



**AUDITED ANNUAL CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

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MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

To the Shareholders of Urbanfund Corp.

The accompanying consolidated financial statements of Urbanfund Corp. (the "Company" or "Urbanfund") are the responsibility of management and have been approved by the Board of Directors of the Company.

The consolidated financial statements have been prepared by management, on behalf of the Board of Directors, in accordance with International Financial Reporting Standards, as disclosed in the notes to the consolidated financial statements. Where necessary, management has made informed judgments and estimates in accounting for transactions which were not complete at the consolidated balance sheets date. In the opinion of management, the consolidated financial statements have been prepared with acceptable limits of materiality and are in accordance with International Financial Reporting Standards.

Management has established systems of internal control over the financial reporting process, which are designed to provide reasonable assurance that relevant and reliable financial information is produced.

The Board of Directors is responsible for reviewing and approving the consolidated financial statements together with other financial information of the Company and for ensuring that management fulfills its financial reporting responsibilities. An Audit Committee assists the Board of Directors in fulfilling this responsibility. The Audit Committee meets with management to review the financial reporting process and the consolidated financial statements together with other financial information of the Company for issuance to the shareholders.

Management recognizes its responsibility for conducting the Company's affairs in compliance with the established financial standards, and applicable laws and regulations, and for maintaining proper standards of conduct for its activities.

RSM Canada LLP independent auditors appointed by the shareholders of Urbanfund, upon recommendation of the Board of Directors, have examined the 2017 annual consolidated financial statements and have expressed their opinion upon the completion of such examination in the following report to the shareholders. The auditors have full and free access to, and meet at least quarterly with, the Audit Committee to discuss their audits and related matters.

Mitchell Cohen
President, Chief Executive Officer and Director

Thomas Kofman
Director

Toronto, Ontario
April 27, 2018



INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Urbanfund Corp.

RSM Canada LLP

We have audited the accompanying consolidated financial statements of Urbanfund Corp. and its subsidiaries, which comprise the consolidated balance sheets as at December 31, 2017 and 2016 and the consolidated statements of income and comprehensive income, changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, 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.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate and, in the circumstances, but not for the purposes of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Urbanfund Corp. and its subsidiaries as at December 31, 2017 and 2016, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

RSM Canada LLP

Chartered Professional Accountants
Licensed Public Accountants
Toronto, Ontario
April 27, 2018

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URBANFUND CORP. CONSOLIDATED BALANCE SHEETS

(In Canadian dollars)

As at	Note	December 31, 2017	December 31, 2016
Assets			
Investment properties	5	\$ 61,427,685	\$ 55,638,439
Equity accounted investment	6	7,679,397	-
Investment in real estate project	7	-	1,677,333
Inventory properties	8	2,474,335	-
Assets held for sale	4	3,556,220	-
Marketable securities	9	446,825	336,344
Receivables and other assets	10	745,380	1,166,290
Cash and cash equivalents	11	8,002,475	7,962,632
Total assets		\$ 84,332,317	\$ 66,781,038
Liabilities			
Mortgages payable	14	\$ 34,528,600	\$ 29,404,127
Deferred tax liabilities	16	4,910,000	2,966,000
Non-revolving term facility	15	-	463,050
Tenant deposits		181,678	203,698
Liabilities associated with assets held for sale	4	1,836,652	-
Income taxes payable	16	1,556,520	-
Accounts payable and accrued liabilities		689,291	688,614
Total liabilities		43,702,741	33,725,489
Equity			
Common shares	17	10,291,325	9,975,645
Preferred shares	17	1,113,750	1,113,750
Retained earnings		27,759,099	20,839,468
Total shareholders' equity		39,164,174	31,928,863
Non-controlling interests		1,465,402	1,126,686
Total equity		40,629,576	33,055,549
Total liabilities and equity		\$ 84,332,317	\$ 66,781,038
Contingencies and commitments	28		
Events after the balance sheet date	29		

Approved by the Board of Directors:

Mitchell Cohen
Director

Thomas Kofman
Director

The accompanying notes are an integral part of the consolidated financial statements.

URBANFUND CORP.

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

(In Canadian dollars, except per unit amounts)

Years ended December 31,	Note	2017		2016	
Rental revenue	20	\$	5,506,270	\$	4,955,571
Rental expenses			2,931,412		2,663,519
Net rental income			2,574,858		2,292,052
Other income					
Profit from investment in real estate project	7		3,666,667		-
Income from equity accounted investment	6		109,417		-
Interest and dividend income			99,415		50,181
Fair value adjustment on marketable securities			122,237		30,952
Fair value adjustment on investment properties	5		5,673,753		3,652,125
			9,671,489		3,733,258
Other expenses					
Financing costs			991,561		929,192
General and administrative costs			406,403		342,582
Unrealized loss on foreign currency translation			3,626		1,673
Realized loss on foreign currency translation			-		94,700
			1,401,590		1,368,147
Income before taxes			10,844,757		4,657,163
Current income tax expense			1,556,000		-
Deferred income tax expense			1,944,000		588,000
	16		3,500,000		588,000
Net income and comprehensive income		\$	7,344,757	\$	4,069,163
Net income attributable to:					
Shareholders		\$	7,257,374	\$	3,474,272
Non-controlling interests	13		87,383		594,891
		\$	7,344,757	\$	4,069,163
Net income per share attributable to shareholders:					
Basic income per share	17	\$	0.16	\$	0.08
Diluted income per share	17	\$	0.14	\$	0.07

The accompanying notes are an integral part of the consolidated financial statements.

URBANFUND CORP.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(In Canadian dollars, except per unit amounts)

	Note	<u>Common equity</u>		<u>Preferred equity</u>		Retained earnings	Non-controlling interests	Total equity
		Number of shares	Share capital	Number of shares	Share capital			
Balance, December 31, 2015		43,751,756	\$ 9,772,654	7,425,000	\$ 1,113,750	\$ 17,641,997	\$ 325,269	\$ 28,853,670
Changes during the year:								
Acquisitions of interests in the limited partnership		-	-	-	-	-	206,526	206,526
Net income and comprehensive income for the period		-	-	-	-	3,474,272	594,891	4,069,163
Dividends paid	19, 26	-	-	-	-	(37,596)	-	(37,596)
Dividends payable	19	-	-	-	-	(36,214)	-	(36,214)
Dividend reinvestment plan	19	709,038	202,991	-	-	(202,991)	-	-
Balance, December 31, 2016		44,460,794	\$ 9,975,645	7,425,000	\$ 1,113,750	\$ 20,839,468	\$ 1,126,686	\$ 33,055,549

	Note	<u>Common equity</u>		<u>Preferred equity</u>		Retained earnings	Non-controlling interests	Total equity
		Number of shares	Share capital	Number of shares	Share capital			
Balance, December 31, 2016		44,460,794	\$ 9,975,645	7,425,000	\$ 1,113,750	\$ 20,839,468	\$ 1,126,686	\$ 33,055,549
Changes during the year:								
Additional contributions to the limited partnerships		-	-	-	-	-	317,092	317,092
Transfers	14	-	-	-	-	65,759	(65,759)	-
Net income and comprehensive income for the period		-	-	-	-	7,257,374	87,383	7,344,757
Dividends paid	19, 26	-	-	-	-	(63,442)	-	(63,442)
Dividends payable	19	-	-	-	-	(24,380)	-	(24,380)
Dividend reinvestment plan	19	637,346	315,680	-	-	(315,680)	-	-
Balance, December 31, 2017		45,098,140	\$ 10,291,325	7,425,000	\$ 1,113,750	\$ 27,759,099	\$ 1,465,402	\$ 40,629,576

The accompanying notes are an integral part of the consolidated financial statements.

URBANFUND CORP.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Canadian dollars)

Years ended December 31,	Note	2017	2016
Operating activities			
<i>Net income from:</i>			
Net income and comprehensive income		\$ 7,344,757	\$ 4,069,163
<i>Items not affecting cash:</i>			
Income from equity accounted investment	6	(109,417)	-
Interest and dividend income		(99,415)	(50,181)
Fair value adjustment on marketable securities		(122,237)	(30,952)
Fair value adjustment on investment properties	5	(5,673,753)	(3,652,125)
Unrealized loss on foreign currency translation		3,626	1,673
Realized loss on foreign currency translation		-	94,700
Deferred income tax expense		1,944,000	588,000
Net issuance of common shares		(315,680)	(202,991)
Adjustments for other non-cash working capital items	27	2,303,603	50,139
Cash provided by operating activities		5,275,484	867,426
Investing activities			
Acquisitions of investment properties	5	(2,100,000)	(4,407,500)
Acquisitions of inventory properties	5	(2,350,000)	-
Construction expenditures to properties under development	5	(516,717)	(1,431,326)
Capital expenditures on income properties	5	(186,247)	(221,999)
Construction expenditures to inventory properties	8	(910,415)	-
Repayment of investment in real estate project	7	1,677,333	-
Advances to private company		-	(125,000)
Contributions to investment in subsidiary	6	(7,569,980)	-
Cash used in investing activities		(11,956,026)	(6,185,825)
Financing activities			
Proceeds from mortgage financing, net of financing costs		11,693,750	8,334,658
Repayments of mortgage principal		(4,786,939)	(3,360,225)
Proceeds from non-revolving term facility, net of financing costs		-	462,400
Repayment of non-revolving term facility		(461,700)	-
Dividends paid		(63,442)	(37,596)
Non-controlling interests		338,716	206,526
Cash provided by financing activities		6,720,385	5,605,763
Net change in cash and cash equivalents		39,843	287,364
Cash and cash equivalents, beginning of year		7,962,632	7,675,268
Cash and cash equivalents, end of year		\$ 8,002,475	\$ 7,962,632
Supplemental cash flow information	26		

The accompanying notes are an integral part of the consolidated financial statements.

