FRONTENAC MORTGAGE INVESTMENT CORPORATION

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016
(In Canadian Dollars)

FRONTENAC MORTGAGE INVESTMENT CORPORATION

YEARS ENDED DECEMBER 31, 2017 AND 2016
(In Canadian Dollars)

CONTENTS

Independent Auditors' Report

To the Shareholders of Frontenac Mortgage Investment Corporation:
We have audited the accompanying financial statements of Frontenac Mortgage Investment Corporation, which comprise the statements of financial position as at December 31, 2017 and December 31, 2016, and the statements of comprehensive income, changes in shareholders' equity and cash flows for the years 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.

Auditors' Responsibility
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 auditors' 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 in our audits 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 Frontenac Mortgage Investment Corporation as at December 31, 2017 and December 31, 2016, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

MNP LLP

Ottawa, Ontario — Chartered Professional Accountants

March 29, 2018 — Licensed Public Accountants

FRONTENAC MORTGAGE INVESTMENT CORPORATION

STATEMENTS OF FINANCIAL POSITION

(In Canadian Dollars)

	As at December 31, 2017 $	As at December 31, 2016 $
ASSETS		
Cash and cash equivalents	-	8,026,202
Due from administrator in trust (Note 5)	574,788	1,234,204
Accrued interest receivable	10,251,803	7,736,337
Mortgage investments (Note 6)	189,980,578	175,783,333
Prepaid expenses	16,200	28,984
	200,823,369	192,809,060
LIABILITIES		
Bank indebtedness	79,627	-
Bank line of credit (Note 7)	16,580,000	-
Dividends payable	428,662	390,613
Accounts payable and accrued liabilities	192,852	92,866
Prepaid mortgage payments	316,111	421,562
	17,597,252	905,041
NET ASSETS REPRESENTING SHAREHOLDERS' EQUITY (Note 8)	183,226,117	191,904,019
NUMBER OF SHARES ISSUED AND OUTSTANDING (Note 8)	6,141,401	6,396,798
NET ASSETS PER SHARE	29.84	30.00

APPROVED ON BEHALF OF THE BOARD:

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Robert Barnes, Director

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Eric Dinelle, Director

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

STATEMENTS OF COMPREHENSIVE INCOME

(In Canadian Dollars)

	Year ended December 31, 2017 $	Year ended December 31, 2016 $
INTEREST INCOME	16,178,501	17,580,995
EXPENSES		
Management and administration fees (Note 9)	4,229,612	4,121,544
Audit fees	69,905	62,386
Director fees	102,772	87,277
General and operating expenses	485,329	478,435
Interest on bank line of credit	54,372	168,271
Legal fees	55,604	72,275
Custodian fees	16,812	16,905
Provision for mortgage impairment losses (Note 6)	2,817,427	1,662,654
	7,831,833	6,669,747
NET INVESTMENT INCOME	8,346,668	10,911,248
NET INCOME AND COMPREHENSIVE INCOME	8,346,668	10,911,248
BASIC AND DILUTED WEIGHTED AVERAGE NUMBER OF SHARES ISSUED AND OUTSTANDING	6,572,180	6,234,999
BASIC AND DILUTED EARNINGS PER SHARE	$ 1.27	$ 1.75

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

FRONTENAC MORTGAGE INVESTMENT CORPORATION

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(In Canadian Dollars)

	Year ended December 31, 2017 $	Year ended December 31, 2016 $
NET ASSETS, beginning of year	191,904,019	169,536,542
Net income from operations	8,346,668	10,911,248
Share capital transactions		
Proceeds from issuance of shares for cash	5,614,809	29,202,078
Reinvested dividends	5,182,391	6,410,931
Shares redeemed	(18,459,102)	(13,245,532)
	(7,661,902)	22,367,477
Distributions to shareholders		
Dividends to shareholders	(9,362,668)	(10,911,248)
NET ASSETS, end of year	183,226,117	191,904,019
Dividends per share	1.43	1.75

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

FRONTENAC MORTGAGE INVESTMENT CORPORATION

STATEMENTS OF CASH FLOW

(In Canadian Dollars)

