UMC MUTUAL FUND TRUST

Consolidated Financial Statements

(Expressed in Canadian Dollars)

Year Ended December 31, 2022

UMC MUTUAL FUND TRUST
Index to Consolidated Financial Statements
(Expressed in Canadian Dollars)
Year Ended December 31, 2022

KINGSTON
ROSS
PASNAK LLP
CHARTERED PROFESSIONAL ACCOUNTANTS

Suite 1500, 9888 Jasper Avenue NW
Edmonton, Alberta T5J 5C6
T. 780.424.3000 | F. 780.429.4817 | W. krpgroup.com

April 10, 2023
Edmonton, Alberta

INDEPENDENT AUDITOR'S REPORT

To the Unitholders of UMC Mutual Fund Trust

Opinion

We have audited the consolidated financial statements of UMC Mutual Fund Trust (the Trust), which comprise the consolidated statement of financial position as at December 31, 2022, and the consolidated statements of income and comprehensive income, changes in net assets attributable to holders of redeemable units and cash flow for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Trust as at December 31, 2022, and the consolidated financial performance and consolidated cash flow for the year 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 *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Trust in accordance with ethical requirements that are relevant to our audit of the consolidated 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.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Trust'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 Trust or to cease operations, or has no realistic alternative but to do so.

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

(continues)

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's 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 these consolidated 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 consolidated 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 Trust'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 Trust's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated 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 auditor's report. However, future events or conditions may cause the Trust to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We 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.

Kingston Ross Pasnak LLP

Kingston Ross Pasnak LLP
Chartered Professional Accountants

UMC MUTUAL FUND TRUST
Consolidated Statement of Financial Position
(Expressed in Canadian Dollars)
December 31, 2022

	2022	2021
ASSETS		
Cash *(Note 4)*	**$ 1,079,566**	$ 4,851,099
Trade receivables	**7,473**	682
Prepaid expenses	**4,629**	5,375
Mortgages receivable *(Note 5)*	**219,925,976**	215,616,179
Assets held for resale *(Note 7)*	**17,553,002**	22,174,415
	$238,570,646	$242,647,750
LIABILITIES		
Trade and other payables *(Note 8)*	**$ 75,856**	$ 87,763
Goods and Services Tax payable	**3,535**	-
Redemption notes payable	**-**	8,466,993
Long term debt	**28,515**	28,515
	107,906	8,583,271
NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS	**238,462,740**	234,064,479
TRUST UNITS OUTSTANDING *(Note 9)*	**238,462,740**	234,064,479
NET ASSETS PER TRUST UNIT	**$ 1**	$ 1

APPROVED BY THE TRUSTEES

_______________ *Trustee* _______________ *Trustee*

_______________ *Trustee*

UMC MUTUAL FUND TRUST
Consolidated Statement of Income and Comprehensive Income
(Expressed in Canadian Dollars)
Year Ended December 31, 2022

	2022	2021
INTEREST INCOME	**$ 16,797,230**	$ 19,338,395
EXPENSES		
Management fees *(Note 11)*	**1,520,725**	1,618,315
Provision for credit losses *(Note 5)*	**894,652**	1,359,618
Professional fees	**85,598**	64,201
Administrative costs	**68,796**	90,568
Interest on redemption notes payables	**54,020**	368,905
Registration fees	**8,180**	12,627
Interest and bank charges	**5,718**	249,251
	2,637,689	3,763,485
	14,159,541	15,574,910
OTHER EXPENSES		
Schedule of revenue and expenses from assets held for resale *(Schedule 1)*	**(2,081,498)**	(4,716,410)
INCREASE IN NET ASSETS ATTRIBUTABLE TO REDEEMABLE UNIT	**$ 12,078,043**	$ 10,858,500
INCREASE IN NET ASSETS ATTRIBUTABLE PER REDEEMABLE UNIT *(Note 10)*	**$ 0.0505**	$ 0.0463

UMC MUTUAL FUND TRUST

Consolidated Statement of Changes in Net Assets Attributable to Holders of Redeemable Units

(Expressed in Canadian Dollars)

Year Ended December 31, 2022

	2022	2021
NET ASSETS ATTRIBUTABLE TO REDEEMABLE UNITS AT BEGINNING OF YEAR	**$234,064,479**	$231,632,127
Increase in net assets attributable to holders of redeemable units	**12,078,043**	10,858,500
	246,142,522	242,490,627
Distributions to holders of redeemable units	**(12,078,043)**	(10,858,500)
	234,064,479	231,632,127
REDEEMABLE UNIT TRANSACTIONS		
Proceeds from redeemable units issued	**33,857,871**	23,666,255
Redemption of redeemable units	**(41,537,653)**	(32,092,403)
Reinvestment of distributions to holders of redeemable units	**12,078,043**	10,858,500
Net increase from redeemable unit transactions	**4,398,261**	2,432,352
NET ASSETS ATTRIBUTABLE TO REDEEMABLE UNITS AT END OF YEAR	**$238,462,740**	$234,064,479