URBANFUND CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

(In Canadian dollars, except per unit amounts)

1. GENERAL INFORMATION

Urbanfund Corp. and its consolidated subsidiaries (collectively, "Urbanfund" or the "Company") own, develop and operate a real estate portfolio focused on a mix of both residential and commercial properties. Urbanfund also actively focuses on identifying real estate related projects. The parent company, Urbanfund Corp., was incorporated on February 4, 1997, pursuant to the provisions of the Business Corporations Act of Alberta. In 2003, the Company filed articles of continuance, allowing operations to continue under the laws of the Province of Ontario, Canada. The Company's corporate headquarters and registered head office are located at 35 Lesmill Road, Toronto, Ontario, Canada, M3B 2T3.

Urbanfund Corp.'s common shares are listed on the Toronto Venture Exchange ("TSX-V") under the ticker symbol UFC.

2. BASIS OF PREPARATION

(a) Statement of compliance

Urbanfund's consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the IFRS Interpretations Committee ("IFIRC"). These consolidated financial statements were authorized for issuance by the Board of Directors on April 27, 2018.

(b) Basis of presentation

The consolidated financial statements are prepared on a going concern basis using the historical cost method modified to include fair value measurement of investment properties (note 5), marketable securities (note 9) and assets held for sale (note 4), as set out in the relevant accounting policies. The Company presents its consolidated balance sheets based on the liquidity method, whereby all assets and liabilities are presented in increasing order of liquidity. Urbanfund considers this presentation to be more relevant than a classified balance sheet distinguished between current and non-current assets and liabilities. Current assets and liabilities are those expected to be recovered or settled within one year from the reporting period, and non-current assets and liabilities are those where the recovery or settlement is expected to be greater than a year from the reporting period. The accounting policies set out below have been applied consistently in all material respects. Any IFRS not effective for the current accounting year are described in note 3(t).

(c) Principles of consolidation

These consolidated financial statements include the accounts of the parent company, Urbanfund Corp., and its subsidiaries, after elimination of intercompany transactions, balances, revenues and expenses.

(i) Subsidiaries

Subsidiaries are entities where the Company has control. Control is achieved when Urbanfund is exposed to, or has the rights, to variable returns from its involvement with the investee and the ability to affect those returns through its power over the investee. Power may be determined on the basis of voting rights or in the case of structured entities, other contractual arrangements. The Company reassesses whether or not it controls an investee based on current facts and circumstances. All subsidiaries are consolidated from the date Urbanfund obtains control and continues to be consolidated until the date that such control ceases.

(ii) Associates

Associates are entities over which Urbanfund has significant influence but not control or joint control, generally accompanying ownership between 20%-50% of the voting rights, although other factors such as the ability to impact key operating decisions could also indicate significant influence. Investments in associates are accounted for using the equity method. Under the equity method, the investment is initially recorded at cost and adjusted by the Company's share of post-acquisition results of operations and changes in net assets of the associate. The financial statements of Urbanfund's associates are prepared in the same reporting period as the Company, and where necessary, adjustments are made to bring the accounting policies in line with those of the Company.

(iii) Non-controlling interests

When Urbanfund does not own all the equity in a consolidated subsidiary, the non-controlling equity interest is presented as a separate component of equity on the consolidated balance sheets. The net income attributable to the non-controlling interests is separately disclosed in the Company's consolidated statements of income and comprehensive income.

URBANFUND CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

(In Canadian dollars, except per unit amounts)

2. BASIS OF PREPARATION (CONT'D)

(c) Principles of consolidation (Cont'd)

(iii) Non-controlling interests (Cont'd)

Transactions with non-controlling interests by the Company that do not result in a loss of control are accounted for as equity transactions. A disposal of rights in a subsidiary that does not result in a loss in control, results in an increase or decrease within equity of the difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary, also taking into account any amounts which have been recognized in income and comprehensive income, if any, based on the decrease in the interests in the subsidiary. Transactions costs with respect to non-controlling interests are also recorded in equity.

(iv) Joint operations

A joint operation is a type of joint arrangement whereby the parties that have joint control of the arrangement have the rights to the assets and the obligations for the liabilities relating to the arrangement. Urbanfund records only its share of assets, liabilities and share of the results of the joint operation. The assets, liabilities and results of the joint operation are included within the respective line items of the consolidated balance sheets and consolidated statements of income and comprehensive income.

(d) Significant judgments

The preparation of the Company's consolidated financial statements in accordance with IFRS requires management to exercise judgment in applying the Company's accounting policies. Judgments made by management in the on-going application of IFRS that have a significant effect on the consolidated financial statements are outlined below:

Investment properties

Urbanfund's accounting policies relating to its investment properties are described in note 3(c). In applying these policies, judgment is required in determining whether certain costs represent additions to the carrying amount of the property and distinguishing between tenant incentives and capital improvements. The Company's management also applies judgment in determining when property under development qualifies as an income property, which is when fair value can be reliably measured or construction of the property under development is substantially complete (whichever is earlier). Costs capitalized to properties under development include common area maintenance, property taxes and borrowing costs on both specific and general debt.

Leases – Urbanfund as a lessor

The Company makes judgments in determining whether certain leases, in particular tenant leases, where the Company is the lessor, are either operating or finance leases. The Company has determined, based on the evaluation of the terms and conditions of the lease arrangements, that Urbanfund retains all significant risks and rewards of ownership of the investment properties and accounts for these arrangements as operating leases.

Acquisitions of investment properties

At the time of acquisition of a property, whether through controlling share investment or directly, the Company considers whether the acquisition represents an acquisition of a business under *IFRS 3, Business Combinations*. This assessment requires management to make judgments on whether the assets acquired and liabilities assumed constitute a business as defined by IFRS 3, and if the integrated set of activities, including inputs and processes acquired, is capable of being conducted and managed as a business and the Company obtains control of the business. The Company has determined that its acquisitions have been accounted for as asset acquisitions, as no integrated set of activities were acquired, the cost is accounted for as a group of assets and liabilities and the transaction costs are allocated to the assets and liabilities acquired based on their relative fair values. No goodwill is recognized for an asset acquisition.

Joint arrangements

The Company makes judgments in determining whether a joint arrangement structured through a separate vehicle is a joint operation by assessing the legal form of the separate vehicle, including the determination on whether the separate vehicle has independent power, discretion or responsibilities pertaining to the investment properties, and whether Urbanfund retains the right to control and direct the separate vehicle in all matters related to the investment properties.

URBANFUND CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

(In Canadian dollars, except per unit amounts)

2. BASIS OF PREPARATION (CONT'D)

(d) Significant judgments (Cont'd)

Significant influence

When determining the appropriate basis of accounting for Urbanfund's investees, the management makes judgments about the degree of influence that Urbanfund exerts directly or through an arrangement over the investees' relevant activities. This may include the ability to elect investee directors, appoint management or influence key decisions.

Classification of assets and liabilities as held for sale

Classification of assets or a disposal group as held for sale requires judgment on whether the carrying amount will be recovered principally through a sale transaction rather than through continuing use and whether the sale is highly probable.

Income taxes

The Company applies judgment in determining the tax rates applicable to the temporary differences to determine the provision for income taxes. Deferred taxes relate to temporary differences arising from its subsidiaries and are measured using tax rates that are expected to apply in the year when the asset is realized or the liability is settled. Temporary differences are differences between accounting and tax asset values that are expected to be deductible or taxable in the future.

(e) Use of estimates and assumptions

The preparation of Urbanfund's consolidated financial statements requires management to make estimates based on events and circumstances that existed at the consolidated balance sheet date. Accordingly, actual results may differ from these estimates. Significant estimates made by management with a significant risk of material adjustment in the current and following years are discussed below:

Investment properties

Estimates and assumptions used in determining fair value of investment properties include capitalization rates and stabilized net operating income (which is influenced by vacancy rates) used in the direct capitalization income approach. A change to any of these inputs could significantly affect the fair value of an investment property.

