KV Mortgage Fund

Stability through simplicity.

2021 ANNUAL REPORT

Executive	**CEO** Aleem Virani, CPA, CA, CBV, ICD.D **PRESIDENT** Curtis Power, CPA, CA, CIM, ICD.D **CFO** Renee Kent, CPA, CA **GENERAL COUNSEL** Nicholas Jeanes, JD
Non-Independent Director	Shafin Kanji, MAcc, CPA, CA, CBV, ICD.D
Independent Directors	Paul Allard, MBA Guy Scott, MSc Don Paulencu, CPA, CA, ICD.D Aaron Forbes, CFA Darlene Scott, Q.C.
Contact	**CORPORATE SECRETARY** *Nicholas Jeanes* Telephone: 780 433 1222 Toll Free: 1.888.933.1222 Facsimile: 1.866.229.1295 Email: investor@kvcapital.ca
Legal Counsel	Bryan & Company LLP
Auditors	KPMG LLP
Restricted Portfolio Manager & Investment Fund Manager	KV Capital Inc.
Office Address	Suite 101, 1290 - 91 Street Edmonton, AB T6X 0P2
Website	kvcapital.ca

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7.65% Internal Rate of Return (IRR) since inception.

KV Mortgage Fund is one of the largest Alberta-based private real estate lenders and is focused on investing in mortgages secured against multiple asset classes located primarily in Western Canadian urban centres, including multi-family and single family residential development, office, retail, industrial and hospitality.

The Fund's mortgage investments are short term to maturity (less than 2 years) and consist primarily of acquisition, construction and development financing, equity take-out, and bridging transactions.

The mortgage investments in the Fund's portfolio are purposefully selected from the opportunities originated through and underwritten by the Fund's manager, KV Capital, and its in-house mortgage platform. Each opportunity is individually assessed based on the merits of protecting capital and maximizing the risk adjusted returns available in the market.

The Fund is in its 12th year of operations and during that time has never missed a monthly dividend payment and, since inception, has delivered an internal rate of return (IRR) to its shareholders of 7.65%, net of all management fees and operating expenses.

$111 million

in mortgage investments under management

61%

weighted average loan to value of mortgage portfolio investments

$678 million

in total mortgage funds advanced since inception

<0.25%

cumulative losses of interest and principal as a percentage of total funds advanced since inception

7.53%

Internal Rate of Return (IRR) for fiscal 2021

12 year

track record of paying consecutive monthly distributions to investors

**Results are not guaranteed. Past performance does not guarantee future performance.*

Unless otherwise noted, all statistics are as at February 28, 2021

Letter from the Board

Dear Investor,

On behalf of KV Mortgage Fund's Board of Directors (the "Board"), it is my pleasure to write to you regarding the Fund's performance for the fiscal year ended February 28, 2021.

As many of you are aware, the impacts of the COVID-19 pandemic during the last year exerted downward pressure on many sectors of the Western Canadian real estate industry. While some asset classes such as residential development have remained resilient, other asset classes – specifically office, retail, commercial and hospitality – have faced headwinds as developers and building owners grapple with the consequences of shutdowns, reduced economic activity and the transitions to remote work and online shopping. I am pleased to advise that, despite these broader systemic challenges, the Fund had another successful year of executing on our mandate of preserving capital and maximizing market available risk adjusted returns.

> Over the course of fiscal 2021 the Fund generated an internal rate of return (IRR) of 7.53%, net of all management fees and operating expenses.

We finished the year with a mortgage portfolio of over $111 million which is diversified by asset class and project phase, has a weighted average loan to value ratio of 61%, and has 90% of its invested capital secured by first position mortgages. During the year, the Fund grew its preferred shareholder capital to $105 million and has a $30 million dollar revolving line of credit from a Canadian financial institution – of which only 23% was utilized at year end. Together this portfolio composition combined with our meaningful access to liquidity and stable capital base positions the Fund well for the upcoming year.

The positive results of this past year demonstrate our investment model's ability to perform across all real estate cycles because it is premised on transactional activity occurring within the market and not upon rising real estate prices. By focusing on investing in mortgage loans characterized by short terms to maturity, meaningful equity buffers, and multiple paths to exit, the Fund can deliver consistent levels of income to our shareholders while weathering fluctuating real estate valuations.

Nevertheless, we recognize the pandemic is far from over. We remain vigilant and focused on doing the things which enabled the Fund to navigate this past year: adherence to best-practice corporate governance and oversight, a conservative approach to underwriting and lending decisions, and flexibly and quickly responding to changing market conditions.

I wish to thank my fellow members of the Board and the Lending Review Committee who have once again demonstrated their ongoing dedication to the success of the Fund and its shareholders. Their contributions this past year have been significant, including several special meetings, increased credit oversight and frequent touchpoints with the Fund's manager as the pandemic developed.

I would also like to extend congratulations to the Fund's manager, KV Capital, for its role in navigating the uncertainty which defined the past year and for achieving the strong performance of the Fund.

Respectfully submitted on behalf of the Board.

Paul Allard, BA MBA
Chairman of the Board
KV Mortgage Fund Inc.

Letter from the Manager

Dear Investor,

The theme of this year's Annual Report is Stability through Simplicity. We chose this theme for several reasons. First, it reflects our mindset in how we navigate challenges – including those experienced this year because of the COVID-19 pandemic and the concurrent decline in global oil prices. In the face of these challenges, we stay focused on our core values and operating principles, confident these will carry us through to another year of delivering stable and consistent results. As detailed in this report, we believe our approach continues to drive strong investment performance for our investors.

The concept of simple has also become an operational mindset that we have adopted at KV Capital. Whether for our investors, borrowers, employees, or other stakeholders, we are striving to make KV Capital known as a company that has the skill and expertise to make complex processes and investment decisions efficient, easy to understand, and easy to execute on. Making things simpler is not easy. It takes empathy, a determination to improve, and the discipline to work hard. Most importantly, it is an objective that is aspirational: we will never be done the work of trying to make our business simpler. But we know in aspiring to always achieve this goal we will make ourselves better as a company which will translate into better outcomes and experiences for all our stakeholders, most importantly, our investors and team.

> The success of the past year would not have been possible without the efforts of our team at KV Capital, and we wish to acknowledge their hard work and dedication. They responded incredibly well to the challenges placed upon them – seamlessly moving to remote work and consistently performing at a high-level throughout all the stresses, anxieties and challenges caused by the pandemic. Our company is stronger and more resilient because of this team and their dedication.

We would also like to acknowledge the independent members of the Fund's Board and Lending Review Committee for their engagement with, and commitment to, our business. Strong independent oversight has always been a tenet of our business and was fundamental to achieving the strong results demonstrated this last year. We are fortunate to have a Board comprised of experienced individuals with diverse skill sets and expertise. The value of their collective expertise has never been more apparent than this past year.

Lastly, we wish to thank you, our valued investors, for your continued support. We ended the year with $105 million in investor capital under management which is a record amount for the Fund. We would be delighted to achieve this milestone at any time, but to do so in this last year is particularly meaningful. We know you have choices of where to invest your capital. Our team works very hard to earn the trust you have placed in KV Capital, and we thank you for investing with us.

Sincerely,

Aleem Virani, CPA, CA, CBV, ICD.D
Chief Executive Officer
KV Capital Inc.
KV Mortgage Fund Inc.

Curtis Power, CPA, CA, CIM, ICD.D
President
KV Capital Inc.
KV Mortgage Fund Inc.

Independent Directors

Paul Allard

MBA

Mr. Allard holds a Masters degree in Business Administration from the University of Alberta and he is the Vice President of Edmonton based Allard Developments. For the last 20 years Mr. Allard has been actively involved in the full cycle execution of residential and commercial real estate development projects within Alberta through Allard Developments and its partners. Mr. Allard currently focuses on the commercial leasing operations for both the private real estate holdings and new development sites that are managed within the portfolio of Allard Developments. Mr. Allard previously sat as a Director of Calgary based Vero Energy Inc. and he is concurrently serving as a Director of the Vancouver based Highbury Foundation.

Edmonton | Chair - Board of Directors; Member - Lending Review Committee; Independent from KV Capital

Preferred Share Holdings at Year End
41,032 Class A

F2021 Compensation Paid by KV Mortgage Fund
Board $20,500 | LRC $7,750
Total $28,250

F2021 Meeting Attendance
Board 6/6 | LRC 4/4

Guy Scott

MSc

Mr. Scott's long business career has centered around real estate development and mortgage investments in Western Canada and the United States including as a founding partner of WAM Development Group. He holds a Masters of Science in Urban Planning and is a member of the Canadian Institute of Planners and various industry organizations. Through the Shelley and Guy Scott Family Foundation he is involved in many philanthropic interests, including as an emeritus member of the University of Alberta Hospital Foundation where he previously held the role of Chairman and where he currently holds the role as Chairman of the Brain Centre Campaign. Mr. Scott is currently President of Ventura Interests Inc., a family office involved in real estate, mortgage investments and private equity.

Edmonton | Member - Board of Directors; Member - Lending Review Committee; Independent from KV Capital

Preferred Share Holdings at Year End
8,327 Class A

F2021 Compensation Paid by KV Mortgage Fund
Board $15,500 | LRC $9,500
Total $25,000

F2021 Meeting Attendance
Board 6/6 | LRC 4/4

Don Paulencu

CPA, CA, ICD.D

Mr. Paulencu is a Chartered Professional Accountant and a member of the Institute of Corporate Directors holding the ICD.D designation. Mr. Paulencu retired from Deloitte LLP in 2015 where he served as a partner for 31 years having the position as managing partner of the Edmonton office for 10 years. Mr. Paulencu was an audit and advisory partner serving both publicly traded and private companies primarily in the financial institution and real estate industry sectors. Mr. Paulencu is currently Chairman of the publicly traded company, Athabasca Minerals Inc., and serves as an advisory director on two large privately held companies in the real estate and manufacturing industry sectors.

Edmonton | Member - Board of Directors; Member - Lending Review Committee; Independent from KV Capital

Preferred Share Holdings at Year End
5,849 Class A

F2021 Compensation Paid by KV Mortgage Fund
Board $15,500 | LRC $9,500
Total $25,000

F2021 Meeting Attendance
Board 6/6 | LRC 4/4

Aaron Forbes

CFA

Mr. Forbes holds a degree in Economics and Finance from the University of Calgary and is a CFA Charterholder. He joined MCAP's Development Finance Group in Calgary in 2006 and is currently a Senior Director with the firm, responsible for the origination, negotiation, and underwriting of construction loan facilities for a variety of projects, including apartment condominium, purpose built rental, land servicing, commercial, and mixed-use. To date, he has been involved in structuring financing arrangements for over $2.0 billion of real estate transactions throughout Western Canada and has completed syndications with most major Canadian Banks, Alberta based lending institutions, pension funds, and life insurance companies. Mr. Forbes is a licensed member of the Real Estate Council of Alberta and has completed the Mortgage Associates Program. In addition, he is a sessional lecturer at the University of Calgary in the Continuing Education department teaching real estate development and finance.

Edmonton | Member - Board of Directors; Chair - Lending Review Committee
Independent from KV Capital

Preferred Share Holdings at Year End
6,741 Class A

F2021 Compensation Paid by KV Mortgage Fund
Board $15,500 | LRC $18,000
Total $33,500

F2021 Meeting Attendance
Board 6/6 | LRC 4/4
** Mr. Forbes replaced Mr. Allard as the Chair of the Lending Review Committee effective March 20, 2020*

Darlene Scott

Q.C

Ms. Scott, Q.C., is a senior partner in the Edmonton office of Dentons, the world's largest law firm, where she provides business and legal advice to a range of institutional and corporate clients on real estate and commercial matters. Darlene served as Chair of Dentons Edmonton's Banking and Finance group for over 10 years and is listed in The Canadian Legal Lexpert Directory as a leading lawyer in the field of Banking and Financial Institutions, having been awarded Best Lawyers "Lawyer of the Year" Award in Corporate Law (2014 and 2018), Banking and Finance (2017 and 2021) and Real Estate (2019 and 2020). Ms. Scott received her Queen's Counsel designation in 2016 and has served as a Bencher of the Law Society of Alberta since 2014, holding the positions of Chair of Audit and Finance, Chair of Credentials and Education, Chair of Conduct, Chair of Policy and is currently serving as President. Ms. Scott was recipient of the Alberta Women in Law Leadership Impact Award in 2020.

Edmonton | Member - Board of Directors; Member - Lending Review Committee;
Independent from KV Capital

Preferred Share Holdings at Year End
3,024 Class A

F2021 Compensation Paid by KV Mortgage Fund
Board $15,500 | LRC $6,000
Total $21,500

F2021 Meeting Attendance
Board 6/6 | LRC 4/4

Management Team

Shafin Kanji

MAcc, CPA, CA, CBV, ICD.D

Mr. Kanji is a Chartered Professional Accountant, Chartered Business Valuator, and is a founding principal of KV Capital Inc., the private mortgage brokerage, Exempt Market Dealer, Restricted Portfolio Manager, Investment Fund Manager and real estate investment company that provides service to KV Mortgage Fund Inc. Mr. Kanji previously held the role of Chief Executive Officer of both KV Capital and KV Mortgage Fund. Prior to founding KV Capital Mr. Kanji served as the Chief Executive Officer of JER Envirotech Ltd., and as the Chief Operating Officer and Chief Financial Officer at Matrikon Inc. Mr. Kanji gained extensive experience while working with KPMG in the areas of fraud investigation and business valuations as well as in real estate development and construction through his current involvement as a founding principal of Edmonton based Kanvi Homes Inc.

Edmonton | KV Mortgage Fund: Member - Board of Directors; Member - Lending Review Committee | KV Capital: Chairman

Preferred Share Holdings at Year End
37,755 Class A

F2021 Compensation Paid by KV Mortgage Fund
$0

F2021 Meeting Attendance
Board 6/6 | LRC 4/4

Aleem Virani

CPA, CA, CBV, ICD.D

Mr. Virani is a Chartered Professional Accountant, Chartered Business Valuator, and is a founding principal of KV Capital Inc., the private mortgage brokerage, Exempt Market Dealer, Restricted Portfolio Manager, Investment Fund Manager and real estate investment company that provides service to KV Mortgage Fund Inc. Mr. Virani currently holds the office of Chief Executive Officer of KV Mortgage Fund Inc. and of KV Capital Inc. Mr. Virani previously served as the Controller for Trans Global Group of Companies (subsidiary of the Brick Group Income Fund), as a business valuations and litigation support expert with Kingston Ross Pasnak LLP, and as a public accountant at Deloitte LLP. Mr. Virani also has experience in real estate development and construction through his current involvement as a founding principal of Edmonton based Kanvi Homes Inc.

Edmonton | KV Mortgage Fund: Chief Executive Officer, Member - Board of Directors | KV Capital: Chief Executive Officer

Preferred Share Holdings at Year End
15,577 Class A

F2021 Compensation Paid by KV Mortgage Fund
$0

F2021 Meeting Attendance
Board 6/6 | LRC 4/4

Curtis Power

CPA, CA, CIM, ICD.D

Mr. Power is a Chartered Professional Accountant and a Principal of KV Capital Inc., the private mortgage brokerage, Exempt Market Dealer, Restricted Portfolio Manager, Investment Fund Manager and real estate investment company that provides service to KV Mortgage Fund Inc. Mr. Power currently holds of the office of President of KV Mortgage Fund Inc. and of KV Capital Inc. Prior to joining KV Capital Inc., Mr. Power served as the Chief Financial Officer of a mortgage lending firm specializing in short term bridge financing, that grew from start, up to $65 million of assets under management and as an auditor with Ernst & Young LLP. Mr. Power joined KV Capital Inc. in 2013 and has full responsibility for the firm's mortgage operations including leading the origination, underwriting and servicing teams.

