Consolidated Financial Statements
(In United States dollars)

TERRA FIRMA CAPITAL CORPORATION

And Independent Auditors' Report thereon

Years ended December 31, 2019 and 2018

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Terra Firma Capital Corporation

Opinion

We have audited the consolidated financial statements of Terra Firma Capital Corporation (the Entity), which comprise:

- the consolidated statements of financial position as at December 31, 2019 and 2018
- the consolidated statements of income and comprehensive income for the years then ended
- the consolidated statements of changes in equity for the years then ended
- the consolidated statements of cash flows for the years then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2019 and 2018, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

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

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

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

Other Information

Management is responsible for the other information. Other information comprises:

- the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commission.

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

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

We obtained the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commission as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

We also:

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.

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

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

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

The engagement partner on the audit resulting in this auditors' report is Saqib Jawed.

Toronto, Canada

April 1, 2020

TERRA FIRMA CAPITAL CORPORATION

Consolidated Statements of Financial Position
(In United States Dollars)

December 31, 2019 and 2018

	2019	2018 (As restated - note 3(a), recast note 26)
Assets		
Cash and cash equivalents	$ 1,931,451	$ 7,731,379
Funds held in trust	1,805,229	1,095,669
Amounts receivable and prepaid expenses (note 4)	1,520,698	1,013,935
Loan and mortgage investments (note 5)	116,212,642	121,675,979
Investment in finance leases (note 6)	17,959,374	2,819,915
Portfolio investments (note 7)	2,042,937	1,911,574
Investment in associates (note 8)	3,097,947	2,146,984
Investment property held in joint operations (note 9(b))	1,700,303	1,619,633
Convertible note receivable (note 10)	800,531	–
Right-of-use asset (notes 3(s) and 14)	912,436	–
Income taxes recoverable (note 21)	247,719	130,741
	$ 148,231,267	$ 140,145,809
Liabilities and Equity		
Liabilities:		
Accounts payable and accrued liabilities (note 11)	$ 5,344,792	$ 3,618,067
Unearned income	692,264	1,303,162
Deferred income taxes payable (note 21)	450,017	753,089
Unsecured note payable (note 13)	3,000,000	–
Credit facilities (note 12)	8,878,839	19,464,106
Lease obligations (notes 3(s) and 14)	913,129	–
Loan and mortgage syndications (note 5)	88,249,414	75,906,550
Mortgages payable (note 9(c))	1,067,440	1,047,809
	108,595,895	102,092,783
Equity:		
Share capital (note 16(b))	25,283,343	26,533,950
Contributed surplus (note 17)	3,440,695	3,264,388
Foreign currency translation reserve (note 3(a))	(6,885,398)	(6,885,398)
Retained earnings	17,796,732	15,140,086
Shareholders' equity	39,635,372	38,053,026
Commitments and contingencies (note 15)		
Subsequent events (note 27)		
	$ 148,231,267	$ 140,145,809

See accompanying notes to consolidated financial statements.

The consolidated financial statements were approved
by the Board on April 1, 2020 and signed on its behalf by:

"Seymour Temkin" Director

"Dov Meyer" Director

TERRA FIRMA CAPITAL CORPORATION

Consolidated Statements of Income and Comprehensive Income
(In United States dollars)

Years ended December 31, 2019 and 2018

	2019	2018
		(As restated - note 3(a), recast note 26)
Revenue:		
Interest and fees	$ 15,003,292	$ 13,139,718
Finance income	1,497,294	152,733
Rental (note 9(a))	155,720	155,720
	16,656,306	13,448,171
Expenses (income):		
Interest and financing costs (note 20)	9,161,259	7,947,282
General and administrative	3,375,989	2,775,430
Property operating costs (note 9(a))	53,427	53,427
Share-based compensation (note 16(e))	474,168	(15,828)
Provision for uncollectible receivables (note 4)	–	134,940
Provision for loan and mortgage investments loss (note 5)	74,208	2,403,182
Realized and unrealized foreign exchange loss (gain)	(156,901)	(3,034,987)
Loss on redemption of portfolio investment (note 7)	–	173,646
Fair value adjustment - portfolio investments (note 7)	(56,124)	(57,413)
Share of income from investment in associates (note 8)	(356,435)	–
	12,569,591	10,379,679
Income from operations before income taxes	4,086,715	3,068,492
Income taxes (note 21)	1,008,958	902,038
Net income and comprehensive income	$ 3,077,757	$ 2,166,454
Net income and comprehensive income attributable to:		
Common shareholders	$ 3,077,757	$ 2,215,783
Non-controlling interest	–	(49,329)
	$ 3,077,757	$ 2,166,454
Earnings per share (note 18):		
Basic	$ 0.54	$ 0.36
Diluted	0.54	0.36

See accompanying notes to consolidated financial statements.

TERRA FIRMA CAPITAL CORPORATION

Consolidated Statements of Changes in Equity
(In United States dollars)

Years ended December 31, 2019 and 2018

	Share capital – Number of shares	Share capital – Amount	Foreign currency translation reserve	Contributed surplus	Retained earnings	Total shareholders' equity	Non-controlling interest	Total equity
	(note 16(b) and (c))		(note 3)	(note 17)				
Balance, December 31, 2017 (as restated - note 3(a))	6,377,585	$ 28,887,862	$ (3,663,314)	$ 3,017,555	$ 12,924,303	$ 41,166,406	$ 202,562	$ 41,368,968
Issuance of shares pursuant to share options plan	9,600	36,530	–	(13,986)	–	22,544	–	22,544
Repurchase of shares pursuant to normal course issuer bid	(523,601)	(2,390,442)	–	–	–	(2,390,442)	–	(2,390,442)
Share-based compensation	–	–	–	260,819	–	260,819	–	260,819
Disposition of non-controlling interest	–	–	–	–	–	–	(153,233)	(153,233)
Foreign currency translation	–	–	(3,222,084)	–	–	(3,222,084)	–	(3,222,084)
Net income and comprehensive income	–	–	–	–	2,215,783	2,215,783	(49,329)	2,166,454
Balance, December 31, 2018 (as restated - note 3(a), recast note 26)	5,863,584	26,533,950	(6,885,398)	3,264,388	15,140,086	38,053,026	–	38,053,026
Repurchase of shares pursuant to normal course issuer bid	(298,550)	(1,250,607)	–	–	–	(1,250,607)	–	(1,250,607)
Share-based compensation	–	–	–	176,307	–	176,307	–	176,307
Dividends on common shares	–	–	–	–	(421,111)	(421,111)	–	(421,111)
Common share consolidation	(66)	–	–	–	–	–	–	–
Net income and comprehensive income	–	–	–	–	3,077,757	3,077,757	–	3,077,757
Balance, December 31, 2019	5,564,968	$ 25,283,343	$ (6,885,398)	$ 3,440,695	$ 17,796,732	$ 39,635,372	$ –	$ 39,635,372

See accompanying notes to consolidated financial statements.

