FN Mortgage Investment Trust

Annual Management Report of Fund Performance
Annual Audited Financial Statements
For the period ended December 31, 2014

Management's Responsibility for Financial Reporting

The accompanying financial statements of First National Mortgage Trust (the "**Trust**") are the responsibility of the management of the Trust. They have been prepared in accordance with International Financial Reporting Standards using information available to March 30, 2015 and management's best estimates and judgments.

The management of the Trust is responsible for the information and representations contained in these Annual Financial Statements and the Annual Management Report of Trust Performance. Management is also responsible for the selection of the accounting principles that are most appropriate for the Trust's circumstances and for the judgments and estimates made in the financial statements. The management of the Trust maintains appropriate processes to ensure that accurate, relevant and reliable financial information is produced.

These financial statements have been approved by the management of the Trust and have been audited by Deloitte & Touche LLP, Toronto, Chartered Accountants, on behalf of the unitholder. The auditors' report outlines the scope of their audit and their opinion on the financial statements.

Richard G. Stone
Chief Executive Officer
Stone Asset Management Limited

James A. Elliott
Chief Financial Officer
Stone Asset Management Limited

FN Mortgage Investment Trust

Annual Management Report of Fund Performance for the period

January 1, 2014 to December 31, 2014

Fund:
FN Mortgage Investment Trust (the "Mortgage Trust")

Securities:
Unlisted Trust units

Period:
January 1, 2014 to December 31, 2014

Manager:
Stone Asset Management Limited
36 Toronto Street, Suite 710
Toronto, Ontario
M5C 2C5
(800) 336-9528

www.stoneco.com • info@stone.com

Notes:

1. This Annual Management Report of Fund Performance contains financial highlights but does not contain either the annual financial report or annual financial statements of the Mortgage Trust. You can get a copy of the interim financial report or annual financial statements at your request, and at no cost, by calling 1-(800)-336-9528, by writing to us at (contact information above) or by visiting our website at www.stoneco.com or SEDAR at www.sedar.com . Security holders may also contact us to request a free copy of First National Mortgage Investment Fund's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.

2. This report may contain forward looking statements. Forward looking statements involve risks and uncertainties and are predictive in nature and actual results could differ materially from those contemplated by the forward looking statements.

3. Unless otherwise indicated all information is as at December 31, 2014.

4. None of the websites that are referred to in this Annual Management Report of Fund Performance, nor any of the information on any such websites, are incorporated by reference in this Annual Management Report of Fund Performance.

Investment Objectives and Strategies

The FN Mortgage Investment Trust (the "**Mortgage Trust**) was created to provide economic exposure to a diversified portfolio (the "**Portfolio**") of mortgages which will be for the benefit of the First National Mortgage Investment Fund through a forward agreement. The investment objectives of the Mortgage Trust are to:

(i) preserve capital.

The Mortgage Trust was created to obtain exposure to a diversified portfolio (the "**Portfolio**") of Mortgages originated by First National Financial LP (the "**Mortgage Advisor**" or "**First National**"), a wholly owned subsidiary of First National Financial Corporation.

The Mortgage Trust will seek to accomplish its investment objectives through prudent investments in short term Mortgages (typically 12-36 months) primarily on multi-unit residential and commercial mortgages across Canada. Mortgages will be secured primarily by income producing Real Property where the principal and interest can be serviced from cash flow generated by the underlying Real Property.

Results of Operations

The First National Mortgage Investment Fund (the "Investment Fund") completed an initial public offering ("IPO") of 5,520,000 units (4,600,000 Class A units and 920,000 Class H units, together the "Unit Offering") on December 19, 2012, raising $55,200,000 in gross proceeds. The proceeds of the offering, net of underwriters' fees of $2,415,000 and $690,000 of other offering expenses on the Class A units, were use to purchase a basket of common shares as described below. The Investment Fund's over-allotment option was exercised on January 7, 2013, such that an additional 290,000 Units were issued for $2,900,000 million in gross proceeds. The proceeds of the offering, net of underwriters' fees of $152,250 and $43,500 of other offering expenses, were use to purchase an additional basket of common shares. In total, 58,100,000 units were issued at $10 per Unit. On December 21, 2012, and subsequently on January 10, 2013, the Investment Fund entered into forward agreements with the Mortgage Trust such that $54,759,247 of capital was raised by the Mortgage Trust.

Although the initial forward agreement was entered into on December 21, 2012, because of timing on the settlement of the transaction and statutory holidays in the period, the first portfolio of mortgages was purchased by the Mortgage Trust on December 28, 2012 for approximately $22.8 million. In the year ended December 31, 2013 the Mortgage Trust invested the remaining funds raised on the IPO. In May 2013 the Mortgage Trust entered into a credit facility with a Canadian Bank. This revolving line of credit allows the Mortgage Trust to invest in additional mortgages and add leverage to increase unitholder returns. As at December 31, 2014, the Mortgage Trust had mortgages receivable of $54,500,650 [2013 - $68,552,009]. The Mortgage Trust earned interest revenue from the Portfolio for the year as well as interest on cash balances invested prior to full investment of IPO proceeds. The statement of operations as at December 31, 2014 showed interest revenue of $5,532,206 and expenses of $1,359,436 for an increase in net assets from operations of $4,172,700. The increase results primarily from the return from the Portfolio which yielded approximately 9.32% over the operating costs of the Mortgage Trust at year end.

As at December 31, 2014, net assets per unit of the Mortgage Trust were $11.65 compared to the NAV as at December 31, 2013 of $10.73. For the year ended December 31, 2014, the Mortgage Trust recorded an increase in net assets from operations of $4,172,700, about $0.92 per unit.

The Mortgage Trust began the 2014 year with a portfolio of 33 mortgages with a carrying value of $68,552,009 and an effective average interest rate of 8.10%. During the year ended December 31, 2014, the Mortgage Trust invested in 28 new mortgages and advanced additional principal on 3 existing mortgages. The aggregate investment in these 31 mortgages was $34,439,207 at an average effective interest rate of 9.98%. As at December 31, 2014, the Portfolio consists of $54,500,650 [2013 - $68,552,009] of first, subordinated first, second and third mortgages with an average term to maturity of 19 [2013- 18] months. The Mortgage Trust's return was driven primarily by interest income on these mortgages.

The 2014 year began with an asset mix weighted more heavily toward mortgages receivable to fulfil the strategy specified in the prospectus. At December 31, 2014, the assets were virtually all invested in mortgages receivable with only $1,386,867 [2013- $806,801] invested in cash and cash equivalent. In addition, the Mortgage Trust had an outstanding balance of $9.4 million under the credit facility at December 31, 2014, all invested in income producing mortgages. The composition of the Portfolio at December 31, 2014 was consistent with the investment objectives and strategy of the Mortgage Trust. Portfolio capital was deployed primarily in floating rate loan positions. The whole portfolio had an average loan to value ratio of 72% [2013 - 70%]. The mortgage receivables are typically with large borrowers with whom the Mortgage Advisor has a history of experience.