	Year ended December 31, 2017 $	Year ended December 31, 2016 $
CASH FROM OPERATING ACTIVITIES		
Net income	8,346,668	10,911,248
Items not requiring an outlay of cash:		
Provision for mortgage impairment losses	2,817,427	1,662,654
Net changes in non-cash operating items:		
Decrease in due from administrator in trust	659,416	(837,658)
(Increase) in accrued interest receivable	(2,515,466)	(4,078,701)
Decrease (increase) in prepaid expenses	12,784	(2,434)
Increase in accounts payable and accrued expenses	99,986	31,121
NET CASH PROVIDED BY OPERATING ACTIVITIES	9,420,815	7,686,230
FINANCING ACTIVITIES		
Increase (decrease) in bank line of credit	16,580,000	(14,860,000)
Proceeds from issuance of common shares for cash	5,614,809	29,202,078
Cash dividends	(4,142,228)	(4,228,859)
Redemption of common shares	(18,459,102)	(13,245,532)
NET CASH PROVIDED BY FINANCING ACTIVITIES	(406,521)	(3,132,313)
INVESTING ACTIVITIES		
Increase (decrease) in prepaid mortgage payments	(105,451)	350,097
Mortgage investments	(99,180,264)	(68,512,259)
Repayment of mortgage investments	82,165,592	71,596,357
NET CASH USED IN INVESTING ACTIVITIES	(17,120,123)	3,434,195
NET INCREASE IN CASH AND CASH EQUIVALENTS	(8,105,829)	7,988,112
CASH AND CASH EQUIVALENTS, beginning of year	8,026,202	38,090
CASH AND CASH EQUIVALENTS, end of year	(79,627)	8,026,202

Additional information:		
Interest received	13,663,035	13,502,294
Interest paid	54,372	168,271

FRONTENAC MORTGAGE INVESTMENT CORPORATION

STATEMENT OF INVESTMENT PORTFOLIO

AS AT DECEMBER 31, 2017

INVESTMENT PORTFOLIO

		Principal Value	Amortized Cost	Fair Value
Private mortgages	103.69%	$ 193,480,773	$ 189,980,578	$ 189,980,578
Cash & other net assets	5.36%			9,825,539
Bank line of credit	(9.05)%			(16,580,000)
Net assets	100.00%			$ 183,226,117

DISTRIBUTION OF MORTGAGE INVESTMENTS

Interest rate	Number of mortgages	Amortized cost	Fair value
5%	4	$ 10,883,382	$ 10,883,382
6%			
7%	23	9,134,678	9,134,678
8%	125	40,800,950	40,800,950
9%	193	44,264,913	44,264,913
10%	223	56,728,599	56,728,599
11%	27	8,976,379	8,976,379
12%	43	19,191,677	19,191,677
	638	$189,980,578	$189,980,578

Mortgages are 90.3% residential and 9.7% commercial and vacant land. All mortgages are uninsured conventional mortgages and substantially all mortgages are pre-payable, at the option of the borrower, with terms to maturity ranging from 1 to 2 years.

The accompanying notes form an integral part of these financial statements

1. DESCRIPTION AND ORGANIZATION OF THE BUSINESS

Frontenac Mortgage Investment Corporation (the "Company") was incorporated on October 26, 2004 pursuant to the *Canada Business Corporations Act* and operates as a Canadian mortgage investment corporation as defined under the *Income Tax Act* of Canada. The registered head office of the Company is 14216 Road 38, Sharbot Lake, Ontario, K0H 2P0. W.A. Robinson Asset Management Ltd. is the Company's manager (the "Manager").

2. BASIS OF PRESENTATION

(a) Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and with National Instrument 81-106 Investment Funds Continuous Disclosure ("NI 81-106").

These financial statements were approved for issue by the Board of Directors on March 29, 2017.

(b) Basis of measurement

These financial statements have been prepared on the historical cost basis, except for financial instruments classified as fair value through profit or loss, which are measured at fair value.

