-------------|
|  | \$                 | \$          |
| 18,672,633 (2014- 20,645,102) Class A shares | <b>155,693,601</b> | 192,172,518 |

|  | Class A<br>shares<br># |
|--|------------------------|
| Number of shares outstanding, December 31, 2014        | 20,645,102             |
| Shares issued  | 32,808                 |
| Shares retracted                                       | (2,005,277)            |
| <b>Number of shares outstanding, December 31, 2015</b> | <b>18,672,633</b>      |

|   | Class A<br>shares<br>\$ |
|---|-------------------------|
| Value of shares outstanding, December 31, 2013        | 218,497,424             |
| Shares issued for dividends                           | 896,111                 |
| Shares retracted                                      | (21,233,938)            |
| Retraction gain                                       | (5,987,079)             |
| Value of shares outstanding, December 31, 2014        | 192,172,518             |
| Shares issued for dividends                           | 302,698                 |
| Shares retracted                                      | (18,669,161)            |
| Retraction gain                                       | (18,112,454)            |
| <b>Value of shares outstanding, December 31, 2015</b> | <b>155,693,601</b>      |

At December 31, 2015, there were \$Nil (2014 - \$Nil) Class A shares scheduled for retraction in the next fiscal year.

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

# CareVest Mortgage Investment Corporation

## Notes to the financial statements

December 31, 2015

(In Canadian dollars)

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### 10. Class A shares (continued)

#### *Cancellation rights*

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

#### *Redemption rights*

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

#### *Retraction rights*

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

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

#### *Retraction price*

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

The monthly retraction price means

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

# CareVest Mortgage Investment Corporation

## Notes to the financial statements

December 31, 2015

(In Canadian dollars)

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### 10. Class A shares (continued)

#### *Retraction rights (continued)*

- C. In respect of the retraction of a Class I Share on a monthly retraction date, an amount equal to the lesser of (i) 95% of the trading price of the Class A Share multiplied by the Class I exchange ratio and, (ii) the market price multiplied by the Class I exchange ratio
- D. Notwithstanding A, B and C above, the monthly retraction price before the listing date means, in respect of each class of shares, the class NAV as at the relevant monthly retraction date

#### *NAV*

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

### 11. Related party transactions

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

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

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

In 2015 the Company has a demand loan facility for up to \$5,000,000 (2014 - \$4,000,000) with CCI. The loan facility is secured by property of the Company. Interest is charged at Scotiabank's prime lending rate plus 1.5% (2014 - 1.0%) per annum with interest and principal payable in full 30 days following the date of the Lender's written demand for repayment. As at December 31, 2015, \$534,839 (2014 - \$Nil) of this loan facility was in use.

CH Settlement Corp., a company related through common management, holds the trust for interest earned from mortgage investments, interest paid to investors throughout the period and idle funds available for investment. Any amounts receivable or payable at period-end remain in trust. Advances and repayments are made to and from CH Settlement Corp. throughout the period at the request of the Company.

# CareVest Mortgage Investment Corporation

## Notes to the financial statements

December 31, 2015

(In Canadian dollars)

### 11. Related party transactions (continued)

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

|                             | Expenses         |                  |
|-----------------------------|------------------|------------------|
|                             | 2015             | 2014             |
|                             | \$               | \$               |
| Management fee              |                  |                  |
| Carecana Management Corp.   | 3,070,071        | 3,333,073        |
| Mortgage administration fee |                  |                  |
| CaveVest Capital Inc.       | 315,750          | 353,467          |
| Loss on investment          | 215              | -                |
|                             | <b>3,386,036</b> | <b>3,686,540</b> |

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

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

|                                       | 2015           | 2014           |
|---------------------------------------|----------------|----------------|
|                                       | \$             | \$             |
| Due to                                |                |                |
| Carecana Management Corp.             | 200,649        | 270,553        |
| CareVest Capital Inc.                 | 37,635         | 85,580         |
|                                       | <b>238,284</b> | <b>356,133</b> |
| Demand loan                           |                |                |
| CareVest Capital Inc.                 | 534,839        | -              |
|                                       | <b>534,839</b> | <b>-</b>       |
| Investment in                         |                |                |
| CareVest First MIC Fund Inc.          | 148,284        | 148,284        |
| Canadian Horizons First MIC Fund Inc. | 105,700        | 110,000        |
|                                       | <b>253,984</b> | <b>258,284</b> |