Recent Developments

Global macroeconomic concerns continue to dominate financial headlines and weigh on investor sentiment. The Manager expects these issues will continue to draw attention for some time with markets intermittently focusing on the latest developments resulting in periods of higher volatility. The Mortgage Advisor believes this volatility will keep interest rates low in Canada. Accordingly, real estate financing will continue to be cheap in comparison to the typical interest rate environment in Canada over the past twenty-five years. This environment will provide incentive for real estate developers to take on new transactions and require the type of mortgage lending which the Mortgage Trust is offering.

In June 2014, the Investment Fund announced that Class A unitholders tendered 931,543 units amounting to 19.04% of the 4,890,000 outstanding Class A units under the annual redemption privilege. As more than the maximum of 15% of the outstanding units were tendered, the Investment Fund prorated redemptions received using a factor of 78.74% resulting in the acceptance of 733,500 Class A units. 198,043 Class A units were subsequently returned to tendering unitholders. The tendered units accepted were priced at the net asset value (NAV) per unit as at the close of business June 30, 2014 and the redemption payments were made in July 2014. The Investment Fund also accepted 138,000 Class H units tendered for annual redemption, representing 15% of the aggregate outstanding Class H units. A partial settlement pursuant to the forward agreement was transacted between the Investment Fund and the Mortgage Trust in order to raise the funds to fulfil the total obligation of $8,158,860 under the annual redemption privilege.

International Financial Reporting Standards

These financial statements have been prepared in compliance with International Financial Reporting Standards (“IFRS”), as published by the International Accounting Standards Board (“IASB”), using a transition date of January 1, 2013. The Mortgage Trust adopted this basis of accounting on January 1, 2014 as required by Canadian securities legislation and the Canadian Accounting Standards Board. The financial statements for the year ended December 31, 2014, including the required comparative information, have been prepared in accordance with IFRS 1, *First-time Adoption of International Financial Reporting Standards*, as issued by the IASB. Previously, the Mortgage Trust prepared the annual financial statements in accordance with Canadian Generally Accepted Accounting Principles (“Canadian GAAP”) as defined in Part V of the CICA Handbook. The comparative information has been restated from Canadian GAAP to comply with IFRS. The Mortgage Trust has consistently applied the accounting policies used in the preparation of its IFRS statement of financial position at January 1, 2013 and throughout all periods presented, as if these policies had always been in effect.

Note 10 of the financial statements discloses the impact of the transition to IFRS on the Mortgage Trust’s reported financial position, financial performance and cash flows, including the nature and effect of significant changes in accounting policies from those used in the Mortgage Trust’s financial statements for the year ended December 31, 2013 prepared under Canadian GAAP. The policies applied in these financial statements are based on IFRS issued and outstanding as of December 31, 2014. Any subsequent changes to IFRS that give effect to the Mortgage Trust’s annual financial statements for the year ending December 31, 2015 could result in restatement of these annual financial statements, including the transition adjustments recognized on transition to IFRS.

An explanation of the transition to IFRS is presented in Note 10 to these financial statements and includes an explanation of initial elections made upon first-time adoption of IFRS and a reconciliation of amounts previously reported under Canadian GAAP to amounts reported under IFRS for comparative financial information. The adoption of IFRS has not had a material impact on the Mortgage Trust's operations, investment objectives and financial statements.

Related Party Transactions

The Manager and the Mortgage Trust are deemed to be related parties. Please refer to the section titled ''Management Fees'', which outlines the fees paid to the Manager. The Manager and the Mortgage Trust were not party to any other related party transactions during the period ended December 31, 2014. The Independent Review Committee approved the Fund's purchase of any mortgage where there was an identified conflict of interest with the Mortgage Investment Advisor.

The Mortgage Advisor and the Mortgage Trust are also deemed to be related parties. As part of the Investment Fund's annual redemption, the parent company of the Mortgage Advisor exercised its rights to redeem up to 15% of its Class H units for $1,383,960.

Financial Highlights

The following tables show selected key financial information about the Mortgage Trust and are intended to help you understand the Mortgage Trust's financial performance since inception.

THE MORTGAGE TRUST'S NET ASSETS PER UNIT

	For the year ended December 31 **2014**[1]	For the year ended December 31 **2013**[1]	For the year ended December 31 **2012**[1]
Net Assets, beginning of period [3]	**$10.73**	**$10.00**	**$10.00**
Increase (decrease) from operations:			
Total revenue	**1.22**	**0.91**	**0.01**
Total expenses (excluding distributions)	**(0.30)**	**(0.18)**	**(0.01)**
Unrealized gains (losses) for the period	**0.00**	**0.00**	**0.00**
Total increase from operations [2]	**0.92**	**0.73**	**0.00**
Distributions:			
From net investment income (excluding dividends)	**0.00**	**0.00**	**0.00**
From dividends	**0.00**	**0.00**	**0.00**
From capital gains	**0.00**	**0.00**	**0.00**
Return of capital	**0.00**	**0.00**	**0.00**
Total Distributions	**0.00**	**0.00**	**0.00**
Net Assets, end of period	**$11.65**	**$10.73**	**$10.00**

Notes:

[1] This information is derived from the Mortgage Trust's audited annual financial statements that have been prepared in accordance with IFRS for December 31, 2014 and 2013. All other periods are in accordance with Canadian GAAP. The Trust adopted IFRS in the current year and an explanation of the effect of the Trust's transition to IFRS can be found in the notes to the financial statements.

[2] Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase from operations is based on the weighted average number of units outstanding over the financial period.

[3] For 2012, the net assets per unit reflect the issue price of $10.00 on December 21, 2012.

RATIOS AND SUPPLEMENTAL DATA

	2014	2013	2012
Total Net Asset Value [1]	**$46,643,842**	**$54,812,446**	**$52,031,128**
Number of units outstanding [1]	**4,002,374**	**5,106,976**	**5,205,500**
Management expense ratio [2]	**2.68%**	**1.71%**	**2.73%**
Management expense ratio before waivers or absorptions	**2.68%**	**1.71%**	**2.73%**
Trading expense ratio [3]	0.00%	0.00%	0.00%
Portfolio turnover rate [4]	0.00%	0.00%	0.00%
Net Asset Value per unit	**$11.65**	**$10.73**	**$10.00**

Notes:

[1] This information is provided as at the end of the period shown and have been prepared in accordance with IFRS for December 31, 2014 and 2013. All other periods are in accordance with Canadian GAAP.

[2] Management expense ratio (MER) is based on total expenses (excluding distributions, commissions and other portfolio transaction costs) for the stated period and, except as stated in the following sentence, is expressed as an annualized percentage of daily average net asset value during the period. The MER for the period ended December 31, 2014 includes interest expense on the revolving line of credit used to fund mortgages receivable The MERs excluding interest expense for the periods ended December 31, 2014, December 31, 2013 and December 31, 2012, are 1.75%, 1.71% and 2.73% respectively.