(c) Functional and presentation currency

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

(d) Use of estimates and judgements

The preparation of financial statements in accordance with IFRS requires management to make assumptions and estimates and judgements that affect the reported amounts of assets and liabilities at the date of the financial statements, the reported amounts of revenue and expenses for the year, as well as the disclosure of contingent assets and liabilities at the date of the financial statements.

In making estimates and judgements, the Manager relies on external information and observable conditions where possible supplemented by internal analysis as required. Those estimates and judgements have been applied in a manner consistent with the prior period and there are no known trends, commitments, events, or certainties that are believed to materially affect the methodology or assumptions utilized in making those estimates in these financial statements. Actual amounts could differ from these estimates. Changes in estimates are recorded in the accounting period in which they are determined. Significant estimates used in determining the recorded amount for assets and liabilities in the financial statements are as follows:

2. BASIS OF PRESENTATION (Continued)

(d) Use of estimates and judgements (continued)

(i) Mortgage investments:

The Company is required to make an assessment of the impairment of mortgage investments. Mortgage investments are considered to be impaired only if objective evidence indicates that one or more events have occured after its initial recognition that have a negative effect on the estimated future cash flows of that asset. The estimation of future cash flows includes assumptions about local real estate market conditions, market interest rates, availability and terms of financing, underlying value of the security and various other factors. These assumptions are limited by the availability of reliable comparative market data, economic uncertainty and the uncertainty of future events. Accordingly, by their nature, estimates of impairment are subjective and may not necessarily be comparable to the actual outcome. Should the underlying assumptions change, the estimated future cash flows could vary.

(ii) Fair value measurements:

In accordance with IFRS, the Company must classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making its fair value measurements. The following hierarchy has been used in determining and disclosing fair value of financial instruments:

Level 1: quoted prices in active markets for the same instrument (i.e. without modification or repackaging);

Level 2: quoted prices in active markets for similar assets or liabilities or other valuation techniques for which all significant inputs are based on observable market data; and

Level 3: valuation techniques for which any significant input is not based on observable market data.

The Company's cash and cash equivalents are valued using Level 1 measures and the properties held for sale under foreclosure are valued using Level 3 measures as there are no quoted prices in an active market for these investments. As explained in more detail in Note 10, management makes its determination of fair value of mortgages by discounting future cash flows at the Company's prevailing rate of return on new mortgages of similar type, term, and credit risk.

These assumptions are limited by the availability of reliable comparative market data, economic uncertainty and the uncertainty of future events. Accordingly, by their nature, measurements of fair value are subjective and may not necessarily be comparable to the actual outcome. Should the underlying assumptions change, the estimates could vary.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Revenue recognition

Interest income on mortgage investments and other investment income are recognized on a time proportionate basis using the effective interest rate method. Interest is not accrued on mortgage investments that are identified as impaired.

(b) Cash and cash equivalents

The Company considers highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value to be cash equivalents. Cash equivalents are initially recognized at their fair value plus any attributable transaction costs. Any changes in the fair value of the cash equivalents are recorded in the statement of comprehensive income for the period.

(c) Mortgage investments

Mortgage investments are financial instruments and are classified as loans and receivables. These investments are recognized initially at fair value plus any attributable transaction costs. Subsequent to intial recognition, the mortgage investments are measured at amortized costs using the effective interest rate method, less any impairment losses. The mortgage investments are assessed on each reporting period date to determine whether there is objective evidence of impairment. A financial asset is considered impaired only if objective evidence indicates that one or more events have occurred after its initial recognition that have a negative effect on the estimated future cash flows of the asset.

An impairment loss in respect of specific mortgage investments is calculated as the difference between its carrying amount including accrued interest and the present value of the estimated future cash flows discounted at the investment's original effective interest rate. Losses are recognized in profit and loss and reflected in an allowance account against the mortgage investments. When a subsequent event causes the amount of an impairment to decrease, the decrease in impairment loss is reversed through profit or loss.