#### *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 period.

# CareVest Mortgage Investment Corporation

## Notes to the financial statements

December 31, 2015

(In Canadian dollars)

### 12. Revenue

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

|   | 2015              | 2014             |
|---|-------------------|------------------|
|   | \$                | \$               |
| Finance revenue from mortgage principal | 5,685,191         | 7,281,058        |
| Finance revenue from banking deposits   | 36,480            | 54,133           |
| Proceeds on sale of inventory           | 3,916,930         | 2,404,791        |
| Miscellaneous                           | 391,429           | 210,167          |
|   | <b>10,030,030</b> | <b>9,950,149</b> |

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

### 13. Income taxes

Deferred income tax reflects the net tax effects of the temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax assets are as follows:

|                                   | 2015              | 2014              |
|-----------------------------------|-------------------|-------------------|
|                                   | \$                | \$                |
| Deferred income tax asset         |                   |                   |
| Non-capital loss carry-forwards   | 46,669,705        | 34,993,630        |
| Cumulative inventory write-down   | 8,611,932         | 2,051,772         |
|                                   | <b>55,281,637</b> | <b>37,045,402</b> |
| Tax rate                          | 27.00%            | 25.00%            |
|                                   | <b>14,926,042</b> | <b>9,261,351</b>  |
| Amounts not considered realizable | (4,396,902)       | -                 |
|                                   | <b>10,529,140</b> | <b>9,261,351</b>  |

The ultimate realization of deferred tax assets is dependent on the generation of future taxable income during the periods in which those temporary differences become deductible and during the loss carry-forward periods. Management considers the scheduled reversal of deferred tax assets and liabilities, projected future taxable income, and tax planning strategies in making this assessment. Due to future expected operating results, management has determined that it is probable that the recorded deferred income tax assets will be realized. The Company has tax loss carry-forwards of \$46,669,705 (2014 - \$34,993,630) which expire by 2035 (2014 - 2034).

### 14. 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 judgement.



# CareVest Mortgage Investment Corporation

## Notes to the financial statements

December 31, 2015

(In Canadian dollars)

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

*Financial instruments (continued)*

*Fair value of financial instruments (continued)*

Level 2: Valuations are based on observable inputs other than quoted prices.

Level 3: Valuations are based on at least one unobservable input that is supported by little or no market activity and is significant to the fair value measurement.

In assigning the appropriate levels, the Company performs a detailed analysis of the financial assets and liabilities. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. The level within which the fair value measurement is categorized is based on the lowest level input that is significant to the fair value measurement in its entirety. Therefore, an item may be classified in Level 3 even though there may be other significant inputs that are readily observable.

The carrying values of cash, accounts receivable, accounts payable and accrued liabilities, due to related companies and dividends payable approximate their fair values due to their short-term nature.

The carrying values of mortgages receivable approximate their fair values as they have a short-term to maturity and bear interest at rates that approximate current market rates. The carrying values of Class A shares are measured using the amortised cost method and are recorded at the retraction price which approximates their fair values.

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

|                                     | 2015                          |         |         |                    |
|-------------------------------------|-------------------------------|---------|---------|--------------------|
|                                     | Fair value measurements using |         |         |                    |
|                                     | Carrying value                | Level 1 | Level 2 | Level 3            |
|                                     | \$                            | \$      | \$      | \$                 |
| Financial assets                    |                               |         |         |                    |
| Mortgages receivable - impaired     | 42,547,276                    | -       | -       | 42,547,276         |
| Mortgages receivable - not impaired | 73,761,886                    | -       | -       | 73,761,886         |
|                                     | <b>116,309,162</b>            | -       | -       | <b>116,309,162</b> |
| Financial liabilities               |                               |         |         |                    |
| Class A shares                      | 155,963,601                   | -       | -       | 155,963,601        |
|                                     |                               |         |         |                    |
|                                     | 2014                          |         |         |                    |
|                                     | Fair value measurements using |         |         |                    |
|                                     | Carrying value                | Level 1 | Level 2 | Level 3            |
|                                     | \$                            | \$      | \$      | \$                 |
| Financial assets                    |                               |         |         |                    |
| Mortgages receivable - impaired     | 66,259,544                    | -       | -       | 66,259,544         |
| Mortgages receivable - not impaired | 100,981,649                   | -       | -       | 100,981,649        |
|                                     | 167,241,193                   | -       | -       | 167,241,193        |
| Financial liabilities               |                               |         |         |                    |
| Class A shares                      | 192,172,518                   | -       | -       | 192,172,518        |