[3] The trading expense ratio represents total commissions, forward agreement fees and other portfolio transaction costs expressed as an annualized percentage of daily average net asset value during the period.

[4] The Fund's portfolio turnover rate indicates how actively the Fund's portfolio advisor manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher a fund's portfolio turnover rate in a year, the greater the trading costs payable by the fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of a fund.

Management Fees

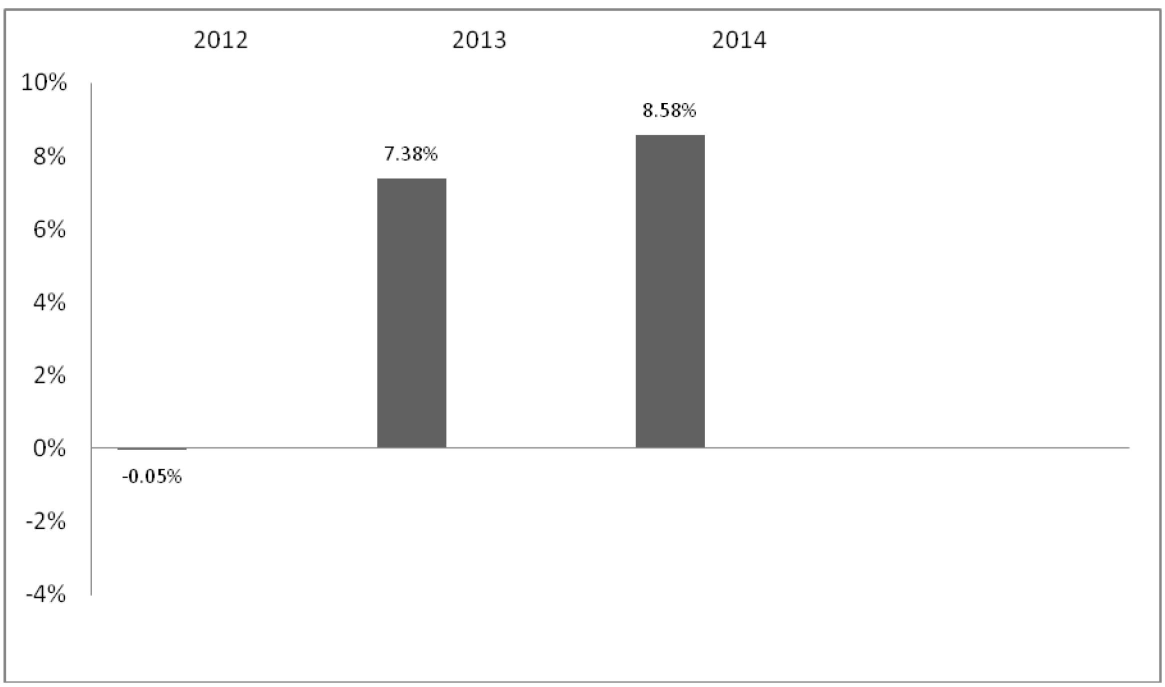
The Manager is responsible for providing or arranging for all investment advisory and portfolio management services (primarily through the Mortgage Advisor) required by the Mortgage Trust including, without limitation, managing the Portfolio in a manner consistent with the investment objectives, guidelines and restrictions of the Mortgage Trust and for arranging for the execution of all portfolio transactions. The Manager is also responsible for the operational and administrative functions of the Mortgage Trust. As compensation for the management services rendered to the Mortgage Trust, the Manager is entitled to receive an annual management fee from the Mortgage Trust in an amount equal to 0.95% of the net asset value of the Mortgage Trust, which is calculated daily and paid monthly in arrears. From these fees, the Mortgage Investment Advisor is compensated.

Past Performance

Please note that the performance information shown in this section assumes that all distributions made by the Mortgage Trust in the periods shown were reinvested in additional securities of the Mortgage Trust. Also note that the performance information does not take into account sales, redemption, distributions or other optional charges that would have reduced returns on performance. The performance of the Mortgage Trust in the past does not necessarily indicate how it will perform in the future.

Year-by-Year Returns[1]

The bar chart below shows, in percentage terms, how much an investment made on the first day of the period would have grown or decreased by the last day of the period. The result for 2012 is not indicative of planned performance but a function of an abnormally short initial fiscal period from the IPO on December 19, 2012.



[1] Returns are based on Net Asset Value per unit

Period	Fund	Index
2 year	**8.58%**	**1.05%**
1 year	**7.38%**	**1.11%**
Since inception	**7.96%**	**1.08%**

Summary of Investment Portfolio

The First National Mortgage Investment Fund has entered into a forward agreement whereby it obtains exposure to the performance of the Portfolio. Accordingly, these financial statements should be read in conjunction with the financial statements of the First National Mortgage Investment Fund. The Management Report of Fund Performance and Financial Statements for FN Mortgage Investment Trust are available to security holders and can be attained by visiting our website at www.stoneco.com • info@stone.com or by writing to Stone Asset Management Limited, 36 Toronto Street, Suite 710,Toronto, Ontario,M5C 2C5, or on SEDAR at www.sedar.com.

The following is a summary of FN Mortgage Investment Trust's portfolio as at December 31, 2014. This is a summary only and will change due to ongoing portfolio transactions in the Mortgage Trust. A quarterly update will be available on www.stoneco.com.

TOP 25 INVESTMENT HOLDINGS AS AT December 31, 2014

Description	Average Effective Interest Rate	% of Net Asset Value of FN Mortgage Investment Trust
Cash		2.97%
$5,450,000 King City 1st Mortgage	10.00%	11.68%
$3,750,000 Edmonton 1st Mortgage	6.35%	8.03%
$3,748,730 Levis 2nd Mortgage	12.57%	7.99%
$3,360,000 Brantford 1st Mortgage	6.50%	7.17%
$3,125,000 Hamilton 2nd Mortgage	9.09%	6.66%
$2,775,700 Paradise 1st Mortgage	5.77%	5.93%
$2,469,316 Fort Saskatchewan 2nd Mortgage	12.73%	5.25%
$2,400,000 Waterloo 1st Mortgage	11.78%	5.12%
$1,900,000 Toronto 2nd Mortgage	7.06%	4.59%
$1,800,000 Dartmouth 2nd Mortgage	9.33%	3.91%
$1,650,000 Toronto 1st Mortgage	12.00%	3.86%
$1,382,827 Toronto 1st Mortgage	6.25%	3.53%
$1,318,971 Toronto 2nd Mortgage	8.62%	2.96%
$1,200,000 Saint John 1st Mortgage	10.00%	2.83%
$1,100,000 New Glasgow 2nd Mortgage	5.75%	2.57%
$1,011,079 Montreal 1st Mortgage	10.62%	2.34%
$1,000,000 Ottawa 2nd Mortgage	6.75%	2.15%
$990,000 North Vancouver 1st Mortgage	10.22%	2.13%
$987,000 Edmonton 1st Mortgage	12.50%	2.11%
$929,000 Riviere-du-Loup 1st Mortgage	6.20%	2.11%
$1,011,079 Montreal 1st Mortgage	12.50%	1.97%
$900,000 Sarnia 2nd Mortgage	9.50%	1.92%
$890,000 North Vancouver 1st Mortgage	12.53%	1.90%
$819,250 Edmonton 1st Mortgage	11.61%	1.74%

Financial Statements of

FN Mortgage Investment Trust

December 31, 2014

Deloitte.