See notes to financial statements

UMC MUTUAL FUND TRUST
Consolidated Statement of Cash Flow
(Expressed in Canadian Dollars)
Year Ended December 31, 2022

	2022	2021
OPERATING ACTIVITIES		
Increase in net assets attributable to holders of redeemable units	**$ 12,078,043**	$ 10,858,500
Changes in non-cash working capital *(Note 12)*	**297,198**	21,527,058
Cash flow from operating activities	**12,375,241**	32,385,558
FINANCING ACTIVITIES		
Proceeds from issuance of redeemable units	**33,857,871**	23,666,255
Amounts paid on redemption of redeemable units *(Note 13)*	**(50,004,645)**	(37,898,200)
Proceeds from long term financing	**-**	7,129
Repayment of operating line of credit	**-**	(14,510,680)
Cash flow used by financing activities	**(16,146,774)**	(28,735,496)
(DECREASE) INCREASE IN CASH	**(3,771,533)**	3,650,062
CASH - BEGINNING OF YEAR	**4,851,099**	1,201,037
CASH - END OF YEAR	**$ 1,079,566**	$ 4,851,099
CASH FLOW SUPPLEMENTARY INFORMATION		
Interest received	**$ (17,190,793)**	$ (21,807,296)
Interest paid	**$ 54,114**	$ 561,994

See notes to financial statements

1. NATURE OF OPERATIONS

UMC Mutual Fund Trust (the "Trust") is an unincorporated, open-ended, limited purpose mutual fund trust established under the laws of Alberta and is governed by the Declaration of Trust dated December 5, 2012, as amended from time to time and is domiciled in Canada. The Trust is not a reporting issuer. The address of the Trust's registered office is Suite 201, 14020-128 Avenue NW, Edmonton, Alberta. The Trust focuses on providing returns to its unit holders by investing in mortgages and mortgage related products.

2. BASIS OF PRESENTATION AND STATEMENT OF COMPLIANCE

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

The consolidated financial statements have been prepared on a historical cost basis except for certain financial instruments measured at fair value. The consolidated financial statements are presented in Canadian dollars, which is the Trust's functional currency. The Trust presents its consolidated financial position on a non-classified basis in order of liquidity.

These consolidated financial statements were authorized for issue by the Board of Trustees on April 10, 2023.

These consolidated financial statements include the accounts of the Trust and its subsidiary.

All significant intercompany transactions and balances have been eliminated upon consolidation.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Significant accounting policies observed in the preparation of the consolidated financial statements are summarized below.

Basis of consolidation

The consolidated financial statements include the accounts of the Trust and its subsidiary. As a result, figures as at December 31, 2022 or for the years then ended include the financial position of the subsidiary and the results of their operations for the years then ended. The results of operations of the subsidiary are included in the consolidated financial statements from the respective date of incorporation.

Subsidiary	Ownership %	Year end
UMC Limited Partnership	99.99	December 31, 2022

Significant accounting judgments, estimates and assumptions

The preparation of the Trust's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

Judgments

In the process of applying the Trust's accounting policies, management has made the following critical accounting judgments which are accounting policies that have been identified as being complex or involving subjective judgment or assessment. Critical accounting judgments include:

Taxes
The Trust qualifies as a mutual fund trust under the provisions of the Income Tax Act (Canada) and, accordingly, is subject to tax on its income, including net realized capital gains in the taxation year, which has not been paid or is not payable to its Unitholders as at the end of the taxation year. It is the intention of the Trust to distribute all of its net income and sufficient net realized capital gains so that the Trust will not be subject to income taxes. Accordingly, no provision for income tax has been made in these financial statements.

Classification of mortgages
Mortgage investments are classified based on both the business model for managing the assets and their contractual cash flow characteristics. Judgment is used in determining the business model for managing the assets and whether cash flows received are comprised solely of principal and interest payments.

(continues)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Measurement of expected credit losses
The expected credit loss model requires the recognition of losses based on 12 months of expected losses for performing loans and recognition of lifetime losses on performing loans that have experienced a significant increase in credit risk.

The determination of significant increases in credit risk on performing loans takes into account several different factors that vary by nature of the investment. Credit risk on a financial asset is assumed to have increased significantly if it is more than 60 days past due, borrower specific criteria such as the payment of property taxes and property insurance are not met, and the value of the security of the underlying mortgage is less than the mortgage receivable amount plus contingent costs of selling the underlying secured property.