TERRA FIRMA CAPITAL CORPORATION

Consolidated Statements of Cash Flows
(In United States dollars)

Years ended December 31, 2019 and 2018

	2019	2018
		(As restated - note 3(a)), recast note 26)
Cash provided by (used in):		
Operating activities:		
Net income and comprehensive income	$ 3,077,757	$ 2,166,454
Interest and fees earned	(15,003,292)	(13,139,718)
Finance income	(1,497,294)	(152,733)
Interest expense and financing costs	9,161,259	7,947,282
Unrealized foreign exchange gain	(106,007)	(3,230,915)
Income from associates	(356,435)	–
Non-cash items:		
Share-based compensation (note 16(e))	474,168	(15,828)
Amortization of right-of-use asset	173,313	–
Loss on sale of portfolio investment	–	173,646
Provision for loan and mortgage investments loss	74,208	2,403,182
Provision for uncollectible receivables	–	134,940
Fair value adjustment - portfolio investments	(56,124)	(57,413)
Income tax provision	1,008,958	902,038
Change in non-cash operating items:		
Increase in other receivables	(65,542)	(482,855)
Decrease in prepaid expenses and deposits	12,666	41,235
Increase (decrease) in accounts payable and accrued liabilities	(12,698)	223,204
Interest and fees received	11,718,953	8,862,839
Interest paid	(7,022,118)	(7,238,873)
Distributions from investment in associates	375,662	–
Income taxes received (paid)	(1,455,996)	78,367
	501,438	(1,385,148)
Financing activities:		
Proceeds from loan and mortgage syndications	49,602,355	40,424,380
Repayments of loan and mortgage syndications	(39,327,209)	(15,143,072)
Proceeds from unsecured note payable	3,000,000	–
Repayments of mortgages payable	(34,175)	(33,965)
Payment of lease obligations	(172,620)	–
Proceeds from credit facilities	14,102,487	8,804,480
Repayments of credit facilities	(25,389,941)	(2,948,548)
Disposition of non-controlling interest	–	(153,233)
Dividends paid	(210,700)	–
Proceeds from issuance of shares pursuant to share options plan	–	22,544
Repurchase of shares pursuant to normal course issuer bid	(1,250,607)	(2,390,442)
	319,590	28,582,144
Investing activities:		
Funding of loan and mortgage investments	(46,709,551)	(56,851,087)
Repayments of loan and mortgage investments	57,605,930	28,237,829
Funding of investment in finance leases	(23,518,262)	(2,865,999)
Proceeds from sale of finance leases	8,282,149	–
Funding of investment in convertible note receivable	(752,349)	–
Decrease (increase) in funds held in trust	(683,520)	1,261,548
Proceeds from redemption of portfolio investment	–	727,858
Proceeds from sale of investment in associates	4,298,600	61,000
Funding of investment in associates	(5,143,953)	–
Return of capital of portfolio investment	–	7,821,268
	(6,620,956)	(21,607,583)
Increase (decrease) in cash and cash equivalents	(5,799,928)	5,589,413
Cash and cash equivalents, beginning of year	7,731,379	2,141,966
Cash and cash equivalents, end of year	$ 1,931,451	$ 7,731,379

See accompanying notes to consolidated financial statements.

1. Reporting entity:

Terra Firma Capital Corporation (the "Company") was incorporated under the Ontario Business Corporations Act on July 26, 2007. The common shares of the Company ("Shares") trade on the TSX Venture Exchange (the "TSX-V") under the symbol TII. The registered office of the Company is located at 22 St. Clair Avenue East, Suite 200, Toronto, Ontario M4T 2S5.

The principal business of the Company is to provide real estate financings secured by investment properties and real estate developments throughout Canada and the United States. These financings are made to real estate developers and owners who require shorter-term loans to bridge a transitional period of one to five years where they require capital at various stages of development or redevelopment properties, for such development or redevelopment, properties repairs or the purchase of investment properties

Effective September 20, 2019, the Company completed a share consolidation of its share capital on the basis of one post-consolidation Share for each ten pre-consolidation Shares. As a result of the share consolidation, the Company's 55,650,336 Shares issued and outstanding were consolidated to 5,565,033 Shares. The number of shares, warrants, options, deferred share units (the "DSUs") and earnings per share data presented in these unaudited interim condensed consolidated financial statements have all been adjusted retroactively to reflect the impact of this share consolidation.

2. Basis of presentation:

(a) Statement of compliance:

These consolidated financial statements of the Company have been prepared by management in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards ("IAS") Board, as well as Interpretations of the International Financial Reporting Interpretations Committee (the "IFRIC").

2. Basis of presentation (continued):

(b) Basis of consolidation:

The Company holds its interests in certain joint operations and portfolio investments in its wholly owned subsidiaries which are controlled by the Company. For accounting purposes, control is established by an investor when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Company's principal subsidiaries are TFCC International Ltd. (100% owned), Terra Firma MA Ltd. (100% owned), TFCC USA LLC (100% owned), TFCC Kempston Place LLC (100% owned), SRL Georgia Holdings LLC (100% owned), TFCC USA II Corporation (100% owned), TFCC Saul's Ranch LLC (100% owned), TFCC Wilson Trace LLC (100% owned), TFCC Delray Inc. (100% owned). TFCC San Pablo LLC (100% owned), Terra Firma Queen Developments Inc. (100% owned), Terra Firma Capital (Hill) Corporation (the "Hill") (100% owned), TFCC LanQueen Ltd. (100% owned) and Terra Firma (Valermo) Corporation (the "TFVC") (100% owned). The financial statements of these subsidiaries and the Company's proportionate share in joint operations are consolidated with those of the Company and all intercompany transactions and balances between the Company and its subsidiary entities and joint operations have been eliminated upon consolidation.

(c) Basis of measurement:

These consolidated financial statements have been prepared on a historical cost basis, except for investment property held in joint operations, portfolio investments, investment in associates, financial instruments classified at fair value through profit or loss ("FVTPL") and non-controlling interest, which are stated at their fair values.