Deloitte LLP
Brookfield Place
181 Bay Street
Suite 1400
Toronto ON M5J 2V1
Canada

Tel: 416-601-6150
Fax: 416-601-6151
www.deloitte.ca

Independent Auditor's Report

To the Unitholder of
FN Mortgage Investment Trust

We have audited the accompanying financial statements of First National Mortgage Investment Trust, which comprise the statements of financial position as at December 31, 2014, December 31, 2013 and January 1, 2013, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years ended December 31, 2014 and December 31, 2013, 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 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained 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 First National Mortgage Investment Trust as at December 31, 2014, December 31, 2013 and January 1, 2013, and its financial performance and its cash flows for the years ended December 31, 2014 and December 31, 2013 in accordance with International Financial Reporting Standards.

Deloitte LLP

Chartered Professional Accountants, Chartered Accountants
Licensed Public Accountants
March 30, 2015

FN MORTGAGE INVESTMENT TRUST
Statements of Financial Position

As at	Note	December 31, 2014 $	December 31, 2013 $	January 1, 2013 $
ASSETS				
Current Assets				
Cash and cash equivalents	**8**	**1,386,867**	806,801	29,201,949
Mortgages receivable	**4,8**	**54,500,650**	68,552,009	22,837,434
Interest receivable		**391,850**	410,936	46,266
Prepaid costs and sundry receivables		**38,774**	120,454	-
TOTAL ASSETS		**56,318,141**	69,890,200	52,085,649
LIABILITIES				
Current Liabilities				
Revolving line of credit	**5**	**9,400,000**	15,000,000	-
Accounts payable and accrued liabilities		**274,299**	77,754	54,521
		9,674,299	15,077,754	54,521
EQUITY		**46,643,842**	54,812,446	52,031,128
TOTAL LIABILITIES AND EQUITY		**56,318,141**	**69,890,200**	**52,085,649**
NUMBER OF EQUITY UNITS OUTSTANDING	**6**	**4,002,374**	5,106,976	5,205,500
Net Asset Value per Equity Unit		**11.65**	10.73	10.00

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

Approved on behalf of Stone Asset Management Limited:

Richard G. Stone
Director

James Elliott
Director

FN MORTGAGE INVESTMENT TRUST

Statements of Comprehensive Income
For the year ended December 31,

	Note	2014 $	2013 $
INCOME			
Interest for distribution purposes		**5,532,206**	4,829,473
EXPENSES			
Management fees	7	**544,649**	587,260
Interest and finance charges		**470,036**	190,163
Performance fees	7	**209,415**	21,792
Legal		**13,620**	28,254
Custodial		**39,000**	38,654
Audit		**49,720**	45,200
Secuirtyholder reporting		**5,695**	-
Independent review committee	7	**27,301**	21,913
		1,359,436	933,236
INCREASE IN NET ASSETS FROM OPERATIONS		**4,172,770**	3,896,237
WEIGHTED AVERAGE NUMBER OF EQUITY UNITS IN THE YEAR		**4,540,447**	5,300,643
NET INCREASE IN NET ASSETS FROM OPERATIONS (PER EQUITY UNIT)		**0.92**	0.73

Statements of Changes in Equity

	Note	Share Capital Units	Share Capital $	Retained Earnings $	Total $
Balance, January 1, 2013		**5,205,500**	**52,055,000**	**(23,872)**	**52,031,128**
Units issued	**1,6**	**270,440**	2,704,247	**-**	2,704,247
Redemption of Units		**(368,964)**	(3,819,166)	**-**	(3,819,166)
Net increase in net assets from operations			-	3,896,237	3,896,237
Balance, December 31, 2013		**5,106,976**	**50,940,081**	**3,872,365**	**54,812,446**
Units issued			-	-	-
Redemption of Units		**(1,104,602)**	(12,341,374)	-	(12,341,374)
Net increase in net assets from operations			-	4,172,770	4,172,770
Balance, December 31, 2014		**4,002,374**	**38,598,707**	**8,045,135**	**46,643,842**

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

FN MORTGAGE INVESTMENT TRUST

Statements of Cash Flow
For the year ended December 31,

	2014 $	2013 $
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets from operations	**4,172,770**	**3,896,237**
Adjustments for:		
Interest receivable	**19,086**	(364,670)
Prepaid costs and sundry receivables	**81,680**	(120,454)
Accounts payable and accrued liabilities	**196,545**	23,233
Cash provided by (used in) operating activities	**4,470,081**	3,434,346
CASH FLOW FROM INVESTING ACTIVITIES		
Proceeds from sale of mortgages	**50,490,567**	24,166,302
Purchase of mortgages	**(36,439,208)**	(69,880,877)
Cash provided by (used in) investing activities	**14,051,359**	(45,714,575)
CASH FLOW FROM FINANCING ACTIVITIES		
Proceeds from issuance of redeemable equity units	**-**	2,704,247
Redemption of redeemable equity units	**(12,341,374)**	(3,819,166)
Advances from (repayments to) revolving line of credit	**(5,600,000)**	15,000,000
Net cash provided by (used in) financing activities	**(17,941,374)**	13,885,081
Net increase (decrease) in cash and cash equivalents during the year	**580,066**	**(28,395,148)**
Cash and cash equivalents, beginning of year	**806,801**	29,201,949
Cash and cash equivalents, end of year	**1,386,867**	806,801
Supplemental cash flow information		
Interest received	**5,012,176**	3,880,321
Interest paid	**397,778**	144,035

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

FN MORTGAGE INVESTMENT TRUST
Schedule of Investment Portfolio
As at December 31, 2014