Edmonton | KV Mortgage Fund: President | KV Capital: President

Preferred Share Holdings at Year End
15,088 Class A

F2021 Compensation Paid by KV Mortgage Fund
$0

F2021 Meeting Attendance
Board 6/6 | LRC 4/4

Renee Kent

CPA, CA

Ms. Kent is a Chartered Professional Accountant and currently holds the office of Chief Financial Officer of KV Mortgage Fund and KV Capital Inc., the private mortgage brokerage, Exempt Market Dealer, Restricted Portfolio Manager, Investment Fund Manager and real estate investment company that provides service to KV Mortgage Fund Inc. Ms. Kent previously served as a Senior Manager at KPMG LLP where she provided assurance, operational effectiveness, and accounting services to clients covering a wide variety of industries, including entities that are publicly listed on the TSX and/or NYSE.

Edmonton | KV Mortgage Fund: Chief Financial Officer | KV Capital: Chief Financial Officer

Preferred Share Holdings at Year End
8,601 Class B

F2021 Compensation Paid by KV Mortgage Fund
$0

F2021 Meeting Attendance
Board 6/6 | LRC 4/4

Nicholas Jeanes

JD

Mr. Jeanes is General Counsel of KV Mortgage Fund Inc. and KV Capital Inc., the private mortgage brokerage, Exempt Market Dealer, Restricted Portfolio Manager, Investment Fund Manager and real estate investment company that provides services to KV Mortgage Fund Inc. Mr. Jeanes holds a law degree from the University of Alberta, is a member of the Law Society of Alberta and is a member of the Alberta Securities Commission Exempt Market Dealer Advisory Committee. Prior to joining KV Capital Inc. in 2017, Mr. Jeanes worked in the corporate and commercial practice groups of Bennett Jones LLP, an internationally recognized Canadian law firm.

Edmonton | KV Mortgage Fund: General Counsel | KV Capital: Managing Partner - Asset Management, and General Counsel

Preferred Share Holdings at Year End
12,599 Class A

F2021 Compensation Paid by KV Mortgage Fund
$0

F2021 Meeting Attendance
Board 6/6 | LRC 4/4

Management Discussion of Fund Performance

Forward looking statements advisory

The terms, the "Fund", "we", "us" and "our" in the following annual Management Report of Fund Performance (the "MRFP") refer to KV Mortgage Fund Inc. This MRFP may contain forward-looking statements relating to anticipated future events, results, circumstances, performance or expectations that are not historical facts but instead represent our beliefs regarding future events. These statements are typically identified by expressions like "may", "believe", "expects", "anticipates", "would", "will", "intends", "projected", "in our opinion", "plans", "estimates" and other similar expressions suggesting future outcomes or events. By their nature, forward-looking statements require us to make assumptions which include, among other things, that (i) the Fund will have sufficient capital under management to effect its investment strategies and pay its targeted dividends, (ii) the investment strategies will produce the results intended by KV Capital Inc. (the "Manager"), (iii) the markets will react and perform in a manner consistent with the investment strategies and (iv) the Fund is able to invest in mortgages of a quality that will generate returns that meet or exceed the Fund's targeted investment returns.

Forward-looking statements are subject to inherent risks and uncertainties. There is significant risk that predictions and other forward-looking statements will prove not to be accurate. We caution readers of this MRFP not to place undue reliance on our forward-looking statements as a number of factors could cause actual future results, conditions, actions or events to differ materially from the targets, expectations, estimates or intentions expressed or implied in the forward-looking statements. Actual results may differ materially from management expectations as projected in such forward-looking statements for a variety of reasons, including but not limited to, general market conditions, interest rate fluctuations, regulatory and statutory developments, the effects of competition in areas that the Fund may invest in, impacts as a result of COVID-19, and the risks as detailed in the Fund's Offering Memorandum.

We caution that the foregoing list of factors is not exhaustive and that when relying on forward-looking statements to make decisions with respect to investing in the Fund, investors and others should carefully consider these factors, as well as other uncertainties and potential events and the inherent uncertainty of forward-looking statements. Due to the potential impact of these factors, the Fund and the Manager do not undertake, and specifically disclaim any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, unless required by applicable law.

This MRFP is dated April 29, 2021. Disclosure contained in the MRFP is current to that date, unless otherwise noted. Additional information on the Fund is available at www.kvcapital.ca.

Investment Objectives & Strategies

Since operations commenced in 2009, the Fund has provided investors indirect access to private mortgage investments that are selected and approved by the Manager.

The investment objectives of the Fund are to:

1. Preserve capital; and
2. Generate monthly income.

To realize on its objectives, the Fund invests in a diversified portfolio of private mortgage investments, and other investments within the criteria permitted for a mortgage investment corporation ("MIC"). These investments typically mature within two or less years and consist primarily of construction and development financing, equity take out and financial bridging transactions. The Fund focuses on mortgage investments secured directly by land, multifamily residential, single family residential, office, retail, industrial and hospitality properties located primarily within urban centres of western Canada. The Fund works within conservative risk parameters and strives to maximize investor income through careful underwriting and efficient management of mortgage investments. The Fund has a 12-year track record of success and consistency in achieving its strategic investment objectives.

The Fund is, and intends to continue to be, qualified as a mortgage investment corporation as defined under Section 130.1(6) of the Income Tax Act (Canada).

Risk

The risks associated with investing in the Fund remain as disclosed in its offering memorandum. Changes to the Fund that occurred during the fiscal year ended February 28, 2021 (the "current year" or "fiscal 2021") have not materially affected the overall risk profile.

Basis of Presentation

This MRFP has been prepared to provide information about the financial results of the Fund for the year ended February 28, 2021. This MRFP should be read in conjunction with the audited consolidated financial statements for the years ended February 28, 2021 and February 29, 2020, which are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

The Fund's functional and reporting currency is the Canadian dollar.

Non-IFRS Measures

In this MRFP, the Fund discloses certain financial measures not recognized under IFRS and that do not have standard meanings prescribed by IFRS (collectively the "non-IFRS measures"). The Fund has presented such non-IFRS measures because the Manager believes they are relevant measures of the Fund's ability to earn and distribute dividends to shareholders and to provide a clearer understanding of the Fund's financial performance. These non-IFRS measures should not be construed as alternative indicators to net income and comprehensive income or cash flows from operating activities that were determined in accordance with IFRS.

Non-IFRS financial measures:

» **WEIGHTED AVERAGE INTEREST RATE** – represents the blended interest rate of the mortgage loan investment portfolio at period end, as determined by the amount of dollars deployed at each interest rate relative to the total portfolio.

» **WEIGHTED AVERAGE TERM TO MATURITY** – represents the blended mortgage term remaining for the mortgage loan investment portfolio at period end, as determined by the amount of dollars deployed at each maturity date relative to the total portfolio. The mortgage term represents the maturity date specified in the mortgage contract. The date of principal repayments to investors may not coincide with the date that is specified as the end of the mortgage term. Principal may be repaid to the Fund before, on or after the date representing the end of the mortgage term.

» **WEIGHTED AVERAGE LOAN TO VALUE** – represents the blended loan to value of the mortgage loan investment portfolio at period end, as determined by the amount of dollars deployed at each loan to value relative to the total portfolio. Loan to value for each mortgage loan investment is a measure of loan amount, including unfunded loan amount, cost to complete in excess of the loan commitment, other charges, and priority or pari-passu charges registered on the underlying real estate held as security, as a percentage of the most recently available third party determined fair value of the underlying real estate collateral.

» **PROJECT PHASE** – is a categorization of the primary real estate security for each mortgage loan investment in the portfolio according to stage of the real estate investment process that the underlying real estate collateral is best described by, as determined by the Manager, as of that date.

» **STATUS** – a categorization of mortgage loan investments according to timing differences between the receipt of interest payments and contractual due dates and any enforcement actions taken by the Manager.

» **PORTFOLIO TURNOVER RATE** – represents mortgage loan investments made during the stated period expressed as a ratio of the daily weighted average size of the mortgage investment portfolio.

» **PAYOUT RATIO** – represents total dividends declared to the holders of all classes of preferred shares divided by the net income and comprehensive income attributable to all classes of preferred shares for the period presented.

» **REDEMPTION PRICE** – represents the net asset value per preferred share for purposes of processing redemptions in accordance with the terms of the offering memorandum

» **NEW ORIGINATIONS** – represents the cumulative principal balance in dollars of all mortgage loan investments included in the portfolio dollar total as of the reporting date where the first advance occurred on or after the first day of the reporting period.

Results Of Operations

The Fund maintained its track record of strong and stable performance during the year ended February 28, 2021. Demand for alternative lending in Canada remained strong throughout fiscal 2021 and the Fund has continued to be successful at sourcing attractive investment opportunities that align with its risk and return objectives. Throughout fiscal 2021, the mortgage portfolio has provided capital preservation and consistent income to holders of preferred shares as intended.

The COVID-19 pandemic has caused significant financial and social disruption to businesses in Canada, resulting in an economic slowdown for certain sectors during fiscal 2021. Crude oil prices and the health of the oil and gas industry were negatively impacted and did not see a recovery until the second half of the fiscal year. This slowdown contributed to the softening of real estate values for certain asset classes in Alberta; the Fund's primary market exposure. Asset types negatively affected by the pandemic include office, retail, and hospitality assets. The Fund's exposure to these hardest hit sectors is limited or is being actively managed by the Manager. The residential asset class, which represents 60% of the Fund's portfolio, has remained stable and withstood the worst of the pandemic better than most other asset types. Despite the challenges associated with the pandemic environment, the Fund has maintained its success in having a high-quality mortgage portfolio, with 90% of the investments in a first mortgage position, a stable weighted average loan to value of 61%, and a large number of diverse investments. From a portfolio perspective, the Fund has demonstrated resilience in the economic downturn caused by the COVID-19 pandemic. While overall transaction volumes declined slightly in fiscal 2021 as a result of COVID-19 economic impacts, the Fund saw a strong rebound during the second half of the year. During the year, the Fund collected mortgage interest and principal payments due from borrowers in line with historical collection rates and there has been no material signs of deterioration in the portfolio to date in excess of provisions for mortgage losses recorded. The Fund continues to monitor the effects of the COVID-19 crisis and resulting economic downturn on the loan portfolio and borrowers very closely and is proactively mitigating the impact on the business. The Manager continues to see regular deal flow and will continue to be highly selective, applying thorough risk management processes with consideration of the changing market conditions. Although the duration and impact of the pandemic remains unknown, the Manager believes the Fund's stable capital base, liquidity, and investment portfolio are positioned well to navigate the challenging environment and capitalize on opportunities as they arise.

INTERNAL RATE OF RETURN

The Fund exceed its yield objective of producing a shareholders' annual return in excess of 450 basis points over the Government of Canada 2-year benchmark bond yield (series V122538) (the "Target Return"). For the year ended February 28, 2021, the Fund generated an internal rate of return of 7.53% (2020 – 6.00%). In comparison, the Fund's Target Return for the year was 4.79% (2020 – 6.00%). The Manager is pleased with the performance of the Fund during the year given the impact of recent developments, and believes that the IRR of 7.65% (2020 – 7.72%) generated since inception demonstrates a strong track record of achieving the stated objectives and successfully balancing between the goals of capital preservation and income.

EQUITY GROWTH

During the year ended February 28, 2021, the Fund grew its shareholders' equity to $105,422,620 (2020 – $99,667,933). This 5% growth over the prior year was achieved primarily through subscriptions of its Class A and Class B preferred shares. The Fund suspended redemptions of existing shares and subscriptions for new shares effective March 17, 2020, in response to the COVID-19 pandemic, and resumed redemptions and subscriptions on October 1, 2020. Contributing to the equity growth were additional shares issued under the dividend reinvestment plan ("DRIP") available to Class A and Class B preferred shareholders. Under the DRIP, shareholders may enroll to have their monthly dividends reinvested in additional preferred shares of the same class. This continued growth of equity allows for both a greater number of mortgage securities in the portfolio and holding larger individual mortgage investments. It also expands the scope of the Fund's potential investments and improves the Fund's ability to hold larger positions in any single mortgage in the interest of deploying capital efficiently.

MORTGAGE FUNDING

During the year ended February 28, 2021, the Fund advanced monies for new investment in mortgages 210 times (2020 – 320 times) totalling $103,207,843 (2020 – $111,591,668) and received principal pay downs 283 times (2020 – 334 times) on previously advanced mortgage loan investments totalling $103,671,319 (2020- $102,672,059).

As at February 28, 2021, total mortgage loan investments in the portfolio, including accrued interest receivable and net of provision for mortgage losses, amounted to $111,675,903 (2020 - $113,724,938). New originations from the year represent approximately 36% (2020 – 37%) of the Fund's outstanding mortgage investments at year-end. In addition to other techniques, the Manager actively manages risks within the Fund's portfolio associated with changes to real estate prices by maintaining short terms to maturity on the mortgage loan investments and redeploying capital throughout real estate cycles. The Fund's mortgage portfolio turns over approximately annually.

The Fund's exposure to first mortgages was 90% of the net mortgage portfolio at February 28, 2021, relatively consistent with the prior year exposure (2020 – 93%). A high proportion of the portfolio invested in first mortgages is a key investment strategy of the Fund.

As at February 28, 2021, the Fund's weighted average loan to value ratio was 61%, down 5% from the prior year (2020 – 66%) and in line with our expectations for the portfolio. This lower weighted average loan to value is primarily a result of conservative investment activities in fiscal 2021 and provides stability as we navigate the economic uncertainties arising from the COVID-19 pandemic.

INTEREST RATES

The weighted average interest rate on the mortgage portfolio as at February 28, 2021 was 9.63% (2020 – 10.00%). The decrease in the bank prime rate occurring in March 2020 was a key contributor to the decrease in the Fund's weighted average interest rate during fiscal 2021. At year-end, 80% (2020 – 67%) of the loan portfolio were loans with variable rate structures. These variable rate loans contain a floor interest rate, protecting the Fund from decrease in prime rates but allowing the Fund to maintain a minimum spread on prime rate. The high percentage of floating rate loans with rate floors has reduced the impact of the recent interest rate cuts. Downward pressure on pricing resulting from a more competitive lending environment also contributed to the decrease in the weighted average interest rate in the current year.

INTEREST RECEIVABLE

The aging of accrued interest receivables within the portfolio are provided below:

As at		February 28, 2021		February 29, 2020
Not past due	**$**	**892,631**	$	1,205,795
Past due 0-30 days		**220,560**		235,236
Past due 31-90 days		**356,690**		296,747
Past due more than 90 days		**1,298,890**		766,228
	$	**2,768,771**	$	2,504,006

MORTGAGES BY PROVINCE

The Fund continues to maintain a diversified portfolio of mortgage loan investments on real estate primarily located in Alberta. The Fund has continued to maintain significant exposure to Alberta as it benefits directly from the local expertise of the Manager in originating, underwriting, and servicing these mortgage investments. The capital supply for alternative mortgage lending is balanced in the Alberta market. Competitors have expanded their presence in the Alberta market as compared to prior years, placing downward pressure on pricing in the current year. Mortgage loan investments were secured by real property within the following provinces:

As at	February 28, 2021	February 29, 2020
Alberta	**93.6%**	93.4%
British Columbia	**6.2%**	4.9%
Saskatchewan	**0.2%**	1.7%
	100.0%	100.0%

The COVID-19 pandemic has significantly impacted crude oil prices and immigration rates, among other factors typically correlated to real estate values in Alberta. Crude oil prices started to meaningfully recover in the fourth quarter of fiscal 2021, which is expected to positively impact the Alberta economy in fiscal 2022. Although Alberta remains, and will continue to remain, the primary market in which the Fund operates, the Manager will continue to assess the potential impact on these events as they pertain to the existing portfolio as well as future lending opportunities in the market.

FORECLOSURES

At February 28, 2021, the Fund, through the Manager, was engaged in enforcement remedies against five (2020 – eight) mortgage loan investments. At February 28, 2021, mortgage loan investments engaged in enforcement remedies totaled $10,846,361 (2020 – $12,562,241) in gross principal and $846,773 (2020 – $1,122,018) in gross accrued interest receivable. The Manager is confident in the composition of the existing portfolio as well as the rigour of existing underwriting processes and considers the loan provisions currently recorded to be appropriate.