(d) Properties held for sale under foreclosure

When the Company obtains legal title of the underlying security of an impaired mortgage investment through foreclosure, the carrying value of the mortgage investment, which comprises the outstanding principal amount, costs incurred, accrued interest, and a provision for mortgage impairment loss, if any, is reclassified from mortgage investments to foreclosed properties held for sale. The intention of the Company is to sell foreclosed properties as soon as possible in a commercially responsible manner. At each reporting date, foreclosed properties held for sale are measured at fair value. Any unrealized changes in the fair value of the property held for sale under foreclosure are recorded in the statement of operations for the period. The carrying value of properties held for sale under foreclosure is determined by its estimated fair value net of selling expenses taking into consideration independent appraisals, assessement of market conditions, and other various factors.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Income taxes

The Company is considered a mortgage investment corporation under the *Income Tax Act* (Canada). As such, the Company is entitled to deduct from its taxable income dividends paid to shareholders during the year or within 90 days of the end of the year to the extent that such dividends were not deducted previously. The Company intends to maintain its status as a mortgage investment corporation and intends to distribute sufficient dividends in the year and in future years to ensure the Company is not subject to income taxes. Accordingly, for financial statement reporting purposes, the tax deductibility of the Company's dividends results in the Company effectively being exempt from taxation and no provision for current or deferred income taxes is required.

(f) Deferred lender fee revenue

Some mortgagors may be required to pay a one time fee, referred to as a lender fee, upon initiation of their mortgage. These lender fees are netted against the related mortgages and recognized into revenue using the effective interest method.

(g) Prepaid mortgage payments

Some mortgagors may prepay or may be required to prepay a portion of their periodic payments. These prepaid mortgage payments are applied against the related mortgage receivable balance in the period for which they relate.

(h) Net assets

Net assets consists of issued and outstanding common shares of the Company and is classified as equity.

(i) Net assets per share

Net assets per share is calculated by dividing the net assets by the total number of issued and outstanding common shares at the end of the year.

(j) Financial assets and liabilities

The Company's most significant financial asset consists of its mortgage investments. Mortgage investments are classified as loans and receivables. The financial risks associated with the Company's mortgage investments and the Company's management of those risks are discussed in Note 6.

The Company's other financial assets consist of cash and cash equivalents, due from administrator in trust, and accrued interest receivable. The Company's financial liabilities consist of bank line of credit, dividends payable, and accounts payable and accrued liabilities. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest or currency risks arising from these financial instruments. The fair value of these financial instruments approximate their carrying value, unless otherwise noted.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Financial assets and liabilities (continued)

The Company classifies its financial assets as one of the following: loans and receivables or fair value through profit or loss ("FVTPL"). Financial liabilities are classified as: held-for-trading or financial liabilities at amortized cost. The Company has designated its financial assets and financial liabilities as follows:

(i) Financial assets:

Cash and cash equivalents are classified as FVTPL. Due from administrator in trust, accrued interest receivable, and mortgage investments are classified as loans and receivables and recorded at amortized cost.

(ii) Financial liabilities:

Bank line of credit, dividends payable, and accounts payable and accrued expenses are classified as financial liabilities at amortized cost.

(k) Accounting pronouncements

(i) IFRS 9 "Financial Instruments" ("IFRS 9") is a new accounting standard that replaces IAS 39 "Financial Instruments: Recognition and Measurement" and is effective for annual periods beginning on or after January 1, 2018, which for us is the fiscal year ending December 31, 2018. Early adoption is permitted if an entity applies all the requirements of the standard. The Company intends to adopt IFRS 9 effective January 1, 2018.

IFRS 9 includes requirements for classification and measurement of financial assets and liabilities, as well as impairment of financial assets. IFRS 9 uses an expected-loss impairment model based upon forward looking information that will result in earlier recognition of expected losses.

IFRS 9 is required to be applied on a retrospective basis, with certain exceptions. As permitted, Frontenac Mortgage Investment Corporation has elected under the transitional provisions of IFRS 9 not to restate comparative figures and will recognize any measurement difference between the previous carrying amount and the new carrying amount as at January 1, 2018 through an adjustment to opening retained earnings. Based on our current analysis, we believe that the implementation of IFRS 9 will not have a material impact on the Company's financial statements as our financial assets are mainly of a short-term duration. We continue to refine certain aspects of our impairment analysis leading up to our first 2018 interim reporting.

