

**Celernus Mortgage and  
Income Trust Fund  
Financial Statements**  
For the year ended December 31, 2017

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**Financial Statements**  
For the year ended December 31, 2017

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**Contents**

<b>Independent Auditor's Report</b>	<b>2</b>
<b>Financial Statements</b>	
Statement of Financial Position	<b>3</b>
Statement of Comprehensive Income	<b>4</b>
Statement of Changes in Net Assets Attributable to Holders of Redeemable Units	<b>5</b>
Statement of Cash Flows	<b>6</b>
Schedule of Investment Portfolio	<b>7</b>
Notes to Financial Statements	<b>8 - 18</b>



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## Independent Auditor's Report

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### 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, 2017, 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, 2017, 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, 2017, 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, 2018

## Celernus Mortgage and Income Trust Fund Statement of Financial Position

**December 31** **2017** **2016**

### Assets

#### Current assets

Cash	\$ 2,572,814	\$ 1,009,158
Investments at fair value (Note 4)	42,745,445	38,352,790
Accrued interest receivable	402,540	150,437
Subscriptions receivable	50,167	72,517
	<b>45,770,966</b>	<b>39,584,902</b>
Total assets		

### Liabilities

#### Current liabilities

Accounts payable and accrued liabilities (Note 5)	296,856	95,552
Deferred interest income	97,125	318,563
Redemptions payable	38,300	-
	<b>432,281</b>	<b>414,115</b>
Total liabilities (excluding net assets attributable to holders of redeemable units)		

#### Net assets attributable to holders of redeemable units

**\$ 45,338,685** **\$ 39,170,787**

#### Net Assets Attributable to Holders of Redeemable Units per Class

Class A	\$ 44,936,956	\$ 38,823,850
Class B	401,729	346,937
	<b>\$ 45,338,685</b>	<b>\$ 39,170,787</b>

#### Number of Redeemable Units Outstanding (Note 6)

Class A	4,463,896	3,852,625
Class B	40,073	34,559

#### Net Assets Attributable to Holders of Redeemable Units Per Unit

Class A	\$ 10.07	\$ 10.08
Class B	10.02	10.04

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	2017	2016
<b>Income</b>		
Mortgage interest	\$ 3,102,102	\$ 2,644,688
Lender fees	507,145	179,720
	<b>3,609,247</b>	<b>2,824,408</b>
<b>Expenses</b>		
Administration fees	116,703	99,561
Advisory fees	142,785	103,453
Bank charges	1,609	1,746
Management fees (Note 7)	408,658	296,920
Performance fees (Note 7)	273,482	247,043
	<b>943,237</b>	<b>748,723</b>
<b>Increase in net assets attributable to holders of redeemable units</b>	<b>\$ 2,666,010</b>	<b>\$ 2,075,685</b>
<b>Increase in Net Assets Attributable to Holders of Redeemable Units per Class</b>		
Class A	\$ 2,646,218	\$ 2,055,955
Class B	19,792	19,730
	<b>\$ 2,666,010</b>	<b>\$ 2,075,685</b>
<b>Increase in Net Assets Attributable to Holders of Redeemable Units per Unit (Note 10)</b>		
Class A	\$ 0.64	\$ 0.69
Class B	0.55	0.58