Marketable securities

The Company recognizes marketable securities at fair value. Fair value is determined on the basis of market prices from independent sources. In the determination of fair value, management considers factors such as intentions and ability to hold or dispose of such securities, prevailing market prices and general market conditions.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Changes in accounting policy

Statement of Cash Flows ("IAS 7")

On January 1, 2017, the Company adopted an amendment to IAS 7, which requires specific disclosures for movements in certain liabilities on the consolidated statements of cash flows. This amendment did not result in a material impact to these consolidated financial statements. The impact is limited to additional note disclosure on movements in the non-revolving term facility and mortgages payable (note 26).

(b) Fair value measurement

The Company measures certain financial instruments, such as marketable securities, and non-financial assets, such as investment properties, at fair value at each consolidated balance sheet date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is determined by incorporating all factors that market participants would consider in setting a price acting in their economic best interests, including commonly accepted valuation approaches.

URBANFUND CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

(In Canadian dollars, except per unit amounts)

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(b) Fair value measurement (Cont'd)

The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability that is accessible by Urbanfund.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its "highest and best use" or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level of input that is significant to the fair value measurement as a whole:

- Level 1 - quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognized in the consolidated financial statements on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by reassessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

(c) Investment properties

Investment properties are held to earn rental revenue or for capital appreciation or both. A key characteristic of an investment property is that it generates cash flows largely independently of the other assets held by the entity.

(i) Income properties

Income properties are initially measured at cost. Subsequent to initial recognition, income properties are recorded at fair value and related gains and losses arising from changes in fair value are recognized in net income in the year of change. The determination of fair value is based on, among other things, rental revenue from current leases and reasonable supportable assumptions that represent what knowledgeable, willing parties would assume about rental revenue from future leases in light of current conditions, less future cash outflows in respect to tenant installation costs, income property operations and capital expenditures.

(ii) Properties under development

Properties under development include those properties, or components thereof, that will undergo activities that will take a substantial period of time to prepare the properties for their intended use as income properties.

The cost of a development property that is an asset acquisition comprises cash, or the fair value of other consideration, paid to acquire the properties, including transaction costs. Subsequent to the acquisition, the cost of a development property includes costs that are directly attributable to these assets, including development costs, property taxes and borrowing costs on specific debt. Direct borrowing costs, development costs and property taxes are capitalized when the activities necessary to prepare an asset for development or redevelopment begin and continue until the date that construction is substantially complete and all necessary occupancy and related permits have been received.

If Urbanfund is required as a condition of a lease to construct tenant improvements that enhance the value of the property, then capitalization of costs continues until such improvements are completed. Properties under development are measured at cost, when the fair value is not reliably determinable or when development is completed, at which point fair value is reliably determinable.

URBANFUND CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

(In Canadian dollars, except per unit amounts)

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(d) Inventory properties

Inventory properties are assets acquired or developed that Urbanfund has no intention of using for rental income purposes and plans to sell in the ordinary course of business. The Company expects to earn a return on such assets through a combination of property operating income earned during the holding period and sales proceeds. Residential inventory is recorded at the lower of cost, including pre-development expenditures and capitalized borrowing costs, and net realizable value, which Urbanfund determines using the estimated selling price in the ordinary course of business, less estimated selling costs and development costs to complete.

Inventory properties are reviewed for impairment at each reporting date. An impairment loss is recognized in net income when the carrying value of the asset exceeds its net realizable value.

Transfers into inventory properties are based on a change in use evidenced by the commencement of development expenditures with the view to sell, at which point an investment property would be transferred to inventory. Transfers from inventory property to investment property are based on a change in use evidenced by management's commitment to use a property for rental purposes or the commencement of an operating lease to another party.

(e) Revenue recognition

Revenue is recognized to the extent that it is probable that the future economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured at the fair value of consideration received. The following specific recognition criteria must also be met before revenue is recognized:

(i) Rental revenue

The Company has retained substantially all the risks and benefits of ownership of its investment properties and, therefore, accounts for its leases with tenants as operating leases. Revenue from investment properties includes all rental income earned from properties, including residential and commercial tenant rental income, parking income and all other sundry income paid by the tenants under the terms of their leases. Revenue recognition under a lease commences when a tenant has the right to use the leased asset, and revenue is recognized pursuant to the terms of the agreement which is on a straight-line basis over the term of the lease.

Leasehold inducements represent consideration of various incentives for the lessee to sign the lease and are recognized as a reduction in revenue pursuant to the terms of the agreement which is on a straight-line basis over the term of the lease.

Operating expense recoveries charged to the tenant to recover a representative portion of the leased common area maintenance and property taxes are recognized as revenue in the period that the recoverable costs become chargeable to the tenants and the costs incurred for the transaction can be measured reliably. Operating expense recoveries are included in rental revenue.

(ii) Inventory properties

Income earned from the sale of inventory properties is recognized when the following conditions are met: (a) the Company has transferred to the purchaser the significant risks and rewards of ownership; (b) income and costs can be reliably measured; (c) the purchaser has made a substantial commitment demonstrating its intent to honour its obligation; and (d) collection of any additional consideration is reasonably assured.

Directly attributable selling and disposition costs are expensed as incurred.

(iii) Interest income

Revenue is recognized as interest accrues using the effective interest method.

(iv) Other income

Other income includes distributions from investment in real estate project, which is recorded when the Company's right to receive payment has been established, which is generally when the distributions are declared payable.

URBANFUND CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

(In Canadian dollars, except per unit amounts)

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(f) Financial assets and financial liabilities

Financial assets include Urbanfund's accounts receivable, within receivables and other assets, cash and cash equivalents, marketable securities and assets held for sale. Financial liabilities include mortgages payable, liabilities associated with assets held for sale and accounts payable and accrued liabilities.

The fair value of a financial instrument is the amount of consideration that could be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. In certain circumstances, however, the initial fair value may be based on other observable current market transactions in the same instrument without modification or on a valuation technique using market-based inputs. The fair value of other assets and accounts payable and certain other liabilities are estimated based on discounted future cash flows using discount rates that reflect current market conditions for instruments with similar terms and risks. The fair value of term mortgages are estimated based on discounted future cash flows using discount rates that reflect current market conditions for instruments with similar terms and risks.

(g) Recognition and measurement of financial instruments

The Company determines the classification of its financial assets and liabilities at initial recognition. Financial instruments are recorded initially at fair value and, in the face of financial assets and liabilities carried at amortized cost, adjusted for directly attributable transaction costs.

Measurement in subsequent periods depends on whether the financial instrument has been classified as fair value through profit and loss, loans and receivables, held to maturity or available-for-sale.

(i) *Fair value through profit and loss*

Financial assets and financial liabilities classified as fair value through profit and loss are measured at fair value with gains and losses recognized in net income. Transaction costs are expensed as incurred. Other than marketable securities, the Company has no significant financial instruments classified as fair value through profit and loss.

(iii) *Held to maturity, loans, receivables and other liabilities*

Financial assets classified as held to maturity, loans and receivables and other liabilities (other than those held for trading) are required to be measured at amortized cost using the effective interest method. This method uses an effective interest rate that discounts estimated future cash receipts through the expected life of the financial asset or liability to the net carrying amount of the financial asset or liability.

The principal categories of the Company's financial assets and liabilities measured at amortized cost using the effective interest method include: accounts receivable and payable, tenant deposits, mortgages payable and mortgages payable associated with assets held for sale.

(iv) *Available-for-sale*

Available-for-sale financial assets are financial assets that are not categorized as either held-for-trading or designated at fair value. Available-for-sale financial assets are initially measured at fair value with direct transaction costs included in the carrying value of the asset. Available-for-sale financial assets are subsequently measured at fair value with unrealized gains and losses recorded in comprehensive income until the investment is derecognized or impaired, at which time the cumulative unrealized gain or loss is recognized in net income.

Investment in equity instruments classified as available-for-sale that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost.

URBANFUND CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

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3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(h) Impairment of financial assets

The Company assesses at each consolidated balance sheet date whether there is any objective evidence of impairment of each financial asset (or group of financial assets). A financial asset is deemed to be impaired if there is objective evidence of impairment as a result of an event that has occurred after the initial recognition of the asset and that loss event has an impact on the estimated future cash flows of the financial asset that can be reliably estimated. If the evaluation indicates that there is objective evidence of impairment, the financial asset is written down to its fair value and a loss is recognized in net income. Subsequent increases in fair value of financial assets are recognized in comprehensive income.

(i) Income taxes

Urbanfund is subject to tax under *Part I* of the *Income Tax Act of Canada* and is subject to the general rate applicable on Canadian corporations. Current and deferred taxes are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively.

(i) Current income taxes

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in Canada, where Urbanfund and its subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions, where appropriate, on the basis of amounts expected to be paid to the tax authorities.