Mortgages Receivable	Location	Principal	Fair Value**	% of Net Assets
First Mortgage*	King City	5,450,000	5,450,002	11.68%
First Mortgage*	Edmonton 1	3,750,000	3,746,203	8.03%
Second Mortgage	Levis	3,748,731	3,727,454	7.99%
First Mortgage*	Brantford	3,360,000	3,344,602	7.17%
Second Mortgage	Hamilton 1	3,125,000	3,106,625	6.66%
First Mortgage*	Paradise	2,775,700	2,768,283	5.93%
Second Mortgage	Fort Saskatchewan	2,469,316	2,448,267	5.25%
First Mortgage	Waterloo	2,400,000	2,386,464	5.12%
First Mortgage*	Kitchener	2,155,121	2,143,155	4.59%
Second Mortgage*	Toronto 1	1,900,000	1,823,697	3.91%
Second Mortgage*	Dartmouth	1,800,000	1,800,000	3.86%
First Mortgage*	Toronto 2	1,650,000	1,645,886	3.53%
First Mortgage	Toronto 3	1,382,827	1,381,126	2.96%
Second Mortgage	Toronto 4	1,318,972	1,318,972	2.83%
First Mortgage	Saint John 1	1,200,000	1,200,000	2.57%
Second Mortgage	New Glasgow	1,100,000	1,093,181	2.34%
First Mortgage*	Montreal	1,011,079	1,002,273	2.15%
Second Mortgage	Ottawa	1,000,000	992,759	2.13%
First Mortgage	North Vancouver 1	990,000	985,191	2.11%
First Mortgage	Edmonton 2	987,000	985,009	2.11%
First Mortgage	Riviere-du-Loup	929,000	920,140	1.97%
Second Mortgage	Sarnia	900,000	893,618	1.92%
First Mortgage	North Vancouver 2	890,000	886,040	1.90%
First Mortgage	Edmonton 3	819,250	813,689	1.74%
First Mortgage	Tilsonburg	775,000	771,776	1.65%
Second Mortgage	Varennes	705,000	698,737	1.50%
First Mortgage	North Vancouver 3	640,800	635,897	1.36%
First Mortgage	Calgary 1	615,000	608,867	1.31%
Second Mortgage	Halifax 1	600,000	596,345	1.28%
First Mortgage	Halifax 2	598,212	588,441	1.26%
First Mortgage*	Markham	488,970	480,375	1.03%
First Mortgage	Toronto 7	435,219	420,775	0.90%
First Mortgage	Toronto 6	429,530	429,530	0.92%
First Mortgage	Calgary 2	425,000	421,425	0.90%
First Mortgage*	Verdun	422,130	420,658	0.90%
First Mortgage	Hamilton 2	350,000	348,544	0.75%
First Mortgage*	Hamilton 3	343,697	341,571	0.73%
First Mortgage	Saint John 2	317,441	316,274	0.68%
First Mortgage*	Red Deer	297,000	297,000	0.64%
First Mortgage*	Guelph	262,709	261,797	0.56%
Total Mortgage Portfolio (par and fair value) (Note 3)		**$**	**54,500,650**	**116.84%**
Cash and cash equivalents			**1,386,867**	**2.97%**
Other, net assets			**156,325**	**0.34%**
less: bank indebtedness			**(9,400,000)**	**-20.15%**
Total net assets		**$**	**46,643,842**	**100.00%**

* Mortgages are prepayable without penalty
** As at December 31, 2014, fair value has been determined to be the same as the historical cost of the Mortgages, there is no unrealized gains or losses on the receivables

1. NATURE OF OPERATIONS

(a) Background and Rationale of the Trust

FN Mortgage Investment Trust (the "Mortgage Trust") is a special purpose trust formed on November 27, 2012 under the laws of the Province of Ontario.

The Mortgage Trust actively commenced operations on December 21, 2012, when it was capitalized with $52,055,000 of unit capital pursuant to the execution of a forward agreement contract between a bank counterparty and the First National Mortgage Investment Fund (the "Fund") in conjunction with the closing of the Fund. The investment objectives of the Fund are to: (i) provide holders of the Units ("Unitholders") with tax-advantaged monthly cash distributions; and (ii) preserve capital. On January 10, 2013, pursuant to the exercise of the over-allotment option of the Fund, an additional $2,704,247 of unit capital of the Mortgage Trust was subscribed for by the bank counterparty under the forward agreement.

The Mortgage Trust and the Fund have been created to obtain exposure to a diversified portfolio (the "Portfolio") of mortgages originated by First National Financial LP (the "Mortgage Investment Advisor" or "First National"), a wholly owned subsidiary of First National Financial Corporation. The Fund obtains economic exposure to the Portfolio through a forward agreement (the "Forward Agreement"). The return to the Fund will, by virtue of the Forward Agreement, be based on the performance of the Mortgage Trust which holds the Portfolio. In order to provide the cash flow required by the Fund to pay distributions and its operating costs, the Fund will partially settle the Forward Agreement on a monthly basis with the Mortgage Trust through the bank counterparty.

(b) Mortgage Trust Investment Objectives

The Fund completed an initial public offering ("IPO") of 5,520,000 Units (the "Unit Offering") on December 19, 2012, raising $55,200,000 in gross proceeds. Subsequent to the Fund's year end, the over-allotment option was exercised on January 7, 2013, such that an additional 290,000 Units were issued for $2,900,000 million in gross proceeds. In total, 58,100,000 units have been issued at $10 per Unit.

The Fund contemporaneously entered into the Forward Agreement with the bank counterparty at the time of the IPO and increased it with the exercising of the over-allotment option, such that the net proceeds of the Fund's public offering were invested in the Mortgage Trust. The Mortgage Trust will seek to accomplish its investment objectives through prudent investments in short term Mortgages (typically 12-36 months) primarily on multi-unit residential and commercial mortgages across Canada. Mortgages will be secured primarily by income producing real property. In general, mortgages generate income through a rate of interest that is typically payable periodically throughout the terms of the mortgages, as well as Commitment Fees which generally are paid at the time of initial funding.

2. ADOPTION OF IFRS AND BASIS OF PRESENTATION

These financial statements have been prepared in compliance with International Financial Reporting Standards ("IFRS"), as published by the International Accounting Standards Board ("IASB"), using a transition date of January 1, 2013. The Mortgage Trust adopted this basis of accounting on January 1, 2014 as required by Canadian securities legislation and the Canadian Accounting Standards Board. The financial statements for the year ended December 31, 2014, including the required comparative information, have been prepared in accordance with IFRS 1, *First-time Adoption of International Financial Reporting Standards*, as issued by the IASB Previously, the

Mortgage Trust prepared the annual financial statements in accordance with Canadian Generally Accepted Accounting Principles as defined in Part V of the CPA Handbook – Accounting (Canadian GAAP"). The comparative information has been restated from Canadian GAAP to comply with IFRS. The Mortgage Trust has consistently applied the accounting policies used in the preparation of its IFRS statement of financial position at January 1, 2013 and throughout all periods presented, as if these policies had always been in effect.

Note 10 discloses the impact of the transition to IFRS on the Mortgage Trust's reported financial position, financial performance and cash flows, including the nature and effect of significant changes in accounting policies from those used in the Mortgage Trust's financial statements for the year ended December 31, 2013 prepared under Canadian GAAP. The policies applied in these annual financial statements are based on IFRS issued and outstanding as of December 31, 2014. Any subsequent changes to IFRS that affect the Mortgage Trust's annual financial statements for the year ending December 31, 2015 could result in restatement of these annual financial statements, including the transition adjustments recognized on transition to IFRS.