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**

<b>For the year ended December 31</b>	<b>2017</b>	<b>2016</b>
<b>Net assets attributable to holders of redeemable units, beginning of year</b>	<b>\$ 39,170,787</b>	<b>\$ 23,238,590</b>
<b>Increase in net assets attributable to holders of redeemable units</b>		
Class A	2,646,218	2,055,955
Class B	19,792	19,730
	<b>2,666,010</b>	<b>2,075,685</b>
<b>Distributions to holders of redeemable units</b>		
Class A	(2,708,327)	(2,034,004)
Class B	(20,378)	(15,157)
	<b>(2,728,705)</b>	<b>(2,049,161)</b>
<b>Redeemable unit transactions</b>		
Proceeds from issuance of redeemable units.		
Class A	14,345,352	21,124,824
Class B	35,000	-
Amounts paid on redemption of redeemable units		
Class A	(10,733,993)	(7,236,041)
Reinvestments of distributions to holders of redeemable units		
Class A	2,563,856	2,001,733
Class B	20,378	15,157
	<b>6,230,593</b>	<b>15,905,673</b>
<b>Net increase in net assets attributable to holders of redeemable units for the year</b>	<b>6,167,898</b>	<b>15,932,197</b>
<b>Net assets attributable to holders of redeemable units, end of the year</b>	<b>\$ 45,338,685</b>	<b>\$ 39,170,787</b>

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	2017	2016
<b>Cash flows from operating activities</b>		
Increase in net assets attributable to holders of redeemable units	\$ 2,666,010	\$ 2,075,685
Adjustments to reconcile increase in net assets attributable to holders of redeemable units to cash from operating activities		
Purchase of investments	(23,175,572)	(27,750,510)
Proceeds on disposal of investments	18,782,917	12,807,299
Changes in operating assets and liabilities		
Accrued interest receivable	(252,103)	(53,269)
Subscriptions receivable	22,350	100,567
Accounts payable and accrued liabilities	201,304	8,527
Deferred interest income	(221,438)	167,522
Redemptions payable	38,300	(50,000)
	<u>(1,938,232)</u>	<u>(12,694,179)</u>
<b>Cash flows from financing activities</b>		
Proceeds from issuance of redeemable units	14,380,352	21,124,824
Amounts paid on redemption of redeemable units	(10,733,993)	(7,236,041)
Distributions paid to holders of redeemable units net of reinvested distributions	(144,471)	(32,271)
Repayments to related party	-	(1,000,000)
	<u>3,501,888</u>	<u>12,856,512</u>
<b>Increase in cash during the year</b>	<b>1,563,656</b>	<b>162,333</b>
<b>Cash, beginning of year</b>	<b>1,009,158</b>	<b>846,825</b>
<b>Cash, end of year</b>	<b>\$ 2,572,814</b>	<b>\$ 1,009,158</b>

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

## Celernus Mortgage and Income Trust Fund Schedule of Investment Portfolio

**December 31, 2017**

**Fixed Income Assets - 0.02%**

Par Value	Name	Avg. Cost (\$)	Fair Value (\$)
11,758	Sherritt International S1 C17 8% 15NV18	11,220	10,266

**Mortgages - 94.26% (Note 4)**

Residential	\$31,062,665	\$31,062,665
Land	3,727,770	3,727,770
Commercial	4,019,744	4,019,744
Industrial	3,925,000	3,925,000

46,660,179      42,735,179

**Total investments owned** **42,745,445**

**Other net assets - 5.72%** **2,593,240**

**Net assets attributable to holders of redeemable units** **\$45,338,685**

**Schedule of Mortgages**

Interest Rate %	Number of Mortgages	Cost	Fair Value
< 5.00	6	\$919,145	\$919,145
5.01 - 6.00	10	2,196,000	2,196,000
6.01 - 7.00	2	4,967,000	4,967,000
7.01 - 8.00	20	10,693,790	10,693,790
8.01 - 9.00	18	7,477,327	7,477,327
9.01 - 10.00	21	10,112,917	10,112,917
10.01 - 11.00	5	2,303,000	2,303,000
11.01 - 12.00	10	3,323,000	3,323,000
12.01 - 13.00	3	408,000	408,000
13.01 - 14.00	2	335,000	335,000
<b>Total</b>	<b>97</b>	<b>\$42,735,179</b>	<b>\$42,735,179</b>

All mortgages mature in the following year and none of the mortgages are insured under the National Housing Act.

