

**Celernus Mortgage and
Income Trust Fund
Financial Statements**
For the year ended December 31, 2016

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Financial Statements
For the year ended December 31, 2016

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Independent Auditor's Report

To the Unitholders of Celernus Mortgage and Income Trust Fund

We have audited the accompanying financial statements of Celernus Mortgage and Income Trust Fund (the "Fund"), which comprise the statement of financial position as at December 31, 2016, and the statements of comprehensive income, changes in net assets attributable to holders of redeemable units and cash flows for the year ended December 31, 2016, 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 Fund'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 Fund'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 the Fund as at December 31, 2016, and its financial performance and its cash flows for the year ended, in accordance with International Financial Reporting Standards.

BDO Canada LLP

Chartered Professional Accountants, Licensed Public Accountants
Burlington, Ontario
March 29, 2017

Celernus Mortgage and Income Trust Fund Statement of Financial Position

December 31 **2016** **2015**

Assets

Current assets

Cash	\$ 1,009,158	\$ 846,825
Investments at fair value (Note 4)	38,352,790	23,409,579
Accrued interest receivable	150,437	97,168
Subscriptions receivable	72,517	173,084
	39,584,902	24,526,656
Total assets		

Liabilities

Current liabilities

Accounts payable and accrued liabilities	95,552	87,025
Deferred interest income	318,563	151,041
Due to related party	-	1,000,000
Redemptions payable	-	50,000
	414,115	1,288,066
Total liabilities (excluding net assets attributable to holders of redeemable units)		

Net assets attributable to holders of redeemable units

\$ 39,170,787 **\$ 23,238,590**

Net Assets Attributable to Holders of Redeemable Units per Class

Class A	\$ 38,823,850	\$ 22,911,383
Class B	346,937	327,207
	\$ 39,170,787	\$ 23,238,590

Number of Redeemable Units Outstanding (Note 6)

Class A	3,852,625	2,277,626
Class B	34,559	33,036

Net Assets Attributable to Holders of Redeemable Units Per Unit

Class A	\$ 10.08	\$ 10.06
Class B	10.04	9.90

On behalf of the Fund, by the manager,
Celernus Investment Partners Inc.

Director

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

Celernus Mortgage and Income Trust Fund Statement of Comprehensive Income

For the year ended December 31	2016	2015
Income		
Mortgage interest	\$ 2,644,688	\$ 1,826,685
Lender fees	179,720	146,017
	2,824,408	1,972,702
Expenses		
Administration fees	99,561	99,008
Advisory fees	103,453	66,017
Bank charges	1,746	1,574
Management fees (Note 7)	296,920	189,976
Performance fees (Note 7)	247,043	207,054
	748,723	563,629
Increase in net assets attributable to holders of redeemable units	\$ 2,075,685	\$ 1,409,073
Increase in Net Assets Attributable to Holders of Redeemable Units per Class		
Class A	\$ 2,055,955	\$ 1,392,498
Class B	19,730	16,575
	\$ 2,075,685	\$ 1,409,073
Increase in Net Assets Attributable to Holders of Redeemable Units per Unit (Note 10)		
Class A	\$ 0.69	\$ 0.74
Class B	0.58	0.64

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

Celernus Mortgage and Income Trust Fund
Statement of Changes in Net Assets Attributable
to Holders of Redeemable Units

For the year ended December 31	2016	2015
Net assets attributable to holders of redeemable units, beginning of year	\$ 23,238,590	\$ 14,608,339
Increase in net assets attributable to holders of redeemable units		
Class A	2,055,955	1,392,498
Class B	19,730	16,575
	2,075,685	1,409,073
Distributions to holders of redeemable units		
Class A	(2,034,004)	(1,709,613)
Class B	(15,157)	(21,073)
	(2,049,161)	(1,730,686)
Redeemable unit transactions		
Proceeds from issuance of redeemable units.		
Class A	21,124,824	11,888,659
Class B	-	85,000
Amounts paid on redemption of redeemable units		
Class A	(7,236,041)	(4,728,061)
Reinvestments of distributions to holders of redeemable units		
Class A	2,001,733	1,685,193
Class B	15,157	21,073
	15,905,673	8,951,864
Net increase in net assets attributable to holders of redeemable units for the year	15,932,197	8,630,251
Net assets attributable to holders of redeemable units, end of the year	\$ 39,170,787	\$ 23,238,590