The assessment for significant increases in credit risk requires experienced credit judgment. In determining whether there has been a significant increase in credit risk and in calculating the amount of expected credit losses the entity relies on estimates and judgment is exercised on matters for which the ultimate outcome is unknown. These judgments include appraisals of the underlying mortgage security, history of borrower performance, and changes in market forecasts.

The calculation of expected credit losses includes the explicit incorporation of forecasts of future economic conditions. In determining expected credit losses, economic forecasts are used that take into account key macroeconomic variables relevant to each investment type. Forecasts are developed internally and judgment is used to incorporate multiple economic variables through discount rates used to determine credit risk on the estimated value of the underlying mortgage security. Forecast discount rates are based on the average percentage decline of the security from the date of the original appraisal to the current date based on real estate board figures for properties similar in nature; and a discretionary percentage to discount for appraiser optimism, externally produced forecasts and a lack of selling price information for properties of a particular class. Allowances are sensitive to changes in both economic forecasts and discount rates assigned to each forecast scenario.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Trust based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Trust. Such changes are reflected in the assumptions when they occur.

(continues)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investment impairment
The most significant estimates that the Trust is required to make relates to the impairment of the mortgage portfolio (Note 6). These estimates include assumptions regarding the local real estate market conditions, interest rates and the availability of credit, cost and terms of financing, the impact of present or future legislation or regulation, prior encumbrances, adverse changes in the payment status of borrowers and other factors affecting the investments and underlying security of the investments. These assumptions are limited by the availability of reliable comparable data, economic uncertainty, ongoing geopolitical concerns and the uncertainty of predictions concerning future events. Accordingly, by their nature, estimates of impairment are subjective and do not necessarily result in precise determinations of the actual outcome. Should the underlying assumptions change, the estimated fair value could vary by a material amount.

Fair value of financial instruments
Where the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, their fair value is determined using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible.

Where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments (Note 14).

Joint Arrangements
The Trust has interests in five properties that are subject to joint arrangements (Note 8). The Trust has assessed the nature of its joint arrangements as at December 31, 2021 and determined them to be joint operations. For joint operations, the Trust recognizes its share of revenues, expenses, assets and liabilities, which are included in their respective descriptions on the consolidated statements of financial position and consolidated statements of income and comprehensive income. All balances and effect of transactions between joint operations and the Trust have been eliminated to the extent of its interest in the joint operations.

Unrealized loss on assets held for sale
The Trust considers the estimate of the fair value less costs to sell of foreclosed assets held for sale to be a significant estimate. Unrealized losses on these assets represent the change in the fair value of these assets from the time that the Trust foreclosed until the measurement date. Fair value is estimated based on recent selling prices of comparable properties for residential assets, and appraisals prepared by third parties for commercial assets.

<u>Net assets per trust unit</u>

Net assets per trust unit is computed by dividing the total net assets by the total number of trust units issued.

(continues)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Comprehensive income

Comprehensive income consists of net earnings and other comprehensive income (OCI). OCI represents changes in shareholder's equity during a period arising from transactions and other events and circumstances from non-owner sources and includes unrealized gains and losses on financial assets classified as available for sale and changes in the fair value of the effective portion of cash flow hedging instruments.

Foreclosed assets held for sale

Foreclosed assets held for sale are recorded at the lower of the carrying amount and fair value less anticipated selling costs. Fair value is determined by reference to market prices for similar assets. Any difference between the carrying amount of the loan prior to foreclosure and the amount at which the foreclosed assets are initially measured is recognized as a charge in the statement of income and comprehensive income.

Foreclosed assets that the Trust has control of at year-end and that are being actively marketed as at the balance sheet date are shown on the face of the balance sheet as foreclosed assets held for sale. When foreclosed assets are disposed of the difference between the proceeds received and carrying value at time of sale is recorded as a loss/gain on foreclosed assets held for sale in the statement of income and comprehensive income.

(continues)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments

Financial assets

Initial recognition and measurement

Financial assets are classified as measured at amortized cost, at fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVTPL). The determinant of the classification of the financial asset is based on the entity's business model for managing the financial asset and the contractual cash flow characteristics of the financial asset. The Trust determines the classification of its financial assets at initial recognition.

All financial assets are recognized initially at fair value plus or minus, in the case of assets not at fair value through profit or loss, directly attributable transaction costs.

The Trust's financial assets include cash, trade receivables and mortgages receivable.