(ii) Deferred income taxes

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates and laws that have been enacted or substantially enacted at the end of the reporting period and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred tax liabilities in relation to investment property that is measured at fair value is determined assuming the property will be recovered entirely through sale.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority.

(j) Cash and cash equivalents

Cash and cash equivalents comprise of cash on hand, unrestricted cash, balances with banks, deposits held in trust and short-term deposits, including guaranteed investment certificates with original maturities from the date of acquisition for three months or less.

(k) Levies

Levies are outflows from the Company imposed by a government in accordance with legislation. The Company has assessed property taxes as being within the scope of *IFRIC 21, Levies*, given that property taxes are non-reciprocal charges imposed by a government, in accordance with the legislation and are based on property value. *IFRIC 21* conforms that an entity shall recognize an asset if it has a prepaid levy but does not yet have a present obligation to pay that levy. The Company has determined that the liability to pay property taxes is an obligating event over future periods and therefore recognizes a prepaid property tax asset which is then amortized over the year.

URBANFUND CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

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3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(l) Provisions

Provisions are recognized when present (legal or constructive) obligations as a result of a past event will lead to a probable outflow of economic resources and amounts can be estimated reliably. Provisions are measured at management's best estimate of the expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation.

The Company performs evaluations to identify onerous contracts and, where applicable, records provisions for such contracts. All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. In those cases where the possible outflow of economic resources as a result of present obligations is considered remote, no liability is recognized.

(m) Borrowing costs

Borrowing costs include interest and other costs incurred in connection with borrowing of funds for operations or costs directly attributable to the acquisition. Borrowing costs associated with direct expenditures on investment properties under development and inventory properties are capitalized from the commencement of construction to the date of practical completion. The Company considers practical completion to have occurred when the inventory property or investment property is capable of operating in the manner intended by management, generally, this occurs upon the completion of construction and the receipt of all necessary occupancy and other material permits. Thereafter, borrowing costs are charged to the statement of income and comprehensive income.

(n) Share capital

Common shares are classified as equity. Transaction costs directly attributable to the issue of common shares are recognized as a deduction from equity, net of any tax effects. Preferred shares are classified as equity if it is non-redeemable or redeemable only at the Company's option and dividends are discretionary. Dividends thereon are recognized as distributions within equity upon approval of the Company's shareholders.

(o) Share-based payments

The Company issues share-based awards to certain directors, officers, employees and consultants. The cost of equity-settled share-based transactions with directors, officers and employees is determined as the fair value of the options on the grant date using a fair value model. The cost of equity-settled share-based transactions with consultants is at the fair value of the goods or services received, unless that fair value cannot be estimated reliably, in which case, the cost is determined as the fair value of the options using a fair value model. The value of the stock options is recognized on a proportionate basis consistent with the vesting features of each tranche of the grant.

The cost of cash-settled share-based transactions is measured at the fair value at the grant date, and expensed over the vesting period with the recognition of a corresponding liability. The liability is measured at each reporting date at fair value with changes in fair value recognized in net income.

(p) Net income per share

The basic income per common share is calculated by dividing net income by the weighted average number of common shares outstanding during the year. Diluted net income per common share is calculated by dividing the applicable net income by the sum of the weighted average number of common shares outstanding and all additional shares that would have been outstanding if potentially dilutive common shares had been issued during the year. The dilutive effect of preferred shares on net comprehensive income per share is calculated by determining the proceeds for the exercise of such securities which are then assumed to be used to purchase common shares of the Company.

(q) Joint arrangements

Urbanfund determines whether a joint arrangement constitutes a joint operation based on the rights and obligations of the parties to the arrangement. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have the rights to the assets, and obligations to the liabilities, relating to the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

URBANFUND CORP.

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3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(r) Non-current assets held for sale

Non-current assets are classified as held-for-sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. The condition is satisfied when the asset is available for immediate sale in its present condition, management is committed to the sale, and it is highly probable to occur within one year. Non-current assets classified as held-for-sale are measured at the lower of their previous carrying amount and fair value less costs to sell and are presented separately from other assets on the Company's consolidated balance sheets.

(s) Foreign currency translation

Foreign currency denominated revenues and expenses are translated using average rates of exchange during the year. Foreign currency denominated monetary assets and liabilities are translated at the rate of exchange in effect at the balance sheet date. The resulting exchange gains and losses are recognized in net income.

(t) Future changes in accounting policies

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or IFRIC that are mandatory at certain future dates. Urbanfund monitors the potential changes proposed by the IASB and analyzes the effect that the changes in standards may have on its operations.

Standards issued but not yet effective up to the date of issuance of these consolidated financial statements are described below. This description is of the standards and interpretations issued that the Company reasonably expects to be applicable at a future date. The Urbanfund intends to adopt these standards when they become effective.

Revenue from Contracts with Customers ("IFRS 15")

IFRS 15 was issued in May 2014. The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2018, with earlier application is permitted.

The Company's assessment includes a review of relevant contracts for the following key areas, which management believes are in scope of IFRS 15 including, but not limited to, inventory property sales and common area maintenance recoveries. The Company has assessed that the impact of IFRS 15 and has concluded that the pattern of revenue recognition will remain unchanged upon adoption of the standard. The impact may be limited to additional note disclosure on the disaggregation of revenue streams, specifically common area maintenance recoveries. The Company intends to adopt IFRS 15 under the modified retrospective approach, whereby the Company will recognize transitional adjustments in retained earnings on the date of initial application (January 1, 2018) without restatement of prior period comparatives.

Financial Instruments ("IFRS 9")

IFRS 9 Financial Instruments was issued in final form in July 2014 by the IASB and will replace *IAS 39, Financial Instruments: Recognition and Measurement*. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets.

Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 also includes requirements relating to a new hedge accounting model, which represents a substantial overhaul of hedge accounting which will allow entities to better reflect their risk management activities in the financial statements.

The Company assessed the key areas within the scope of IFRS 9, which includes, but not limited to the classification and measurement of available-for-sale securities. The Company intends to adopt the new standard on the required effective date of January 1, 2018 and will not restate comparative information. Quoted equity instruments currently held as available-for-sale financial assets with unrealized gains and losses are recorded in net income which is consistent with the requirement under IFRS 9. The Company does not expect a significant impact on these consolidated financial statements upon adoption of the standard.

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3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(t) Future changes in accounting policy (Cont'd)

Leases ("IFRS 16")

IFRS 16 was issued in May 2016. The new standard brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Lessor accounting, however, remains substantially unchanged, and the distinction between operating and finance leases is retained. IFRS 16 is effective for the Company's annual periods beginning on or after January 1, 2019, with early adoption permitted. Urbanfund will not be early adopting IFRS 16. The Company does not expect a material impact on the classification of its tenant leases on the adoption of this standard.

Investment Properties ("IAS 40")

In December 2016, the IASB issued an amendment to IAS 40 clarifying certain existing requirements. The amendment requires that an asset be transferred to or from investment properties only when there is a change in use. A change in use occurs when the property meets, or ceases to meet, the definition of an investment property and there is evidence of the change in use. In isolation, a change in management's intentions for the use of a property does not provide evidence of a change in use. These amendments are effective for annual periods beginning on or after January 1, 2018, with early adoption permitted.

Urbanfund will apply the amendments when they become effective, prospectively, however, the current policy and practice is in line with the clarifications issued, and the Company does not expect a material impact on the classification of its consolidated financial statements.

Share-based Payment ("IFRS 2")

In June 2016, the IASB issued final amendments to IFRS 2, clarifying how to account for certain types of share-based payment transactions. The amendments provide requirements on the accounting for: (i) the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; (ii) share-based payment transactions with a net settlement feature for withholding tax obligations; and (iii) a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. The Company does not expect any impact to its consolidated financial statements, as the amendments are in line with the Company's current policy.

4. ASSETS HELD FOR SALE

On February 2, 2018, Urbanfund, through its joint arrangement, completed a partial sale of its inventory property (note 29).