LOAN PROVISIONS

The Manager closely monitors the mortgage loan investments, and accordingly it is actively engaged in managing, servicing, and enforcement of mortgages the Fund has invested in. In accordance with IFRS 9, *Financial Instruments*, an expected credit loss ("ECL") model is applied at the end of each reporting period to assess the Fund's mortgage loan investments and accrued interest receivable for impairment. An ECL represents the difference between the present value of all contractual cash flows that are due under the original terms of the contract and the present value of all cash flows expected to be received. The ECL model uses a three-stage impairment approach based on changes in the credit risk of the loan since initial recognition. The Manager considers a number of risk factors based on past events, current conditions and forward-looking information when assessing if there has been a significant increase or subsequent decrease in credit risk. Any impairment loss provision represents an allowance for the lifetime ECLs for all mortgage loan investments and accrued interest.

At February 28, 2021, the Fund adjusted the carrying amount of mortgage loan investments by recording $2,110,252 (2020 – $2,962,910) as a provision for non-collectible mortgage loan investments, with changes to the provision balance recorded through the income statement. In fiscal 2020, the Fund allowed for a substantially higher than usual provision for mortgage loan investments. This was largely the result of a provision on one property where the Fund considered it likely that a significant portion of this mortgage balance will become unrecoverable, as well as adjustments to the ECL model as a response to the economic uncertainty related to the COVID-19 pandemic. The provision as at February 28, 2021 represents 1.90% (2020 – 2.54%) of the mortgage portfolio. The provision is maintained at a level that the Manager considers adequate to absorb credit-related losses on our mortgage loan investments.

REALIZED LOSSES

Realized impairment losses represent the difference between the respective mortgage's carrying balance and the amount recovered upon the monetization of the underlying real estate and other security. In the year ended February 28, 2021, the Fund realized losses on principal mortgage loan investments of $549,608 (2020 – $286,577), in addition to realized losses on non-collectible interest of $762,378 (2020 – $243,306). These losses were fully provided for as at the end of the prior year.

The current year realized losses primarily relate to two loans (2020 – one loan). The first is a loan whereby the Fund took title to the primary security, residential property located in Edmonton, Alberta, by way of a credit bid on a foreclosed asset. This property was subsequently sold to an arm's length third party with a corresponding gain on disposal of properties held under foreclosure of $621,881 recognized during the year. The second is a loan whereby the Fund took title to the primary security, commercial lands located in Fort McMurray, Alberta, by way of a credit bid on a foreclosed asset. After the exhaustion of all remedies, the Fund derecognized the remainder of the mortgage principal balance and accrued interest receivable, recognizing a realized loss.

PROPERTIES HELD UNDER FORECLOSURE

At the end of the current year, the Fund holds two (2020 – one) properties under foreclosure. On August 3, 2021, the Fund obtained title to commercial lands located in Fort McMurray, Alberta via a credit bid. In the prior year, the Fund obtained title to development lands located in Airdrie, Alberta via a credit bid. These assets are recorded on the balance sheet at $184,545 and $1,702,255 (2020 - $1,699,273), respectively, as at February 28, 2021. This amount is equal to the lesser of the carrying amount of the mortgage loan investment and accrued interest and the credit bid price at the date of transfer, further adjusted for capital expenditures and cost recoveries. Principal and interest that was not recovered via the credit bid price has been recognized as a realized loss. The Fund intends to sell the properties held under foreclosure to arm's length third parties and is actively marketing the properties for sale.

EARNINGS AND DISTRIBUTIONS

During the year ended February 28, 2021, the Fund generated net income and comprehensive income of $7,387,612 (2020 – $5,506,018), representing basic and diluted earnings per share of $0.73 (2020 – $0.58).

The Fund declared distributions of $6,131,123 (2020 – $6,737,858) for the year ended February 28, 2021. An adjustment to increase the provision for non-collectible mortgage loan investments was recorded subsequent to the declaration and payment of dividends for the quarter ended February 29, 2020, resulting in the Fund distributing dividends to shareholders in excess of net income and comprehensive net income for the prior year. As such, the Fund was in a deficit position and the per share redemption price after distributions of both Class A and Class B preferred shares was reduced to $9.86 as at February 29, 2020. During fiscal 2021, net income and comprehensive income generated by the Fund exceeded distributions, which restored the net asset value to $10.00 per share and returned the Fund to a positive retained earnings position by year end.

Declared distributions are either paid in cash to preferred shareholders, or automatically reinvested into additional preferred shares of the same Class (as directed by each shareholder under the DRIP). The Fund intends to pay dividends to holders of Class A and Class B preferred shares monthly, on or about the 15th day following the end of each month. The Fund has not missed a dividend payment since inception in 2009, demonstrating the Fund's resiliency and ability to maintain steady income, which is fundamental to our investment proposition.

REVENUES

During the year ended February 28, 2021, the Fund earned interest revenue of $10,848,754 (2020 – $10,950,919), down 1% from the prior year. The lower interest revenue is a result of a lower weighted average portfolio interest rate, offset by a marginally higher average mortgage loan portfolio balance outstanding, over the prior comparable period.

EXPENSES

Excluding funds set aside to provide for non-collectible mortgage loan investments as well expenses included in other income and loss, operating expenses increased by $175,009 year over year to $3,566,492 (2020 – $3,391,483). These operating expenses represent 33% of revenue as compared to 31% of revenue in the prior year.

The year over year increase in operating expenses is primarily due to an increase in management fees incurred to the Manager of $668,776 to $1,778,115 (2020 – $1,109,349), which is partially attributable to the increase in income over the prior comparative year. For the year ended February 28, 2021, the internal rate of return earned by the Fund of 7.53% exceeded the Target Return of 4.79% resulting in a Performance Fee expense incurred to the Manager of $658,610 (2020 – nil). During the prior year, the internal rate of return earned by Fund of 6.00% was equal to the Target Return and therefore no Performance Fee expense was incurred to the Manager.

The year over year increase in operating expenses is partially offset by the decrease in interest on loans payable of $630,290 to $359,812 (2020 – $990,102). In March 2020, we refinanced our credit facility from a Canadian financial institution, reducing our interest cost by 50 basis points, and fully repaid our higher cost revolving line of credit with an arm's length party, which further decreased the annualized weighted average interest rate year over year. In addition, the lower weighted average credit facility utilization, which decreased to $9,584,196 in fiscal 2021 from $15,796,359 in the prior year, had a positive impact on our interest expense for the year ending February 28, 2021. This lower utilization was due to strong repayments during the current year and the Manager's focus on helping ensure adequate liquidity during periods of heightened uncertainty with respect to the potential impacts arising from the COVID-19 pandemic. As the market stabilized during the year, the Fund increased lending activity and borrowing. We expect an increased utilization of the credit facility in fiscal 2022.

LIQUIDITY AND CAPITAL RESOURCES

Bank indebtedness is used to manage cash flows when timing differences arise between mortgage loan investment advances, borrower repayments, and issuance and redemption of preferred shares. As at February 28, 2021, the Fund had a $30,000,000 (2020 – $15,000,000) revolving line of credit from a Canadian financial institution (the "Bank Facility"). At February 28, 2021, the Fund had drawn $6,796,552 (2020 – $10,203,820) on the Bank Facility. At February 29, 2020, the Fund had also drawn $5,000,000 on a private revolving credit facility, which was repaid during fiscal 2021.

The revolving loan facility allows borrowings of up to $30,000,000 and is contingent upon the value of the borrowing base. The borrowing base is determined based on the book value of the mortgage portfolio and eligible mortgage loan investments as defined within the credit facility agreement. As per the credit facility agreement, the borrowing base is limited to an amount up to 20% of the book value of the mortgage portfolio, consistent with the terms of the Fund's Offering Memorandum. This facility became available for use in March 2020, at which time the Fund used the facility to refinance the previous Bank Facility and private facility. Amounts borrowed under the new Bank Facility are due on demand and bear interest at a variable rate per annum of 1.00% above the bank's prime interest rate. The new facility improves yields by reducing the Fund's cost of borrowing while adding additional leverage to the Fund, within the limits outlined in the offering memorandum. The refinance strengthened our balance sheet and provides us with increased liquidity to grow our portfolio.

Subsequent to year-end, the Board of Directors approved an operating policy change allowing the Fund to borrow up to 30% of the Fund's total assets, an increase from 20% of the book value of the Fund's portfolio of mortgage loan investments and other permitted investments. On April 8, 2021, an amendment to the Bank Facility agreement was executed, revising the borrowing base limit to a maximum of 30% of total assets to align with the operating policy. Further, the revised operating policy states that the borrowing limit may be increased up to 50% of the Fund's total assets in the future, contingent on unanimous approval from the independent members of the Board of Directors. This policy change will be effective June 1, 2021.

Pursuant to the terms of the credit facility agreement, the Fund is required to meet certain financial covenants, including a maximum total debt to tangible net worth ratio not to exceed 0.5:1.0 and a minimum debt service coverage ratio not to be less than 5.0:1.0. Throughout fiscal 2021, the Fund was in compliance with all bank covenants relating to the loan agreements and expects to remain in compliance with such covenants going forward.

The growth in the Fund's mortgage portfolio has been financed by the issuance of Class A and Class B preferred shares and through the credit facility. The Manager expects to be able to generate sufficient funds for future growth in net mortgage loan investments by utilizing these sources of funds and believes the Fund is in a strong position of liquidity entering fiscal 2022.

Recent Developments and Outlook

The mortgage portfolio continues to provide capital preservation and consistent income to holders of preferred shares. Despite the COVID-19 pandemic and continued economic uncertainty within Alberta, the Fund's ongoing focus to closely monitor all mortgage investments, maintain short terms to maturity, and invest in mortgages with meaningful equity buffers has resulted in low volatility of Fund results and allowed the Fund to maintain the liquidity necessary to preserve capital. As highlighted by the Fund exceeding its Target Return during fiscal 2021, the Fund's business model has been able to operate successfully across real estate cycles because it is premised on activity occurring within the real estate market, and not rising real estate prices.

The Manager has been taking proactive actions to mitigate the impact of COVID-19 on its business and remains confident in its financial position to mitigate the short and long-term challenges of COVID-19 and address opportunities as they arise. One measure taken by the Fund to protect its investors is to maintain a higher allowance for expected credit losses through consideration of the uncertain economic environment in the ELC model. For fiscal 2022, managing risk will continue to remain the top priority for the Fund, especially in light of current economic circumstances. Over the course of fiscal 2022, the Fund, via the Manager, expects to continue providing returns to investors in excess of its Target Return (average Government of Canada 2-year benchmark bond yield (series V122538) plus 450 basis points by continuing to strategically select and allocate the Fund's available capital to mortgage opportunities from borrowers with increased strength and capacity on projects that it believes represent a better risk adjusted return. Given our recently expanded borrowing limits, we remain well capitalized and are optimistic about our ability to grow our mortgage loan portfolio in fiscal 2022.

Independent Board Of Directors And Independent Lending Review Committee

Strong corporate governance is foundational to the Fund's success in delivering on its dual mandate of preserving investor capital and generating monthly income. With a Board of Directors and Lending Review Committee comprised of five independent members, the Fund and its investors benefit from a decision-making process marked by professional rigour, and which balances independent oversight with the expertise of internal parties. The Fund continues to utilize the extensive real estate experience the independent members have gained as prominent members of the Alberta business community across multiple economic cycles. There were no changes to the Board of Directors or Lending Review Committee during fiscal 2021.

Related Party Transactions

Transactions with related parties are completed in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

FUND'S MANAGER

The Manager is related to the Fund because: (i) Aleem Virani, Shafin Kanji are directors, officers and the beneficial owners of voting shares of both the Manager and the Fund; (ii) Curtis Power is a director and beneficial owner of voting shares of the Manager and is an officer of the Fund; (iii) Renee Kent and Nicholas Jeanes are officers of both the Fund and the Manager; and (iv) Jonathan Herman is a beneficial owner of voting shares of both KV Mortgage Fund and the Manager.

The Manager is responsible for the day-to-day operations of the Fund, including administration of the Fund's mortgage loan investments. In respect of these services, the Fund pays to the Manager a management fee (see discussion in "Management and Service Fees" for a summary of the services provided by the Manager). For the year ended February 28, 2021, the Fund incurred management fees of $1,778,115 (2020 - $1,109,349). The management fee is calculated as the sum of (i) 1.00% of the Fund's weighted average assets per year (calculated and paid monthly) (the "Base Fee"), plus (ii) 20% of any portion of the Fund's net income that exceeds the level of net income required to provide the Fund with an IRR equal to the Target Return (annualized calculation subject to a cumulative annual adjustment on the Fund's fiscal year-end) (the "Performance Fee"). The Fund's Target Return is established as the 2-year Government of Canada benchmark bond yield (series V122538) plus 450 basis points. The Manager is required to reimburse the Fund for any unrecovered principal on an investment for up to two times the associated fees that the Manager received from the borrower in arranging the Fund's investment in the mortgage. During the year, the Manager was not required to reimburse the Fund for any unrecovered principal.

In respect of capital raised, the Fund incurred $686,355 (2020 – $653,289) in service fees to the Manager during the year.

OTHER RELATED PARTY TRANSACTIONS

As at February 28, 2021, the Fund was co-invested as a syndicate with two (2020 – two) related parties in two separate mortgage loan investments (2020 – three). At year end, the Fund's share in these two mortgage loan investments totaled $4,021,708 (2020 – $6,974,156).

In respect of the services provided by the Fund's independent members of the Board of Directors and Lending Review Committee during the year, the Fund incurred $82,500 (2020 – $65,000) and $50,750 (2020 – $41,750), respectively, in remuneration expenses.

As at year-end, related parties hold investments in preferred shares of the Fund as follows:

As at	February 28, 2021	February 29, 2020
Class A preferred shares		
Key management of Manager and related parties	**$ 1,494,709**	$ 1,464,322
Independent directors and LRC members	**649,741**	517,930
Class B preferred shares		
Key management of Manager and related parties	**246,708**	133,846
Total shares held by related parties	**$ 2,391,158**	$ 2,116,098

Management and Service Fees

The Manager is responsible for the Fund's day-to-day operations, including administration of the Fund's mortgage loan investments. The Manager monitors and evaluates the Fund's performance, pays for the investment advice provided by the Fund's portfolio manager and provides certain administrative services required by the Fund including record keeping and reporting.

In respect of these services, the Fund pays to the Manager a management fee calculated as: (i) On a monthly basis, 0.083% of the total assets of the Fund; and (ii) On an annual basis, 20% of any portion of the Fund's net income that exceeds the level of net income required to provide the Fund with an Internal Rate of Return ("IRR") equal to the average of the 2 year Government of Canada benchmark bond yield (series V122538), plus 450 basis points (the "Performance Fee").

Further, effective for all mortgage loans funded on or after March 1, 2017, in the event all of the real estate security of an investment has been monetized and the nominal aggregate cash flows of such investment to the Fund are negative, the Manager will pay to the Fund a reimbursement (the "Reimbursement") that is calculated as the lesser of: i) the amount required to bring the Fund's nominal aggregate cash flows of such investment to zero; and ii) two times that portion of the associated fees paid to the Manager by the applicable borrower in respect of such investment by the Fund. Any amounts recovered from an investment on which the Fund has received payment of a Reimbursement will first be paid to the Fund until such time as its nominal aggregate cash flows, calculated inclusive of the Reimbursement, are zero, then paid to the Manager in an amount equal to the Reimbursement, with any residual amounts paid to the Fund.

Class A preferred shares pay each registered dealer that introduced the Fund to purchasers of these securities a fee equal to 1.00% per annum of the subscription proceeds received by the Fund that are attributable to the efforts of these distributors (the "Class A Service Fees"). The Class A Service Fees are calculated and paid at the end of each fiscal quarter.

Class B preferred shares pay the Manager a service fee equal to 1.00% per annum of the subscription proceeds received by the Fund from all outstanding Class B preferred shares (the "Class B Service Fees"). The Class B Service Fees are calculated and paid at the end of each fiscal quarter. The Manager pays commissions and fees equal to 5.00% of the subscription proceeds to registered dealers for Class B preferred share sales that are attributable to their efforts. After 5 years from the date of such Class B preferred share sales, the Manager will also pay a 1.00% annual trailing fee, calculated and paid at the end of each fiscal quarter, to registered dealers that are attributable to the efforts of these distributors.