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

Celernus Mortgage and Income Trust Fund Statement of Cash Flows

For the year ended December 31	2016	2015
Cash flows from operating activities		
Increase in net assets attributable to holders of redeemable units	\$ 2,075,685	\$ 1,409,073
Adjustments to reconcile increase in net assets attributable to holders of redeemable units to cash from operating activities		
Purchase of investments	(27,750,510)	(19,349,760)
Proceeds on disposal of investments	12,807,299	11,467,495
Changes in operating assets and liabilities		
Accrued interest receivable	(53,269)	(18,345)
Subscriptions receivable	100,567	(173,084)
Accounts payable and accrued liabilities	8,527	43,520
Redemptions payable	(50,000)	50,000
Deferred interest income	167,522	46,589
	<u>(12,694,179)</u>	<u>(6,524,512)</u>
Cash flows from financing activities		
Proceeds from issuance of redeemable units	21,124,824	11,973,659
Amounts paid on redemption of redeemable units	(7,236,041)	(4,728,061)
Distributions paid to holders of redeemable units net of reinvested distributions	(32,271)	(24,420)
Repayments to related party	(1,000,000)	(250,000)
	<u>12,856,512</u>	<u>6,971,178</u>
Increase in cash during the year	162,333	446,666
Cash, beginning of year	846,825	400,159
Cash, end of year	\$ 1,009,158	\$ 846,825

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

Celernus Mortgage and Income Trust Fund Schedule of Investment Portfolio

December 31, 2016

Fixed Income Assets - 0.02%

Par Value	Name	Avg. Cost (\$)	Fair Value (\$)
11,758	Sherritt International S1 C17 8% 15NV18	11,221	8,700

Mortgages - 97.89% (Note 4)

Residential	\$23,851,607	\$23,851,607
Commercial	9,717,483	9,717,483
Industrial	4,775,000	4,775,000

38,344,090 38,344,090

Total investments owned

38,352,790

Other net assets - 2.09%

817,997

Net assets attributable to holders of redeemable units

\$39,170,787

Schedule of Mortgages

Interest Rate %	Number of Mortgages	Cost	Fair Value
7.00	2	3,650,000	3,650,000
7.50	2	558,250	558,250
7.75	1	350,000	350,000
7.79	17	3,847,500	3,847,500
8.00	12	10,811,635	10,811,635
8.50	3	2,429,602	2,429,602
8.75	1	242,514	242,514
9.00	4	2,153,997	2,153,997
9.25	13	2,039,000	2,039,000
9.50	1	850,000	850,000
9.60	1	438,000	438,000
10.00	7	8,768,644	8,768,644
11.99	1	70,000	70,000
12.00	4	1,917,178	1,917,178
14.00	1	217,770	217,770
Total	70	\$38,344,090	\$38,344,090

Schedule of Maturity

Maturity	Number of Mortgages	Cost	Fair Value
2017	63	\$35,268,446	\$35,268,446
2018	7	3,075,644	3,075,644
	70	\$38,344,090	\$38,344,090

All mortgages have maturities of two years or less and none of the mortgages are insured under the National Housing Act.

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

Celernus Mortgage and Income Trust Fund

Notes to Financial Statements

December 31, 2016

1. The Fund

Celernus Mortgage and Income Trust Fund (the "Fund") is a unit trust which was established on April 9, 2013 by a Supplemental Trust Indenture under the laws of the Province of Ontario. The principal address of the Fund is 1300 Cornwall Road, Suite 204, Oakville, Ontario, L6J 7W5. The Fund is offered pursuant to prospectus exemptions to qualified investors in Canada and offshore. In Canada, investors must be "accredited investors", or purchase a sufficient amount of the Funds to qualify for a prospectus exemption. The minimum purchase amount for accredited investors or other exempt investors is \$25,000.