An explanation of the transition to IFRS is presented in Note 10 to these financial statements and includes an explanation of initial elections made upon first-time adoption of IFRS and a reconciliation of amounts previously reported under Canadian GAAP to amounts reported under IFRS for comparative financial information. The adoption of IFRS has not had a material impact on the Mortgage Trust's operations, investment objectives and financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Financial assets and liabilities

The Mortgage Trust classifies its financial assets as either financial instruments at fair value through profit or loss or loans and receivables. Financial liabilities are classified as either held at fair value through profit or loss or at amortized cost. The Mortgage Trust determines the classification of financial assets and liabilities at initial recognition.

Financial assets and financial liabilities held at fair value through profit or loss

Financial instruments are classified in this category if they are held for trading ("HFT") or if they are designated by the Mortgage Trust at fair value through profit or loss ("FVTPL") at inception.

Financial instruments are classified as HFT if they are acquired principally for the purpose of selling in the short term. Financial assets and financial liabilities may be designated at FVTPL when:

[i] the designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on a different basis; or
[ii] a group of financial assets and/or financial liabilities is managed and its performance evaluated on a fair value basis.

Because of the nature of the Mortgage Trust's arrangement with the Fund, a public investment fund, it has designated all of its mortgages receivable at FVTPL. The Mortgage Trust's accounting policies for measuring its mortgage receivables are identical to those used in measuring net asset value (NAV) for transactions with the unitholder and under the Forward Agreement.

Financial assets and financial liabilities held at FVTPL are initially recognized at fair value. Subsequent gains and losses arising from changes in fair value are recognized directly in the statements of comprehensive income.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and it is expected that substantially all of the initial investment will be recovered, other than because of credit deterioration.

Loans and receivables are initially recognized at cost, including direct and incremental transaction costs. They are subsequently valued at amortized cost.

(c) Revenue recognition

Interest income – Interest income is recognized at the effective interest rate and accrued as it is earned until such time as a mortgage is classified as non-performing. When a loan is non-performing, the accrual of interest is discontinued.

(d) Cash and cash equivalents

Cash and cash equivalents are comprised of cash held at the bank and treasury bills. Management considers the carrying amount of cash and cash equivalents to equal their fair value.

(e) Mortgages receivable

Mortgages receivable are designated as FVTPL and are recorded at fair value which is measured initially as the mortgage or loan balance funded less any fees received from the borrower not already recognized in income. Interest income is recorded on the accrual basis provided that the loan or mortgage is not impaired. An impaired loan is any loan, where, in the Mortgage Investment Advisor's opinion, there has been a deterioration of credit quality to the extent that the Mortgage Trust no longer has reasonable assurance as to the timely collection of the full amount of principal and interest. As the mortgages and loans do not trade in actively quoted markets the Mortgage Investment Advisor estimates the fair value based upon: market interest rates, credit spreads for similar products, and the specific creditworthiness and status of the borrower. The Mortgage Investment Advisor will consider, but is not limited to considering, the following as part of the creditworthiness and status of a borrower: payment history, value of underlying property securing the loan or mortgage, overall economic conditions, status of construction (if applicable) and other conditions specific to the property or building.

(f) Accounts payable and accrued liabilities

Accounts payable and accrued liabilities are classified as other liabilities, all of which are carried at amortized cost.

(g) Income taxes

The Mortgage Trust will be subject to tax in each taxation year under Part I of the Tax Act on the amount of its income for the year, including interest, dividends and net realized taxable capital gains, less the portion thereof that it claims in respect of the amount paid or payable to Unitholders in the year. The Manager has advised counsel that the Mortgage Trust intends to make distributions to Unitholders and to deduct, in computing its income in each taxation year, such amount as will be sufficient to ensure that the Mortgage Trust will not be liable for income tax under Part I of the Tax Act.

4. MORTGAGES RECEIVABLE

As at December 31, 2014 and 2013 and January 1, 2013, mortgages receivable consist primarily of commercial first and second mortgages held for various terms, the majority of which mature within two years.

Mortgages receivable consist of the following:

	December 31, 2014	**December 31, 2013**	**January 1, 2013**
	$	$	$
First Mortgages	**25,288,503**	38,614,123	15,910,649
Subordinated First Mortgages	**10,712,493**	13,881,260	4,966,785
Second Mortgages	**18,499,654**	15,265,667	1,960,000
Third Mortgages	—	790,959	—
Carrying value of mortgage portfolio	**54,500,650**	68,552,009	22,837,434

The effective interest yield on the mortgages ranges from 5.40% to 12.73% [December 31, 2013 – 5.62% to 12.59%, January 1, 2013 – 5.78% to 14%] with an average rate of 9.32% [December 31, 2013 - 8.10%, January 1, 2013 – 8.68%]. The mortgages have terms from 7 to 36 months with an average term of 19 months [December 31, 2013 – 18 months, January 1, 2013 – 16 months] with a weighted average maturity date of July 25, 2015 [December 31, 2013 – November 8, 2014, January 1, 2013 – April 18, 2014]. Although some of the mortgages are prepayable without penalty prior to maturity, the contractual maturity of these mortgages is summarized as follows:

Maturity profile	**December 31, 2014**	
	Fair value $	**Average Effective Interest rate**
Next 12 months	**35,603,236**	**9.12%**
12 to 24 months	**18,897,414**	**9.69%**
	54,500,650	**9.32%**

Maturity profile	December 31, 2013	
	Fair value $	Average Effective Interest rate
Next 12 months	39,108,676	8.07%
12 to 24 months	29,443,333	8.14%
	68,552,009	8.10%

Maturity profile	January 1, 2013	
	Fair value $	Average Effective Interest rate
Next 12 months	9,728,750	9.54%
12 to 24 months	13,108,684	8.05%
	22,837,434	8.68%

As at December 31, 2014, all mortgages were performing. A non-performing mortgage is 90 days or more in arrears on its interest payments. As at December 31, 2014 there are no arrears on any of the mortgages.

The Trust uses various assumptions to value mortgages receivable, which are set out in the tables below. Accordingly, mortgages receivable is subject to measurement uncertainty. The effect of variations between actual experience and assumptions will be recorded in future statements of comprehensive income. The primary unobservable input in determining the fair value of the mortgages receivable is the discount rate applied to the expected cash flow stream from the mortgages receivable consisting of interest and principal repayments. As the bulk of the interest derived from the mortgage receivables is based on floating rates of interest calculated at spreads over bank prime rates, as opposed to fixed rates of interest, the mortgages receivable is not particularly sensitive to small changes in bank prime rates (Note 9). The annual discount rate disclosed below represents the weighted average discount rate applied to the mortgages receivable to arrive at fair value determined as noted above (Note 3 (e)). In this case the annual discount rate is effectively the weighted average yield of the mortgages receivable. Had the discount rate increased or decreased by 10% with all other variables held constant, the impact on fair value would be as follows:

	December 31, 2014	December 31, 2013	January 1, 2013
Mortgages receivable	**$54,500,650**	$68,552,009	$22,837,434
Average remaining term [in months]	**10**	12	16
Discount rate [annual rate]	**7.8%**	7.2%	7.7%
Impact on fair value of 10% increase	**($328,100)**	($440,800)	($2,300)
Impact on fair value of 10% decrease	**$331,700**	$446,000	$2,300

In practice, the actual results may differ and the difference could be material.