In addition to the management fees disclosed above, the Fund is responsible to pay for all expenses incurred by it in connection with the operation and management of its business.

Fund Financial Summary & Highlights

Financial Highlights

The following tables show selected key financial information about the Fund and are intended to provide additional metrics and additional information on the Fund's financial performance for the past five fiscal years, as applicable. This information is derived from the Fund's audited annual consolidated financial statements. For the fiscal year ended the last day of February:

	2021	2020	2019	2018	2017
Class A and B preferred share					
Per share equity, beginning of period	**$ 9.86**	$ 10.00	$ 10.00	$ 10.00	$ 10.00
Increase (decrease) from operations:					
Total income	**1.13**	1.18	1.40	1.06	1.02
Total expenses	**(0.40)**	(0.60)	(0.66)	(0.37)	(0.24)
Basic and diluted profit per share:	**0.73**	0.58	0.74	0.69	0.77
Total distributions for the period	**(0.58)**	(0.72)	(0.74)	(0.69)	(0.77)
Per share equity, end of period	**$ 10.00**	$ 9.86	$ 10.00	$ 10.00	$ 10.00
Class A preferred share					
Total share equity[1]	**$ 85,071,066**	$ 79,625,342	$ 65,154,347	$ 54,193,056	$ 50,156,020
Number of shares outstanding[1]	**8,507,107**	7,962,534	6,515,435	5,419,306	5,015,602
Class B preferred share					
Total share equity[1]	**$ 20,294,874**	$ 21,242,400	$ 22,657,847	$ 23,902,567	$ 23,229,743
Number of shares outstanding[1]	**2,029,487**	2,124,240	2,265,785	2,390,257	2,322,974
Ratios and supplemental data:					
Portfolio turnover rate[2]	**0.97**	1.00	0.99	0.71	0.93
Payout ratio[3]	**82.99%**	122.37%	99.82%	99.78%	99.84%
Redemption price	**$ 10.00**	$ 9.86	$ 10.00	$ 10.00	$ 10.00

[1] This information is at the period end of the year shown.

[2] The Fund's portfolio turnover rate is calculated according to the following formula:
[mortgage loan principal repayments received] / [daily weighted average size of the mortgage portfolio]
The portfolio turnover rate indicates how quickly the portfolio's mortgage principal is being repaid.
A portfolio turnover rate of 1.00 is equivalent to the Fund receiving repayments of all mortgage investments once in the course of the year.
There is not necessarily a relationship between a high turnover rate and the performance of the Fund.

[3] Payout ratio is calculated according to the following formula:
[dividends declared to holders of all classes of preferred shares] / [net income and comprehensive income attributable to all classes of preferred shares]

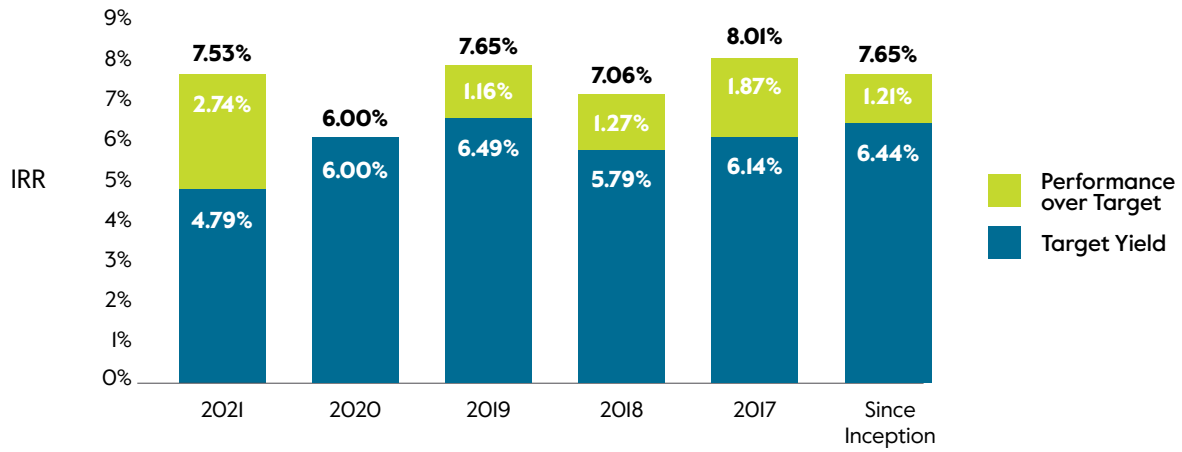
Past Performance

The performance information does not include early redemption fees on Class B preferred shares, expenses that an investor may be charged outside of the Fund by a trustee for investing through a registered account or the effect of any income tax that may have to be paid as a result of an investor's investment in the Fund. The performance information presented is net of all management fees, commissions and operating expenses of the Fund. Returns of the Fund are not guaranteed; how the Fund has performed in the past does not necessarily indicate how it will perform in the future.

YEAR-BY-YEAR RETURNS & TARGET YIELD

The following chart documents the Fund's performance for the period shown as an IRR against the Fund's target yield and illustrates how the Fund's performance changed from year to year.

In percentage terms, the total of each column shows how much an investment made on the first day of the financial period would have grown or decreased by the last day of the financial period assuming that all distributions made by the Fund in the period shown were reinvested in additional securities of the Fund. The chart further documents the composition of each period's return between the target yield and the actual return.



Class A and Class B preferred shares participate equally in the earnings and distributions of the Fund.

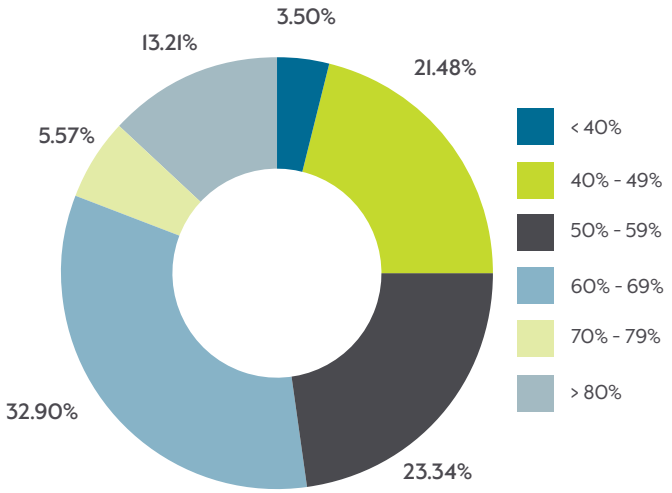
The Fund's target yield is a proxy that was established at the Fund's outset for the expected market rate of return on an investment with a similar risk profile to that of the Fund.

For the period from inception through to the period ending February 28, 2017, the target yield was calculated by adding 550 basis points to the average Government of Canada 2-year benchmark bond yield (series V122538).

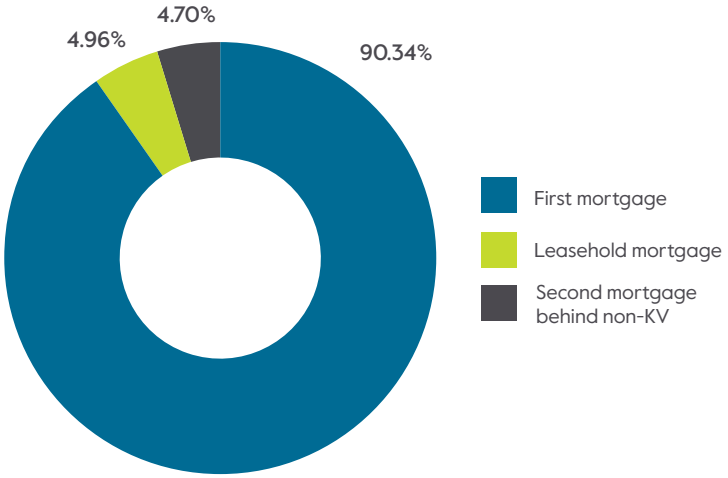
Effective fiscal 2018, the target yield is calculated as 450 basis points above the average Government of Canada 2-year benchmark bond yield (series V122538).

Asset Allocations

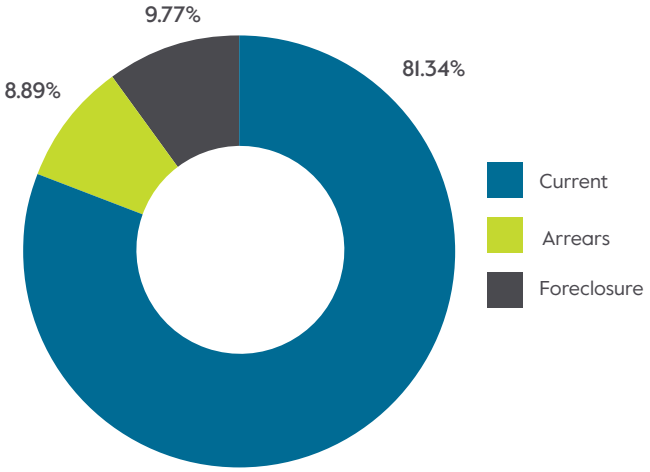
LOAN TO VALUE



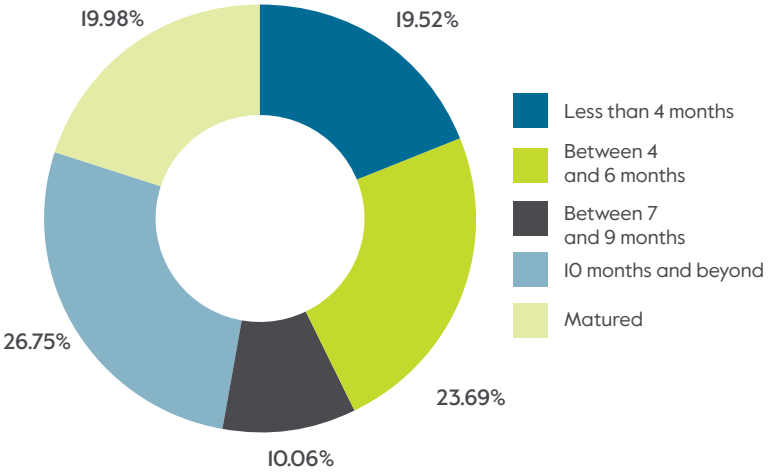
MORTGAGE POSITION



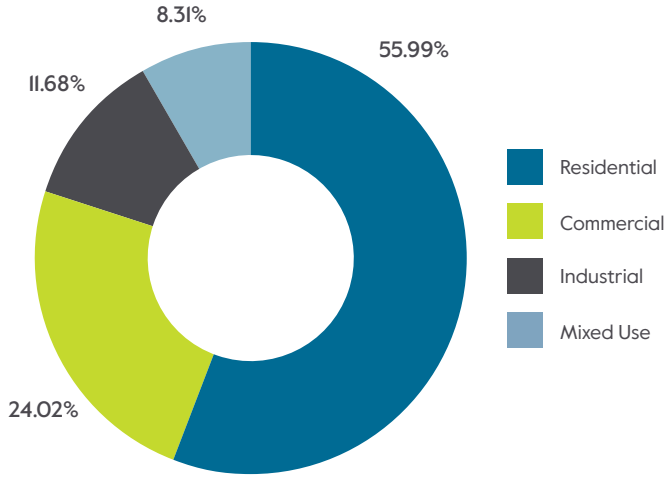
STATUS



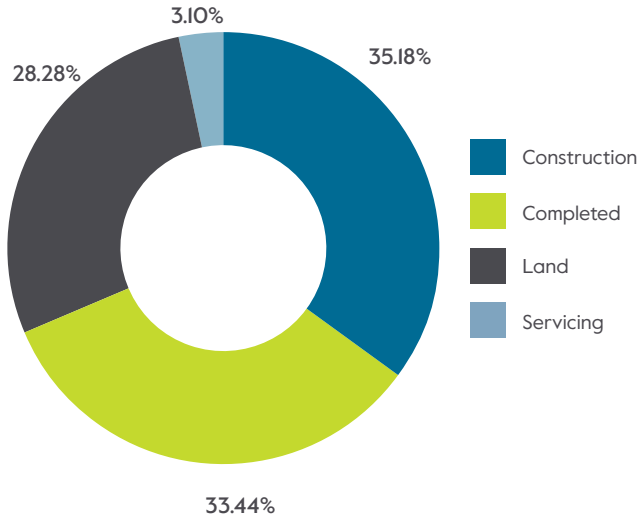
MATURITY



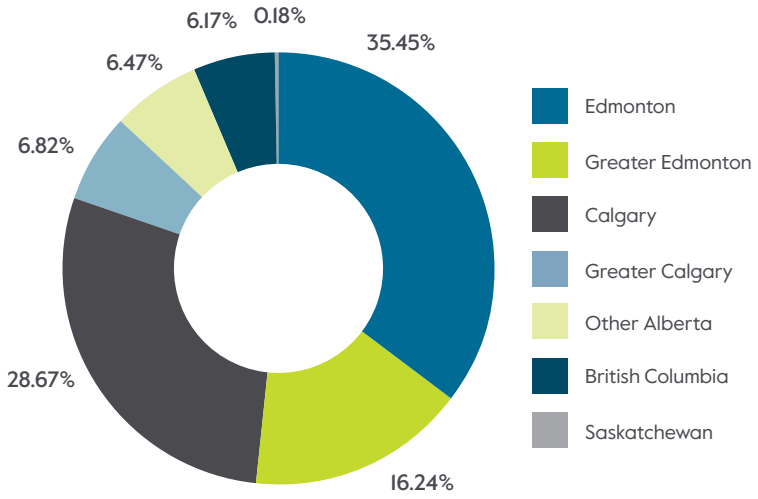
ZONING



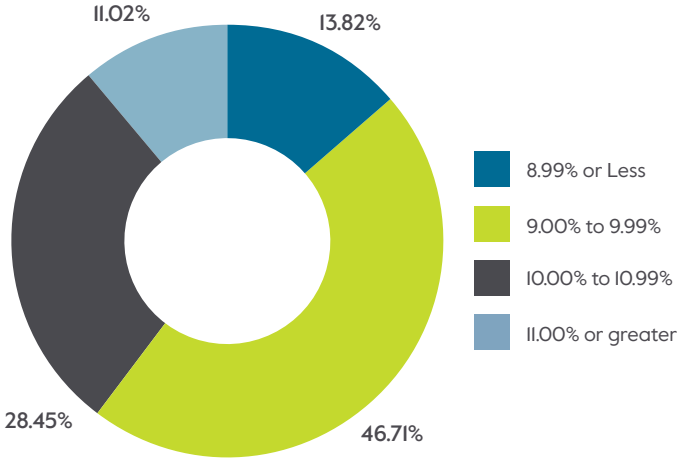
PROJECT PHASE



REGION



INTEREST RATE



Summary of Investment Portfolio

Description of project[1]	Project Phase[2]	Status[3]	Zoning[1]
Single Family Construction	Construction	Current	Residential
Commercial Purchase/Refinance (office/retail)	Complete	Foreclosure	Commercial
Duplex/Townhouse Construction	Construction	Arrears	Residential
Duplex/Townhouse Construction	Construction	Current	Residential
Commercial Purchase/Refinance (office/retail)	Complete	Current	Commercial
Land Purchase/Refinance	Land	Current	Commercial
Land Purchase/Refinance	Land	Current	Industrial
Single Family Construction	Land	Current	Residential
Land Development	Servicing	Current	Residential
Industrial Purchase/Refinance	Complete	Current	Industrial
Industrial Purchase/Refinance	Complete	Current	Industrial
Commercial Purchase/Refinance (office/retail)	Complete	Current	Mixed Use
Residential Purchase/Refinance	Complete	Current	Residential
Industrial Purchase/Refinance	Complete	Current	Industrial
Land Purchase/Refinance	Land	Current	Commercial
Duplex/Townhouse Construction	Construction	Current	Residential
Commercial Construction (office/retail)	Construction	Current	Commercial
Single Family Construction	Construction	Current	Residential
Commercial Purchase/Refinance (office/retail)	Complete	Current	Commercial
Single Family Construction	Complete	Current	Residential
Land Purchase/Refinance	Land	Foreclosure	Commercial
Land Purchase/Refinance	Land	Current	Residential
Land Purchase/Refinance	Land	Current	Mixed Use
Multi-Family Construction (apartment)	Construction	Current	Mixed Use
Duplex/Townhouse Construction	Construction	Current	Residential
Single Family Construction	Construction	Current	Residential
Single Family Construction	Construction	Current	Residential
Duplex/Townhouse Construction	Land	Current	Residential
Commercial Construction (office/retail)	Land	Current	Mixed Use
Multi-Family Construction (apartment)	Land	Foreclosure	Residential
Land Purchase/Refinance	Land	Current	Residential
Multi-Family Construction (apartment)	Complete	Arrears	Residential
Single Family Construction	Construction	Current	Residential
Single Family Construction	Construction	Current	Residential
Single Family Construction	Construction	Arrears	Residential
Single Family Construction	Construction	Current	Residential
Land Purchase/Refinance	Land	Arrears	Residential
Single Family Construction	Complete	Arrears	Residential
Duplex/Townhouse Construction	Complete	Current	Residential