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

# CareVest Mortgage Investment Corporation

## Notes to the financial statements

December 31, 2015

(In Canadian dollars)

### 14. 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        | 100,981,649       | 66,259,544        | 167,241,193        |
| Advances of mortgages receivable                | 68,271,978        | 1,930,474         | 70,202,452         |
| Repayments of mortgages receivable              | (95,491,741)      | (13,995,260)      | (109,487,001)      |
| Impairment losses recognized                    | -                 | (11,628,469)      | (11,628,469)       |
| Impairment losses written off                   | -                 | (19,013)          | (19,013)           |
| <b>Mortgages receivable - December 31, 2015</b> | <b>73,761,886</b> | <b>42,547,276</b> | <b>116,309,162</b> |
| Class A shares, December 31, 2014               |                   |                   | 192,172,518        |
| Issuance of Class A shares                      |                   |                   | 302,698            |
| Retraction of Class A shares                    |                   |                   | (18,669,161)       |
| Retraction gain                                 |                   |                   | (18,112,454)       |
| <b>Class A shares, December 31, 2015</b>        |                   |                   | <b>155,693,601</b> |

#### *Risk management*

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

*Risk management (continued)*

#### *i) Credit risk*

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

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

- make any investment or conduct any activity that would result in its failing to qualify as a mortgage investment corporation;
- invest in securities other than mortgages, mortgage related investments and authorized interim investments;
- invest in a mortgage or loan any funds to be secured by a mortgage unless at the date the mortgage is acquired or funds are initially committed (as the case may be) the indebtedness secured by such mortgage plus the amount of additional secured third-party indebtedness of the borrower registered in priority to the Company, if any, does not exceed 75% of the appraised value of the real property securing the mortgage, as determined by Carecana or such person(s) authorized by Carecana from time to time, provided that the appraised value may be based on stated conditions including, without limitation, construction, "as complete" or other conditions or assumptions;
- guarantee securities or obligations of any person or company;

# CareVest Mortgage Investment Corporation

## Notes to the financial statements

December 31, 2015

(In Canadian dollars)

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

Risk management (continued)

i) Credit risk (continued)

- e) engage in securities lending;
- f) engage in derivative transactions for any purpose, other than derivative transactions to hedge interest rate risk and not for speculative purposes; or
- g) invest in asset-backed commercial paper or in securitized pools of mortgage loans, including pools of sub-prime mortgages.

The Company assesses the creditworthiness of its customers on an ongoing basis as well as monitoring the amount and age of balances outstanding. Mortgages receivable are fully secured by a charge against the underlying assets. Mortgages receivable have a high credit quality as the Company only invests in mortgage receivables with counterparties that have been independently reviewed by CCI and are considered to be in good credit standings and have the ability to make both principal and interest payments as required. Accordingly, the Company views the credit risk on these amounts as normal for the industry.