The Fund aims to provide investors consistent monthly income while simultaneously protecting capital. The fund seeks to obtain this objective primarily through investments in mortgages with a loan to value measure that provides a desirable degree of security of capital. In addition to first and second mortgages, the Fund may also invest in other asset backed debt, government and corporate bonds and debentures, convertible debt, common equities, warrants, preferred shares, trusts units, real estate investment trusts, derivative instruments and other securities. The Fund may utilize leverage from time to time for the purposes of increasing returns or funding investor redemptions. The leverage will be variable not to exceed 140% net long.

Celernus Investment Partners Inc. (the "Manager") is the manager, portfolio adviser and trustee of the Fund.

The Fund is not a reporting issuer under securities legislation and therefore is relying on Part 2.11 of National Instrument 81-106 ("NI 81-106") for exemption from the requirement to file financial statements with the applicable securities regulatory authorities.

These financial statements for the year ended December 31, 2016 were authorized for issue by the Manager on March 29, 2017.

2. Significant Accounting Policies

The principal accounting policies applied in the presentation of these financial statements are set out below:

Basis of Presentation

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 Measurement

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities at fair value through profit or loss, and are presented in Canadian dollars, which is the Fund's functional and presentation currency.

Celernus Mortgage and Income Trust Fund

Notes to Financial Statements

December 31, 2016

2. Significant Accounting Policies

Valuation of Mortgage Investments

Mortgage investments for which there is no active market are valued at fair value using valuation techniques which include net present value and discounted cash flow models and comparisons with similar instruments for which observable market price exists. Assumptions and inputs used in valuation techniques include risk-free interest rate, credit spreads as well as prevailing rates of return on similar mortgages. The output of the valuation technique is an estimate or approximation of a value that cannot be determined with certainty, and valuation techniques employed may not fully reflect all factors relevant to the positions held by the Fund. Valuations are therefore adjusted where appropriate, to allow for additional factors including interest rate risk, liquidity risk and counterparty risk.

Financial Instruments

Classification

The Fund classifies its investments at fair value through profit or loss.

This category has two subcategories: financial assets or financial liabilities held for trading; and financial assets or financial liabilities designated at fair value through profit or loss at inception.

i) Financial assets and liabilities held for trading

The Fund does not classify any financial assets and liabilities as held for trading.

ii) Financial assets and liabilities designated at fair value through profit or loss at inception

Financial assets and financial liabilities designated at fair value through profit or loss at inception are financial instruments that are not classified as held for trading but are managed, and their performance is evaluated on a fair value basis in accordance with the Fund's documented investment strategy.

The Fund classifies its financial assets and financial liabilities other than its investments into the following categories:

Financial assets at amortized cost and designated as loans and receivables: cash, accrued interest receivable and subscriptions receivable.

Celernus Mortgage and Income Trust Fund

Notes to Financial Statements

December 31, 2016

2. Significant Accounting Policies (Continued)

Financial Instruments (continued)

Classification (continued)

Financial liabilities at amortized cost and designated as other financial liabilities: accounts payable and accrued liabilities.

The Fund's obligation for net assets attributable to holders of redeemable units is presented at the redemption amount.

Recognition/derecognition

The Fund recognizes financial instruments at fair value upon initial recognition, plus transaction costs in the case of financial instruments measured at amortized cost. Purchases and sales of financial assets are recognized at their trade date. Any gains and losses arising from changes in fair value of the assets or liabilities are recognized in the Statement of Comprehensive Income.

Other financial assets are derecognized only when the contractual rights to the cash flows from the asset expire, or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. The Fund derecognizes financial liabilities when the Fund's obligations are discharged, cancelled or they expire.

Classification of Fair Value Measurement

IFRS 13 requires the Fund to classify fair value measurement using a fair value hierarchy that reflects the significance of the inputs used in making the measurement. The fair value hierarchy has the following levels:

The hierarchy of inputs is summarized below:

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

The Fund's mortgage investments were classified as Level 3 at December 31, 2016 and 2015. The Fund's fixed income investment was classified as Level 1 at December 31, 2016 and 2015.

Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount reported in the Statement of Financial Position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. In the normal course of business, the Fund enters into various master netting agreements or similar agreements that do not meet the criteria for offsetting in the Statement of Financial Position, but still allow for the related amounts to be offset in certain circumstances.