Region[4]		Invested principal[5]	Loan to Value[6]	Term (months)[7]	Interest Rate	Mortgage Position	% of Total Assets
Calgary	$	7,927,354	68%	7	9.25%	1st	6.95%
Calgary	$	6,300,000	90%	Matured	9.45%	1st	5.53%
Edmonton	$	5,474,073	87%	Matured	9.75%	1st	4.81%
British Columbia	$	4,506,946	66%	Matured	10.00%	1st	3.96%
Edmonton	$	4,474,550	42%	5	6.75%	1st	3.93%
Edmonton	$	4,346,024	42%	12	10.00%	1st	3.82%
Greater Edmonton	$	4,000,000	44%	4	10.00%	1st	3.51%
Calgary	$	3,969,804	59%	1	9.25%	1st	3.49%
Edmonton	$	3,439,460	72%	10	11.50%	2nd[9]	3.02%
Greater Edmonton	$	3,000,000	56%	11	12.00%	Leasehold	2.63%
Edmonton	$	2,700,000	66%	1	10.00%	1st	2.37%
Greater Calgary	$	2,675,000	45%	10	9.75%	1st	2.35%
Greater Edmonton	$	2,528,200	67%	10	9.45%	1st	2.22%
Greater Edmonton	$	2,505,053	69%	6	15.00%	Leasehold	2.20%
Calgary	$	2,500,000	67%	6	9.75%	1st	2.20%
Edmonton	$	2,405,196	48%	2	9.50%	1st	2.11%
Other Alberta	$	2,400,000	49%	10	9.50%	1st	2.11%
Greater Calgary	$	2,339,597	59%	4	9.75%	1st	2.05%
Edmonton	$	2,300,336	46%	4	8.75%	1st	2.02%
Calgary	$	2,116,535	67%	7	9.25%	1st	1.86%
Calgary	$	2,065,221	93%	Matured	11.00%	1st	1.81%
Edmonton	$	2,025,000	74%	23	0.00%[8]	1st	1.78%
Calgary	$	2,000,000	56%	9	8.95%	1st	1.76%
Edmonton	$	2,000,000	61%	11	8.50%	1st	1.76%
Edmonton	$	1,982,959	54%	3	10.00%	1st	1.74%
Edmonton	$	1,925,232	68%	3	9.50%	1st	1.69%
Calgary	$	1,865,653	60%	1	10.00%	1st	1.64%
Greater Edmonton	$	1,815,000	59%	4	8.50%	1st	1.59%
Other Alberta	$	1,700,000	55%	10	10.25%	1st	1.49%
Calgary	$	1,602,466	51%	1	9.75%	1st	1.41%
British Columbia	$	1,601,223	18%	5	10.75%	1st	1.41%
Other Alberta	$	1,346,708	60%	Matured	10.50%	1st	1.18%
Greater Calgary	$	1,288,251	57%	1	10.00%	1st	1.13%
Greater Calgary	$	1,049,180	58%	6	9.75%	1st	0.92%
Edmonton	$	825,000	84%	6	9.50%	1st	0.72%
Other Alberta	$	798,729	60%	3	9.95%	1st	0.70%
Greater Edmonton	$	758,589	43%	5	10.75%	1st	0.67%
Edmonton	$	740,000	69%	8	9.95%	2nd[9]	0.65%
Edmonton	$	735,801	61%	1	9.50%	1st	0.65%

Summary of Investment Portfolio Continued

Description of project[1]	Project Phase[2]	Status[3]	Zoning[1]
Commercial Purchase/Refinance (office/retail)	Complete	Current	Commercial
Residential Purchase/Refinance	Complete	Current	Residential
Single Family Construction	Construction	Current	Residential
Duplex/Townhouse Construction	Complete	Current	Residential
Industrial Purchase/Refinance	Complete	Current	Industrial
Land Purchase/Refinance	Land	Current	Commercial
Commercial Purchase/Refinance (office/retail)	Complete	Current	Commercial
Residential Purchase/Refinance	Complete	Foreclosure	Residential
Land Development	Land	Arrears	Residential
Commercial Purchase/Refinance (hotel)	Complete	Current	Commercial
Single Family Construction	Construction	Current	Residential
Commercial Purchase/Refinance (office/retail)	Complete	Current	Mixed Use
Single Family Construction	Construction	Current	Residential
Duplex/Townhouse Construction	Construction	Current	Residential
Land Purchase/Refinance	Land	Current	Residential
Duplex/Townhouse Construction	Land	Current	Residential
Duplex/Townhouse Construction	Complete	Current	Residential
Land Purchase/Refinance	Land	Foreclosure	Residential
Land Purchase/Refinance	Land	Current	Mixed Use
Duplex/Townhouse Construction	Complete	Current	Residential
Single Family Construction	Construction	Current	Residential
Duplex/Townhouse Construction	Land	Current	Residential
Single Family Construction	Complete	Arrears	Residential
Industrial Purchase/Refinance	Complete	Current	Industrial
Land Purchase/Refinance	Land	Current	Residential
Land Purchase/Refinance	Land	Current	Residential

[1] Excludes collateral real-estate security.

[2] Current project phase of the primary real estate security as at February 28, 2021.

[3] Mortgages are classified as "current" at February 28, 2021 when interest are not more than 1 calendar month overdue as at February 28, 2021. Mortgages are classified in "arrears" when interest payments are more than 1 calendar month overdue as at February 28, 2021. Mortgages are classified as "foreclosure" at February 28, 2021 when a demand for repayment is outstanding as at February 28, 2021.

[4] "Greater" denotes a location within 50km of the center of the referenced municipality.

[5] Invested principal represents the amount invested by the Fund in a mortgage. If syndicated, the actual amounts advanced under the mortgage may exceed the Fund's investment.

[6] Loan to value is calculated according to the following formula as applicable: (a) for non-construction mortgage loans: [NCP+OC] / ["as is value" of the real property as determined by a third party]; OR (b) for construction mortgage loans: [CP+OC+CTC] / ["as complete" value of the real property as determined by a third party]. Where: (i) NCP = principal outstanding under a non-construction mortgage or bridge financing loan, and in the case of a second mortgage includes the principal outstanding on the first mortgage, (ii) OC = other charges, including interest arrears and other priority financial encumbrances (ex. property taxes), (iii) CP = principal outstanding under a construction mortgage or bridge financing loan, and in the case of a second mortgage includes principal outstanding on the associated first mortgage; and (iv) CTC = cost to complete the construction project.

[7] Number of months remaining at February 28, 2021 until the contractual maturity date of the mortgage.

[8] This loan has a two-month interest free period which resets to 9.0% effective April 2021.

[9] A third party that is not related to the Fund holds an interest in a first mortgage that is secured on this property.

Region[4]		Invested principal[5]	Loan to Value[6]	Term (months)[7]	Interest Rate	Mortgage Position	% of Total Assets
Greater Edmonton	$	684,170	22%	4	11.50%	1st	0.60%
Greater Edmonton	$	683,422	39%	5	9.45%	1st	0.60%
British Columbia	$	646,090	57%	9	10.00%	1st	0.57%
Greater Edmonton	$	627,319	55%	12	10.00%	1st	0.55%
Edmonton	$	600,000	55%	2	10.25%	1st	0.53%
Edmonton	$	550,000	50%	Matured	10.00%	1st	0.48%
Greater Edmonton	$	543,556	63%	Matured	12.00%	2nd[9]	0.48%
Greater Edmonton	$	528,674	61%	Matured	10.00%	1st	0.46%
Edmonton	$	517,714	65%	Matured	10.25%	1st	0.45%
Other Alberta	$	507,039	55%	2	9.01%	1st	0.45%
Edmonton	$	504,491	58%	9	9.95%	1st	0.44%
Edmonton	$	498,750	75%	18	7.26%	2nd[9]	0.44%
Other Alberta	$	425,202	53%	9	10.25%	1st	0.37%
Calgary	$	399,548	34%	3	9.50%	1st	0.35%
Edmonton	$	388,744	47%	11	10.00%	1st	0.34%
Calgary	$	386,750	65%	8	10.00%	1st	0.34%
Greater Edmonton	$	352,200	59%	11	9.95%	1st	0.31%
Calgary	$	350,000	67%	Matured	9.95%	1st	0.31%
Calgary	$	350,000	37%	6	10.00%	1st	0.31%
Edmonton	$	315,000	56%	4	9.75%	1st	0.28%
Edmonton	$	298,050	59%	2	9.75%	1st	0.26%
Greater Calgary	$	224,850	70%	3	8.75%	1st	0.20%
Saskatchewan	$	203,300	59%	3	10.00%	1st	0.18%
Edmonton	$	159,375	15%	2	10.10%	1st	0.14%
Edmonton	$	140,000	50%	9	9.25%	1st	0.12%
British Columbia	$	100,000	48%	5	10.00%	1st	0.09%

Totals	**$**	**111,017,384**	**97.49%**
Plus: Accrued interest receivable		2,768,771	2.43%
Provision for non-collectible mortgage loan investments		(2,110,252)	(-1.85%)
Mortgage loan investments	**$**	**111,675,903**	**98.07%**
Cash		51,943	0.05%
Other net assets		2,151,517	1.88%
Total assets	**$**	**113,879,363**	**100.00%**

	Loan to Value[6]	Term (months)[7]	Interest Rate
Weighted Averages	**61%**	**5.25**	**9.63%**

Consolidated Financial Statements

Management's Responsibility

The accompanying consolidated financial statements for KV Mortgage Fund Inc. (the "Fund") are the responsibility of management and have been approved by the Board of Directors. In management's opinion, these consolidated financial statements have been prepared within reasonable limits of materiality in accordance with International Financial Reporting Standards.

Management is responsible for ensuring that these consolidated financial statements, which include amounts based on estimates and judgments, are complete and reliable in all material respects. These consolidated financial statements reflect all information available to April 29, 2021.

In addition, management is responsible for establishing and maintaining an adequate system of internal control over financial reporting. The integrity and reliability of the Fund's reporting systems are achieved through the use of policies and procedures, and the appropriate delegation of authority and division of responsibilities. Management maintains a system of internal controls to provide reasonable assurance that assets are safeguarded and that reliable financial records are maintained.

The independent auditors, KPMG LLP, whose report on their examination follows, have audited the consolidated financial statements in accordance with Canadian generally accepted auditing standards. The auditors' report outlines the nature of their examination, and their opinion on the Fund's consolidated financial statements.

The directors of the Fund are responsible for review and final approval of the consolidated financial statements, and for ensuring that management fulfills its responsibilities for financial reporting and internal controls.

Original signed by

Aleem Virani, CPA, CA, CBV, ICD.D
Chief Executive Officer

Renee Kent, CPA, CA
Chief Financial Officer

April 29, 2021

Independent Auditors' Report

To the Shareholders of KV Mortgage Fund Inc.

OPINION

We have audited the consolidated financial statements KV Mortgage Fund Inc. (the "Entity"), which comprise:

» the consolidated statements of financial position as at February 28, 2021 and February 29, 2020

» the consolidated statements of income and comprehensive income for the years then ended

» the consolidated statements of changes in equity for the years then ended

» the consolidated statements of cash flows for the years then ended

and notes to the consolidated financial statements, including a summary of significant accounting policies (Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at February 28, 2021 and February 29, 2020, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

BASIS FOR OPINION

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "***Auditors' Responsibilities for the Audit of the Financial Statements***" section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

OTHER INFORMATION

Management is responsible for the other information. Other information comprises the information, other than the financial statements and the auditors' report thereon, included in a document likely to be entitled "Annual Report".

Our opinion on the financial statements does not cover the other information and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

The information, other than the financial statements and the auditors' report thereon, included in a document likely to be entitled "Annual Report" is expected to be made available to us after the date of this auditors' report. If, based on the work we will perform on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.

RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, 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.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

» Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

» Obtain an understanding of internal control relevant to the audit 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.

» Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

» Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.

» Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

» Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG LLP

Chartered Professional Accountants
Edmonton, Canada
April 29, 2021

Consolidated Statements of Financial Position

As at February 28, 2021 and February 29, 2020

		February 28, 2021	February 29, 2020
Assets			
Cash and cash equivalents		**$ 51,943**	$ 63,435
Other assets	Note 5	**264,717**	355,800
Mortgage loan investments	Note 6	**111,675,903**	113,724,938
Properties held under foreclosure	Note 7	**1,886,800**	1,699,273
Total assets		**$ 113,879,363**	$ 115,843,446
Liabilities and equity			
Loans payable	Note 8	**$ 6,796,552**	$ 15,203,820
Due to Fund Manager	Note 11 (c)	**1,114,860**	458,933
Accounts payable and accrued liabilities		**180,574**	162,535
Dividends payable	Note 9	**364,757**	350,225
Total liabilities		**8,456,743**	16,175,513
Shareholders' equity			
Class A preferred shares	Note 9	**85,071,066**	79,625,342
Class B preferred shares	Note 9	**20,294,874**	21,242,400
Class A common shares	Note 9	**1,000**	1,000
Retained earnings (deficit)		**55,680**	(1,200,809)
Total shareholders' equity		**105,422,620**	99,667,933
Total liabilities and shareholders' equity		**$ 113,879,363**	$ 115,843,446

Subsequent events Note 8

See accompanying notes to the consolidated financial statements.