(d) Functional and presentation currency:

These consolidated financial statements are presented in United States dollars ("USD"), which is also the Company's functional currency.

2. Basis of presentation (continued):

(e) Critical judgments and estimates:

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, the disclosure of contingent assets and liabilities at the dates of the consolidated financial statements and the reported amounts of revenue and expenses during the years. Actual results may differ from these estimates.

In making estimates, the Company relies on external information and observable conditions where possible, supplemented by internal analysis as required. Those estimates and judgments have been applied in a manner consistent with the prior year and there are no known trends, commitments, events or uncertainties that the Company believes will materially affect the methodology or assumptions utilized in making those estimates and judgments in these consolidated financial statements. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed separately in notes 3(d), 5, 6, 7, 8 and 16.

Changes to estimates and assumptions may affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of these consolidated financial statements and the reported amounts of revenue and expenses during the years. Actual results could also differ from those estimates under different assumptions and conditions.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future years affected.

3. Significant accounting policies:

The Company's accounting policies and its standards of financial disclosure set out below are in accordance with IFRS and have been applied consistently to all years presented in these consolidated financial statements, unless otherwise stated.

(a) Change in functional and presentation currency:

Functional currency

Prior to January 1, 2019, the functional currency of the Company, was the Canadian dollar ("CAD"). Per IAS 21 - The Effects of Changes in Foreign Exchange Rates ("IAS 21"), an entity's functional currency should reflect the underlying transactions, events and conditions that are relevant to the entity. Management considered primary and secondary indicators in determining functional currency including the currency that influences sales prices, labour, purchases and other costs. Other indicators including the currency in which funds from financing activities are generated and the currency in which receipts from operations are usually retained. Beginning in 2015, the Company began a gradual program of lending in certain U.S. markets and the Company's economic and currency exposure has shifted from Canada to U.S. At December 31, 2018, over 80.0% of the Company's investments are fully exposed to the USD, as well, the Company earns a significant amount of its revenue in USD.

Based on these factors, management concluded that effective January 1, 2019, the Company's functional currency should be the USD. The Company has accounted for the change in functional currency prospectively, as provided for under IAS 21 with no impact of this change on prior year comparative information other than in conjunction with the change in presentation currency as discussed below.

(In United States dollars unless otherwise stated)

3. Significant accounting policies (continued):

Presentation currency

Concurrent with the change in functional currency, on January 1, 2019, the Company changed its presentation currency from the CAD to the USD. The change in presentation currency is to better reflect the Company's business activities and to improve comparability of the Company's financial results with other publicly traded businesses in the real estate finance industry. In making this change in presentation currency to the USD, the Company followed the guidance in IAS 21 and has applied the change retrospectively, as if the USD had always been the Company's presentation currency, as follows:

- for periods prior to January 1, 2019, the consolidated statements of financial position for each period presented have been translated from the CAD functional currency to the USD presentation currency at the rate of exchange prevailing at the respective consolidated financial position dates with the exception of equity items which have been translated at accumulated historical rates from the Company's date of incorporation in 2007;

- for periods prior to January 1, 2019, the consolidated statements of income and comprehensive income were translated at the average exchange rates for the reporting period, or at the exchange rate prevailing at the date of the transactions;

- for periods prior to January 1, 2019, equity transactions have been translated at the exchange rate prevailing at the date of the transactions; and

- exchange differences arising in 2018 on translation from the CAD functional currency to the USD presentation currency have been recognized in "foreign currency translation reserve" as a separate component of equity.

The exchange rates used in translation were as follows:

USD/CAD exchange rate	December 31, 2018	January 1, 2018
As at the reporting date	$ 0.7332	$ 0.7955
Average rate for the year	0.7716	0.7704

3. Significant accounting policies (continued):

(b) Cash and cash equivalents:

Cash and cash equivalents include unrestricted cash and short-term investments. Short-term investments, comprising money market instruments, have a maturity of 90 days or less at their date of purchase and are stated at cost, which approximates net realizable value.

(c) Funds held in trust:

Funds held in trust comprise cash balances that are deposited and held in trust within a wholly owned subsidiary of the Company that administers loan and mortgage investments. The restricted deposits are subject to future loan and mortgage contractual obligations and are, therefore, restricted in access until all the contractual payout conditions are met. Funds held in trust are carried at amortized cost, which approximates their fair value. The corresponding liability is included in accounts payable and accrued liabilities.

(d) Loan and mortgage investments:

The loan and mortgage investments are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, the loan and mortgage investments are measured at amortized cost using the effective interest rate (the "EIR") method. Under the EIR method, interest income and expense are calculated and recorded using the EIR, which is the rate that exactly discounts estimated future cash receipts or payments throughout the expected life of the financial instrument to the fair value at initial recognition. The loan and mortgage investments are derecognized when the contractual rights to receive cash flows and benefits expire, or where they have been transferred and the Company also transfers the control or substantially all the risks and rewards of ownership.

The loan and mortgage investments are assessed each reporting year to determine whether there is any objective evidence of impairment at both a specific asset and collective level. All individually significant loan and mortgage investments are assessed for specific impairment and are considered to be impaired if one or more loss events that have occurred after its initial recognition have a negative effect on the estimated future cash flows of the financial asset and the loss can be reliably measured.

3. Significant accounting policies (continued):

Loan and mortgage investments that have been assessed individually and found not to be impaired and all individually insignificant loan and mortgage investments are then assessed collectively, in a group of loan and mortgage investments with similar risk characteristics, to determine whether a collective allowance should be recorded due to incurred loss events for which there is objective evidence but whose effects are not yet evident. The collective assessment takes into account: (i) data from the loan and mortgage investments (such as composition of the loan and mortgage investments, borrower's ability to repay, loan defaults and arrears, the estimated value of the underlying collateral (loan to value ratios), average term to maturity, etc.), (ii) general economic and real estate market conditions (including current real estate prices for various real estate types, any near-term real estate development fundamentals), and (iii) actual historical loan losses and other relevant factors.