Classification and measurement

IFRS 9 requires that the Company's business model and a financial instrument's contractual cash flows determine its classification and measurement in the financial statements. Upon initial recognition, each financial asset will be classified as either fair value through profit or loss (FVTPL), amortized cost, or fair value through other comprehensive income (FVOCI). All equity instruments are measured at fair value. A debt instrument is recorded at amortized cost only if the entity is holding the instrument to collect contractual cash flows and the cash flows represent solely principal and interest. Otherwise it is recorded at FVTPL.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Accounting pronouncements (continued)

Impairment

The impairment requirements of IFRS 9 apply to financial assets that are measured at amortized cost or FVOCI, and off-balance sheet lending commitment such as loan commitments and letters of credit (which are collectively referred to in this note as financial assets).

The determination of the provision for mortgage losses will move from an incurred credit loss model, whereby credit losses are recognized when a defined loss event occurs under IAS 39, to an expected loss model under IFRS 9, where provisions are recorded upon initial recognition of the financial asset based upon expectations of future credit losses at that time. Under IFRS 9, Frontenac Mortgage Investment Corporation will recognize a loss allowance equal to 12-month expected credit losses, if the credit risk at the reporting date has not increased significantly since initial recognition (Stage 1), representing the expected credit losses from default events that are possible within the next 12 months.

IFRS 9 requires the recognition of credit losses for the remaining life of the financial assets (lifetime expected losses) that are considered to have experienced a significant increase in credit risk (Stage 2) and for financial assets that are credit impaired at the reporting date (Stage 3). The lifetime expected credit losses represent the expected loss in value due to possible default events over the life of a financial instrument weighted by the likelihood of a loss. To identify whether the credit risk of a financial asset has significantly increased since initial recognition, management will consider forward-looking information, including macroeconomic factors as well as information related to the specific borrower, including the outstanding balance upon default. As such, the transfer to Stage 2 will depend on predetermined criteria. In subsequent reporting periods, if the credit risk of the financial instrument improves such that there is no longer a significant increase in credit risk since initial recognition, then the Company shall revert to recognizing 12 months of expected credit loss.

Credit impaired financial assets will be transferred to Stage 3 when there is objective information that the assets are credit impaired. To determine whether a financial asset is credit impaired, an event must be identified that has a detrimental impact on the estimated future cash flows. Interest revenue is calculated on gross carrying amount for financial assets in Stage 1 and 2 and on the net carrying amount for financial assets in Stage 3.

(l) Accounting pronouncements (continued)

(ii) IFRS 15 - Revenue from Contracts with Customers ("IFRS 15"), replaces the existing standards for revenue recognition. The new standard establishes a framework for the recognition and measurement of revenues generated from contracts with customers, with the exception of revenue earned from contracts within the scope of other standards, such as financial instruments, insurance contracts and leases. We plan to adopt IFRS 15 effective January 1, 2018. As most of our contracts are financial instruments and therefore out of the scope for IFRS 15, the Company believes that the implementation of IFRS 15 will not have a material impact on the Company's financial statements.

(In Canadian Dollars)

4. CAPITAL STRUCTURE AND FINANCIAL POLICIES

The Company's definition of capital includes net assets and bank line of credit.

The Company's objective when managing its capital is to generate income while preserving, for its beneficial shareholders, capital for re-investment. As a mortgage investment corporation, the Company expects to derive its earnings principally from the receipt of mortgage interest payments and of interest or interest-like distributions on the cash reserves of the Company.

The Company achieves its investment objective by lending on the security of mortgages on real properties situated in Canada, primarily in Eastern Ontario. The mortgages transacted by the Company will not generally meet the underwriting criteria of conventional lenders and/or involve borrowers in rural areas generally not well serviced by major lenders. As a result, the Company's investments are expected to earn a higher rate of interest than what is generally obtainable through conventional mortgage lending activities.

In order to provide some liquidity to its shareholders, the Company is required to maintain approximately 5% of its net assets in cash or near cash assets and such levels of cash reserves have been adequate to meet the needs of normal share redemption levels during the year. Management regularly monitors its available cash and credit line facility to ensure that the 5% cash reserve is maintained. As at December 31, 2017 and 2016, the Company has maintained the 5% cash reserve. For unusual circumstances, the Company has redemption policies in place to restrict the payout of share redemption at levels to match the normal repayment of the mortgages receivable.