Approved by the Board of Directors:

Paul Allard
Director

Aleem Virani
Director

Consolidated Statements of Income and Comprehensive Income

As at February 28, 2021 and February 29, 2020

		February 28, 2021	February 29, 2020
Revenue:			
Interest		**$ 10,848,754**	$ 10,950,919
Expenses:			
Management fees	Note 11 (c)	**1,778,115**	1,109,349
Service fees	Note 11 (c)	**1,023,263**	958,756
Provision for non-collectible mortgage loan investments	Note 6 (b)	**459,328**	2,260,143
Interest on loans payable	Note 8	**359,812**	990,102
Insurance expense		**112,395**	108,488
Other operating costs		**82,804**	35,001
Director fees	Note 11 (c)	**82,500**	65,000
Professional fees		**76,853**	83,037
Lending review committee fees	Note 11 (c)	**50,750**	41,750
Total expenses		**4,025,820**	5,651,626
Other income and loss:			
Gain on disposal of properties held under foreclosure	Note 7 (b)	**621,881**	191,901
Income (loss) from properties held under foreclosure		**(77,203)**	14,824
Other income		**20,000**	-
Total other income		**564,678**	206,725
Net income and comprehensive income		**$ 7,387,612**	$ 5,506,018
Earnings per share - basic and diluted			
Class A and Class B preferred shares	Note 10	**$ 0.73**	$ 0.58

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Changes in Equity

As at February 28, 2021 and February 29, 2020

February 28, 2021	**Class A preferred shares**	**Class B preferred shares**	**Class A common shares**	**Retained earnings (deficit)**	**Total**
Shareholders' equity, beginning of year	**$ 79,625,342**	**$ 21,242,400**	**$ 1,000**	**$ (1,200,809)**	**$ 99,667,933**
Net income and comprehensive income	**-**	**-**	**-**	**7,387,612**	**7,387,612**
Dividends to shareholders	**-**	**-**	**-**	**(6,131,123)**	**(6,131,123)**
Proceeds from issuance of shares	**7,992,831**	**347,938**	**-**	**-**	**8,340,769**
Issuance of shares under share based compensation plan	**73,077**	**-**	**-**	**-**	**73,077**
Issuance of shares from dividend reinvestment plan	**1,495,588**	**722,667**	**-**	**-**	**2,218,255**
Redemption of shares	**(4,115,772)**	**(2,018,131)**	**-**	**-**	**(6,133,903)**
Shareholders' equity, end of year	**$ 85,071,066**	**$ 20,294,874**	**$ 1,000**	**$ 55,680**	**$ 105,422,620**

February 29, 2020	**Class A preferred shares**	**Class B preferred shares**	**Class A common shares**	**Retained earnings (deficit)**	**Total**
Shareholders' equity, beginning of year	$ 65,154,347	$ 22,657,847	$ 1,000	$ 31,031	$ 87,844,225
Net income and comprehensive income	-	-	-	5,506,018	5,506,018
Dividends to shareholders	-	-	-	(6,737,858)	(6,737,858)
Proceeds from issuance of shares	15,137,877	851,455	-	-	15,989,332
Issuance of shares under share based compensation plan	43,586	-	-	-	43,586
Issuance of shares from dividend reinvestment plan	1,796,440	857,522	-	-	2,653,962
Redemption of shares	(2,506,908)	(3,124,424)	-	-	(5,631,332)
Shareholders' equity, end of year	$ 79,625,342	$ 21,242,400	$ 1,000	$ (1,200,809)	$ 99,667,933

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Consolidated Cash Flows

As at February 28, 2021 and February 29, 2020

		February 28, 2021	February 29, 2020
Cash provided by (used in):			
Operating activities:			
Net income and comprehensive income		**$ 7,387,612**	$ 5,506,018
Adjustments to determine cash flows relating to operating activities:			
Provision for non-collectible mortgage loan investments		**459,328**	2,260,143
Gain on disposal of foreclosed properties held for sale		**(621,881)**	(191,901)
Share based compensation		**73,077**	43,586
Changes in non-cash operating items:			
Accrued interest receivable		**(1,149,296)**	(1,219,982)
Other assets		**91,083**	(343,800)
Due to Fund Manager		**655,927**	(190,428)
Accounts payable and accrued expenses		**18,039**	(7,251)
Net cash flows from operating activities		**6,913,889**	5,856,385
Financing activities:			
Proceeds from issuance of Class A preferred shares		**7,992,831**	15,137,877
Proceeds from issuance of Class B preferred shares		**347,938**	851,455
Redemption of Class A preferred shares		**(4,115,772)**	(2,506,908)
Redemption of Class B preferred shares		**(2,018,131)**	(3,124,424)
Net repayment of loans payable		**(8,407,268)**	(4,693,152)
Cash dividends paid		**(3,898,336)**	(4,049,976)
Net cash flows from (used in) financing activities		**(10,098,738)**	1,614,872
Investing activities:			
Cash proceeds received from sale of foreclosed properties held for sale		**2,709,881**	1,189,591
Funding of mortgage loan investments		**(103,207,843)**	(111,591,668)
Payout of mortgage loan investments		**103,671,319**	102,672,059
Net cash flows from (used in) investing activities		**3,173,357**	(7,730,018)
Decrease in cash and cash equivalents		**(11,492)**	(258,761)
Cash and cash equivalents, beginning of year		**63,435**	322,196
Cash and cash equivalents, end of year		**$ 51,943**	$ 63,435
Supplemental cash flow information on non-cash financing activities:			
Class A preferred shares issued under dividend reinvestment plan	**Note 9**	**$ 1,495,588**	$ 1,796,440
Class B preferred shares issued under dividend reinvestment plan	**Note 9**	**$ 722,667**	$ 857,522
Cash flows from operating activities:			
Interest received		**$ 10,583,989**	$ 10,135,228
Interest paid		**$ 359,812**	$ 970,655

See accompanying notes to the consolidated financial statements.

Notes to the Consolidated Financial Statements

Years ended February 28, 2021 and February 29, 2020

1. Nature of operations

KV Mortgage Fund Inc. (the "Fund") was incorporated under the laws of the Province of Alberta by articles of incorporation on January 8, 2009. The Fund is a Mortgage Investment Corporation ("MIC") as defined in Section 130.1(6) of the Canada Income Tax Act ("ITA").

The investment objective of the Fund is to provide its preferred shareholders with income generated from a diversified portfolio of mortgage loan investments (also referred to as "mortgages"), while preserving the Fund's capital. KV Capital Inc., as manager of the Fund (the "Fund Manager" or "KVC"), is responsible for the day-to-day operations and providing all general management and administrative services of the Fund's mortgage loan portfolio. The Fund Manager is related to the Fund because of the management arrangement, certain common directors and officers, and certain directors and officers of the Fund and the Fund Manager whom also control voting shares in both entities.

The Fund and Fund Manager are domiciled in Canada, with head offices at Suite 101, 1290 – 91 Street SW, Edmonton, Alberta.

2. Basis of presentation:

a. Statement of compliance:

These consolidated financial statements have been prepared by management in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The consolidated financial statements are presented in Canadian dollars, which is the Fund's functional currency.

These consolidated financial statements were approved by the Board of Directors on April 29, 2021.

b. Use of judgements and estimates:

The preparation of the Fund's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses. Those estimates and judgements have been applied in a manner consistent with the prior period and there are no known trends, commitments, events or uncertainties, other than the potential effects of the novel strain of coronavirus (COVID-19) pandemic, that management believes will materially affect the methodology utilized in making those estimates and judgements in these consolidated financial statements.

Since March 2020, the outbreak of COVID-19 has resulted in a series of public health and emergency measures being put in place to contain the spread of the virus. These measures have caused material disruption to businesses in Canada and an economic slowdown. It is not possible to forecast with certainty the duration and full scope of the economic impact of COVID-19 and consequential changes it will have on the financial results and condition of the Fund, both in the short term and in the long term. Areas of the Fund's business that could potentially be adversely impacted include, but are not limited to, mortgage interest rates, interest revenue, provision for non-collectible mortgage loan investments, and valuation of properties held under foreclosure. To

date, the Fund has not experienced material changes in the collection of interest and repayments of principal, however, there is no certainty this will continue going forward. Given the unprecedented and pervasive impact of changing circumstances surrounding the COVID-19 pandemic, there is inherently more uncertainty associated with the estimates, judgements and assumptions made by management in the preparation of the consolidated financial statements.

The significant judgements and estimates used in determining the recorded amounts for assets and liabilities in the consolidated financial statements relate to:

i. the measurement of provision for non-collectible mortgage loan investments (Notes 4(a) and 6(b)), in particular: the measurement of credit risk to determine whether there has been a significant increase in credit risk since initial recognition; the assessment of when mortgage loan investments become impaired; and the incorporation of forward-looking information to determine expected credit losses; and

ii. fair value of financial instruments as the Fund's accounting policies and disclosures require the measurement of fair values for both financial and non-financial assets and liabilities, which includes exercising judgement in determining whether financial instruments are categorized as based on level 1, 2, or 3 inputs (Note 12).

These assumptions are limited by the availability of reliable comparable data, economic uncertainty, and the uncertainty of predictions concerning future events. Accordingly, by their nature, estimates are subjective and do not necessarily result in precise determinations of the actual outcome. Should the underlying assumptions change, the estimated value could vary by a material amount. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized in the period in which the estimate is revised and in any future periods affected.

c. New and amended standards and interpretations:

Conceptual Framework for Financial Reporting

In March 2018, the IASB issued a revised version of its *Conceptual Framework for Financial Reporting* (the "Framework"), that underpins IFRS Standards. The IASB also issued *Amendments to References to the Conceptual Framework in IFRS Standards* to update references in IFRS Standards to previous versions of the Conceptual Framework. The Fund has adopted the amendments in its consolidated financial statements for the period beginning March 1, 2020. The implementation of the amendments did not have a material impact on the Fund's consolidated financial statements.

Definition of Material (Amendments to IAS 1 and IAS 8)

In October 2018, the IASB issued the Definition of Material (Amendments to International Accounting Standard ("IAS") 1 – *Presentation of Financial* Statements and IAS 8 – *Accounting Policies, Changes in Accounting Estimates and Errors)*. The amendments clarify the definition of material to align the definition used across the IFRS Standards and the Framework. The Fund has adopted the amendments to IAS 1 and IAS 8 in its consolidated financial statements for the period beginning March 1, 2020. The implementation of the amendments did not have a material impact on the Fund's consolidated financial statements.

3. Basis of consolidation:

These consolidated financial statements include the accounts of the Fund and its subsidiaries, KV RE Airdrie Limited Partnership, KV RE Copperwood Limited Partnership and KV RE Prism Limited Partnership. All intercompany transactions and balances are eliminated upon consolidation. Subsidiaries are consolidated from the date on which the Fund obtains control and continue to be consolidated until the date that such control ceases. The Fund controls an entity when it is exposed to, or has the right to, variable returns from the performance of the entity and it has the ability to affect those returns through its control over the entity. The financial statements of the subsidiaries are prepared for the same reporting period as the Fund, using consistent accounting policies.

4. Significant accounting policies:

The following are significant accounting policies applied by the Fund in the preparation of its consolidated financial statements.

a. Financial instruments:

Financial assets – initial recognition and measurement

Financial assets are initially recognized when the Fund becomes a party to a contract. On initial recognition, the measurement category is determined based on a combination of the business model under which the asset is held and the instruments' contractual cash flow characteristics.

Upon initial recognition, financial assets are measured as either:

- Amortized cost – if the instrument is held within a business model whose objective is to hold assets to collect contractual cash flows and the cash flows represents solely payments of principal and interest;
- Fair value through profit and loss ("FVTPL") – which is the required measurement classification for instruments that are held for trading and derivative assets; or
- Fair value through other comprehensive income ("FVOCI") – which is required for debt instruments held in a dual-purpose business model, to collect contractual cash flows and to sell the instruments and can be irrevocably elected at initial recognition provided they have not been designated as FVTPL and are not held for trading.

The Fund's cash and cash equivalents, other assets, and mortgage loan investments are measured at amortized cost.

All of the Fund's mortgage loan investments are held in a single business model; the Fund has concluded that its business model is to hold mortgage loan investments to collect contractual cash flows for the following reasons:

a. The performance of the mortgage portfolio is assessed on the basis of effective yield, and not on a fair value basis, whether realized or unrealized.
b. Historically, the Fund has not sold, and in the future has no expectations to sell, any of its mortgage loan investments to generate income. The Fund may decrease its interest in a syndicated mortgage loan investment by selling its interest, at its carrying amount, to another lender in the syndicate, such sales are consistent with the business model of holding mortgage loan investments to collect contractual cash flows.

The returns earned by the Fund on its mortgage loan investments are determined by interest rates that are set at levels to provide an acceptable profit margin based on the time value of money, credit risk, and other lending risks (for example, the location and quality of the underlying collateral). There are no factors that give rise to variation in the return on the Fund's mortgage loan investments other than the time value of money, credit risk and other lending risks. Interest rates or the credit spread for variable rate mortgages are set for the full term of the loan, which is considered solely payments of principal and interest because the rate is primarily based on the time value of money and credit risk.

Financial liabilities – initial recognition and measurement

Financial liabilities are measured as either:

- Amortized cost – which is the default category and is also used for any host contract that is a financial liability; or
- FVTPL – which is required for any financial instrument liabilities that are held for trading and for derivative liabilities.

The Fund's loan payable, due to Fund Manager, accounts payable and accrued liabilities and dividends payable are measured at amortized cost. These financial liabilities are initially recognized at fair value and are subsequently measured at amortized cost using the effective interest method.

Financial instruments – impairment of assets

The Fund's mortgage loan investments are assessed for impairment at the end of each reporting period using an expected credit loss ("ECL") model. The ECL model uses a three-stage impairment approach based on changes in the credit risk of financial assets since initial recognition.

An ECL represents the difference between the present value of all contractual cash flows that are due under the original terms of the contract and the present value of all cash flows expected to be received. The Fund's application of the concept uses three inputs to measure ECLs for mortgage loan investments: probability of default (PD), loss given default (LGD) and exposure at default (EAD). These inputs are determined, using judgment, at each reporting period using historical data and current conditions. Adjustments may be made to the probability of default if the effects of, for example, forecasts of housing prices, employment and interest rates, are expected to be significantly different over the term of the mortgage. The ECL is assessed individually for each mortgage loan investment classified at each stage. For each mortgage assessed, forecast future information specific to the mortgage (for example, forecasts of real estate prices) is incorporated when assessing the cash flows expected to be received.

The three stages are as follows:

STAGE 1: Mortgage loan investments on initial recognition and other existing financial assets that have not shown a significant increase in credit risk since initial recognition. The Fund recognizes an allowance based on 12 month ECLs, which represent lifetime ECLs related to default events that are expected to occur within 12 months after the reporting date.

STAGE 2: Mortgage loan investments and other existing financial assets that have experienced a significant increase in credit risk since initial recognition. The Fund records an allowance for the lifetime ECLs.

As the majority of the Fund's mortgages have a term of 12 months or less, the Fund recognizes an allowance of the lifetime ECLs for all mortgage loan investments, and Stage 1 and 2 mortgage loan investments have been grouped together.

STAGE 3: Mortgage loan investments and other existing financial assets for which there is objective evidence of impairment. The Fund records an allowance for the lifetime ECLs for mortgages considered to be credit-impaired to reduce the carrying amount to the expected recoverable amount.

The Fund considers a mortgage loan investment to be impaired when there is objective evidence that one or more events have occurred that have an unfavourable impact on estimated future cash flows such that there is no longer reasonable assurance as to the timely collection of the full amount of principal and interest. The Fund's historical experience is that mortgages can become 60 days past due, but be brought up to date by the borrower, therefore another additional risk factor also needs to be identified for the mortgage to move to Stage 3. For this reason, the Fund has classified all mortgage loan investments currently under enforcement as Stage 3.

Credit quality is assessed at each reporting period and results in mortgage loan investments being moved between stages, as necessary. Significant judgement is required when assessing evidence of credit impairment and estimating expected credit losses.

The risk factors used in assessing credit risk include:

- payment arrears in excess of 60 days;
- changes in the financial condition of the borrower;
- responsiveness of the borrower;
- other borrower specific information that may be available, without consideration of collateral;
- property specific information related to the collateral;
- changes in market lease rates, capitalization rates, and vacancy rates;
- current economic conditions: interest rates, housing prices, real estate market statistics and employment statistics; and
- supportable forward-looking information: macro-economic factors, such as forecast real estate values and interest rate forecasts.

The mechanics of the ECL calculations are outlined below and the key elements are as follows:

- **PD:** The Probability of Default ("PD") is an estimate of the likelihood of default over a given time period. A default may only happen at a certain time over the assessed period, if the mortgage loan investment has not been previously derecognized and is still in the mortgage portfolio.
- **EAD:** The Exposure at Default ("EAD") is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including accrued interest from missed payments.
- **LGD:** The Loss Given Default ("LGD") is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the Fund would expect to receive, including from the realization of any collateral. It is usually expressed as a percentage of the EAD.

Mortgage loan investments are presented in the statement of financial position net of the provision for impairment. A loss on a mortgage loan investment is written off against the related provision for impairment when there is no reasonable expectation of further recovery, which is the point at which the underlying real property has been liquidated and claims against guarantors, if any, are unlikely to recover any further losses. For any mortgage loan investments that have been written off but where guarantors are still being pursued for collection, no recovery is recognized until the Fund is virtually certain of collection.

Financial instruments – derecognition

Financial assets are derecognized when the contractual rights to receive cash flows from the asset expire. When the Fund exercises its security and takes title to the underlying real estate, the mortgage loan investment is derecognized on the date of foreclosure.