An impairment loss in respect of loan and mortgage investments is calculated as the difference between its carrying amount, including accrued interest and the present value of the estimated future cash flows discounted at the loan and mortgage investment's original EIR. Losses are recognized in profit or loss and reflected in an allowance account against the loan and mortgage investments. When a subsequent event causes the amount of an impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

(e) Investment in associates:

Associates are those entities over which the Company is able to exert significant influence, but which are neither subsidiaries nor interests in a joint venture. Investments in associates are entities with no control or joint control, over the financial and operating policies. The Company's investments in associates are accounted for using the equity method of accounting. Investments in associates are recognized initially at cost. The cost of the investment includes transaction costs. The Company's share of its associates' post acquisition net income or loss is recognized as share of income from investment in associates in the consolidated statements of income and comprehensive income. Dividends received are recorded as a reduction in the investment.

3. Significant accounting policies (continued):

The consolidated financial statements include the Company's share of the income or loss and other comprehensive income or loss from the date that significant influence commences until the date that significant influence ceases. Accounting policies of the Company's associates are consistent with the policies adopted by the Company.

The Company assesses at each reporting year whether there is any objective evidence that the interest in the associates is impaired. If impaired, the carrying value of the Company's share of the underlying assets in the associates are written down to its estimated recoverable amount.

(f) Joint arrangements:

A joint arrangement is a contractual arrangement pursuant to which the Company and other parties undertake an economic activity that is subject to joint control, whereby the strategic financial and operating policy decisions relating to the activities of the joint arrangement require the unanimous consent of the parties sharing control. Joint arrangements are of two types - joint ventures and joint operations.

The Company's significant joint arrangements consist of joint operations, which are structured through a direct interest in the joint venture's assets, rather than through the establishment of a separate entity; the arrangement is referred to as joint operations and the Company's proportionate share of joint venture assets, liabilities, revenue and expenses are recognized in the consolidated financial statements and classified according to their nature. When the Company transacts with its joint operations, unrealized profits and losses are eliminated to the extent of the Company's interest in the joint operations. Balances outstanding between the Company and joint operations in which it has an interest are eliminated in the consolidated statements of financial position.

(g) Investment properties:

Investment properties include properties held to earn rental income or for capital appreciation, or for both, and properties that are being constructed or developed for future use as investment properties. On acquisition, investment properties are initially recorded at cost. Subsequent to initial recognition, investment properties are carried at fair value. Gains or losses arising from changes in fair values are recognized in the consolidated statements of income and comprehensive income during the year in which they arise.

3. Significant accounting policies (continued):

(h) Financial instruments:

The Company accounts for its financial assets and liabilities in accordance with IFRS 9 - Financial Instruments ("IFRS 9"). The Company recognizes financial assets and financial liabilities when it becomes a party to a contract. Financial assets and financial liabilities, except for financial assets classified at FVTPL, are measured at fair value plus transaction costs on initial recognition. Financial assets classified at FVTPL are measured at fair value on initial recognition and transaction costs are expensed when incurred

Financial assets are measured at initial recognition at fair value, and are classified and subsequently measured at FVTPL, fair value through other comprehensive income ("FVOCI") or amortized cost based on the Company's business model for managing the financial instruments and the contractual cash flow characteristics of the instrument.

Debt instruments are measured at amortized cost and the asset is not designated as FVTPL, if both of the following conditions are met: (i) When the asset is held within a business model that is held-to-collect ("HTC") as described below, and (ii) when the contractual terms of the instrument give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding.

All other debt instruments are measured at FVTPL.

3. Significant accounting policies (continued):

The Company classifies its financial assets and financial liabilities as either amortized cost or at FVTPL as summarized below:

Assets	
Cash and cash equivalents	Amortized cost
Loan and mortgage investments	Amortized cost
Funds held in trust	Amortized cost
Amounts receivable and prepaid expenses	Amortized cost
Portfolio investments	FVTPL
Convertible note receivable	FVTPL
Income taxes recoverable	Amortized cost
Liabilities	
Accounts payable and accrued liabilities	Amortized cost
Unearned income	Amortized cost
Deferred income taxes payable	Amortized cost
Unsecured note payable	Amortized cost
Credit facilities	Amortized cost
Loan and mortgage syndications	Amortized cost
Mortgages payable	Amortized cost

Business model assessment:

The Company determines the business models at the level that best reflects how portfolios of financial assets are managed to achieve the Company's business objectives. Judgment is used in determining the business models, which is supported by relevant, objective evidence including:

- how the economic activities of the Company's businesses generate benefits, for example through enhancing yields, trading revenue, or other costs and how such economic activities are evaluated and reported to key management personnel;

- the significant risks affecting the performance of the Company's businesses, for example, market risk, credit risk, or other risks and the activities undertaken to manage those risks; and

- historical and future expectations of sales of the loan and mortgage investments or securities portfolios managed as part of a business model.

3. Significant accounting policies (continued):

The Company's business models fall into two categories, which are indicative of the key strategies used to generate returns:

- HTC - The objective of this business model is to hold loans and securities to collect contractual principal and interest cash flows. Sales are incidental to this objective and are expected to be insignificant or infrequent.

- Fair value business model - The business model is neither HTC nor hold-to-collect-and-sell and assets in this business model are managed on a fair value basis.

SPPI assessment:

Instruments held within a HTC business model are assessed to evaluate if their contractual cash flows are comprised of SPPI payments are those which would typically be expected from basic lending arrangements. Principal amounts include par repayments from lending and financing arrangements, and interest primarily relates to basic lending returns, including compensation for credit risk and the time value of money associated with the principal amount outstanding over a period of time. Interest can also include other basic lending risks and costs (for example, liquidity risk, servicing or administrative costs) associated with holding the financial asset for a period of time, and a profit margin.

Where the contractual terms introduce exposure to risk or variability of cash flows that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at FVTPL.

3. Significant accounting policies (continued):

Loan and mortgage investments are debt instruments recognized initially at fair value and are subsequently measured in accordance with the classification of financial assets policy provided above. Loan and mortgage investments carried at amortized cost are measured using the EIR method and are presented net of any allowance for credit losses ("ACL"), calculated in accordance with the Company's policy for ACL, as described below. Interest on loan and mortgage investments is recognized in interest income using the EIR method. The estimated future cash flows used in this calculation include those determined by the contractual term of the loan and mortgage investment and all fees that are considered to be integral to the EIR. Fees that relate to activities such as originating, restructuring or renegotiating loans are deferred and recognized as interest income over the expected term of such loan and mortgage investments using the EIR method. Foreign exchange gains and losses that relate to the amortized cost of the debt instrument are recognized in the consolidated statements of income and comprehensive income. Impairment gains or losses recognized on amortized cost of loan and mortgage investments are recognized at each date of the consolidated statements of financial position in accordance with the three-stage impairment model outlined below.