Celernus Mortgage and Income Trust Fund

Notes to Financial Statements

December 31, 2016

2. Significant Accounting Policies (Continued)

Investment Transactions and Income Recognition

Investment transactions are accounted for on the date that an order is executed. Income from mortgage investments is recognized on an accrual basis. Lender fees are recognized in income when received. Interest received in advance on mortgage investments is deferred until the related expense is incurred. All transaction costs relating to the purchases and sales of investments are charged to comprehensive income in the year. Realized gains and losses from mortgage investments and unrealized appreciation (depreciation) from mortgage investments are calculated on an average cost basis.

Impairment of Financial Assets

The Fund assesses at each reporting date whether a financial asset or group of financial assets measured at amortized cost is impaired. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's amortized cost and the present value of estimated future cash flows discounted using the asset's original effective interest rate. Impairment losses on assets measured at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized.

Valuation of Redeemable Units

The Fund's units are issued and redeemed at the net asset value per unit, which is determined on a weekly basis as of the close of business of the last business day of each week. The net asset value per unit of the Fund is determined by dividing the total market value of the Fund's net assets by the number of units outstanding.

Net asset value per unit for each class is calculated at 4:00 p.m. (Eastern time) each business week by dividing the net assets of each class by its outstanding units. The net assets of each class is computed by calculating the value of that class's proportionate share of the Fund's assets less that class's proportionate share of the Fund's common liabilities, and less class specific liabilities. Expenses directly attributable to a class are charged to that class while common fund expenses are allocated to each class in a reasonable manner as determined by the Manager. Other income, and realized and unrealized gains and losses, are allocated to each class of the Fund based on that class's pro rata share of total net assets value of the Fund.

For each unit sold, the Fund receives an amount equal to the net asset value per unit on the date of sale, which is included in net assets attributable to holders of redeemable units. Units are redeemable at the option of the unitholders at their net asset value on the redemption date. For each unit redeemed, the number of issued and outstanding units is reduced and the net assets attributable to holders of redeemable units in the Fund is reduced by the related net asset value on the date of redemption.

Celernus Mortgage and Income Trust Fund

Notes to Financial Statements

December 31, 2016

2. Significant Accounting Policies (Continued)

Net Assets Attributable to Holders of Redeemable Units per Unit

The net assets attributable to holders of redeemable units per unit is calculated by dividing the net assets attributable to holders of redeemable units of a particular class of units by the total number of units of that particular class outstanding at the end of the year.

Increase in Net Assets Attributable to Holders of Redeemable Units Per Unit

Increase in net assets attributable to holders of redeemable units per unit is based on the increase in net assets attributable to holders of redeemable units attributed to each class of units, divided by the weighted average number of units outstanding of that class during the year.

Income Taxes

The Fund qualifies as a mutual fund trust under the Income Tax Act (Canada). All of the Fund's net income for tax purposes and sufficient capital gains realized in any period are required to be distributed to unitholders such that no tax is payable by the Fund. As a result, the Fund does not record income taxes. Since the Fund does not record income taxes, the tax benefit of capital and non-capital losses has not been reflected in the statements of financial position as a deferred income tax asset.

Related Parties

For the purpose of these financial statements, a party is considered related to the Fund if such party or the Fund has the ability to, directly or indirectly, control or exercise significant influence over the other entity's financial and operating decisions, or if the Fund and such party are subject to common significant influence. Related parties may be individuals or other entities.

Critical Estimates and Judgements

In the application of the Fund's accounting policies, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily available from other sources.

The most significant estimates that the Fund is required to make relate to the fair value of the mortgage investments. The estimates may include: assumptions regarding local real estate market conditions; interest rates and the availability of credit; cost and terms of financing; the impact of present or future legislation or regulation; prior encumbrances and other factors affecting the mortgage and underlying security of the mortgage investments.

These assumptions are limited by the availability of reliable comparable data, economic uncertainty, ongoing geopolitical concerns and the uncertainty of predictions concerning the future events. Credit markets, equity markets and consumer spending are factors in the uncertainty inherent in such estimates and assumptions. Accordingly, by their nature, estimates of fair value are subjective and do not necessarily result in precise determinations. Should the underlying assumptions change, the estimated fair value could change by a material amount.