The Company's capital management objectives and strategies are unchanged from prior years.

5. DUE FROM ADMINISTRATOR IN TRUST

As part of the mortgage underwriting and adminsitration services provided to the Company, Pillar Financial Services Inc. (the "Administrator") collects repayments, both regular periodic repayments and repayments of outstanding balances in full, from borrowers through the Administrator's electronic payments collection system. These repayments are electronically deposited into a trust account of the Administrator. Funds are deposited from the Administrator's trust account into the Company's bank account within a few business days once the funds have been confirmed cleared from the borrower.

6. MORTGAGE INVESTMENTS

There are 638 mortgages (December 31, 2016 - 550) held which are a combination of mainly first and second mortgages secured by residential, commercial property, and property under development. Mortgage investments consist of the following:

	As at December 31, 2017	**As at December 31, 2016**
	$	$
Mortgages	193,480,773	177,537,333
Allowance for impairment losses	(3,500,195)	(1,754,000)
	189,980,578	175,783,333

To assess impairment, management has reviewed each mortgage taking into account experience, credit quality, payment in arrears, and specific problem situations. As at December 31, 2017, there are 24 mortgages totaling $7,930,370 (December 31, 2016 - 27 mortgages totaling $10,277,933) that are past due and considered impaired by management. When the estimated realizable amounts for each of the impaired mortgages is greater than their carrying values, no allowance for mortgage loss is made.

(In Canadian Dollars)

6. MORTGAGE INVESTMENTS (Continued)

In addition to the impaired mortgages above, management has reviewed the status of the underlying security for another group of mortgages that is not currently impaired but whose credit risk has changed since the loan was inititated. The result of this review has led management to provide a provision of $1,790,000 (2016 - $774,000) to recognize that the potential timing of repayments may extend beyond the period originally planned. This provision is included in the figure presented for impairment losses in the table below.

The following table presents a continuity of the provision for impairment losses:

	2017	2016
	$	$
Balance - beginning of year	1,754,000	748,748
Deduct: realized losses for year	(1,071,232)	(657,402)
Add: provision for mortgage impairment losses for year	2,817,427	1,662,654
Balance - end of year	3,500,195	1,754,000

Principal repayments based on contractual maturity dates are as follows:

	$
2018	163,875,000
2019	25,929,000
Thereafter	176,578
Total	189,980,578

Substantially all of the mortgages are issued with either 1 or 2 year terms, have fixed interest rates and can be paid in full before maturity without penalty. The weighted average interest rate of the mortgages as at December 31, 2017 was 9.05% (December 31, 2016 - 9.52%).

Mortgages past due but not impaired are as follows:

	2017	2016
	$	$
1 to 30 days	2,658,036	1,854,105
31 - 90 days	525,474	1,235,200
over 90 days	5,871,121	2,400,424
over 90 days	9,054,631	5,489,729

Credit risk

Credit risk arises from the possibility that mortgagors may experience financial difficulty and be unable to fulfil their mortgage commitments. The Company mitigates this risk by having well established lending policies in place that ensure mortgages are well secured and by limiting its exposure to any one mortgagor. The maximum exposure to credit risk at December 31, 2017 is the carrying values of its mortgage investments, including accrued interest receivable, which total $201,248,381 (December 31, 2016 - $183,519,670). The Company has recourse under these investments in the event of default by the borrower, in which case, the Company would have a claim against the underlying security. There are no significant concentrations of credit risk as the average mortgage amount as at December 31, 2017 was $304,013 (December 31, 2016 - $323,057) and the largest mortgage was $14,304,073 (December 31, 2016 - $14,072,226).

6. MORTGAGE INVESTMENTS (Continued)

Fair values

The fair value of the mortgage investments approximates its carrying value as substantially all of the loans are short-term in nature and repayable in full at any time at the option of the borrower.