Subsequent measurements

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss
Financial assets at fair value through profit or loss include all financial assets unless measured at amortized cost or at fair value through other comprehensive income. The Trust can make an irrevocable election at initial recognition for particular investments in equity instruments that would otherwise be measured at fair value through profit or loss to present subsequent changes in fair value in other comprehensive income.

The Trust may irrevocably designate a financial asset as measured at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognizing the gain and losses on them on a different basis.

The Trust has not designated any financial assets as at fair value through profit or loss.

Amortized Cost
Financial assets measured at amortized cost is permitted by IFRS 9 if the two following conditions are met:

- The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The Trust has designated cash, trade receivables and mortgages receivable at amortized cost.

(continues)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Fair value through other comprehensive income
Financial assets measured at fair value through other comprehensive income is permitted by IFRS 9 if the two following conditions are met:

- The financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The Trust has not designated any financial assets as at fair value thorough comprehensive income.

Derecognition

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when one of the following conditions is met:

- The rights to receive cash flows from the asset have expired, or

- The Trust has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Trust has transferred substantially all the risks and rewards of the asset, or (b) the Trust has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Trust has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of it, the asset is recognized to the extent of the Trust's continuing involvement in it.

In that case, the Trust also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Trust has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Trust could be required to repay.

(continues)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of financial assets

The Trust has to recognize a loss allowance for expected credit losses on all financial assets and certain off-balance sheet loan commitments and guarantees. The expected credit loss model requires a loss allowance to be claimed on the financial asset regardless of whether an actual loss event has occurred.

The expected credit loss model presents three stages of credit loss allowances that must be assessed on all financial assets held by the Trust. At the reporting date, if the credit risk of a financial asset has not significantly changed from initial recognition an allowance for that financial instrument at an amount equal to a 12-month expected credit losses is recognized (Stage 1). Once the financial assets credit risk significantly increases from initial recognition, a lifetime expected credit loss will be recognized (Stage 2). At stage 2 the interest revenue from the asset will continue to be calculated on the carrying value of the asset before impairments. If the credit quality of the financial asset deteriorates, the lifetime expected loss will continue to be recognized however the interest revenue will now be calculated on the net amortized carrying value after deducting the loss allowance (Stage 3).

The assessment of significant increases in credit loss is completed at the reporting date and considers historical events, current market conditions and supportable information about future economic conditions that is available without undue cost or effort, that is indicative of significant increases in credit risk since initial recognition. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

To assess significant increases in expected credit loss, the Trust utilizes a discounting methodology to estimate whether the value of the property underlying a mortgage receivable is worth less than the carrying value of that mortgage receivable; and the borrower is not more than 60 days in arrears with its required mortgage payments. However, should the borrower default on two consecutive payments (60 days), the credit risk is considered to have significantly increased from initial recognition and is classified at a stage 2 credit impairment. Mortgages that cease to perform and foreclosure proceedings are commenced, the mortgage credit risk is considered deteriorated and is classified at a stage 3 credit impairment.

(continues)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

The carrying amount of the asset is reduced through the use of a loss provision account and the amount of the loss is recognized in the income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of income in the income statement. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Trust. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to finance costs in the income statement.

Financial liabilities

Initial recognition and measurement

Financial liabilities are measured as financial liabilities at fair value through profit or loss, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Trust determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognized initially at fair value plus or minus, in the case of financial liabilities not at fair value through profit or loss, directly attributable transaction costs.

The Trust's financial liabilities include trade and other payables, long term debt and trust units.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Financial liabilities at amortized cost
After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using the effective interest rate method. Gains and losses are recognized in the income statement when the liabilities are derecognized as well as through the effective interest rate method amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate ("EIR"). The EIR amortization is included in finance costs in the provision for credit losses in the statement of income and comprehensive income.

The Trust has designated its long term debt and trade and other payables at amortized cost.

Financial liabilities at fair value through profit or loss
Financial liabilities at fair value through profit or loss include financial liabilities measured at fair market value and financial liabilities initially designated at fair value through profit or loss.

(continues)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial liabilities are classified as measured at fair market value if they are acquired for the purpose of selling in the near term. Gains or losses on liabilities at fair value are recognized in the income statement.

The Trust has designated the trust units as at fair value through profit or loss.

Financial guarantee contracts
Financial guarantee contracts issued by the Trust are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. Financial guarantee contracts are recognized initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequently, the liability is measured at the higher of credit loss allowances required to settle the present obligation, at the reporting date, and the amount initially recognized less the cumulative amount of interest income recognized. The Trust did not have any financial guarantee contracts during the years ended December 31, 2021.

Derecognition

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously. The Trust did not have any offsetting financial instruments during the year ended December 31, 2022.

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions, reference to the current fair value of another instrument that is substantially the same, or a discounted cash flow analysis or other valuation models.