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# Celernus Mortgage and Income Trust Fund

## Notes to Financial Statements

December 31, 2017

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### 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, 2017 were authorized for issue by the Manager on March 29, 2018.

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### 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.

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# Celernus Mortgage and Income Trust Fund

## Notes to Financial Statements

December 31, 2017

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### 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, loan to value ratio, property charge and property type. 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 held for trading; and financial assets designated at fair value through profit or loss at inception.

i) Financial assets held for trading

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

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

Financial assets 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.

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# Celernus Mortgage and Income Trust Fund

## Notes to Financial Statements

December 31, 2017

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### 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 and redemptions payable.

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.

##### 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, 2017 and 2016. The Fund's fixed income investment was classified as Level 2 at December 31, 2017 and 2016.

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# Celernus Mortgage and Income Trust Fund

## Notes to Financial Statements

December 31, 2017

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### 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.

#### **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**

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 attributable to holders of redeemable units 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. Mortgage interest and lender fees are allocated to each class of the Fund based on that class's pro rata share of total net assets value of the Fund.

#### **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 Statement of Financial Position as a deferred income tax asset.

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# Celernus Mortgage and Income Trust Fund

## Notes to Financial Statements

December 31, 2017

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### 2. Significant Accounting Policies (Continued)

#### **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 estimates and associated assumptions are based on historical experience and other factors that are considered relevant. Actual results may differ from those estimates.

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.

#### **New Standards, Interpretations and Amendments not yet Adopted**

The following new standards and amendments to existing standards were issued by the International Accounting Standards Board ("IASB"):

##### 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 Fund'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.

## Celernus Mortgage and Income Trust Fund Notes to Financial Statements

**December 31, 2017**

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

	2017	2016
Mortgage investments, beginning of year	<b>\$ 38,344,090</b>	\$ 23,402,972
Additional mortgages funded	<b>24,521,193</b>	27,748,417
Discharge of mortgages	<b>(20,130,104)</b>	(12,807,299)
	<b>\$ 42,735,179</b>	\$ 38,344,090

There were no transfers into or out of Level 3 for the year ended December 31, 2017 or 2016.

### 4. Investments

	2017		2016	
First mortgages and fixed income assets	<b>74%</b>	<b>\$ 31,765,791</b>	80%	\$ 30,787,167
Second mortgages and other loans	<b>26%</b>	<b>10,969,388</b>	20%	7,556,923
	<b>100%</b>	<b>\$ 42,735,179</b>	100%	\$ 38,344,090

The mortgage investments are secured by the real property to which they relate, bear interest at a weighted average interest rate of 8.57% (2016 – 8.79%) and mature in 2018. Provided that the loan is not in default and has not been in default throughout the term of the loan and at the sole discretion of the Fund, the Fund has the option to renew the mortgage loans for a further term not exceeding 12 months, as offered by the Fund. Upon renewal or extension of the mortgage term, the rate of interest charged may be changed or increased.

The table below summarizes the significant unobservable input used in fair value measurement of the mortgage investments and the impact to the valuation of a reasonably possible change to the significant unobservable input. The unobservable input, loan to value ratio, is dependent on the fair value of the underlying property and the principal balance of the respective mortgages as at December 31, 2017. There is inherently significant measurement uncertainty associated with such investments. The actual results on realization of the investments could materially differ from the estimates of fair value on the report date. As at December 31, 2017 the weighted average loan to value ratio of the mortgage investment portfolio was 62.01% and a 5% change in the loan to value ratio has been illustrated below.

Description	Fair Value as at December 31, 2017	Valuation Technique	Unobservable Input	Change in input	Impact to fair value
Investments, at fair value	\$ 42,735,179	Net present value	Loan to value ratio	±5%	\$ 72,000

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## **Celernus Mortgage and Income Trust Fund Notes to Financial Statements**

**December 31, 2017**

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### **5. Related Party Transactions**

As at December 31, 2017, 333,237 (2016 - 350,990) units of the Fund were held by directors or immediate family members of the Manager. The market value of these units is approximately \$3,354,509 (2016 - \$3,537,800).