The Company's proportionate share of the results of assets held for sale are as follows:

Years ended December 31,		2017
Rental revenue	\$	235,898
Rental expenses		(110,254)
Net rental income		125,644
Other expenses		
Financing costs		(4,416)
General and administrative costs		(12,299)
Net income from assets held for sale	\$	108,929

The Company's net cash flows associated with assets held for sale are as follows:

Years ended December 31,		2017
Net income from assets available for sale	\$	108,929
Adjustments for net changes in non-cash working capital		(95,925)
Cash used in operating activities		13,004
Construction expenditures to inventory properties		(786,080)
Cash used in investing activities		(786,080)
Net change in cash	\$	(773,077)

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4. ASSETS HELD FOR SALE (CONT'D)

Presented below are details of the Company's property held for sale:

As at December 31,	Note		2017
Assets			
Investment property	5	\$	-
Inventory property	8		3,473,551
Receivables and other assets	10		82,669
Total assets held for sale		\$	3,556,220
Liabilities			
Mortgages payable	14	\$	(1,782,338)
Tenant deposits			(16,601)
Accounts payable and accrued liabilities			(37,713)
Total liabilities held for sale			(1,836,652)
Net assets		\$	1,719,568

5. INVESTMENT PROPERTIES

As at December 31,		2017	2016
Income properties	\$	56,230,000	\$ 50,370,000
Properties under development		5,197,685	5,268,439
	\$	61,427,685	\$ 55,638,439

	Income properties	Properties under development	Total
Balance, January 1, 2017	\$ 50,370,000	\$ 5,268,439	\$ 55,638,439
Acquisitions	-	2,100,000	2,100,000
Development expenditures:			
Capitalized costs	-	486,482	486,482
Finance costs	-	30,235	30,235
Capital expenditures	186,247	-	186,247
Transfers, net ⁽ⁱ⁾ (note 8)	-	(2,687,471)	(2,687,471)
Fair value adjustment on investment properties	5,673,753	-	5,673,753
Balance, December 31, 2017	\$ 56,230,000	\$ 5,197,685	\$ 61,427,685

	Income properties	Properties under development	Total
Balance, January 1, 2016	\$ 41,860,000	\$ 4,065,489	\$ 45,925,489
Acquisitions	-	4,407,500	4,407,500
Development expenditures:			
Capitalized costs	-	1,357,115	1,357,115
Finance costs	-	74,211	74,211
Capital expenditures	221,999	-	221,999
Transfers, net ⁽ⁱⁱ⁾	4,635,876	(4,635,876)	-
Fair value adjustment on investment properties	3,652,125	-	3,652,125
Balance, December 31, 2016	\$ 50,370,000	\$ 5,268,439	\$ 55,638,439

(i) As at December 31, 2017, 11-13 Edvac, Ontario, through Edvac joint operation, met the change in use criteria, as evidenced by the commitment of management to complete the development with a view to sell. The carrying value of the property was transferred to inventory properties.

(ii) During 2016, the construction and development of 48 Weber, Kitchener, Ontario, through Weber Investments LP, was substantially completed. The carrying value was transferred to income properties.

URBANFUND CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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5. INVESTMENT PROPERTIES (CONT'D)

Acquisitions

The following table summarizes the Company's acquisition of investment properties and inventory properties. The fair value of consideration has been allocated to the identifiable assets acquired based on the fair values as at the date of acquisition, as follows:

	4 Alfred Kuhne Brampton, Ontario	51, 55, 59 Scott St. Kitchener, Ontario	59, 61, 65 Weber St. Kitchener, Ontario	65 Roy St. Kitchener, Ontario	11-13 Edvac Drive Brampton, Ontario
Acquisition date	November 10, 2017	April 10, 2017	January 20, 2016	February 5, 2016	December 15, 2016
Net assets acquired:					
Investment properties	\$ -	\$ 2,100,000	\$ 1,250,000	\$ 530,000	\$ 2,627,500
Inventory properties (note 8)	2,350,000	-	-	-	-
	\$ 2,350,000	\$ 2,100,000	\$ 1,250,000	\$ 530,000	\$ -
Consideration funded by way of:					
Cash disbursement	\$ 1,800,000	\$ 2,100,000	\$ 625,000	\$ 530,000	\$ 1,625,000
Mortgage payable	550,000	-	625,000	-	1,002,500
	\$ 2,350,000	\$ 2,100,000	\$ 1,250,000	\$ 530,000	\$ 2,627,500

Valuation methodology

Fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e. an exit price). Expectations about future improvements or modifications to be made to the investment property to reflect its highest and best use may be considered in the valuation. Investment properties are carried at fair value and the Company uses significant unobservable inputs to estimate fair value at each reporting date. Significant unobservable inputs are classified as level 3 inputs under IFRS (see note 22).

Quoted market prices in active markets are the best evidence of fair value and are used as a basis of fair value measurement, when available. When quoted market prices are not available, judgment is required to estimate the fair value based on the best information available, including prices for similar assets and the use of other valuation techniques. These valuation techniques are consistent with the objective of measuring fair value and involve a degree of estimation depending on the availability of market-based information.

Valuation approach and techniques

Urbanfund's management team is responsible for determining the fair value of investment properties, including any co-owned properties, at each reporting date. This team consists of individuals who are knowledgeable and have specialized industry experience in real estate valuations.

The management team, consisting of the senior management of the Company, including the President & Chief Executive Officer, Chief Financial Officer and Controller, estimates the fair value of each income property based on a valuation technique known as the direct capitalization income approach. The fair value is determined by applying a capitalization rate to stabilized net operating income ("SNOI").

- SNOI is based on budgeted rents and expenses and supported by the terms of any existing lease, other contracts or external evidence such as current market rents for similar properties, adjusted to incorporate allowances for estimated vacancy rates and capital expenditures based on current and expected future market conditions after expiry of any current lease and expected maintenance costs.
- The capitalization rate is based on the location and quality of the properties and takes into account market data at the valuation date.

Generally, a change in the assumption made for the estimated rental value is accompanied by a directionally similar change in the rent growth per annum and an opposite change in the long-term vacancy rate. Each of these inputs when increased or decreased, in isolation, would not result in a material change in the fair value of the Company's investment properties. As a result, management does not consider these variables as key inputs in estimating the fair value of an investment property.

URBANFUND CORP.
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5. INVESTMENT PROPERTIES (CONT'D)

As at December 31, 2017 and 2016, the capitalization rates used in valuing the commercial and residential properties are set out as follows:

	December 31, 2016			December 31, 2017		
	Minimum	Maximum	Average	Minimum	Maximum	Average
Commercial properties	5.90%	6.00%	5.95%	5.50%	5.50%	5.50%
Residential properties	4.64%	6.75%	5.22%	3.60%	6.50%	4.45%

Sensitivity

An increase in SNOI would result in an increase to the estimated fair value of properties. The capitalization rates have an inverse relationship between the rate and the fair value, in other words, the lower the capitalization rate, the higher the estimated value.

The following table is a sensitivity applied to the proportion of the Company's investment properties measured using the direct capitalization approach and therefore is sensitive to the changes in capitalization rates.

	Stabilized NOI -1%	Stabilized NOI as reported	Stabilized NOI +1%
As at December 31, 2016:			
Capitalization rate, decrease, 0.25%	\$ 1,671,800	\$ 2,132,200	\$ 2,593,600
Capitalization rate, as reported	(440,800)	-	438,000
Capitalization rate, increase, 0.25%	(2,364,700)	(1,944,000)	(1,524,400)
As at December 31, 2017:			
Capitalization rate, decrease, 0.25%	\$ 1,471,800	\$ 1,863,600	\$ 2,254,400
Capitalization rate, as reported	(441,200)	-	301,700
Capitalization rate, increase, 0.25%	(2,168,700)	(1,814,200)	(1,460,900)

6. EQUITY ACCOUNTED INVESTMENT

During the year, the Company acquired an equity method investment. The following details the Company's ownership in the subsidiary:

As at December 31,	2017
Equity investee	Principal activity
Highfield Park Residential Inc.	Owns and operates investment properties
	20%

The following table shows the changes in the aggregate carrying value of Urbanfund's equity accounted investment:

Year ended December 31,	2017
Balance, beginning of year	\$ -
Contributions	7,569,980
Share of net income	109,417
Balance, end of year	\$ 7,679,397

The following tables presents the financial position of Urbanfund's equity accounted investee on a 100% basis:

As at December 31,	2017
Current assets	\$ 1,568,280
Non-current assets	114,269,590
Current liabilities	(1,269,498)
Non-current liabilities	(76,171,386)
Net assets	38,396,986
Equity accounted investment	\$ 7,679,397

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6. EQUITY ACCOUNTED INVESTMENT (CONT'D)

Year ended December 31,		2017
Revenue	\$	2,820,268
Operating expenses		(1,611,679)
Interest expense		(661,502)
Net income		547,087
Income from equity accounted investment	\$	109,417

7. INVESTMENT IN REAL ESTATE PROJECT

In September 2009, the Company invested in a 10% interest in a private partnership, which in turn, a 33.3% interest in the One Bloor Street East, Toronto, Ontario real estate project. As at December 31, 2016, the Company did not have significant influence, control, or joint control over the partnership, and recorded the investment as an available-for-sale financial instrument. As at December 31, 2017, Urbanfund received a return of capital of \$1,677,333 and profit distributions of \$3,666,667.