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 that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Celernus Mortgage and Income Trust Fund

Notes to Financial Statements

December 31, 2016

2. Significant Accounting Policies (Continued)

New Standards, Interpretations and Amendments not yet Adopted

The International Accounting Standards Board (“IASB”) or the International Financial Reporting Interpretations Committees (“IFRIC”) have issued a number of new or revised standards or interpretations that will become effective for future periods and have a potential implication for the Company.

IFRS 9 - Financial Instruments

IFRS 9 Financial Instruments amends the requirements for classification and measurement of financial assets, impairment, and hedge accounting. IFRS 9 introduces an expected loss model of impairment and retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortized cost, fair value through profit or loss, and fair value through other comprehensive income. The basis of classification depends on the Partnership’s business model and the contractual cash flow characteristics of the financial asset. The effective date for IFRS 9 is January 1, 2018. The Fund is in the process of evaluating the impact of the new standard.

3. Reconciliation of Level 3 Fair Value Measurements of Financial Assets

	2016	2015
Mortgage investments, beginning of year	\$ 23,402,972	\$ 15,515,650
Additional mortgages funded	27,748,417	19,354,817
Discharge of mortgages	(12,807,299)	(11,467,495)
Mortgage investments, end of year	\$ 38,344,090	\$ 23,402,972

There were no transfers into or out of Level 3 for the year ended December 31, 2016 or 2015.

4. Investments

	2016	2015
First mortgages and fixed income assets	80% \$30,787,167	69% \$16,144,817
Second mortgages and other loans	20% 7,556,923	31% 7,258,155
	100% \$38,344,090	100% \$23,402,972

The mortgage investments are secured by the real property to which they relate, bear interest at a weighted average interest rate of 8.79% (2015 – 9.20%) and mature between 2017 and 2018. The Fund aims to have a loan to value ratio of no more than 80% on an individual mortgage at time of purchase.

Celernus Mortgage and Income Trust Fund

Notes to Financial Statements

December 31, 2016

5. Related Party Transactions

As at December 31, 2016, 350,990 (2015 - 248,344) units of the Fund were held by directors or immediate family members of the Manager. The market value of these units is approximately \$3,537,800 (2015 - \$2,497,762).

6. Redeemable Units

The Fund may issue an unlimited number of Class A and Class B units. The units of the Fund shall be issued without nominal or par value and shall be issued as fully paid and non-assessable and voting. Each unit of the Fund shall represent an undivided beneficial interest in the assets of the Fund, units are non-transferable, no unit shall have any conversion, exchange or preemptive right. Each unit shall entitle the holder thereof to participate equally with respect to all payments made to Unitholders of the Fund whether by way of interest, dividend or capital and, on liquidation, to participate equally in the net assets of the Fund remaining after satisfaction of all outstanding liabilities.

Each Unitholder of the Fund shall be entitled at any time and from time to time, to require the Fund to redeem all or any of his or her units by giving written notice to the Manager. Such notice shall contain a clear request that a specified number or dollar amount of Units be redeemed, shall be irrevocable and the signature thereon shall be guaranteed by a Canadian chartered bank, a trust company or an investment dealer if required by the Manager. The redemption of units in respect of which a duly completed redemption request has been received by the Manager at least five (5) days prior to a Valuation Day will be redeemed on such Valuation Day and, in all other cases, will be redeemed on the second Valuation Day following the day on which such redemption request was received by the Manager. The Manager may, in its sole discretion, waive the foregoing five (5) day notice requirement in respect of any redemption request. There are 3,887,184 units issued and outstanding as of December 31, 2016 (2015 - 2,310,662).

The Manager may instruct the Trustee to suspend the right of Unitholders to require the Fund to redeem units and the obligation of the Trustee to make payment; therefore, during a designated period in which normal trading is suspended on any exchange on which any security owned or held by the Fund is traded, provided that such right shall not be suspended unless securities owned by the Fund and representing, in the aggregate, more than 50% by value of the total assets of the Fund without allowance for liabilities are listed or traded on any such exchange and are not traded on any exchange on which normal trading is not suspended, or during any period in which the Manager determines that conditions exist which render impractical the sale of the assets of the Fund or impair the ability of the Manager to determine the value of the assets held by the Fund. The Manager has a general discretion to instruct the Trustee to suspend the right of Unitholders to require the Fund to redeem units and the obligation of the Trustee to make payment therefore in any event where the Manager determines that processing such redemption(s) will have a material negative effect on the Fund. The Trustee shall, at the direction of the Manager, apply the suspension to all requests for redemption received prior to the suspension but as to which payment has not been made, as well as to all requests received while the suspension is in effect.