The Company currently has no financial assets measured at FVOCI.

Equity instruments:

Equity instruments are measured at FVTPL, unless an election is made to designate them at FVOCI upon purchase. For equity instruments measured at FVTPL, changes in fair value are recognized as part of non-interest income in the consolidated statements of income and comprehensive income.

ACL:

An ACL is established for all financial instruments, except for financial instruments and equity instruments classified or designated as FVTPL, which are not subject to impairment assessment. Financial instruments subject to impairment assessment are carried at amortized cost and presented net of ACL in the consolidated statements of financial position. ACL on loan and mortgage investments is presented in provision for loan and mortgage investment loss.

3. Significant accounting policies (continued):

Off-balance sheet items subject to impairment assessment include financial guarantees and undrawn loan commitments.

The Company measures the ACL on each consolidated statements of financial position date according to a three-stage expected credit loss impairment model:

(i) Performing financial instrument:

- Stage 1 - From initial recognition of a financial instrument to the reporting date, where the instrument has not experienced a significant increase in credit risk ("SIR") relative to its initial recognition, a loss allowance is recognized equal to the credit losses expected to result from defaults occurring over the 12 months following the reporting date.

- Stage 2 - When a financial instrument experiences a SIR subsequent to initial recognition but is not considered to be in default, a loss allowance is recognized equal to the credit losses expected over the remaining lifetime of the asset.

(ii) Impaired financial instrument:

- Stage 3 - When a financial instrument is considered to be credit-impaired, a loss allowance is recognized equal to credit losses expected over the remaining lifetime of the instrument. Interest is calculated based on the carrying amount of the instrument, net of the loss allowance, rather than on its gross carrying amount.

Measurement of expected credit losses:

Expected credit losses are based on a range of possible outcomes and consider all available reasonable and supportable information including internal and external ratings, historical credit loss experience, and expectations about future cash flows. The measurement of expected credit losses is based primarily on the product of the instrument's probability of default ("PD"), exposure at default ("EAD") and loss given default ("LGD") and discounted to the reporting date.

3. Significant accounting policies (continued):

Details of the statistical parameters used in the measurement of expected credit losses are as follows:

- PD - The probability of default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the remaining estimated life, if the instrument has not been previously derecognized and is still in the portfolio.

- EAD - The exposure at default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.

- LGD - The loss given default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realization of any collateral. It is usually expressed as a percentage of the EAD.

An expected credit loss estimate is produced for each individual exposure. Relevant parameters are modeled on a collective basis using portfolio segmentation that allows for appropriate incorporation of forward-looking information. Expected credit losses are discounted to the reporting period date using the EIR.

Assessment of SIR:

The assessment of SIR requires significant judgment. Movements between Stage 1 and Stage 2 are based on whether an instrument's credit assessment risk at the reporting date has increased significantly relative to the date it was initially recognized.

3. Significant accounting policies (continued):

At each reporting date, the Company assesses whether there has been a SIR for exposures since initial recognition by comparing the risk of default occurring over the remaining expected life from the reporting date and the date of initial recognition. The assessment considers borrower-specific quantitative and qualitative information without consideration of collateral, and the impact of forward-looking macro-economic factors, management judgment and delinquency monitoring.

The common assessments for SIR on loan and mortgage investments include macro-economic outlook, management judgment, and delinquency monitoring. Forward-looking macro-economic factors are a key component of the macro-economic outlook. The importance and relevance of each specific macro-economic factor depends on the type of product, characteristics of the financial instruments and the borrower and the geographical region. Quantitative models may not always be able to capture all reasonable and supportable information that may indicate a SIR. Qualitative factors may be assessed to supplement the gap. With regards to delinquency and monitoring, there is a rebuttable presumption that the credit risk of the financial instrument has increased since initial recognition when contractual payments are more than 30 days overdue.

Use of forward-looking information:

The measurement of expected credit losses for each stage and the assessment of SIR considers information about past events and current conditions as well as reasonable and supportable projections of future events and economic conditions. The estimation and application of forward-looking information requires significant judgment.

Macro-economic factors:

The PD, EAD and LGD inputs used to estimate Stage 1 and Stage 2 credit loss allowances are modelled based on the macro-economic factors (or changes in macro-economic factors) that are most closely correlated with credit losses in the relevant loan and mortgage investment. In its models, the Company relies on forward-looking information as economic inputs. The inputs and models used for calculating expected credit losses may not always capture all characteristics of the market at the dates of the consolidated financial statements. To reflect this, qualitative adjustments or overlays may be made as temporary adjustments using credit judgment.

3. Significant accounting policies (continued):

Definition of default:

The definition of default used in the measurement of expected credit losses is consistent with the definition of default used for the Company's internal credit risk management purposes. The Company considers that default occurs when the borrower is more than 90 days past due on any material obligation to the Company, and/or the Company considers the borrower unlikely to make their payments in full without recourse action on the Company's part, such as taking formal possession of any collateral held. The Company also considers certain events such as probability of the borrower entering a phase of bankruptcy or a financial reorganization and measurable decrease in the estimated future cash flows from the loan or the underlying assets that back the loan, which may result in default. The definition of default used is applied consistently from period to period and to all financial instruments unless it can be demonstrated that circumstances have changed such that another definition of default is more appropriate.

Credit-impaired financial assets (Stage 3):

Financial assets are assessed for credit-impairment at each consolidated statements of financial position date and more frequently when circumstances warrant further assessment. Evidence of credit-impairment may include indications that the borrower is experiencing significant financial difficulty, probability of bankruptcy or other financial reorganization, as well as a measurable decrease in the estimated future cash flows evidenced by the adverse changes in the payments status of the borrower or economic conditions that correlate with defaults. An asset that is in Stage 3 will move back to Stage 2 when, as at the reporting date, it is no longer considered to be credit-impaired as described above. The asset will migrate back to Stage 1 when its credit risk at the reporting date is no longer considered to have increased significantly from initial recognition, which could occur during the same reporting period as the migration from Stage 3 to Stage 2 as described above.

3. Significant accounting policies (continued):

Modified financial assets:

The original terms of a financial asset may be renegotiated or otherwise modified, resulting in changes to the contractual terms of the financial asset that affect the contractual cash flows. The treatment of such modifications is primarily based on the process undertaken to execute the renegotiation and the nature and extent of changes expected to result. Modifications which are performed for credit reasons, primarily related to troubled debt restructurings, are generally treated as modifications of the original financial asset. Modifications which are performed for other than credit reasons are generally considered to be an expiry of the original cash flows; accordingly, such renegotiations are treated as a de-recognition of the original financial asset and recognition of a new financial asset.