8. INVENTORY PROPERTIES

The following table shows the changes in the aggregate carrying value of Urbanfund's inventory property:

Year ended December 31,		2017		2016
Balance, beginning of year	\$	-	\$	-
Transfers (note 5)		2,687,471		-
Acquisition of inventory properties (note 5)		2,350,000		-
Development expenditures		910,415		-
Balance, end of year	\$	5,947,886	\$	-
Inventory property		2,474,335		-
Inventory property held for sale (note 4)		3,473,551		-
	\$	5,947,886	\$	-

9. MARKETABLE SECURITIES

The following table summarizes the cost and fair value of Urbanfund's marketable securities:

		2017		2016
Cost	\$	353,427	\$	372,066
Fair value		446,825		336,344

10. RECEIVABLES AND OTHER ASSETS

The following table details Urbanfund's receivables and other assets as at December 31, 2017 and 2016:

As at December 31,		2017		2016
Accounts receivable	\$	344,596	\$	227,386
Investment in private company (2,083,333 common shares, 1,041,666 purchase warrants) ⁽ⁱ⁾		250,000		625,000
Amounts receivable (note 21)		117,008		181,444
Prepaid expenses		89,256		81,073
Deposits		27,188		28,045
Interest receivable		-		8,068
Income taxes recoverable		-		15,274
	\$	828,049	\$	1,166,290
Receivables and other assets		745,380		1,166,290
Receivables and other assets held for sale (note 4)		82,669		-
	\$	828,049	\$	1,166,290

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10. RECEIVABLES AND OTHER ASSETS (CONT'D)

- (i) In 2015, Urbanfund provided the private company with an operating loan of \$500,000, which bore interest at the prime rate plus 6%. As at December 31, 2017, the private company had repaid the previously drawn facility in full. For the year ended December 31, 2017, Urbanfund recognized \$31,198 of interest income relating to the loan included in interest and dividend income in the consolidated statements of income and comprehensive income (2016 - \$20,316).

11. CASH AND CASH EQUIVALENTS

As at December 31,	2017		2016	
Cash	\$	8,002,475	\$	5,216,904
Guaranteed Investment Certificate		-		2,745,728
	\$	8,002,475	\$	7,962,632

As at December 31, 2016, the Guaranteed Investment Certificate bore interest at 0.55% and matured on June 19, 2017.

12. JOINT OPERATIONS

The following table details the Company's ownership interest in the joint arrangements:

As at December 31,	2017		2016	
Joint operation	Principal activity			
La Corporation Headway ("Quebec Headway")	Own and operate investment properties	10%		10%
Edvac ⁽ⁱ⁾	Develop and sale of inventory property	50%		50%
Alfred Kuehne	Develop and sale of inventory property	50%		-%

- (i) In Urbanfund's 2016 consolidated financial statements, the Edvac joint venture's assets, liabilities, revenues and expenses were consolidated at our interest of 50%. In 2017, Edvac met the held for sale criteria, and therefore has been classified separately on the consolidated balance sheets as if Edvac had met the held for sale criteria from the start of 2017 (note 4).

The following tables present the financial results of Urbanfund's joint operations:

As at December 31,	2017			2016		
	Quebec Headway	Alfred Kuehne	Total	Quebec Headway	Alfred Kuehne	Total
Current assets	\$ 377,304	\$ 889,198	\$ 1,266,502	\$ 776,895	\$ -	\$ 776,895
Non-current assets	9,830,000	2,474,335	12,304,335	8,290,000	-	8,290,000
Current liabilities	(371,084)	(79,018)	(450,102)	(342,909)	-	(342,909)
Non-current liabilities	(2,486,518)	(1,524,742)	(4,011,260)	(2,706,668)	-	(2,706,668)
Net assets	\$ 7,349,702	\$ 1,759,773	\$ 9,109,475	\$ 6,017,318	\$ -	\$ 6,017,318

Year ended December 31,	2017			2016		
	Quebec Headway	Alfred Kuehne	Total	Quebec Headway	Alfred Kuehne	Total
Revenue	\$ 1,457,228	\$ 16,202	\$ 1,473,430	\$ 1,457,974	\$ -	\$ 1,457,974
Expenses	(1,156,208)	(41,909)	(1,198,117)	(1,087,550)	-	(1,087,550)
Fair value gains	1,485,970	-	1,485,970	35,272	-	35,272
Interest expense	(95,461)	(14,520)	(109,981)	(130,314)	-	(130,314)
Net income (loss)	\$ 1,691,529	\$ (40,227)	\$ 1,651,302	\$ 275,382	\$ -	\$ 275,382

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13. LIMITED PARTNERSHIPS

The Company entered into limited partnership agreements as the limited partner of Weber Investments LP (“Weber LP”), Weber Investments 2 LP (“Weber 2 LP”) and Weber Investments 3 LP (“Weber 3 LP”) (collectively, the “Limited Partnerships”) to continue its expansion of real estate activities in the Kitchener, Ontario area. Urbanfund has control over the Limited Partnerships, and therefore has consolidated the financial results, reference note 2(c) for further details.

The following tables present the financial results of Urbanfund’s Limited Partnerships:

As at December 31,	2017			
	Weber LP	Weber 2 LP	Weber 3 LP	Total
Current assets	\$ 1,426,350	\$ 120,849	\$ 100,009	\$ 1,647,208
Non-current assets	8,788,001	2,062,614	1,647,069	12,497,684
Current liabilities	(263,633)	(606,289)	(241,193)	(1,111,115)
Non-current liabilities	(4,496,188)	-	-	(4,496,188)
Net assets	\$ 5,454,530	\$ 1,577,174	\$ 1,505,885	\$ 8,537,589

As at December 31,	2016			
	Weber LP	Weber 2 LP	Weber 3 LP	Total
Current assets	\$ 1,972,784	\$ 89,130	\$ 260,367	\$ 2,322,281
Non-current assets	6,867,799	1,483,541	629,627	8,980,967
Current liabilities	(323,888)	(617,552)	(265,556)	(1,206,996)
Non-current liabilities	(4,778,154)	-	-	(4,778,154)
Net assets	\$ 3,738,541	\$ 955,119	\$ 624,438	\$ 5,318,098

Year ended December 31,	2017			
	Weber LP	Weber 2 LP ⁽ⁱ⁾	Weber 3 LP ⁽ⁱ⁾	Total
Revenue	\$ 433,338	\$ -	\$ -	\$ 433,338
Expenses	(241,898)	-	-	(241,898)
Fair value gains	820,973	-	-	820,973
Interest expense	(138,580)	-	-	(138,580)
Net income	\$ 873,833	\$ -	\$ -	\$ 873,833
Attributable to:				
Shareholders	\$ 786,450	\$ -	\$ -	\$ 786,450
Non-controlling interests	87,383	-	-	87,383
	\$ 873,833	\$ -	\$ -	\$ 873,833

Year ended December 31,	2016			
	Weber LP	Weber 2 LP ⁽ⁱ⁾	Weber 3 LP ⁽ⁱ⁾	Total
Revenue	\$ 269,335	\$ -	\$ -	\$ 269,335
Expenses	(199,245)	-	-	(199,245)
Fair value gains	1,753,006	-	-	1,753,006
Interest expense	(123,407)	-	-	(123,407)
Net income	\$ 1,699,689	\$ -	\$ -	\$ 1,699,689
Attributable to:				
Shareholders	\$ 1,104,798	\$ -	\$ -	\$ 1,104,798
Non-controlling interests	594,891	-	-	594,891
	\$ 1,699,689	\$ -	\$ -	\$ 1,699,689

(i) For the year ended December 31, 2017 and 2016, Weber 2 LP and Weber 3 LP incurred \$209,334 and \$142,155 of direct development costs (2016 - \$233,541 and \$97,188) and \$40,083 and \$8,204 of borrowing costs (2016 - \$42,969 and \$2,438), which are attributable to the properties under development. No revenues or expenses have been recognized relating to Weber 2 LP and Weber 3 LP in the consolidated statements of income and comprehensive income.

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13. LIMITED PARTNERSHIPS (CONT'D)

On August 1, 2017, Urbanfund commenced proceedings to place one of its limited partners (the "Limited Partner") into default under the terms of the limited partnership agreements. On August 4, 2017, the Limited Partner's units were purchased by Urbanfund for cancellation in accordance with the limited partnership agreements and the Limited Partner's equity interest of \$65,759 was transferred to Urbanfund.

Distributions by the Limited Partnerships are allocated to the limited partner who has contributed capital in excess of their pro-rata share such that each limited partner achieves an annualized internal rate of return of 6% on their excess contribution. Thereafter, the Limited Partnerships' distributions will be 90% to Urbanfund and 10% to the non-controlling interests (2016 - 65% to Urbanfund and 35% to the non-controlling interests). An officer of Urbanfund is also an officer of the general partners.

14. MORTGAGES PAYABLE

As at December 31,	2017		2016	
Current	\$	7,255,927	\$	1,752,548
Non-current		29,055,011		27,651,579
	\$	36,310,938	\$	29,404,127

As at December 31,	2017		2016	
Mortgages payable	\$	34,528,600	\$	29,404,127
Mortgages payable on inventory property held for sale (note 4)		1,782,338		-
	\$	36,310,938	\$	29,404,127

Mortgages payable are secured by investment properties and bear interest at various fixed rates with payment terms either monthly blended principal and interest payments ("MBPI") or interest only ("IO").