5. REVOLVING LINE OF CREDIT

In May 2013, the Mortgage Trust entered into a two year term revolving line of credit for $10,000,000 with a Canadian bank. The line of credit was extended by an additional $5,000,000 in November 2013 for a total credit of $15,000,000. The amount outstanding against the line of credit as of December 31, 2014 is $9,400,000. The drawn portion bears interest at variable rates of interest based on prime and bankers' acceptance rates. The credit facility is secured by a general security agreement over all assets of the Mortgage Trust and an assignment of all mortgages held by the Mortgage Trust.

6. REDEEMABLE EQUITY UNITS

Authorized units:

An unlimited number of units ("Units") have been authorized.

The Mortgage Trust is authorized to issue an unlimited number of transferable Units of a single class, each of which represents an equal, undivided beneficial interest in the net assets of the Mortgage Trust. Each Unit will entitle the holder thereof to require the Mortgage Trust to redeem the Unit at the Net Asset Value per Unit at the end of any business day.

The equity units meet the requirement specified in IAS 32 to be classified as equity and accordingly the redeemable equity unites are classified as equity.

7. MANAGEMENT FEES, PERFORMANCE FEES, INDEPENDENT REVIEW COMMITTEE AND MORTGAGE PURCHASES

Management fees

Pursuant to the terms of the Management Agreement, the Mortgage Trust pays Stone Asset Management Limited (the "Manager") an annual management fee of 0.95% of the Net Asset Value of the Mortgage Trust ("Net Asset Value") plus applicable taxes. For the period ended December 31, 2014, the Mortgage Trust expensed $544,649 [2013 - $587,260] in management fees including taxes. As at December 31, 2014, $45,135 [2013 - $51,487] in management fees including taxes was due to the Manager.

Performance fees

Pursuant to the terms of the Management Agreement, the Mortgage Trust pays the Manager an annual performance fee equal to 20% of the amount by which the net increase in net assets from operations exceeds the product of the average Net Asset Value of the Mortgage Trust ("Net Asset Value") and the average two year Government of Canada bond yield plus 400 basis point. For the period ended December 31, 2014, the Mortgage Trust expensed $209,415 [2013 – $21,792] in performance fees including applicable taxes. As at December 31, 2014, $209,415 [2013 - $21,792] in performance fees including taxes was due to the Manager.

Independent review committee

The independent review committee comprises three members that meet at least once annually to review the performance of the Mortgage Trust and resolve any conflicts between the Mortgage Investment Advisor and the Manager. For the period ended December 31, 2014, the Mortgage Trust expensed $27,301 [2013 – $21,913] for the independent review committee. As at December 31, 2014, $5,160 [2013 – 4,915] was due to the independent review committee.

Mortgage purchases

The Mortgage Trust purchases all of the mortgages receivable from the Mortgage Investment Advisor. The Mortgage Investment Advisor may, as part of selecting mortgages for the Mortgage Trust, “prefund” or bridge the mortgage and register the mortgage with the Mortgage Trust’s custodian, remaining as beneficial owner prior to formal submission to the Mortgage Trust. The mortgages receivable as at December 31, 2014 and 2013 were all bridged by the Mortgage Investment Advisor prior to sale to the Mortgage Trust.

8. FINANCIAL INSTRUMENTS

The Mortgage Trust has classified the significant impacts of its financial instruments as follows:

(a) Financial instruments – carrying values and fair values:

The Mortgage Trust’s investments which include cash and cash equivalents, mortgages receivable and interest receivable are carried at fair value. The accounts payable and accrued liabilities are classified as other liabilities and carried at amortized cost.

(b) Fair value measurement:

The Mortgage Trust uses a fair value hierarchy to categorize the inputs used in its valuation of assets and liabilities carried at fair value. The Mortgage Trust uses unadjusted quoted market prices (Level 1), models using observable market information as inputs (Level 2) and models using unobservable market information (Level 3) in its valuation of assets and liabilities carried at fair value. As at December 31, 2014, cash of $1,386,867 [December 31, 2013 - $806,801, January 1, 2013 - $29,201,949] is measured with Level 1 support and Mortgages receivable are measured using Level 3 inputs. There were no transfers between levels in the period ended December 31, 2014.

Carrying value and fair value of selected financial instruments

The following tables provide a comparison of the carrying and fair values as at December 31, 2014, December 31, 2013 and January 1, 2013 for each classification of financial instruments:

	Financial assets at amortized cost $	Financial instruments designated as FVTPL $	Loans & receivables /financial liabilities at amortized cost $	Total carrying value as at December 31, 2014 $	Fair value as at December 31, 2014 $
Financial assets					
Cash and cash equivalents	**1,386,867**	**—**	**—**	**1,386,867**	**1,386,867**
Mortgages receivable	**—**	**54,500,650**	**—**	**54,500,650**	**54,500,650**
Interest receivable	**391,850**	**—**	**—**	**391,850**	**391,850**
Prepaid costs and sundry receivables	**—**	**—**	**38,774**	**38,774**	**38,774**
Total financial assets	**1,778,717**	**54,500,650**	**38,774**	**56,318,141**	**56,318,141**
Financial liabilities					
Bank indebtedness	**—**	**—**	**9,400,000**	**9,400,000**	**9,400,000**
Accounts payable and accrued liabilities	**—**	**—**	**274,299**	**274,299**	**274,299**
Total financial liabilities	**—**	**—**	**9,674,299**	**9,674,299**	**9,674,299**

	Financial assets at amortized cost $	Financial instruments designated as FVTPL $	Loans & receivables /financial liabilities at amortized cost $	Total carrying value as at December 31, 2013 $	Fair value as at December 31, 2013 $
Financial assets					
Cash and cash equivalents	806,801	—	—	806,801	806,801
Mortgages receivable	—	68,552,009	—	68,552,009	68,552,009
Interest receivable	410,936	—	—	410,936	410,936
Prepaid costs and sundry receivables	—	—	120,454	120,454	120,454
Total financial assets	1,217,737	68,552,009	120,454	69,890,200	69,890,200
Financial liabilities					
Bank indebtedness	—	—	15,000,000	15,000,000	15,000,000
Accounts payable and accrued liabilities	—	—	77,754	77,754	77,754
Total financial liabilities	—	—	15,077,754	15,077,754	15,077,754

	Financial assets at amortized cost $	Financial instruments designated as FVTPL $	Loans & receivables /financial liabilities at amortized cost $	Total carrying value as at January 1, 2013 $	Fair value as at January 1, 2013 $
Financial assets					
Cash and cash equivalents	29,201,949	—	—	29,201,949	29,201,949
Mortgages receivable	—	22,837,434	—	22,837,434	22,837,434
Interest receivable	46,266	—	—	46,266	46,266
Total financial assets	29,248,215	22,837,434	—	52,085,649	52,085,649

Financial liabilities					
Accounts payable and accrued liabilities	—	—	54,521	54,521	54,521
Total financial liabilities	—	—	54,521	54,521	54,521

(c) Movement in Level 3 financial instruments measured at fair value

The following tables show the movement in Level 3 financial instruments in the fair value hierarchy for the year ended December 31, 2014 and 2013. The Mortgage Trust classifies financial instruments as Level 3 when there is reliance on at least one significant unobservable input in the valuation models. There have been no transfers between categories during the years ended December 31, 2014 and 2013.