Fair value is the price that would be received to sell an assets or paid to transfer a liability in an orderly transaction between market participants at the measurement date. As the Company and its borrowers are unrelated third parties under no compulsion to act, the initial terms of the mortgage represents their fair value at the time of mortgage origination. For subsequent reporting periods, as there are no quoted prices in an active market for the Company's mortgages, management makes its determination of fair value by discounting future cash flows at the Company's prevailing rate of return on new mortgages of similar type, term, and credit risk. The discounted cash flow analysis performed assumes that all mortgages will be held until maturity and not paid out early by the borrower and at a weighted average interest rate for loans advanced within three months of the period end. Typically, the fair value of the Company's mortgage investments approximate their carrying amounts given the amounts consist of short-term loans that are repayable at the option of the borrower at any time without significant penalties.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations and commitments as they fall due. The Company's approach is to ensure that it will have sufficient cash and credit facilities to meet its liabilities when due, under normal and stressed circumstances. As at December 31, 2017, the Company's financial obligations and commitments consisted of bank indebtedness in the amount of $79,627 (December 31, 2016 - $8,026,202 cash and cash equivalents), accounts payable and accrued liabilities totaling $192,852 (December 31, 2016 - $92,866) and dividends payable totaling $428,662 (December 31, 2016 - $390,613). Accounts payable and accrued liabilities along with dividends payable are all due within normal trade terms of generally 30 days. The Company also has a bank line of credit that is repayable on demand and had a balance outstanding of $16,580,000 as at December 31, 2017 (December 31, 2016 - $nil).

To mitigate its liquidity risk, the Company targets to maintain significant committed borrowing facilities from its bank for credit room within a range between 10% to 15% of net assets. As at December 31, 2017, the Company's committed borrowing facilities represented approximately 15% of net assets (December 31, 2016 - 15% of net assets). In addition, the Company has policies in place that can restrict the total amount of share redemptions. Those restrictions permit share redemptions to be funded through the normal repayment of the mortgages receivable.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

(In Canadian Dollars)

7. BANK LINE OF CREDIT

The Company has established a revolving line of credit with a major Canadian chartered bank and, in March 2016, the limit of this line of credit was increased from $23,000,000 to an amount equal to 15% of net assets of the Corporation subject to a maximum limit of $29,000,000. The line of credit is secured by a General Security Agreement and a first ranking interest in the mortgages and is repayable on demand. The availability of funds may be cancelled or restricted by the bank at any time. The credit facility bears interest at bank prime rate of 3.20% (December 31, 2016 - 2.70%) plus 1%.

Financial covenants require the Company to maintain a minimum level for net assets, debt to net assets ratio, and percentage of residential mortgages. The Company was in compliance with all such covenants as at December 31, 2017 and as at December 31, 2016.

(In Canadian Dollars)

8. CAPITAL STOCK

The beneficial interests of the Company are represented by a single class of shares, designated as common shares, which are unlimited in number and without par value. Each share carries a single vote at any meeting of shareholders and carries the right to participate pro rata in any dividends.

Changes during the year to issued and outstanding shares of the Company:

	Year ended December 31, 2017		**Year ended December 31, 2016**	
	Number of shares issued	$	Number of shares issued	$
Balance, beginning of year	6,396,798	191,904,019	5,651,215	169,536,542
Issued for cash	187,160	5,614,809	973,403	29,202,078
Issued through dividend reinvestment plan	172,746	5,182,391	213,698	6,410,931
Redeemed for cash	(615,303)	(18,459,102)	(441,518)	(13,245,532)
Balance, end of year	6,141,401	184,242,117	6,396,798	191,904,019

Dividend reinvestment plan and direct share purchase plan
Unless a shareholder elects to receive their dividends as cash, the dividends issued to shareholders are automatically reinvested in the Company by the direct purchase of shares at the current market price.

Redemptions
Shareholders may only redeem common shares once per year, on November 30, except in certain unusual circumstances. During the year the Company redeemed for cash 615,303 common shares at the price of $30.00 per share for total proceeds of $18,459,102. For the year ended December 31, 2016, 441,518 common shares were redeemed for cash at the price of $30.00 per share for total proceeds of $13,245,532.