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

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

|  | 2015               | 2014               |
|--|--------------------|--------------------|
|  | \$                 | \$                 |
| Cash                                   | 343,250            | 1,646,350          |
| Accounts receivable                    | 316,195            | 29,072             |
| Finance income receivable              | 637,256            | 586,809            |
| Mortgages receivable, net of allowance | 116,309,162        | 167,241,193        |
| Investments                            | 253,984            | 258,284            |
|  | <b>117,859,847</b> | <b>169,761,708</b> |

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

Although the Company seeks to manage its credit risk exposure, there can be no assurance that the Company will be successful in eliminating the potential adverse impact of such risks.

ii) Interest rate risk

The Company is exposed to interest rate risk on the variable interest rate mortgages receivable and bank indebtedness to the extent of changes in the prime interest rate. As of December 31, 2015 the Company currently has two variable interest bearing mortgages; however these amounts are protected by a floor 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 \$41,767

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

# CareVest Mortgage Investment Corporation

## Notes to the financial statements

December 31, 2015

(In Canadian dollars)

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

*Risk management (continued)*

iii) Liquidity risk (continued)

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 | 384,325            | 384,325          | -                          | -                         |
| Due to related companies                 | 238,284            | 238,284          | -                          | -                         |
| Demand loan payable                      | 534,839            | 534,839          | -                          | -                         |
| Dividends payable                        | 171,172            | 171,172          | -                          | -                         |
| Class A shares (Note 10)                 | 155,693,601        | -                | -                          | 155,693,601               |
|  | <b>157,022,221</b> | <b>1,328,620</b> | <b>-</b>                   | <b>155,693,601</b>        |

|  |                    |                | 2014                       |                           |
|--|--------------------|----------------|----------------------------|---------------------------|
|  | Carrying value     | Current        | Due between 61 to 365 days | Due greater than 365 days |
|  | \$                 | \$             | \$                         | \$                        |
| Accounts payable and accrued liabilities | 210,378            | 210,378        | -                          | -                         |
| Due to related companies                 | 356,133            | 356,133        | -                          | -                         |
| Dividends payable                        | 227,514            | 227,514        | -                          | -                         |
| Class A shares (Note 10)                 | 192,172,518        | -              | -                          | 192,172,518               |
|  | <b>192,966,543</b> | <b>794,025</b> | <b>-</b>                   | <b>192,172,518</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 refinancing will not be as favourable as the terms of the existing indebtedness.

# CareVest Mortgage Investment Corporation

## Notes to the financial statements

December 31, 2015

(In Canadian dollars)

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

|  | 2015                | 2014                |
|--|---------------------|---------------------|
|  | \$                  | \$                  |
| Accounts receivable                          | (287,123)           | (19,766)            |
| Additions to inventory                       | (22,209,893)        | (11,574,022)        |
| Inventory write-down (Note 8)                | 6,560,160           | 1,134,259           |
| Write-down of mortgages receivable           | 19,013              | -                   |
| Prepaid expenses and deposits                | 15,666              | (14,220)            |
| Transfer of mortgage impairment to inventory | -                   | (9,407,438)         |
| Due to related companies                     | -                   | (106,161)           |
| Accounts payable and accrued liabilities     | 56,098              | 26,807              |
|  | <b>(15,846,079)</b> | <b>(19,960,541)</b> |

### 16. Capital disclosures

The Company defines capital as Class A shares and capital stock as recognized in the financial statements. The Company's management of capital is to safeguard the Company's ability to continue as a going concern in order to provide shareholders with sustainable income while preserving capital for distribution or reinvestment by investing in mortgages receivable commensurately with the Company's investment policies.

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

### 17. Subsequent event

#### *Future retractions*

During the February 2016 retraction notice period, the Company received valid retraction requests that are sufficient to fill the Company's retraction limits for 2016. As the number of shares tendered for retraction exceeds the monthly limit, the Company will retract such shares tendered for retraction on a pro rata basis. In accordance with the Company's Class A Share terms, there are ten monthly retraction dates in 2016, on the last business day of each month except December and January. The first retraction date is February 29, 2016 and the first retraction payment will be sent on March 31, 2016. On the February 29, 2016 retraction date, in accordance with the share terms, the pro rata percentage of valid requests tendered for retraction was approximately 1.4% (2014 - 1.4%).

As the calculation of the retraction limitation is 1% of the average number of shares outstanding for the 90-days immediately preceding a given retraction date, the pro rata amount may change on future retraction dates. The valid retraction requests received represent approximately 74% (2014 - 70%) of the Class A Shares outstanding at February 28, 2016. The retraction price will be the NAV per Class A Share on the relevant retraction date, and therefore the amount of the retraction payments can vary.