If a modification of terms does not result in de-recognition of the financial asset, the carrying amount of the financial asset is recalculated as the present value of the renegotiated or modified contractual cash flows, discounted at the original EIR and a gain or loss is recognized. The financial asset continues to be subject to the same assessments for SIR relative to initial recognition and credit impairment, as described above. A modified financial asset will migrate out of Stage 3 if the conditions that led to it being identified as credit-impaired are no longer present and relate objectively to an event occurring after the original credit-impairment was recognized. A modified financial asset will migrate out of Stage 2 when it no longer satisfies the relative thresholds set to identify SIR, which are based on changes in its lifetime PD, days past due and other qualitative considerations.

If a modification of terms results in de-recognition of the original financial asset and recognition of the new financial asset, the new financial asset will generally be recorded in Stage 1, unless it is determined to be credit-impaired at the time of the renegotiation. For the purposes of assessing for SIR, the date of initial recognition for the new financial asset is the date of the modification.

3. Significant accounting policies (continued):

Write-off policy:

The Company writes off an impaired financial asset (and the related impairment allowance), either partially or in full, when there is no reasonable expectation of further recovery. Where financial assets are secured, write-off is generally after receipt of any proceeds from the realization of security. In circumstances where the net realizable value of any collateral has been determined and there is no reasonable expectation of further recovery, write-off may be earlier. In subsequent periods, any recoveries of amounts previously written off are credited to the provision for credit losses in the consolidated statements of income and comprehensive income.

(i) Derecognition of financial instruments:

A financial asset is derecognized if substantially all risks and rewards of ownership and, in certain circumstances, control of the financial asset is transferred. A financial liability is derecognized when it is extinguished, with any gain or loss on extinguishment to be recognized in other items in the consolidated statements of income and comprehensive income.

(j) Unearned income:

Unearned income includes commitment fees received from borrowers, which are amortized over the contractual terms of the respective loan and mortgage investments.

(k) Share capital:

Common shares are classified as equity. Incremental costs directly attributable to the issuance of common shares are recognized as a deduction from equity.

3. Significant accounting policies (continued):

(l) Revenue recognition:

(i) Interest and fees earned:

Interest and fees earned is recognized in the consolidated statements of income and comprehensive income using the EIR method. The EIR method discounts the estimated contractual future cash receipts through the expected life of the loan and mortgage to its carrying amount. When estimating future cash flows, the contractual terms of the mortgage are considered, including origination revenue, interest receipts, principal receipts and contractual end-of-term participation receipts, where applicable.

Participation receipts that are contingent upon future events, such as the profitability of the underlying security, are not included in the estimated cash flows. Such amounts are recorded in income when management is reasonably assured of their collection.

(ii) Finance income:

Finance income on the net investment in the finance leases is recognized in the consolidated statements of income and comprehensive income using the interest rate implicit in the respective leases.

(iii) Rental income:

The Company has retained substantially all of the risks and benefits of ownership of its investment properties and, therefore, accounts for its leases with tenants as operating leases. Rental income from these leases is recognized in the consolidated statements of income and comprehensive income on a straight-line basis over the term of the relevant leases.

(m) Share-based compensation:

The Company has a share option plan (the "Plan") for grants to eligible directors, officers, senior management and consultants under its Plan. The expense of the equity-settled incentive option plan is measured based on the fair value of the options granted of each tranche at the grant date. The expense is recognized in proportion to the vesting features of each tranche of the grant and is reflected in equity. When share options are exercised, any consideration paid, together with the amount recorded in equity, are recorded in share capital.

3. Significant accounting policies (continued):

(n) Deferred share unit plan:

The Company has a cash-settled Deferred Share Unit Plan (the "DSU Plan") for employees and directors, whereby the Board of Directors of the Company (the "Board") may award DSUs as compensation for services rendered.

The fair value of DSUs granted is measured at the grant date based on the five-day volume weighted average trading price of the Company's Shares, and compensation expense is recognized in proportion to the vesting features over the vesting period with the recognition of a corresponding liability that is included in accounts payable and accrued liabilities. The liability is remeasured at each reporting date at fair value with changes in fair value recognized in the consolidated statements of income and comprehensive income.

(o) Provisions:

Provisions for legal claims, where applicable, are recognized in accounts payable and accrued liabilities when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Provisions are measured at management's best estimate of the expense required to settle the obligation at the end of the reporting years and are discounted to present value where the effect is material.

(p) Income taxes:

Income tax comprises current and deferred taxes. Income tax is recognized in the consolidated statements of income and comprehensive income, except to the extent that it relates to items recognized directly in equity, in which case, the income tax is also recognized directly in equity.

Current tax is the expected tax payable or recoverable on the taxable income or loss for the reporting years, using tax rates enacted, or substantively enacted, at the end of the reporting years and any adjustments to tax payable in respect of previous years.

3. Significant accounting policies (continued):

Deferred tax is determined based on the temporary differences between the carrying value and the tax basis of the assets and liabilities. Any change in the net amount of deferred income tax assets and liabilities is included in income. Deferred income tax assets and liabilities are determined based on enacted or substantively enacted tax rates and laws which are expected to apply to the Company's taxable income for the years in which the assets and liabilities will be recovered or settled. Deferred income tax assets are recognized when it is probable that there will be sufficient taxable income against which to utilize the benefits of the temporary differences.

Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(q) Foreign currency translation, non-USD functional currency entities:

Transaction amounts denominated in foreign currencies are translated into the presentation currency of USD equivalents at the rates of exchange prevailing at the time of the transactions. Carrying values of monetary assets and liabilities are translated at exchange rates prevailing at the dates of the consolidated statements of financial position. Foreign exchange gains and losses on the receipts of payments from translations are included in realized gain/loss on foreign exchange in the consolidated statements of income and comprehensive income. All unrealized foreign exchange gains and losses on monetary assets and liabilities are included in unrealized foreign exchange gain/loss in the consolidated statements of income and comprehensive income.

(r) Earnings per share:

Basic earnings per share is calculated by dividing the net income attributable to shareholders of the Company by the weighted average number of Shares outstanding during the year.

Diluted earnings per share is calculated using the "if converted method" and is determined by adjusting the net income attributable to shareholders and the weighted average number of Shares outstanding, adjusted for the dilutive effects of all convertible debentures and granted share options and warrants (the "Warrants").