Cash

Cash consists of cash on deposit less cheque's issued and outstanding.

(continues)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue recognition

The Trust's revenue is comprised of interest collected from borrowers and interest accrued since the borrower's last payment. Interest is recognized based upon the amounts to which the Trust is contractually entitled. When interest payments are received in advance of their due date, the amount is held in trust for the borrower and paid to the Trust upon the due date.

Government assistance

Government assistance is recognized in profit or loss on a systematic basis over the periods in which the Company recognizes as expenses the related costs for which the assistance is intended to compensate. Government grants are recorded when there is a reasonable assurance that the Trust had complied with and will continue to comply with, all the necessary conditions to obtain the grant.

During the year, 2119600 Alberta Ltd, a joint operation (Note 7), received the Canada Emergency Wage Subsidy and the Canadian Emergency Business Account. The proportionate share of the Trust's Canada Emergency Wage Subsidy was recognized (Schedule 1).

Statement of Cash Flow

The Trust is using the direct method in its presentation of the Statement of Cash Flow.

4. CASH AND OPERATING LINE OF CREDIT

	2022	2021
Cash	**$ 1,079,566**	$ 4,852,326
Outstanding cheques	**-**	(1,227)
	$ 1,079,566	$ 4,851,099

(Expressed in Canadian Dollars)

5. MORTGAGES RECEIVABLE

	Mortgage principal	Accrued interest	Credit loss provision	Total
December 31, 2022				
47 Mortgages				
43 performing	$213,280,821	$ 1,324,725	$ -	**$214,605,546**
1 under-performing	4,018,880	14,710	-	**4,033,590**
3 non-performing	4,750,777	26,574	(3,490,511)	**1,286,840**
Total mortgage receivable	222,050,478	1,366,009	(3,490,511)	**219,925,976**
Current portion	(145,157,209)	(1,366,009)	3,490,511	**(143,032,707)**
Long-term portion	$ 76,893,269	$ -	$ -	**$ 76,893,269**
December 31, 2021				
52 Mortgages				
46 performing	$207,907,474	$ 1,716,268	$ -	$209,623,742
1 under-performing	3,885,139	14,220	-	3,899,359
5 non-performing	5,262,762	29,084	(3,198,768)	2,093,078
Total mortgage receivable	217,055,375	1,759,572	(3,198,768)	215,616,179
Current portion	(122,166,213)	(1,759,572)	3,198,768	(120,727,017)
Long-term portion	$ 94,889,162	$ -	$ -	$ 94,889,162

The mortgages receivable consists of financing for residential and commercial properties. The mortgages bear interest at rates from 4.50% to 9.75% and mature between January 31, 2023 and September 1, 2025.

Three of the three non-performing mortgages required a provision of $3,490,511. The current year provision for credit losses included in the consolidated statement of income and comprehensive is $894,652 and is comprised of a net increase in estimated losses for the year.

As at December 31, 2021, five of the non-performing mortgages with a principal balance of $5,262,762 were secured by property, which had an estimated net realizable value greater than the balance of the mortgage principal, accrued interest and charges accrued. Five of the five non-performing mortgages required a provision of $3,198,768. The 2021 provision for credit losses included in the consolidated statement of income and comprehensive is $1,359,618 and is comprised of a net increase in estimated losses for the year.

(Expressed in Canadian Dollars)

6. PROVISION FOR CREDIT LOSSES

	Stage 1	Stage 2	Stage 3	**2022**
December 31, 2022				
Mortgages				
Gross mortgages and interest receivable and unpaid charges	$214,605,546	$ 4,033,590	$ 4,777,351	**$223,416,487**
Provision for credit losses	-	-	(3,490,511)	**(3,490,511)**
	$214,605,546	$ 4,033,590	$ 1,286,840	**$219,925,976**
December 31, 2021				
Mortgages				
Gross mortgages, interest receivable and unpaid charges	$209,623,742	$ 3,899,359	$ 5,291,846	**$218,814,947**
Provision for credit losses	-	-	(3,198,768)	(3,198,768)
	$209,623,742	$ 3,899,359	$ 2,093,078	$215,616,179

The three stages of expected credit losses on mortgages is assessed based on the following criteria:

Stage 1 Unimpaired Loans

Mortgage receivables on initial recognition and that have not shown a significant increase in credit risk subsequent to initial recognition, require a 12 month expected credit loss to be recognized. Based on management's assessment of the 12 month expected credit losses, the credit risk on unimpaired loans is low as the average expected losses results in an immaterial impact on the valuation of the outstanding loan balance.