The Company had no potentially dilutive instruments as at December 31, 2017 or December 31, 2016.

9. RELATED PARTIES

Pillar Financial Services Inc. ("Pillar") is the administrator for the Company. Its responsibilities include originating loan transactions, underwriting the mortgages, collecting mortgage payments, and the internal audit and accounting for the Company.

W.A. Robinson Asset Management Ltd. (the "Manager") provides portfolio management advice and investment counsel and acts as share registrar and transfer agent for the Company.

The companies are related in that they share common management. Pillar and the Manager each charge an annual fee of 1% of the total asset value calculated on a monthly basis. Total fees paid to Pillar for the year ended December 31, 2017 were $1,985,420 (2016 - $1,935,267) and the total fees paid to the Manager for the year ended December 31, 2017 including applicable sales taxes were $2,244,192 (2016 - $2,186,123) under these contracts. These transactions are 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 parties.

(In Canadian Dollars)

10. FAIR VALUE MEASUREMENTS

The following table shows the carrying amounts and fair values of assets and liabilities:

As at December 31, 2017	**Carrying Value Basis**	**Carrying Value**	**Fair Value**
ASSETS:			
Cash and equivalents	Fair value through profit & loss	-	-
Due from administrator in trust	Loans and receivables - amortized cost	574,788	574,788
Accrued interest receivable	Loans and receivables - amortized cost	10,251,803	10,251,803
Mortgage investments	Loans and receivables - amortized cost	189,980,578	189,980,578
LIABILITIES:			
Bank line of credit	Other liabilities - amortized cost	16,580,000	16,580,000
Dividends payable	Other liabilities - amortized cost	428,662	428,662
Accounts payable and accrued liabilities	Other liabilities - amortized cost	192,852	192,852
Prepaid mortgage payments	Other liabilities - amortized cost	316,111	316,111

As at December 31, 2016	**Carrying Value Basis**	**Carrying Value**	**Fair Value**
ASSETS:			
Cash and equivalents	Fair value through profit & loss	8,026,202	8,026,202
Due from administrator in trust	Loans and receivables - amortized cost	1,234,204	1,234,204
Accrued interest receivable	Loans and receivables - amortized cost	7,736,337	7,736,337
Mortgage investments	Loans and receivables - amortized cost	175,783,333	175,783,333
Properties held for sale under foreclosure	Fair value through profit & loss	-	-
LIABILITIES:			
Bank line of credit	Other liabilities - amortized cost	-	-
Dividends payable	Other liabilities - amortized cost	390,613	390,613
Accounts payable and accrued liabilities	Other liabilities - amortized cost	92,866	92,866
Prepaid mortgage payments	Other liabilities - amortized cost	421,562	421,562

The valuation techniques and the inputs used for the Company's financial instruments are as follows:

(a) Mortgage Investments

There are no quoted prices in an active market for the Company's mortgages. Management makes its determination of fair value by discounting future cash flows at the Company's prevailing rate of return on new mortgages of similar type, term, and credit risk. The discounted cash flow analysis performed assumes that all mortgages will be held until maturity and not paid out early by the borrower and at a weighted average interest rate for loans advanced within three months of the period end. When collection of principal on a particular mortgage investment is no longer reasonably assured, the fair value of the mortgage is reduced to reflect the estimated net realizable recovery from the collateral securing the loan. Generally, the fair value of the mortgage investments approximate their carrying values given their short-term nature and the option of borrowers to repay at any time. Accordingly, the fair value of the mortgage investments is based on level 3 inputs.

10. FAIR VALUE MEASUREMENTS (Continued)

(b) Other financial assets and liabilities

The fair values of due from administrator in trust, accrued interest receivable, bank line of credit, bank indebtedness, dividends payable, accounts payable and accrued liabilities, and prepaid mortgage payments approximate their carrying amounts due to their short-term maturities.

11. KEY MANAGEMENT PERSONNEL COMPENSATION

The Company paid directors fees totaling $102,772 (2016 - $87,277) to the members of the Board of Directors and Independent Review Committee for their services to the Company. The compensation to the senior management of the Manager is paid through the management fees paid to the Manager (Note 9).