3. Significant accounting policies (continued):

(s) New accounting standards:

IFRS 16, Leases ("IFRS 16"):

Effective January 1, 2019, the Company adopted IFRS 16. Previously, the Company classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Company and classified operating lease payments as operating costs. Under IFRS 16, a lessee is required to recognize a right-of-use asset representing its right to use the underlying leased asset and a lease obligation representing its obligation to make lease payments. The right-of-use asset is initially measured at cost and subsequently measured at cost less accumulated depreciation and impairment losses. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease obligation adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received. The lease obligation is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. The Company uses its incremental borrowing rate as the discount rate. The lease obligation is subsequently measured at amortized cost using the EIR method and is subsequently adjusted for interest and lease payments.

On transition to IFRS 16, the Company elected to apply the practical expedient option with respect to the definition of a lease. The Company applied IFRS 16 to all contracts entered into before January 1, 2019 that were identified as leases in accordance with IAS 17. The Company also elected not to recognize right-of-use assets and lease liabilities for short-term leases that have a remaining term of 12 months or less and leases of low value assets, such as office equipment leases.

The Company has applied the modified retrospective approach to transition to IFRS 16. As a result, the information presented for the year ended December 31, 2018 has not been restated and remains as previously reported under IAS 17.

The Company's lease liability has been calculated at the present value of the remaining lease payments using the Company's incremental borrowing rate at January 1, 2019. The weighted average incremental borrowing rate applied to discount lease liabilities was 5.0%.

3. Significant accounting policies (continued):

As a result of adopting the new standard, the Company recorded a right-of-use asset of $1,114,351 and a lease liability of $1,114,351 on January 1, 2019.

(t) New standards recently adopted

On January 1, 2019, the Company adopted IFRIC 23, Uncertainty over Income Tax Treatment, which clarified how to apply the recognition and measurement requirement in IAS 12, Income Tax, when there is uncertainty over income tax treatments. There are no significant adjustments to the amounts recognized in the consolidated financial statements

(u) New standards not yet adopted:

Certain new standards, amendments and interpretations have been published that are mandatory for the Company's accounting periods beginning on or after January 1, 2020 and have not been applied in preparing the consolidated financial statements for the year ended December 31, 2019. These standards and interpretations are not expected to have a material impact on the Company's consolidated financial statements.

(In United States dollars unless otherwise stated)

4. Amounts receivable and prepaid expenses:

The following table presents details of the amounts receivable and prepaid expenses as at December 31, 2019:

	Gross carrying amount	ACL	Net carrying amount
Interest receivable	$ 608,049	$ –	$ 608,049
Other receivables	1,064,556	(202,684)	861,872
Prepaid expenses and deposits	50,777	–	50,777
Amounts receivable and prepaid expenses	$ 1,723,382	$ (202,684)	$ 1,520,698

The changes in the ACL on amounts receivable during the year ended December 31, 2019 were as follows:

	Balance at December 31, 2018	Provision for credit losses/ recovery	Net write offs	Foreign exchange	Balance at December 31, 2019
Other receivables	$ 193,068	$ –	$ –	$ 9,616	$ 202,684

The following table presents details of the amounts receivable and prepaid expenses as at December 31, 2018:

	Gross carrying amount	ACL	Net carrying amount
Interest receivable	$ 179,745	$ –	$ 179,745
Other receivables	968,938	(193,068)	775,870
Prepaid expenses and deposits	58,320	–	58,320
Amounts receivable and prepaid expenses	$ 1,207,003	$ (193,068)	$ 1,013,935

4. Amounts receivable and prepaid expenses (continued):

As at December 31, 2019 and 2018, other receivables relating to legal fees incurred on the collection of loan investments to entities controlled by a Canadian borrower in default (the "Borrower") are $374,911 and $357,124, respectively. As at December 31, 2019 and 2018, the Company carries an ACL balance of $202,684 and $193,068, respectively, related to other receivables relating to loan and mortgage investments in arrears.

During the years ended December 31, 2019 and 2018, the Company recorded an allowance for uncollectible receivables relating to loan and investments in arrears totaling nil and $134,940, respectively, and a write-off of interest and other receivables relating to loan and investments in arrears totaling nil and $1,204,531, respectively.

Included in interest receivable at December 31, 2019 is a non-current balance of $28,552 (2018 - $36,377). The remaining interest and other receivables are current and due in the next 12 months in accordance with their respective contract terms.

5. Loan and mortgage investments and loan and mortgage syndications:

As at December 31, 2019 and 2018, the Company had a principal balance of loan and mortgage investments of $116,820,582 and $122,209,711, respectively. The loan and mortgage investments carry an EIR of 13.2% (2018 - 13.7%) and a weighted average term to maturity of 1.37 years (2018 - 1.67 years).

The Company syndicates certain of its loan and mortgage investments to investors, each participating in a prescribed manner and is governed by loan servicing agreements and administered by Terra Firma MA Ltd., a wholly owned subsidiary of the Company. In these investments, the investors assume the same risks associated with the specific investment transaction as the Company. Each syndicated loan and mortgage investment has a designated rate of return that the syndicated investors expect to earn from that loan and mortgage investment. The interest income earned and related interest expense on the syndicate investors are recognized in the consolidated statements of income and comprehensive income.

(In United States dollars unless otherwise stated)

5. Loan and mortgage investments and loan and mortgage syndications (continued):

Since the loan and mortgage investments are initially advanced by the Company and syndicated at a later date, the Company accounts for the loan and mortgage investments on a gross basis. The principal balance of loan and mortgage syndications at December 31, 2019 and 2018 was $88,249,414 and $75,906,550, respectively. The loan and mortgage syndications carry a weighted average EIR of 9.6% (2018 - 10.2%) and a weighted average term to maturity of 1.46 years (2018 - 1.53 years).

At December 31, 2019, the Company has a loan and mortgage investment totaling $11,757,000 with a participation arrangement with a priority syndicate investor, whereby the priority syndicate investor holds a senior position for $7,000,000 and the remainder of the investment is in a subordinated position of $4,757,000. The Company syndicated this position on a pari-passu basis with certain syndicate investors for $4,350,000, and retains a residual portion of $407,000.