Stage 2 Impaired Loans

The determination of a significant increase in credit risk takes into account different factors. Loans with increased credit risk are applied a discount to the property value. The Trust assumes that the credit risk on a loan with negative equity has increased significantly. An allowance is recorded based on management's assessment of the life time expected losses to that individual loan until twelve consecutive payments have been made on the loan at which time the allowance is reversed.

(continues)

6. PROVISION FOR CREDIT LOSSES *(continued)*

Stage 3 Foreclosed Loans

Management reviews the loans on an ongoing basis to assess whether a foreclosure process is needed to be performed and whether an allowance or write-down should be recorded. The review of individually significant impaired loans is conducted by the Mortgage Administration Department on an on going basis to appropriately estimate the life time expected credit losses on that individual loan. If a loan is in arrears for two months and there is no payment plan arranged by the borrower, the loan will be sent to foreclosure.

The value of the foreclosed property is discounted and the estimated carrying cost is reviewed. If the foreclosed property has positive equity after taking into consideration the discount and carrying cost, no allowances are recorded. Allowances for foreclosed loans which have negative equity are recorded for individually identified foreclosed loans to reduce their carrying value to the expected recoverable amount.

To determine the amount of expected credit loss from a foreclosed loan, management uses the lowest value of the recent appraisal, Comparable Market Assessment Listing Price (CMA) or judicial sale value, net of expected costs and any amounts legally required to be paid to the borrower.

(Expressed in Canadian Dollars)

7. ASSETS HELD FOR RESALE

Foreclosed assets held for resale are properties to which the Trust had title and were actively marketed for sale at year end. The properties are located primarily in Alberta. An unrealized loss on assets held for resale of $1,033,060 (2021 - $4,500,834) has been recorded (Schedule 1).

The fair value measurements have been categorized as a level 3 fair value based on inputs to the valuation technique used. The Trust measures fair value through the use of a direct sales comparison valuation technique whereby the fair value is based on comparison to recent sales of properties of similar types, location and quality. There is a significant unobservable input relating to characteristics specific to each property that could cause the fair value to differ from the property to which it is being compared.

During the year ended December 31, 2022 the Trust closed on the sale of various foreclosed properties for a loss of $807,047 (2021 - $139,822) (Schedule 1).

For the year ended December 31, 2022:

	Gross	Impairment	**Net**
Opening balance	$ 28,691,911	$ (6,517,496)	**$ 22,174,415**
Additions to assets held for resale	2,890,432	-	**2,890,432**
Proceeds from disposal of assets held for resale	(5,671,738)	-	**(5,671,738)**
Loss on disposal of assets held for resale	(807,047)	-	**(807,047)**
Unrealized loss on assets held for resale	-	(1,033,060)	**(1,033,060)**
Closing balance	$ 25,103,558	$ (7,550,556)	**$ 17,553,002**

For the year ended December 31, 2021

Opening balance	$ 12,054,141	$ (2,016,662)	$ 10,037,479
Additions to assets held for resale	18,508,400	-	18,508,400
Proceeds disposal of assets held for resale	(1,730,808)	-	(1,730,808)
Loss on disposal of assets held for resale	(139,822)	-	(139,822)
Unrealized loss on assets held for resale	-	(4,500,834)	(4,500,834)
	28,691,911	(6,517,496)	22,174,415

Included within the assets held for resale are the proportionate consolidation of the following joint operations:

2119600 Alberta Ltd. (operating as Heartland Hotel)
The Trust has a 71.29% voting control interest of the joint operation of the Heartland Hotel. This property is a fifty-six room hotel located in Lamont, Alberta. The hotel is open for business and the rooms are rented on a nightly basis The hotel is presently listed for sale and management's best estimate is that it will take two years to sell this property. Net book value of the property as at December 31, 2022 is $3,905,128.

2121495 Alberta Ltd. (operating as Charaden Meadows)
The Trust has a 100.00% voting control interest of the joint operation of the Charaden Meadows project. This project is a residential acreage subdivision in Wetaskiwin County, Alberta. All of the lots are presently listed for sale and management's best estimate is that the lots will sell over the next two years. Nine lots were sold in 2022 resulting in a realized loss of $243,466. The lots were sold at a loss to generate interest in the development. Net book value of the properties as at December 31, 2022 is $906,650.

(Expressed in Canadian Dollars)

8. TRADE AND OTHER PAYABLES

		2022		2021
Trade payables	**$**	**18,038**	$	45,289
Accrued liabilities		**57,818**		42,474
	$	**75,856**	$	87,763

Trade and other payables are non-interest bearing and are normally settled on 30 day terms. Related party balance included in accrued liabilities is $nil (2021 - $nil) owed to UMC Financial Management Inc (Note 11).