Financial liabilities are derecognized when the obligation under the liability is discharged, cancelled, or expires.

b. Cash and cash equivalents:

Cash and cash equivalents of the Fund comprise cash in hand, deposits held in banks, and highly liquid investments with an original maturity of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

c. Revenue recognition:

Interest income on mortgage loan investments is recognized in the consolidated statements of income and comprehensive income using the effective interest method. Interest income includes the Fund's share of any fees received, as well as the effect of any discount or premium on the mortgage loan investment. Interest income is calculated on the gross carrying amount for mortgage loan investments in Stages I and 2 and on the net carrying amount for mortgage loan investments in Stage 3.

The effective interest method derives the interest rate that discounts the estimated future cash receipts during the expected life of the mortgage loan investments (which is the contractual life, if a shorter period is not expected) to its carrying amount. When calculating the effective interest rate, future cash flows are estimated considering all contractual terms of the financial instrument, but not future credit losses (see *Financial instruments – impairment of assets*). The calculation of the effective interest rate includes all fees and transaction costs paid or received. Fees and transaction costs include incremental revenues and costs that are directly attributable to the acquisition or issuance of the mortgage loan investment.

d. Income taxes:

It is the intention of the Fund to qualify as a MIC for Canadian income tax purposes. As such, the Fund is able to deduct, in computing its income for the taxation year, dividends paid to its shareholders during the year or within 90 days of the end of the year. It is the Fund's intention to maintain its status as a MIC and pay such dividends to its shareholders to remain non-taxable. Accordingly, for consolidated financial statement reporting purposes, the tax deductibility of the Fund's dividends results in the Fund not being subject to taxation and no provision for current or deferred income taxes is required.

e. Share capital:

Class A common shares and Class A and B preferred shares are classified as equity. Incremental costs directly attributable to the issuance of Class A common shares and Class A and B preferred shares are recognized as a deduction from shareholders' equity.

f. Properties held under foreclosure:

Properties held under foreclosure are comprised of property that has been repossessed following foreclosure on mortgages that were in default. When the Fund obtains legal title of the underlying security of an impaired mortgage, the carrying value of the mortgage loan investment, which comprises principal, costs incurred, accrued interest and the related provision for mortgage loss, if any, is reclassified from mortgage loan investments to properties held under foreclosure. Contractual interest on the mortgage loan investment is

discontinued from the date of transfer from mortgage loan investments to properties held under foreclosure. An impairment loss is recognized for any initial or subsequent write-down of the asset to fair value less costs to sell. A gain is recognized for any subsequent increases in fair value less costs to sell, but not exceeding any cumulative impairment losses previously recognized. At each reporting date, properties held under foreclosure are measured at the lower of its carrying amount and fair value less cost to sell.

g. Future changes in accounting policies:

Various pronouncements have been issued by the IASB or IFRS Interpretations Committee ("IFRIC") that will be effective for future accounting periods. The Fund closely monitors new accounting standards as well as amendments to existing standards and assesses what impact, if any, they will have on the consolidated financial statements. None of these forthcoming pronouncements are expected to have a material effect on future consolidated financial statements.

5. Other assets:

As at		February 28, 2021		February 29, 2020
Recoverable fees paid on behalf of borrowers	**$**	**144,844**	$	214,379
Prepaid expenses		**104,873**		91,421
Deferred financing fees		**15,000**		50,000
	$	**264,717**	$	355,800

6. Mortgage Loan Investments:

a. Mortgage portfolio:

The following is a breakdown of the mortgage loan investments held by the Fund by mortgage position:

As at			February 28, 2021			February 29, 2020
Interest in:						
First mortgage	**90.3%**	**$**	**100,290,565**	92.8%	$	105,927,574
Second mortgage behind third party	**4.7%**		**5,221,765**	3.3%		3,756,310
Leasehold mortgage	**5.0%**		**5,505,054**	2.6%		3,000,000
Second mortgage behind KVC first	**-**		**-**	1.3%		1,499,958
	100.0%		**111,017,384**	100.0%		114,183,842
Accrued interest receivable			**2,768,771**			2,504,006
Provision for non-collectible mortgage loan investments			**(2,110,252)**			(2,962,910)
		$	**111,675,903**		$	113,724,938

Interest in mortgages second to KVC mortgages refers to the Fund's interest in second mortgages behind first position mortgages that are originated and serviced by the Fund Manager. Interest in mortgages second to a third-party refers to the Fund's interest in second mortgages behind first position mortgages that are not originated and serviced by the Fund Manager.

The following is a breakdown of the mortgage loan investments held by the Fund by zoning of the mortgaged property:

As at		February 28, 2021			February 29, 2020
Interest in mortgages secured against:					
Residential zoned property	**56.0%**	**$ 62,158,310**	64.5%	$	73,551,737
Commercial zoned property	**24.0%**	**26,670,895**	26.2%		29,938,439
Industrial zoned property	**11.7%**	**12,964,429**	7.5%		8,600,000
Mixed use property	**8.3%**	**9,223,750**	1.8%		2,093,666
	100.0%	**111,017,384**	100.0%		114,183,842
Accrued interest receivable		**2,768,771**			2,504,006
Provision for non-collectible mortgage loan investments		**(2,110,252)**			(2,962,910)
		$ 111,675,903		$	113,724,938

Mortgage loan investments are secured on the real property located within Canada to which they relate and bear interest at a weighted average interest rate of 9.63% (February 29, 2020 - 10.00%). Mortgage loan investments were secured by real property within the following provinces:

As at	February 28, 2021	February 29, 2020
Alberta	**93.6%**	93.4%
British Columbia	**6.2%**	4.9%
Saskatchewan	**0.2%**	1.7%
	100.0%	100.0%

Principal repayments based on contractual maturity dates are as follows:

As at	No.		February 28, 2021	No.		February 29, 2020
After one year but less than two years	**2**	**$**	**2,523,750**	1	$	2,806,310
Matured, not under enforcement	**3**		**7,338,494**	4		11,401,503
Under enforcement	**5**		**10,846,361**	8		12,562,241
Within one year	**55**		**90,308,779**	63		87,413,788
	65	**$**	**111,017,384**	76	$	114,183,842

All unmatured mortgage loan investments contain a prepayment option, whereby the borrower may repay the principal at any time prior to maturity subject to payment of an interest penalty that is specific to each mortgage.

The aging of accrued interest receivable is as follows:

As at	February 28, 2021	February 29, 2020
Not past due	**$ 892,631**	$ 1,205,795
Past due 0-30 days	**220,560**	235,236
Past due 31-90 days	**356,690**	296,747
Past due more than 90 days	**1,298,890**	766,228
	$ 2,768,771	$ 2,504,006

b. Provision for mortgage losses:

The following is a breakdown of the expected credit losses by mortgage position:

As at February 28, 2021			
Interest in:	**Stages 1 and 2**	**Stage 3**	**Total**
First mortgage	**$ 1,211,124**	**$ 700,416**	**$ 1,911,540**
Second mortgage behind third party	**198,712**	**-**	**198,712**
Provision for non-collectible mortgage loan investments	**$ 1,409,836**	**$ 700,416**	**$ 2,110,252**

As at February 29, 2020			
Interest in:	**Stages 1 and 2**	**Stage 3**	**Total**
First mortgage	$ 649,502	$ 1,727,602	$ 2,377,104
Leasehold mortgage	-	498,843	498,843
Second mortgage behind third party	62,863	-	62,863
Second mortgage behind KVC first	24,100	-	24,100
Provision for non-collectible mortgage loan investments	$ 736,465	$ 2,226,445	$ 2,962,910

The following is a breakdown of the expected credit losses by zoning of the mortgaged property:

As at February 28, 2021			
Interest in mortgages secured against:	**Stages 1 and 2**	**Stage 3**	**Total**
Residential zoned property	**$ 978,777**	**$ 113,035**	**$ 1,091,812**
Industrial zoned property	**129,353**	**-**	**129,353**
Commercial zoned property	**85,561**	**748,803**	**834,364**
Mixed use property	**54,723**	**-**	**54,723**
Provision for non-collectible mortgage loan investments	**$ 1,248,414**	**$ 861,838**	**$ 2,110,252**

As at February 29, 2020			
Interest in mortgages secured against:	**Stages 1 and 2**	**Stage 3**	**Total**
Residential zoned property	$ 502,973	$ 1,322,775	$ 1,825,748
Industrial zoned property	18,727	498,843	517,570
Commercial zoned property	211,448	310,938	522,386
Mixed use property	3,317	93,889	97,206
Provision for non-collectible mortgage loan investments	$ 736,465	$ 2,226,445	$ 2,962,910

The expected credit losses by location of security are as follows:

As at February 28, 2021			
	Stages 1 and 2	**Stage 3**	**Total**
Alberta	**$ 1,133,418**	**$ 861,838**	**$ 1,995,254**
British Columbia	**114,362**	**-**	**114,362**
Saskatchewan	**638**	**-**	**636**
Provision for non-collectible mortgage loan investments	**$ 1,248,414**	**$ 861,838**	**$ 2,110,252**

As at February 29, 2020			
	Stages 1 and 2	**Stage 3**	**Total**
Alberta	$ 674,818	$ 2,226,444	$ 2,901,262
British Columbia	51,160	-	51,160
Saskatchewan	10,488	-	10,488
Provision for non-collectible mortgage loan investments	$ 736,466	$ 2,226,444	$ 2,962,910

The Fund has recognized a provision for mortgage principal and interest losses representing management's estimated impairment on mortgage loan investments. Changes in the provision for non-collectible mortgage loan investments were as follows:

Year ended	February 28, 2021	February 29, 2020
Balance, beginning of year	**$ 2,962,910**	$ 1,232,650
Provision for non-collectible mortgage loan investments	**459,328**	2,260,143
Realized loss on mortgage loan investments	**(1,311,986)**	(529,883)
Balance, end of year	**$ 2,110,252**	$ 2,962,910

c. Realized loss on mortgage loan investments:

During the year ended February 28, 2021, the Fund realized losses on mortgage loan investments, which include losses on non-collectible principal of $549,608 (February 29, 2020 - $286,577) and losses on non-collectible interest of $762,378 (February 29, 2020 - $243,306). These losses relate primarily to two loans. The first is a loan whereby the Fund took title to the primary security, residential property located in Edmonton, Alberta, by way of a credit bid on the foreclosed asset. This property was subsequently sold to an arm's length third party with a corresponding gain on disposal of properties held under foreclosure recognized during the year, as discussed in Note 7(b). The second is a loan whereby the Fund took title to the primary security, commercial lands located in Fort McMurray, Alberta by way of a credit bid on a foreclosed asset (see Note 7(a)). Subsequent to the credit bid, the Fund pursued legal remedy against both the collateral security as well as the Guarantor. After the exhaustion of all remedies relating to the guarantee and collateral security, the Fund derecognized the remainder of the mortgage principal balance and accrued interest receivable.

7. Properties held under foreclosure:

a. Properties held under foreclosure:

On April 29, 2019, the Fund obtained title to development lands located in Airdrie, Alberta via a credit bid. As at February 28, 2021 the asset was recorded at $1,702,255, equal to the lesser of the carrying amount of the mortgage loan investment and accrued interest and the credit bid price at the date of transfer, further adjusted for capital expenditures and cost recoveries. Principal and interest that was not recovered via the credit bid price had been recognized as a realized loss on mortgage loan investments in the prior year. As at year end, the Fund intends to sell the lands through a market sale and is actively marketing the property.

On August 3, 2021, the Fund obtained title to commercial lands located in Fort McMurray, Alberta via a credit bid. As at February 28, 2021, the asset was recorded at $184,545, equal to the lesser of the carrying amount of the mortgage loan investment and accrued interest and the credit bid price at the date of transfer. Principal and interest that was not recovered via the credit bid price has been recognized as a realized loss on mortgage loan investments (Note 6 (c)). As at year end, the Fund intends to sell the lands through a market sale and is actively marketing the property.

b. Gain on disposal of foreclosed properties held under foreclosure:

As disclosed in Note 6(c), during the year ended February 28, 2021, the Fund obtained title to a residential property located in Edmonton, Alberta, via a credit bid. Subsequent to the acquisition, the asset was sold to an arm's length third party which resulted in a gain of $621,881, partially offsetting the realized loss on mortgage loan investments recognized upon acquisition of the asset.

8. Loans payable:

As at	February 28, 2021	February 29, 2020
Revolving line of credit - Bank Facility	**$ 6,796,552**	$ 10,203,820
Revolving line of credit - Private Facility	**-**	5,000,000
	$ 6,796,552	$ 15,203,820

On March 26, 2020, the Fund obtained a revolving line of credit with a Canadian financial institution (the "new Bank Facility"). The new Bank Facility allows borrowings up to $30,000,000, which is contingent upon the value of the borrowing base. The borrowing base is determined based on the book value of the mortgage portfolio and eligible mortgage loan investments, as defined within the Credit Facility Agreement. As per the Credit Facility Agreement, the borrowing base is limited to an amount up to 20% of the book value of the mortgage portfolio, consistent with the terms of the Fund's Offering Memorandum. As at February 28, 2021, the borrowing base under the new Bank Facility was $22,420,830. The Credit Facility Agreement requires monthly payments of interest only. Amounts borrowed under the new Bank Facility are due on demand and bear interest at a variable rate per annum of 1.00% above the bank's prime interest rate. The loan is secured by a general security agreement providing a first-ranking security interest in all present and after acquired property.

As at February 29, 2020, the Fund had a $15,000,000 revolving line of credit from a chartered Canadian bank (the "previous Bank Facility") as well as a $5,000,000 revolving line of credit with an arm's length third party (the "Private Facility"). The new Bank Facility was used to refinance the previous Bank Facility and the Private Facility.

Pursuant to the terms of the Credit Facility Agreement, the Fund is required to meet certain financial covenants, including a maximum total debt to tangible net worth ratio and a minimum debt service coverage ratio. As at February 28, 2021 and February 29, 2020, the Fund was in compliance with all financial covenants. Bank indebtedness is used to manage cash flows when timing differences arise between mortgage loan investment advances, borrower repayments, and issuance and redemption of preferred shares.

Subsequent to year-end, the Board of Directors approved an operating policy change allowing the Fund to borrow up to 30% of total assets. On April 8, 2021, an amendment to the new Bank Facility agreement was executed, revising the borrowing base limit to include a maximum of 30% of total assets to align with the operating policy. Further, the policy change states that the borrowing limit may be increased up to 50% in the future, contingent on unanimous approval from the Board of Directors. This policy change will be effective June 1, 2021, upon issuance of the Fund's amended Offering Memorandum, which will reflect a maximum borrowing limit of 50% of total assets, an increase from 20% of the book value of the Fund's portfolio of mortgage loan investments and other permitted investments.

9. Shareholders' equity:

The Fund is authorized to issue an unlimited number of Class A voting common shares, an unlimited number of Class B non-voting common shares, an unlimited number of Class A preferred shares and an unlimited number of Class B preferred shares.

All the classes of preferred shares rank equally with respect to dividends, rank senior to the common shares of the Fund and are redeemable at the option of the Fund's Board of Directors. Class A and Class B preferred shares are privately held and there is no market through which these shares may be sold. The Fund may issue Class A and Class B preferred shares in the future in accordance with securities legislation. The Class A common shares have a nominal value and are owned by certain shareholders and officers of the Fund Manager.

The changes in the number of preferred and common shares were as follows:

Year ended February 28, 2021	Class A preferred shares	Class B preferred shares	Class A common shares
Shares outstanding, beginning of year	**7,967,342**	**2,126,471**	**400**
Issued for cash	**799,283**	**34,794**	**-**
Issued under share based compensation plan	**7,308**	**-**	**-**
Redeemed	**(411,577)**	**(201,813)**	**-**
Issued under dividend reinvestment plan	**149,559**	**72,267**	**-**
Shares outstanding, end of year	**8,511,915**	**2,031,719**	**400**

Year ended February 29, 2020	Class A preferred shares	Class B preferred shares	Class A common shares
Shares outstanding, beginning of year	6,520,242	2,268,015	400
Issued for cash	1,513,788	85,146	-
Issued under share based compensation plan	4,359	-	-
Redeemed	(250,691)	(312,442)	-
Issued under dividend reinvestment plan	179,644	85,752	-
Shares outstanding, end of year	7,967,342	2,126,471	400

a. Redemptions:

Preferred shareholders may on a monthly basis request redemption of any or all of their outstanding shares by providing 30 days advance notice to the Fund. Redemption of the Fund's preferred shares is at the option of the Fund, in its absolute discretion. The Board of Directors of the Fund may elect, in their discretion, to redeem preferred shares from particular holders to the exclusion of other holders of preferred shares.