	Opening Fair value $	**Investments** $	**Unrealized gain (loss) recorded in income** $	**Payment and amortization** $	**Fair value as at December 31, 2014** $
Financial assets					
Mortgages receivable	**68,552,009**	**36,439,208**	**—**	**50,490,567**	**54,500,650**

	Opening Fair value $	Investments $	Unrealized gain (loss) recorded in income $	Payment and amortization $	Fair value as at December 31, 2013 $
Financial assets					
Mortgages receivable	22,837,434	69,880,877	—	24,166,302	68,552,009

9. RISK MANAGEMENT AND CAPITAL MANAGEMENT

In the normal course of business the Mortgage Trust is exposed to a variety of financial risks: credit risk, interest rate risk, liquidity risk and market risk. The Mortgage Trust is not exposed to any currency risk.

Credit risk

Credit risk is the risk of loss associated with a counterparty's inability or unwillingness to fulfill its payment obligations. The Mortgage Trust's credit risk is mainly lending-related in the form of mortgage default. The Mortgage Trust uses stringent underwriting criteria and experienced adjudicators to mitigate this risk. The Mortgage Trust's approach to managing credit risk is based on the consistent application of a detailed set of credit policies and prudent arrears management.

The maximum credit exposures of the financial assets are their carrying values as reflected on the statements of financial position. The Mortgage Trust does not have significant concentration of credit risk within any particular geographic region or group of customers.

The Mortgage Trust is at risk that the underlying mortgages default and the servicing cash flows cease. While the current portfolio of individual mortgages is small, the real estate that underlies these assets is diverse in terms of geographical location, borrower exposure and the underlying type of real estate. Each mortgage has a different borrower such that the Mortgage Trust's credit risk is not concentrated to a single borrower. This diversity and the priority ranking of the Mortgage Trust's rights mitigate the potential size of any single credit loss.

Interest rate risk

Interest rate risk arises when changes in interest rates affect the fair value of financial instruments. The Mortgage Trust is exposed to interest rate risk to the extent that the value of the Mortgage Portfolio is dependent on market rates of interest. The mortgages in the portfolio are valued at fair value. As interest rates change, the value of the portion of the portfolio that consists of fixed rate mortgages may vary. Typically, as interest rates rise, the value of fixed rate mortgages decrease. The Mortgage Trust's mortgages may not vary directly with changes in interest rates due to their somewhat unusual (mezzanine) nature. The Fund is also exposed to interest rate risk to the extent that significant amounts of the Mortgage Trust's cash is not invested in mortgages but instead invested in cash or cash equivalents that earn floating rates of interest. As at December 31, 2014, the Mortgage Trust had $1,386,867 [December 31, 2013 - $806,801, January 1, 2013 - $29,201,949] of its capital invested in cash and cash equivalents.

The Mortgage Portfolio is not particularly sensitive to small changes in risk-free interest rates and, generally, the Mortgage Portfolio is more sensitive to changes in credit spreads. Management has designed internal valuation models which rely on significant unobservable inputs and management estimates including interest rate and credit spread assumptions. These valuation models indicate that a 1% increase or decrease in combined interest rates and credit spreads will not have any significant affect on the fair value of the Mortgage Portfolio. Changes in excess of a 1% change will increase/decrease the value portfolio by approximately $145,000 [December 31, 2013 - $160,000; January 1, 2013 - $170,000] for every 1% increment in interest rates.

Interest rate risk also arises with respect to the credit facility. If interest rates associated with the facility increased or decreased by 1%, interest expense would increase or decrease, respectively by $94,000 [December 31, 2013 - $150,000] based on the loan balance outstanding at December 31, 2014 of $9,400,000 [December 31, 2013 - $15,000,000; January 1, 2013 - nil].

Liquidity risk

Liquidity risk is the risk that the Mortgage Trust will be unable to meet its financial obligations as they come due. The mortgages receivable which comprise the mortgage portfolio are illiquid and have maturities of up to 36 months in the future. The Mortgage Trust manages liquidity risk under normal operating activities by ensuring sufficient cash flow from fees and interest is generated to cover expenses and distributions. Generally the mortgage portfolio has a relative short maturity duration and maturities will be spread out within a three year period.

Market risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates and credit spreads. The level of market risk to which the Mortgage Trust is exposed varies depending on market conditions, expectations of future interest rates and credit spreads. As the mortgages typically rely on the development of the underlying real estate by the borrower in order to qualify for traditional mortgage financing, there are all the market risks associated with the market for commercial real estate in Canada associated with the portfolio.

10. TRANSITION TO IFRS

The effect of the Mortgage Trust's transition to IFRS is summarized below:

Transition elections

The only voluntary exemption adopted by the Mortgage Trust upon transition was the ability to designate a financial asset or financial liability at fair value through profit and loss upon transition to IFRS. All financial assets classified at FVTPL upon transition were previously carried at fair value under Canadian GAAP as required by Accounting Guideline 18, Investment Companies.

Statement of cash flows

Under Canadian GAAP, the Mortgage Trust was exempt from providing a statement of cash flows. IAS 1 requires that a complete set of financial statements include a statement of cash flows for the current and comparative periods.

Reconciliation of equity as previously reported under Canadian GAAP to IFRS

	Equity as at December 31, 2013 $	Equity as at January 1, 2013 $
Equity as reported under Canadian GAAP	54,812,446	52,031,128
Revaluation of investments at fair value through profit or loss	—	—
Equity restated under IFRS	54,812,446	52,031,128

Reconciliation of comprehensive income as previously reported under Canadian GAAP to IFRS for the year ended December 31, 2013.

	Canadian GAAP $	IFRS $
Income	4,829,473	4,829,473
Expenses	(933,236)	(933,236)
Net Increase	3,896,237	3,896,237

11. ACCOUNTING CHANGES EFFECTIVE IN FUTURE PERIODS

IFRS 9 Financial Instruments

IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets.

IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. The complete standard was issued in July 2014 to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments. The effective date of IFRS 9 is January 1, 2018. The Trust is currently assessing the impact of IFRS 9.