Celernus Mortgage and Income Trust Fund Notes to Financial Statements

December 31, 2016

6. Redeemable Units (Continued)

All Unitholders making such requests shall (unless the suspension lasts for less than 48 hours) be given notice by the Manager advising of the suspension, that redemptions will be effected on the basis of the Net Asset Value Per Unit determined on the first Valuation Day following the termination of the suspension and that they have the right to withdraw their requests for redemption prior to the termination of the suspension. Any declaration of suspension or termination of suspension made by the Manager shall be final and conclusive. Notwithstanding the foregoing, the suspension shall terminate in any event on the first business day after the circumstances which gave rise to the suspension cease to exist.

The Manager reserves the right to instruct the Trustee to withhold the amount of four per cent (4%) from redemption proceeds payable to a Unitholder in the event the redemption request is made during the first 12 months after acquisition of the Units being redeemed.

There are no differences between the NAV per unit of the Fund and Net Assets Attributable to Holders of Redeemable Units per Unit of the Fund.

Unitholder transactions during the year ended December 31:

	Class A		Class B	
	2016	2015	2016	2015
Redeemable units outstanding, beginning of year	2,277,626	1,412,403	33,036	22,517
Redeemable units issued	2,092,466	1,161,234	-	8,411
Redeemable units redeemed	(716,337)	(461,803)	-	-
Redeemable units issued on reinvestment	198,870	165,792	1,523	2,108
Redeemable units outstanding, end of year	3,852,625	2,277,626	34,559	33,036

7. Management Fees and Expenses

The Fund pays the Manager an annual management fee of 0.85% of the NAV of the Fund, which is calculated and charged to the Fund monthly. The Fund is responsible for the payment of all fees and expenses relating to its operations, including record keeping, audit, accounting and administrative costs, legal fees, custody and safekeeping charges, bank charges and interest expense, brokerage commissions and other fees relating to the purchase and sale of assets of the Fund. Management fees were \$296,920 (2015 - \$189,976) during the year. Included in accounts payable and accrued liabilities is \$27,987 (2015 - \$16,549) relating to management fees.

The Manager is also entitled to receive a performance fee of 20% of the change in NAV of the Fund between a new high-water mark and the previous high-water mark for which a performance fee was earned by the Manager and charged to the Fund. A performance fee will only be earned at such time as the annual return of the Fund is greater than or equal to 4%. Performance fees of \$247,043 (2015 - \$207,054) were earned during the year. Included in accounts payable and accrued liabilities is \$28,674 (2015 - \$34,063) relating to performance fees.

Celernus Mortgage and Income Trust Fund

Notes to Financial Statements

December 31, 2016

8. Financial Instruments and Risk Management

Financial Risk Factors

The Fund's financial instruments consist primarily of cash, investments, accrued interest receivable, subscriptions receivable and accounts payable and accrued liabilities. The Fund's investments are exposed to various types of risk including credit risk, liquidity risk and interest rate risk. These risks and related risk management practices employed by the Fund are described below:

Credit Risk

Credit risk is the possibility that a borrower may be unable to honour its debt commitments as a result of a negative change in market conditions that could result in a loss to the Fund. The Fund mitigates this risk by the following:

- (i) adhering to the investment restrictions and operating policies included in the asset allocation model (subject to certain duly approved exceptions);
- (ii) ensuring a comprehensive due diligence process is conducted on each mortgage investment prior to funding. This generally included, but is not limited to engaging professional independent consultants, lawyers and appraisers and performing credit checks and financial statements reviews on prospective borrowers;
- (iii) actively monitoring the mortgage investments and initiating recovery procedures, in a timely manner, where required.