Redemptions of Class A preferred shares are completed without any fees. Class B preferred shares are subject to early redemption fees payable to the Fund Manager in the first five years from the date of subscription. Redemptions of Class B preferred shares requested after five years from the date of subscription are completed without any early redemption fees.

The Fund shall not accept redemption requests for preferred shares in the same calendar month where they represent more than 5% of the total number of preferred shares outstanding on the redemption date. Should

the number of preferred shares tendered for redemption exceed the limit, the Fund may, at its discretion redeem all tendered preferred shares, redeem the preferred shares tendered on a pro rata basis, or suspend redemptions. Holders of the Fund's preferred shares have no right to require the Fund to redeem their preferred shares. When preferred shares are redeemed at the option of the Fund, the redemption amount is equal to the net asset value of each particular preferred share plus any declared and unpaid dividends at the redemption date.

b. Dividends:

The Fund intends to pay dividends to shareholders monthly, on or about the 15th day following the end of each month.

For the year ended February 28, 2021, the Fund declared dividends on Class A preferred shares of $4,863,539 (February 29, 2020 - $5,133,749). As at February 28, 2021, $316,115 (February 29, 2020 - $297,205) was payable to the Class A preferred shareholders.

For the year ended February 28, 2021, the Fund declared dividends on Class B preferred shares of $1,267,584 (February 29, 2020 - $1,604,109). As at February 28, 2021, $48,642 (February 29, 2020 - $53,020) was payable to the Class B preferred shareholders.

c. Dividend reinvestment plan:

The Fund has a dividend reinvestment plan ("DRIP") available to Class A and Class B preferred shareholders. Under the DRIP, shareholders may enroll to have their dividends reinvested to purchase additional preferred shares of the same class. The preferred shares are issued from treasury at an amount of $10.00 per share. For the year ended February 28, 2021, 149,559 (February 29, 2020 - 179,644) Class A preferred shares were issued under the DRIP, resulting in reinvested dividends of $1,495,588 (February 29, 2020 - $1,796,440). For the year ended February 28, 2021, 72,267 (February 29, 2020 - 85,752) Class B preferred shares were issued under the DRIP, resulting in reinvested dividends of $722,667 (February 29, 2020 - $857,522). Dividend reinvestments are recorded on a monthly basis.

10. Earnings per share:

The following table reconciles the numerators and denominators of the basic and diluted earnings per share:

Year ended February 28, 2021		Class A preferred shares		Class B preferred shares		Total
Net Income	**$**	**5,875,535**	**$**	**1,512,077**	**$**	**7,387,612**
Basic and diluted weighted average number of shares		**8,064,910**		**2,075,516**		**10,140,426**
Earnings per share - basic and diluted	**$**	**0.73**	**$**	**0.73**	**$**	**0.73**

Year ended February 29, 2020		Class A preferred shares		Class B preferred shares		Total
Net Income	$	4,210,386	$	1,295,632	$	5,506,018
Basic and diluted weighted average number of shares		7,199,464		2,215,440		9,414,904
Earnings per share - basic and diluted	$	0.58	$	0.58	$	0.58

For the years ended February 28, 2021 and February 29, 2020, the Fund had no outstanding convertible instruments that would trigger conversation of potential preferred shares to preferred shares.

II. Related party balances and transactions:

Transactions with related parties are in the normal course of business and are recorded at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

a. Syndicate mortgage loan investments:

As at February 28, 2021, the Fund was co-invested as a syndicate with two (February 29, 2020 - two) related parties in two separate mortgage loan investments (February 29, 2020 - three). As at February 28, 2021, the Fund's share in the mortgage loan investments totaled $4,021,708 (February 29, 2020 - $6,974,156).

b. Preferred shareholders:

The following is a breakdown of Class A and B preferred shares held by related parties:

As at	February 28, 2021	February 29, 2020
Class A preferred shares		
Key management of Fund Manager and related parties	**$ 1,494,709**	$ 1,464,322
Independent directors and LRC members	**649,741**	517,930
Class B preferred shares		
Key management of Fund Manager and related parties	**246,708**	133,846
Total shares held by related parties	**$ 2,391,158**	$ 2,116,098

c. Transactions during the period:

i. Service fees:

Service fees equal to 1% per annum of the paid-up capital for outstanding preferred shares are paid by the Fund as compensation for capital raised. The Fund pays each registered dealer, including the Fund Manager, service fees in respect of outstanding Class A preferred shares that are held by clients of that registered dealer. In respect of outstanding Class B preferred shares, the Fund pays service fees to the Fund Manager. Service fees are calculated and paid at the end of each fiscal quarter. For the year ended February 28, 2021, the Fund incurred service fees to the Fund Manager of $686,355 (February 29, 2020 -$653,289) with $176,281 (February 29, 2020 - $167,848) of this amount included in amounts due to Fund Manager at year end.

ii. Management fees paid to Fund Manager:

The Fund Manager is responsible for the day-to-day operations, including administration of the Fund's mortgage loan investments. In respect of these services, the Fund pays to the Fund Manager a management fee. Under the agreement, the Fund Manager is paid as follows: (i) On a monthly basis, 0.083% of the total assets of the Fund (the "Base Fee"); and (ii) On an annual basis, 20% of any portion of the Fund's net income that exceeds the level of net income required to provide the Fund with an internal rate of return ("IRR") equal to the average of the 2 year Government of Canada benchmark bond yield (series V122538), plus 450 basis points (the "Performance Fee"). For the year ended February 28, 2021, the Fund incurred management fees of $1,778,115 (February 29, 2020 - $1,109,349) with $938,579 (February 29, 2020 - $291,085) of this amount included in amounts due to Fund Manager at year end.

For purposes of calculating the Base Fee, a simple average of the Fund's opening and closing total assets is calculated using the un-audited monthly consolidated statements of financial position. Base Fees include applicable taxes and are disbursed to the Fund Manager on a monthly basis. The Performance Fee will be calculated using the Fund's annual audited consolidated statements of income and comprehensive income, including the Base Fee as an expense in such calculation. Performance Fees include applicable taxes and will be disbursed to the Fund Manager on an annual basis.

Further, in the event all of the real estate security of a mortgage loan investment has been monetized and the nominal aggregate cash flows of such investment to the Fund are negative, the Fund Manager will pay to the Fund a reimbursement that is calculated as the lesser of: i) the amount required to bring the Fund's nominal aggregate cash flows of such mortgage loan investment to zero; and ii) two times that portion of the associated fees paid to the Fund Manager by the applicable borrower in respect of such mortgage loan investment by the Fund. Any amounts recovered from a mortgage loan investment on which the Fund has received payment of a reimbursement will first be paid to the Fund until such time as its nominal aggregate cash flows, calculated inclusive of the reimbursement, are zero, then paid to the Fund Manager in an amount equal to the reimbursement, with any residual amounts paid to the Fund.

iii. Compensation to directors:

As at February 28, 2021, the Fund has five (February 29, 2020 - five) independent directors on its Board of Directors. In respect of their services during the year, independent directors were provided compensation of a $15,000 (February 29, 2020 - $15,000) and a $5,000 (February 29, 2020 - $5,000) retainer for director and chair officers, respectively, as well as $500 per special meeting attended during the year. Independent directors are eligible to receive their compensation in the form of cash or preferred shares.

The following is a breakdown of cash and share compensation paid to the Board of Directors:

Year ended February 28, 2021	Cash compensation	Share compensation	Total
Chair remuneration	**$ 20,500**	**$ -**	**$ 20,500**
Independent director remuneration	**15,500**	**46,500**	**62,000**
Remuneration paid to Board of Directors	**$ 36,000**	**$ 46,500**	**$ 82,500**

Year ended February 29, 2020	Cash compensation	Share compensation	Total
Chair remuneration	$ 20,000	$ -	$ 20,000
Independent director remuneration	15,000	30,000	45,000
Remuneration paid to Board of Directors	$ 35,000	$ 30,000	$ 65,000

Directors that are not independent of the Fund Manager do not receive any cash or share compensation.

iv. Compensation to Lending Review Committee ("LRC") members:

As at February 28, 2021, the Fund has five (February 29, 2020 - five) independent members of the LRC. In respect of their services during the year, independent LRC members were provided compensation in the form of a $5,000 (February 29, 2020 - $5,000) and a $3,000 (February 29, 2020 - $3,000) retainer for independent LRC member and chair officers, respectively. In addition to annual compensation amounts, members of the LRC that were independent of the Fund Manager were provided compensation of $250 and $500 for each exemption and approval decision made, respectively (February 29, 2020 - $250 and $500 for each exemption and approval decision made, respectively). LRC members are eligible to receive their compensation in the form of cash or preferred shares.

The following is a breakdown of cash and share compensation paid to the LRC, inclusive of additional compensation relating to LRC decisions made:

Year ended February 28, 2021	Cash compensation	Share compensation	Total
Chair remuneration	**$ 7,750**	**$ -**	**$ 7,750**
Independent LRC member remuneration	**9,500**	**33,500**	**43,000**
Remuneration paid to LRC members	**$ 17,250**	**$ 33,500**	**$ 50,750**

Year ended February 29, 2020	Cash compensation	Share compensation	Total
Chair remuneration	$ 16,000	$ -	$ 16,000
Independent LRC member remuneration	9,000	16,750	25,750
Remuneration paid to LRC members	$ 25,000	$ 16,750	$ 41,750

12. Fair value of financial instruments:

To measure financial instruments that are carried at fair value in the consolidated balance sheets, or for which fair value is disclosed, the following fair value hierarchy is used based on the inputs to the valuation:

- **Level 1:** Quoted market prices observed in active markets for identical assets or liabilities.
- **Level 2:** Inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly or indirectly.
- **Level 3:** Inputs for the asset or liability that are not based on observable market data.

Determination of fair value and the resulting hierarchy requires the use of observable market data whenever available. If different levels of inputs are used to measure a financial instrument's fair value, the classification within the hierarchy is based on the lowest level input that is significant to the fair value measurement.

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

a. Mortgage loan investments:

There is no quoted price in an active market for mortgage loan investments. The Fund Manager acts as market maker for these transactions. The Fund Manager makes its determination of fair value based on its assessment of the current lending market for mortgage loan investments of same or similar terms. The carrying values of mortgage loan investments approximate their fair values due to the relatively short periods to maturity and terms (level 3 of the fair value hierarchy).

b. Loans payable:

The fair value of loans payable approximates their carrying value as the facilities are due on demand (level 2 of the fair value hierarchy).

c. Other financial assets and liabilities:

The fair value of cash and cash equivalents are determined on level 1 inputs.

The fair value of other assets, accrued interest receivable, amounts due to Fund Manager, accounts payable and accrued liabilities, and dividends payable approximate their carrying values due to their short-term maturities (level 3 of the fair value hierarchy).

During the year ended February 28, 2021, there were no transfers between levels 1, 2 and 3 of the fair value hierarchy (February 29, 2020 - none).

13. Risk management:

a. Interest rate risk:

Interest rate risk is the risk that the fair value or future cash flows of the financial assets or liabilities will fluctuate because of changes in market interest rates.

At February 28, 2021, 52 mortgage loan investments (February 29, 2020 - 51) bear interest at variable rates. Each of the Fund's loan investments with variable rates include a base floor rate, protecting the Fund from a decrease in prime rates but allowing the Fund to maintain a minimum spread on the prime rate. Based on the Fund's year end principal balance relating to variable rate mortgages, the sensitivity of a 100 basis point increase in interest rates would result in an approximate increase of $860,000 in net income and comprehensive income.

At February 28, 2021 and February 29, 2020, the Fund's bank revolving line of credit bears interest at a variable rate which creates cash flow risk as changes in the bank's prime interest rate will cause fluctuations in interest payments. Based on the Fund's average debt level during the year, the sensitivity of a 100 basis point increase in interest rates would result in an approximate decrease of $93,000 in net income and comprehensive income.

The Fund does not have material interest rate risk on any of its other financial instruments.

b. Credit risk:

Credit risk is the risk that counterparties to mortgage loan investments will be unable to honour their debt commitments, resulting in a financial loss to the Fund. Any instability in the real estate sector and/or an adverse change in economic conditions in Canada or other conditions impacting specific mortgage borrowers could result in financial difficulty for borrowers. The Fund's maximum exposure to credit risk is represented by the recorded values of mortgage loan investments and the accrued interest receivable on mortgage loan investments.

The Fund has recourse under its mortgage loan investments in the event of default by a borrower; in which case, the Fund would have a claim against the underlying property and security.

As of February 28, 2021, the Fund, through the Fund Manager, was engaged in enforcement remedies in relation to five (February 29, 2020 - eight) mortgage loan investments which totaled $10,846,361 (February 29, 2020 - $12,562,241) in gross principal and $846,773 (February 29, 2020-$1,122,018) in gross accrued interest receivable.

The Fund, through the Fund Manager, mitigates credit risk by the following:

i. adhering to the investment restrictions and operating policies included in the asset allocation model;

ii. performing a due diligence process on each mortgage loan investment prior to funding. This generally includes, but is not limited to engaging professional independent consultants, lawyers and appraisers and performing credit checks and financial statement reviews on prospective borrowers;

iii. having mortgage loan investments approved by the independent LRC in accordance with the Fund's operating policies; and

iv. actively monitoring the mortgage portfolio and initiating recovery procedures, in a timely manner, where required.

The Fund's internally imposed investment criteria only permits the Fund to invest in mortgage loan investments with a Loan-to-Value ("LTV") ratio of 80% or less, calculated at the date the investment is made. The LTV ratio is calculated as of a particular calendar date by dividing the outstanding principal of the mortgage loan investment by the fair value of the underlying property and security.

c. Liquidity risk:

Liquidity risk is the risk that the Fund will encounter difficulty in meeting its financial obligations as they become due. This risk arises in the normal course of operations from fluctuations in cash flows as a result of the timing of mortgage loan investment funding and repayments, redemptions of shares and payment of obligations under the loans payable credit facilities. The Fund Manager routinely forecasts future cash flow sources and requirements of the Fund to mitigate this risk and to help ensure cash is efficiently utilized. The Fund's total liabilities as at February 28, 2021 of $8,456,743 (February 29, 2020 - $16,175,513) are payable within one year or due on demand.

d. Capital risk management:

The Fund defines its current capital structure to include Class A common shares, Class A preferred shares, Class B preferred shares and retained earnings.

The Fund manages its capital structure to support ongoing operations while focusing on its primary objectives of preserving shareholder capital and generating a dividend to preferred shareholders.

The Fund reviews its capital structure on an ongoing basis and adjusts its capital structure in response to mortgage loan investment opportunities, capital and borrowing facility availability, and anticipated changes in economic conditions.

The Fund's internally imposed investment restrictions and asset allocation model incorporate various restrictions and investment parameters to manage the risk profile of the mortgage loan investments. The investment restrictions permit the Fund to use leverage to maintain liquidity, for general working capital purposes, and to bridge the timing differences between loan advances, maturities and equity offerings. As at February 28, 2021 the aggregate amount of borrowing by the Fund may not exceed 20% of the book value of the Fund's portfolio of mortgage loan investments and other permitted investments. Refer to Note 8 for changes to the borrowing limit that occurred subsequent to year-end.

As at February 28, 2021, the Fund was in compliance with its investment restrictions, the allocation model parameters and bank indebtedness covenants.

14. Comparative amounts:

Certain comparative amounts have been reclassified to conform to the presentation adopted in the current year. There was no impact to the financial position or net income as a result of these reclassifications.

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