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### **6. Redeemable Units**

The Fund may issue an unlimited number of Class A and 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, are non-transferable, and shall not 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.

# Celernus Mortgage and Income Trust Fund

## Notes to Financial Statements

**December 31, 2017**

### 6. Redeemable Units (Continued)

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.

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	
	2017	2016	2017	2016
Redeemable units outstanding, beginning of year	3,852,625	2,277,626	34,559	33,036
Redeemable units issued	1,420,101	2,092,466	3,482	-
Redeemable units redeemed	(1,063,427)	(716,337)	-	-
Redeemable units issued on reinvestment	254,597	198,870	2,032	1,523
Redeemable units outstanding, end of year	<b>4,463,896</b>	3,852,625	<b>40,073</b>	34,559

### 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 \$408,658 (2016 - \$296,920) during the year. Included in accounts payable and accrued liabilities is \$32,560 (2016 - \$27,987) relating to management fees.

# Celernus Mortgage and Income Trust Fund

## Notes to Financial Statements

**December 31, 2017**

### 7. Management Fees and Expenses (Continued)

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 \$273,482 (2016 - \$247,043) were earned during the year. Included in accounts payable and accrued liabilities is \$22,088 (2016 - \$28,674) relating to performance fees.

### 8. Financial Instruments and Risk Management

#### Financial Risk Factors

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, 2017 is the fair values of its accrued interest receivable, subscriptions receivable and investments, which total \$43,198,152 (2016 - \$38,575,744). 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, 2017	1 to 30 days	31 to 60 days	61 to 90 days	Over 90 days	Total
Residential	\$ 2,757,000	\$ -	\$ 197,000	\$ 1,132,500	\$ 4,086,500
Commercial	-	-	-	4,350,000	4,350,000
Land	-	-	-	217,770	217,770
	<b>\$ 2,757,000</b>	<b>\$ -</b>	<b>\$ 197,000</b>	<b>\$ 5,700,270</b>	<b>\$ 8,654,270</b>

## Celernus Mortgage and Income Trust Fund Notes to Financial Statements

**December 31, 2017**

### 8. Financial Instruments and Risk Management (Continued)

#### Credit Risk (continued)

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	-	-	-	-	-
Land	-	-	-	-	-
	<u>\$ 217,770</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 471,250</u>	<u>\$ 689,020</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, 2017

Financial liabilities	On demand	< 3 months	Total
Accounts payable and accrued liabilities	\$ -	\$ 296,856	\$ 296,856
Redemptions payable	38,300	-	38,300
Redeemable units	45,338,685	-	45,338,685
	<u>\$ 45,376,985</u>	<u>\$ 296,856</u>	<u>\$ 45,673,841</u>

#### December 31, 2016

Financial liabilities	On demand	< 3 months	Total
Accounts payable and accrued liabilities	\$ -	\$ 95,552	\$ 95,552
Redeemable units	39,170,787	-	39,170,787
	<u>\$ 39,170,787</u>	<u>\$ 95,552</u>	<u>\$ 39,266,339</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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## Celernus Mortgage and Income Trust Fund Notes to Financial Statements

**December 31, 2017**

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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.

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### 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:

	<b>Class A</b>		<b>Class B</b>	
	<b>2017</b>	2016	<b>2017</b>	2016
Increase in net assets attributable to holders of redeemable units	<b>\$2,646,218</b>	\$2,055,955	<b>\$ 19,792</b>	\$ 19,730
Weighted average number of redeemable units outstanding during the year	<b>4,134,069</b>	2,993,161	<b>36,086</b>	33,768
Increase in net assets attributable to holders of redeemable units per unit	<b>\$ 0.64</b>	\$ 0.69	<b>\$ 0.55</b>	\$ 0.58