The maximum exposure to credit risk at December 31, 2016 is the fair values of its accrued interest receivable, subscriptions receivable and investments, which total \$38,575,744 (2015 - \$23,679,831). The Fund has recourse under these investments in the event of a default by the borrower; in which case, the Fund would have a claim against the underlying property and security.

Mortgages past due but not impaired are as follows:

As at December 31, 2016	1 to 30 days	31 to 60 days	61 to 90 days	Over 90 days	Total
Residential	\$ 217,770	\$ -	\$ -	\$ 471,250	\$ 689,020
Commercial	-	-	-	-	-
Industrial	-	-	-	-	-
	\$ 217,770	\$ -	\$ -	\$ 471,250	\$ 689,020

Celernus Mortgage and Income Trust Fund Notes to Financial Statements

December 31, 2016

8. Financial Instruments and Risk Management (Continued)

Credit Risk (continued)

As at December 31, 2015	1 to 30 days	31 to 60 days	61 to 90 days	Over 90 days	Total
Residential	\$ 45,000	\$ -	\$ 225,000	\$ 137,500	\$ 407,500
Commercial	-	279,092	-	-	279,092
Industrial	-	-	-	-	-
	<u>\$ 45,000</u>	<u>\$ 279,092</u>	<u>\$ 225,000</u>	<u>\$ 137,500</u>	<u>\$ 686,592</u>

Liquidity Risk

Liquidity risk is the risk of the Fund not being able to meet its obligations with respect to unit redemptions on time or at a reasonable price. The Fund is exposed to weekly cash redemptions of the Units of the Fund as detailed in Note 6. The Fund retains sufficient cash to maintain liquidity. This risk has not changed from the previous year.

December 31, 2016

Financial liabilities	On demand	< 3 months	Total
Accounts payable and accrued liabilities	\$ -	\$ 95,552	\$ 95,552
Redeemable units	<u>39,170,787</u>	-	<u>39,170,787</u>
	<u>\$ 39,170,787</u>	<u>\$ 95,552</u>	<u>\$ 39,266,339</u>

December 31, 2015

Financial liabilities	On demand	< 3 months	Total
Accounts payable and accrued liabilities	\$ -	\$ 87,025	87,025
Due to related party	1,000,000	-	1,000,000
Redemptions Payable	50,000	-	50,000
Redeemable units	<u>23,238,590</u>	-	<u>23,238,590</u>
	<u>\$ 24,288,590</u>	<u>\$ 87,025</u>	<u>\$ 24,375,615</u>

Interest Rate Risk

Interest rate risk arises from the possibility that changes in market interest rates will affect future cash flows or fair values of financial instruments. Mortgage interest rates are at fixed rates that are not directly impacted by changes in prevailing rates, thereby reducing the Fund's exposure to interest rate risk. Generally, the fair value of mortgages is impacted by changes in interest rates; however, given the short duration of the mortgages held by the Fund, their fair value approximates carrying values and any changes in prevailing interest rates would not have a significant impact on their fair value. This risk has not changed from the previous year.

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9. Capital Management

The capital of the Fund is represented by issued redeemable units with no par value. The Unitholders are entitled to distributions, if any, and to payment of a proportionate unit of the Fund's net asset value per unit upon redemption. The relevant movements of Fund units are shown on the statement of changes in net assets attributable to holders of redeemable units. In accordance with its investment objectives and strategies, and the risk management practices outlined in Note 8, the Fund endeavours to invest the subscriptions received in appropriate investments while maintaining sufficient liquidity to meet redemptions, such liquidity being augmented by disposal of investments where necessary. There have been no changes in the way the Fund defines or manages its capital in the year.

10. Increase in Net Assets Attributable to Holders of Redeemable Units per Unit

The increase in net assets attributable to holders of redeemable units per unit for the year ended December 31 is calculated as follows:

	Class A		Class B	
	2016	2015	2016	2015
Increase in net assets attributable to holders of redeemable units	\$2,055,955	\$1,392,498	\$ 19,730	\$ 16,575
Weighted average number of redeemable units outstanding during the year	2,993,161	1,879,155	33,768	25,746
Increase in net assets attributable to holders of redeemable units per unit	\$ 0.69	\$ 0.74	\$ 0.58	\$ 0.64