As at December 31,					2017		2016	
Property name(s)	Payment Terms	Maturity Date	Interest Rate					
3080-3094 Don Mills & 200 Van Horne	MBPI	Mar 1, 2025	2.52%	\$	11,307,263	\$	11,680,653	
305 North Front Centre	MBPI	Oct 5, 2022	3.95%		10,110,164		-	
305 North Front Centre	MBPI	Oct 5, 2017	3.86%		-		3,779,147	
476-480 Wonderland Road	MBPI	Jun 5, 2018	3.86%		1,218,683		1,323,455	
Quebec Headway, Vendor Take Back	MBPI	May 1, 2018	4.50%		2,590,235		2,704,590	
Quebec Headway, Assumed Mortgages	MBPI	(i)	(i)		2,762,580		3,026,904	
48 Weber Street & 65 Roy Street	MBPI	Oct 1, 2023	2.92%		4,644,841		4,778,154	
59 Weber Street	IO	Jun 20, 2018	6.50%		625,000		625,000	
11-13 Edvac Drive	IO	Jun 15, 2019	6.00%		1,782,338		1,800,000	
4 Alfred Kuhne Boulevard	IO	Dec 1, 2019	5.50%		1,543,750		-	
Mortgages payable				\$	36,584,854	\$	29,717,903	

(i) Quebec Headway assumed mortgages payable are made up of 10 mortgages outstanding on the income properties of Quebec Headway. The weighted average remaining life is 6.45 years (2016 - 6.37 years) and bear a weighted average interest rate of 3.26% (2016 - 3.05%).

Minimum principal payments over the following years are as follows:

2018	\$	7,255,927
2019		2,580,978
2020		1,066,769
2021		988,531
2022		9,746,637
Thereafter		14,946,012
		36,584,854
Unamortized mortgage financing costs		(273,916)
	\$	36,310,938

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15. NON-REVOLVING TERM FACILITY

On August 19, 2016, the general partner of Weber Investments LP and Weber Investments 3 LP established a one-year second rank non-revolving term facility ("Term Facility") with a Canadian chartered bank for a maximum amount of \$900,000. The Term Facility bore interest at the bank's prime lending rate plus 1.25%. As at December 31, 2017, the principal amount outstanding under the Term Facility was \$465,000 matured and was repaid in full plus \$397 accrued interest.

16. INCOME TAXES

Income tax expense

The following table reconciles the income taxes calculated at the combined Canadian federal and provincial tax rates with the income tax expense as recognized in the consolidated statements of income and comprehensive income.

Year ended December 31,	2017		2016	
Income before income taxes	\$	7,344,757	\$	4,657,163
Statutory rate		26.7%		26.7%
Expected income tax expense		1,961,050		1,243,463
<i>Increase (decrease) in income tax expense due to:</i>				
Non-deductible items		-		36
Profit from investment in real estate project		543,693		-
Deferred tax related to investment properties		1,293,852		-
Income from investment in subsidiary		(29,214)		-
Non-controlling interests		(23,331)		(253,013)
Limited partnership interest's share of fair value gains		(219,200)		(394,981)
Non-capital loss carryforward applied		(17,650)		-
Other		(9,200)		(7,505)
Total income tax expense	\$	3,500,000	\$	588,000

Deferred income taxes

The temporary differences that give rise to deferred income tax assets and liabilities are presented below:

As at December 31,	2017		2016	
<i>Deferred tax assets:</i>				
Non-capital loss carryforward	\$	-	\$	17,650
Marketable securities		24,937		4,976
Deferred financing costs		19,110		2,060
<i>Deferred tax liabilities:</i>				
Inventory properties		(574,235)		-
Investment properties		(4,379,812)		(2,990,686)
Deferred tax liabilities, net	\$	(4,910,000)	\$	(2,966,000)

17. EQUITY

Authorized

20,000,000	First preferred, Series A shares, non-voting, non-participating, each share is convertible to one common share for no additional consideration unless, at the date of conversion, the aggregate number of common shares held by the directors and officers of Urbanfund, and related parties to such individuals, would exceed 80% of the issued and outstanding common shares, in which case the shares cannot be converted.
Unlimited	First preferred shares, issuable in series with rights, privileges, restrictions and conditions determined by the directors and officers of Urbanfund at the time of issuance.
Unlimited	Second preferred shares, issuable in series with rights, privileges, restrictions and conditions determined by the directors and officers of Urbanfund at the time of issuance.

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17. EQUITY (CONT'D)

Authorized (Cont'd)

Unlimited Common shares.

Basic and diluted income per share

Basic and diluted income per share has been calculated as follows:

Year ended December 31,	2017	2016
Net income attributable to shareholders	\$ 7,257,374	\$ 3,474,272
Weighted average common units outstanding:		
Basic	44,804,477	44,195,298
Dilutive effect of preferred shares	7,425,000	7,425,000
Diluted	52,229,477	51,620,298
Net income per share attributable to shareholders:		
Basic income per share	\$ 0.16	\$ 0.08
Diluted income per share	\$ 0.14	\$ 0.07

18. STOCK OPTIONS

The Company has established a stock option plan for the benefit of its employees, directors, officers and consultants. The maximum number of options that may be granted under the plan cannot exceed 10% of the number of issued and outstanding common shares. Options granted under the stock option plan have a maximum of five years and vest over three years from the grant date. The exercise price of the options is determined by the Board of Directors and must not be less than the closing price of Urbanfund's common shares on the TSX Venture exchange on the last trading day prior to the date of the grant. As at December 31, 2017 and 2016, there were no stock options issued, outstanding or exercised.

19. DIVIDENDS PAID AND DIVIDEND REINVESTMENT PLAN

On June 17, 2015, Urbanfund adopted a dividend policy and dividend reinvestment plan for the holders of common shares and Series A preferred shares (the "DRIP"). The DRIP is a voluntary program permitting holders of Series A, first preferred shares and common shares to automatically and without charge, reinvest dividends into additional common shares at a specified discount to the volume-weighted average market price calculated as the date of payment.

The Company intends to pay an annual aggregate dividend of \$0.01 per common share and \$0.01 per preferred share, payable quarterly in the amount of \$0.0025 per common and preferred share. The Company has reserved an aggregate of 2,000,000 common shares for issuance to participants enrolled in the DRIP.

For the year ended December 31, 2017, Urbanfund issued 637,346 common shares valued at \$315,680 to participants enrolled in the DRIP (2016 - 709,038 and \$202,991).

20. RENTAL REVENUE

Year ended December 31,	2017	2016
Base rent	\$ 4,691,131	\$ 4,188,391
Realty tax recoveries	418,114	408,358
Common area maintenance recoveries	230,449	209,607
Percentage rent	52,113	78,950
Miscellaneous revenue	114,463	70,265
	\$ 5,506,270	\$ 4,955,571

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20. RENTAL REVENUE (CONT'D)

The Company as the lessor has entered into leases on its residential and commercial properties. The leases typically have terms between one and eight years and include classes to enable periodic revision of the rental charges according to market conditions.

Future minimum rent payments receivable under non-cancellable operating leases are as follows:

As at December 31,	2017	
Less than 12 months	\$	1,717,350
2 to 3 years		757,356
Greater than 3 years		588,526
	\$	3,063,232

21. RELATED PARTY BALANCES AND TRANSACTIONS

Included in amounts receivable within receivables and other assets (note 10) is \$117,008 (December 31, 2016 - \$181,444) of amounts due from a corporation that is also a shareholder of the Company.

Urbanfund is also contracted to this shareholder for property management fees and cost reimbursements, as follows:

	2017		2016	
<i>Property management fees, included in:</i>				
Rental expenses	\$	102,358	\$	100,170
Income from equity accounted investment, net		18,589		-
Accounts payable and accrued liabilities		25,727		26,426
<i>Management cost reimbursements, included in:</i>				
Rental expenses	\$	232,392	\$	225,556
Income from equity accounted investment, net		54,611		-
Accounts payable and accrued liabilities		21,404		36,976

The marketable securities held by Urbanfund are held with a brokerage that is related by common shareholders who are also directors of the Company. At December 31, 2017, there was \$369,429 (2016 - \$342,981) in cash held by the brokerage, in addition to the marketable securities disclosed in note 9. There has been no compensation paid to key management personnel during the years ended December 31, 2017 and 2016.