(Expressed in Canadian Dollars)

9. REDEEMABLE UNITS

Units issued and outstanding represent a liability of the Trust. The Trust is authorized to issue an unlimited number of units. Units of the Trust are issued and redeemed at the then current net asset value per unit at the option of the unitholder. Upon redemption, the Trustees shall not be required to pay an amount that is more than one percent of the net asset value of the Trust, referred to as the cash reserve, per month in cash. The Trust has an obligation to pay within ten years upon demand by a unitholder.

Unitholders on the record date are entitled to distributions. Distributions on units of the Trust are typically reinvested in additional units of the Trust. The Trust has no restrictions or specific capital requirements regarding the subscription and redemption of units, other than minimum subscription requirements.

UMC Financial Management Inc. manages the equity of UMC Mutual Fund Trust in accordance with the Trust's investment objectives, including managing their liquidity in order to be able to meet redemptions.

	2022		2021	
	Units	**Amount**	Units	Amount
Trust units at the beginning of the year	**234,064,479**	**$234,064,479**	231,632,127	$231,632,127
Units issued including reinvested distributions	**45,935,914**	**45,935,914**	34,524,755	34,524,755
Units redeemed	**(41,537,653)**	**(41,537,653)**	(32,092,403)	(32,092,403)
	238,462,740	**$238,462,740**	234,064,479	$234,064,479

10. INCREASE IN NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS

The increase in net assets attributable to holders of redeemable units per unit is calculated as follows:

	2022	2021
Increase in net assets attributable to holders of redeemable units	**$ 12,078,043**	$ 10,858,500
Average units outstanding during the year	**239,088,963**	234,621,138
Increase in net assets attributable to holders of redeemable units per unit	**$ 0.0505**	$ 0.0463

(Expressed in Canadian Dollars)

11. RELATED PARTY TRANSACTIONS

UMC Financial Management Inc. is related to the Trust in that the Trustees of the Trust are also the shareholders and directors of UMC Financial Management Inc. UMC Financial Management Inc. is paid a management fee as the Restricted Portfolio Manager and Investment Fund Manager, providing day-to-day management services to the Trust, including management of the Trust's portfolio on a discretionary basis and such other services as may be required from time to time. The management fee is calculated at 0.60% of the aggregate funds invested, paid in advance, on the first business day of each quarter. The total management fees paid, to UMC Financial Management Inc. during the year was $1,520,725 (2021 - $1,618,315). The Trust also reimburses an allocation of operating expenses to UMC Financial Management Inc. as they occur.

UMC GP Inc. is entitled to its pro rata share of distributions from the UMC Limited Partnership based on its ownership of one Limited Partnership unit. For the period since inception to December 31, 2022, UMC GP Inc. has voluntarily waived its pro rata share of distributions.

During 2022, the Trust also sold seven partial holding of mortgages receivables from two private investor of UMC Financial Management Inc. for total consideration of $1,065,228 at a discount from the fair market value of $2,147,334. The Trust also purchased one partial holding of a mortgage receivables from various private investors of UMC Financial Management Inc. for total consideration of $316,022.78 at a discount from the fair market value of $664,440.

During 2021, the Trust purchased a total of five partial holdings of properties held for resale from various private investors of UMC Financial Management Inc. for total consideration of $1,329,167 at a discount from the fair market value of $1,408,326 at the time of the purchase. The Trust also sold five partial holdings of mortgages receivables from various private investors of UMC Financial Management Inc. for total consideration of $1,176,656 at a discount from the fair market value of $1,351,625.

12. CHANGES IN NON-CASH WORKING CAPITAL

	2022	2021
Trade receivables	$ **(6,791)**	$ 38,173
Mortgages receivables	**(4,309,796)**	34,162,943
Assets held for resale	**4,620,413**	(12,237,903)
Trade and other payables	**(10,908)**	(423,582)
Accrued interest on redemption notes payable *(Note 13)*	**-**	(12,202)
Prepaid expenses	**746**	(256)
Goods and Services tax recoverable	**3,534**	(115)
	$ **297,198**	$ 21,527,058

13. CASH FLOW SUPPLEMENTARY INFORMATION

The following transactions have been excluded from the Statement of Cash Flow as they did not require the use of cash or cash equivalents.

	2022	2021
Redemption of redeemable units by way of credit to redemption notes payable	**$ -**	$ (8,446,647)

14. FINANCIAL INSTRUMENTS

The Trust's financial instruments consist of cash, trade receivables, mortgages receivable, trade and other payables, redemption note payables, long term debt and trust units.

Fair Value

The Trust's carrying value of its financial instruments approximates its fair value due to the immediate or short term maturity of these investments.