22. FAIR VALUE MEASUREMENT

The fair value hierarchy of assets and liabilities measured at fair value on a recurring basis in the consolidated balance sheets are as follows:

As at December 31,	2017			2016		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
<i>Assets measured at fair value:</i>						
Cash and cash equivalents	\$ 8,002,475	\$ -	\$ -	\$ 7,962,632	\$ -	\$ -
Marketable securities	446,825	-	-	336,344	-	-
Income properties (note 5)	-	-	56,230,000	-	-	50,370,000
Total assets measured at fair value	\$ 8,449,300	\$ -	\$ 56,230,000	\$ 8,298,976	\$ -	\$ 50,370,000

For assets measured at fair value as at December 31, 2017, there were no transfers between Level 1, Level 2 and Level 3 during the year.

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22. FAIR VALUE MEASUREMENT (CONT'D)

Receivables and other assets, tenant deposits, accounts payable and accrued liabilities

The carrying value of receivables and other assets, tenant deposits, accounts payable and accrued liabilities are considered to be representative of their fair values due to their short-term nature.

Investment in real estate project and investment in private company

The fair value of the investment in real estate project (note 7) and investment in private company included in receivables and other assets (note 10) are not reasonably determinable, as there is no active market for the investments, therefore are recorded at cost.

Mortgages payable and non-revolving term facility

The fair value of the mortgages payable and non-revolving term facility are Level 2 and approximate \$34,000,000 (2016 - \$29,000,000) and \$nil (2016 - \$465,000), respectively, based on the interest rates obtainable for similar financial instruments in the current market place.

The following table outlines the financial assets and liabilities, their classification and measurement of those values:

As at December 31,	Classification	Measurement	2017	2016
<i>Financial assets:</i>				
Cash and cash equivalents	Loans and receivables	Amortized cost	\$ 8,002,475	\$ 7,962,632
Receivables and other assets	Loans and receivables	Amortized cost	495,380	541,290
Marketable securities	Fair value through profit and loss	Fair value	446,825	336,344
Investment in private company:			-	-
Common shares	Available-for-sale	Cost	250,000	250,000
Purchase warrants	Fair value through profit and loss	Fair value	-	-
Loan receivable	Loans and receivables	Amortized cost	-	375,000
<i>Financial liabilities:</i>				
Accounts payable and accrued liabilities	Other liabilities	Amortized cost	689,290	688,614
Tenant deposits	Other liabilities	Amortized cost	181,678	203,698
Non-revolving term facility	Other liabilities	Amortized cost	-	463,050
Mortgages payable	Other liabilities	Amortized cost	34,528,600	29,404,127

23. RISK MANAGEMENT

Financial risk management objectives and policies

The Company's activity exposes it to a variety of financial risks, including interest rate risk, credit risk and liquidity risk. These financial risks are managed by the Company under policies approved by the Board of Directors. The principal financial risks are actively managed by the Company's finance department, within Board approved policies and guidelines. On an ongoing basis, the finance department actively monitors market conditions with a view to minimizing the exposure of the Company to changing market factors, while at the same time limiting the funding costs of the Company.

Interest rate risk

Urbanfund is exposed to interest rate risks on its borrowings and could be adversely affected if it were unable to obtain cost-effective financing. The Company's debt is financed at fixed rates with maturities staggered over a number of years, thereby mitigating its exposure to changes in interest rates and financing risks. A change in the interest rate by 1% would result in an increase or decrease in the fair value of mortgages by \$122,318 (2016 - \$122,916) and non-revolving term facility by \$nil (2016 - \$15,916).

Credit risk

Credit risk arises from the possibility that Urbanfund's tenants may experience financial difficulty and be unable to fulfil their lease commitments. The Company mitigates this risk of credit loss by diversifying its tenant mix and by limiting its exposure to any one tenant. In addition, the Company obtains security deposits from tenants. The Company mitigates its exposure to credit loss by placing its cash and short-term investments with major financial institutions.

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23. RISK MANAGEMENT (CONT'D)

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulties in meeting its financial liability obligations as they become due. The Company has a planning and budgeting process in place to help determine the funds required to support the Company's normal operating requirements on an ongoing basis.

Since inception, the Company has financed its cash requirements primarily through issuances of securities, short-term borrowings and issuances of long-term debt. The Company controls liquidity risk through management of working capital, cash flows and the availability and sourcing of financing. Financial liabilities are due as follows:

	< 1 year	1-2 years	3-5 years	>5 years
Accounts payable and accrued liabilities	\$ 689,291	\$ -	\$ -	\$ -
Mortgages payable	7,255,927	2,580,978	11,801,937	14,946,012

24. CAPITAL MANAGEMENT

Urbanfund defines capital as its equity. The Company's objective when managing capital is: (i) to safeguard the ability to continue as a going concern, so that it can continue to provide returns to shareholders and benefits to other stakeholders; and (ii) to provide adequate return to shareholders by obtaining an appropriate amount of debt commensurate with the level of risk, to reduce after-tax cost of capital.

The Company sets the amount of capital in proportion to the risk. Urbanfund manages capital structure and makes adjustments in light of changes in economic conditions and the characteristic risk of underlying assets. In order to maintain or adjust capital structure, the Company may repurchase shares, return capital to shareholders, issue new shares or sell assets to reduce debt. Urbanfund's objective is met by retaining adequate liquidity to provide for the possibility that cash flows from assets will not be sufficient to meet future cash flow requirements. There have been no changes to the Company's capital management policies during the years ended December 31, 2017 and 2016.

25. SEGMENTED INFORMATION

Urbanfund, primarily owns, develops, manages and operates residential and commercial sector properties in Canada. In measuring its performance of its residential and commercial properties, the Company does not distinguish or group its operations on a geographical or any other basis and, accordingly has a single reportable operating segment. Management has applied judgment by aggregating its operating segments into one single reportable segment for disclosure purposes. Such judgment considers the nature of property operations, tenant mix and an expectation that operating segments within a reportable segment have similar long-term economic characteristics.

The Company's Chief Executive Officer is the chief operating decision maker and regularly reviews Urbanfund's operations and performance on a consolidated basis. Urbanfund does not have any single major tenant or any significant groups of tenants.

26. SUPPLEMENTAL CASH FLOW INFORMATION

Year ended December 31,	2017	2016
Interest received	\$ 84,505	\$ 42,908
Interest paid	(775,433)	(767,190)
Dividends paid:		
Dividends declared during the year	\$ (75,340)	(36,513)
Dividends declared in the prior period paid in the current year	(12,482)	(13,565)
Dividends declared in the current period paid in next year	24,380	12,482
Dividends paid	\$ (63,442)	\$ (37,596)

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26. SUPPLEMENTAL CASH FLOW INFORMATION (CONT'D)

The following provides a reconciliation of liabilities arising from financing activities:

Year ended December 31, 2017	Non-revolving term facility	Mortgages payable
Balance, beginning of year	\$ 463,050	\$ 29,717,903
Cash flows	(461,700)	5,124,473
Non-cash changes:		
Deferred financing costs	(1,350)	(39,860)
Balance, end of year	\$ -	\$ 34,802,516
Liabilities associated with assets held for sale	-	1,782,338
	\$ -	\$ 36,584,854

27. ADJUSTMENTS FOR OTHER NON-CASH WORKING CAPITAL ITEMS

Year ended December 31,	2017	2016
Receivables and other assets	\$ 338,242	\$ (201,958)
Accounts payable and accrued liabilities	38,391	(97,039)
Income taxes	1,556,000	58,224
Tenant deposits	(5,419)	86,002
Deferred financing costs and other	376,389	204,910
Net change in other working capital items	\$ 2,303,603	\$ 50,139

28. CONTINGENCIES AND COMMITMENTS

The Company may have various other contractual obligations in the normal course of operations. The Company is not contingently liable with respect to litigation, claims and environmental matters, including those that could result in mandatory damages or other relief. Any expected settlement of claims in excess of amounts recorded will be charged to the consolidated statements of income and comprehensive income as and when such determination is made.

29. EVENTS AFTER THE BALANCE SHEET DATE

On February 2, 2018, Urbanfund received a distribution from Edvac of \$1,850,000 relating to a return of capital of \$971,000 and income of \$879,000 relating to the net profits on the sale of 33 of the 40 units.

On March 16, 2018, Urbanfund, through its limited partnership Weber LP, entered into a conditional agreement to sell its investment properties and properties under development for an aggregate purchase price of \$7,300,000, plus customary closing costs. The general partner of Weber LP, at its discretion, will use the proceeds to repay any remaining outstanding obligations of Weber LP and distribute the excess capital in accordance with the limited partnership agreement (note 13).

On April 1, 2018, Urbanfund entered into negotiations with its lenders to refinance its mortgage relating to 476-480 Wonderland Road and the vendor take back relating to Quebec Headway (note 14) at similar terms and conditions.

30. COMPARATIVE BALANCES

The consolidated balance sheets have been reclassified to the liquidity method which is further described in note 2(b). The investment in private company has been reclassified to receivables and other assets (note 10). Other comparative amounts presented in these consolidated financial statements have been reclassified to conform to current year's presentation.