The fair value of cash, trade receivables, trade and other payables, and long term debt are measured under level 1 of the fair value hierarchy. The fair value of mortgages receivable, redemption note payables and trust units are measured under level 3 of the fair value hierarchy.

The three levels of the fair value hierarchy are described as follows:

Level 1: Values based on unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities.

Level 2: Values based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the asset or liability.

Level 3: Value based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement.

During the period ended December 31, 2022, there were no transfers between levels of the fair value hierarchy.

Risk Management

The Trust is exposed to risks of varying degrees of significance from its use of financial instruments which could affect its ability to achieve its strategic objectives for growth and stakeholder returns. The principal risks to which the Trust is exposed, and the actions taken to manage them, are described below:

(continues)

(Expressed in Canadian Dollars)

14. FINANCIAL INSTRUMENTS *(continued)*

Credit Risk

Credit risk arises from the potential that a counter party will fail to perform its obligations. The Trust is exposed to credit risk to the extent that its mortgage customers may experience financial difficulty and would be unable to meet their obligations. In order to reduce its credit risk, the Trust reviews a new borrowers' net worth, financial statements, cash flow and credit history before extending a mortgage. As well, the Trust conducts regular review of its existing borrower's status. The Trust will not advance a mortgage for more than 75% of the total value of security held on the mortgage at the time the agreement is signed.

The Trust is exposed to a concentration of credit risk as 82% of total mortgage receivable at year-end arise from two corporate groups. Four mortgages with a principal balances included within the two corporate groups are non-performing and have been classified as a stage 3 loan. It is the opinion of the Trustees that each group has sufficient cash flow to meet the debt service requirements of the various mortgages that are held by the Trust.

Liquidity Risk

Liquidity risk is the risk that the Trust may not have cash to meet financial liabilities as they come due. The Trust is exposed to daily cash calls from the redemption of trust units.

The Trust invests in mortgages that are not traded in an active market. As a result, the Trust may not be able to quickly liquidate its investments in these instruments at amounts which approximate their fair values, or be able to respond to specific events such as deterioration in the creditworthiness of any particular issuer. In accordance with the Trust's policy, the liquidity position is monitored on a regular basis. The risk of withdrawal of funds is mitigated through the Trust's obligation to pay within ten years upon demand by a unitholder and continually obtaining new investors and cash flow into the Trust.

At December 31, 2022 the contractual obligations related to financial liabilities are as follows:

	Trade and other payables	Long term debt	Trust Units	Total
2023	79,391	28,815	28,615,529	28,723,735
2024	-	-	25,181,665	25,181,665
2025	-	-	22,159,866	22,159,866
2026	-	-	19,500,682	19,500,682
Thereafter	-	-	143,004,998	143,004,998

15. CAPITAL MANAGEMENT

UMC Financial Management Inc. considers the portfolios that it manages to be capital. As portfolio managers of the Trust, they consider the net assets attributable to holders of redeemable units to be capital.

The Manager's objectives for managing capital are to preserve unitholders' equity, provide unitholders with stable income and to use leverage in a conservative manner to improve the return to unitholders. The growth of the Trust is financed thru the issuance of units to unitholders. An amount of these units issued is thru a dividend reinvestment plan for unitholders.

There have been no material changes during the year in relation to the objectives and strategies with respect to capital risk management.

UMC MUTUAL FUND TRUST
Schedule of Revenue and Expenses from Assets Held for Sale *(Schedule 1)*
(Expressed in Canadian Dollars)
Year Ended December 31, 2022

	2022	2021
REVENUES		
Room rental revenue	$ 282,663	$ 242,896
Interest revenue	765	166
Other revenue	-	13,647
	283,428	256,709
DIRECT COSTS		
Wages and benefits	154,525	56,900
Direct costs	64,267	21,878
Utilities	56,512	45,585
	275,304	124,363
GROSS MARGIN	8,124	132,346
EXPENSES		
Professional fees	106,546	59,675
Repairs and maintenance	55,209	27,279
Property taxes	44,730	69,233
Property management fees	20,954	23,887
Insurance	10,035	11,704
Interest and bank charges	8,244	-
Office	6,487	2,382
Bank Charges	2,422	846
Travel	1,075	1,768
Condominium fees	-	25,869
	255,702	222,643
OTHER EXPENSES (INCOME)		
Impairment *(Note 7)*	1,033,060	4,500,834
Loss on disposal *(Note 7)*	807,047	139,822
Canadian Emergency Business Account	-	(7,129)
Canada Emergency Wage Subsidy	(6,187)	(7,414)
	1,833,920	4,626,113
NET LOSS FROM ASSETS HELD FOR RESALE	$ (2,081,498)	$ (4,716,410)