The following table presents details of the loan and mortgage investments and loan and mortgage syndications as at December 31, 2019:

	Loan and mortgage investments	ACL	Net loan and mortgage investments	Loan and mortgage syndications	Net investments	% of net investments
Performing loans:						
Residential housing developments	$ 37,965,218	$ (117,776)	$ 37,847,442	$ 21,238,552	$ 16,608,890	59.4
Land and lot inventory	71,996,517	(259,435)	71,737,082	62,960,862	8,776,220	31.4
Commercial retail development	4,755,000	(4,621)	4,750,379	4,050,000	700,379	2.5
	114,716,735	(381,832)	114,334,903	88,249,414	26,085,489	93.3
Impaired loans:						
Residential housing developments	2,103,847	(226,108)	1,877,739	–	1,877,739	6.7
	$ 116,820,582	$ (607,940)	$ 116,212,642	$ 88,249,414	$ 27,963,228	100.0

(In United States dollars unless otherwise stated)

5. Loan and mortgage investments and loan and mortgage syndications (continued):

The following table presents details of the loan and mortgage investments and loan and mortgage syndications as at December 31, 2018:

	Loan and mortgage investments	ACL	Net loan and mortgage investments	Loan and mortgage syndications	Net investments	% of net investments
Performing loans:						
Residential housing developments	$ 29,760,683	$ (107,819)	$ 29,652,864	$ 7,715,756	$ 21,937,108	47.9
Land and lot inventory	84,964,030	(422,258)	84,541,772	64,140,794	20,400,978	44.6
Commercial retail development	4,755,000	(3,655)	4,751,345	4,050,000	701,345	1.5
	119,479,713	(533,732)	118,945,981	75,906,550	43,039,431	94.0
Impaired loans:						
Residential housing developments	2,729,998	–	2,729,998	–	2,729,998	6.0
	$ 122,209,711	$ (533,732)	$ 121,675,979	$ 75,906,550	$ 45,769,429	100.0

For the year ended December 31, 2019, the Company has loan and mortgage investments in two separate projects in the U.S, before syndication, that accounts for 13.5% and 16.9% of the Company's total interest and fees revenue, respectively. As at December 31, 2019, there are loan and mortgage investments to three separate projects in the U.S., before syndication, that account for 19.1%, 13.9% and 10.1% of the principal balance of loan and mortgage investments. For the year ended December 31, 2018, the Company had loan and mortgage investments in two separate projects in the U.S, before syndication, that accounted for 10.9% and 13.2% of the Company's total interest and fees revenue, respectively. As at December 31, 2018, there were loan and mortgage investments to three separate projects in the U.S., before syndication, that accounted for 10.2%, 13.2% and 14.7% of the principal balance of loan and mortgage investments.

Certain of the loan and mortgage investments have early repayment rights and, if exercised, would result in repayments in advance of their contractual maturity dates.

During the years ended December 31, 2019 and 2018, the Company capitalized interest income of $4,981,911 and $3,738,040, respectively, which is included in the loan and mortgage investments.

(In United States dollars unless otherwise stated)

5. Loan and mortgage investments and loan and mortgage syndications (continued):

Pursuant to certain lending agreements, the Company is committed to fund additional loan advances, subject to borrowers meeting certain funding conditions. The unfunded loan commitments under the existing loan and mortgage investments at December 31, 2019 were $34,355,724, including $651,602 of capitalization of future interest relating to existing loan and mortgage investments (2018 - $23,791,223, including $7,053,657 of capitalization of future interest relating to existing loan and mortgage investments). As at December 31, 2019, the unfunded commitments relating to loan and mortgage investments in two separate projects in the U.S., before syndication, that account for 39.3% and 36.6% of the total unfunded commitments. As at December 31, 2018, the unfunded commitments relating to loan and mortgage investments in five separate projects in the U.S., before syndication, that account for 29.8%, 20.1%,13.9%, 11.5% and 10.8% of the total unfunded commitments.

Mortgages are loans that are secured by real estate assets and may include other forms of securities. Unregistered loans are not secured by real estate assets, but are secured by other forms of securities, such as personal guarantees, or pledge of shares of the borrowing entity.

The following table presents details of the Company's principal balances of loan and mortgage investments segmented by risk as at December 31, 2019:

	Loan and mortgage investments	ACL	Net loan and mortgage investments	Loan and mortgage syndications	Net investments	% of net investments
1st mortgage loans	$ 102,493,573	$ (325,450)	$ 102,168,123	$ 79,285,569	$ 22,882,554	81.8
2nd mortgage loans	12,083,100	(56,382)	12,026,718	8,963,845	3,062,873	11.0
Unregistered loans	2,243,909	(226,108)	2,017,801	–	2,017,801	7.2
	$ 116,820,582	$ (607,940)	$ 116,212,642	$ 88,249,414	$ 27,963,228	100.0

The following table presents details of the Company's principal balances of loan and mortgage investments segmented by geography as at December 31, 2019:

	Loan and mortgage investments	ACL	Net loan and mortgage investments	Loan and mortgage syndications	Net investments	% of net investments
Canada	$ 14,186,947	$ (282,490)	$ 13,904,457	$ 8,963,845	$ 4,940,612	17.7
United States	102,633,635	(325,450)	102,308,185	79,285,569	23,022,616	82.3
	$ 116,820,582	$ (607,940)	$ 116,212,642	$ 88,249,414	$ 27,963,228	100.0

(In United States dollars unless otherwise stated)

5. Loan and mortgage investments and loan and mortgage syndications (continued):

The following table presents details of the Company's principal balances of loan and mortgage investments segmented by risk as at December 31, 2018:

	Loan and mortgage investments	ACL	Net loan and mortgage investments	Loan and mortgage syndications	Net investments	% of net investments
1st mortgage loans	$ 110,018,384	$ (498,257)	$ 109,520,127	$ 69,190,794	$ 40,329,333	88.1
2nd mortgage loans	9,461,329	(35,475)	9,425,854	6,715,756	2,710,098	5.9
Unregistered loans	2,729,998	–	2,729,998	–	2,729,998	6.0
	$ 122,209,711	$ (533,732)	$ 121,675,979	$ 75,906,550	$ 45,769,429	100.0

The following table presents details of the Company's principal balances of loan and mortgage investments segmented by geography as at December 31, 2018:

	Loan and mortgage investments	ACL	Net loan and mortgage investments	Loan and mortgage syndications	Net investments	% of net investments
Canada	$ 12,191,327	$ (35,475)	$ 12,155,852	$ 6,715,756	$ 5,440,096	11.9
United States	110,018,384	(498,257)	109,520,127	69,190,794	40,329,333	88.1
	$ 122,209,711	$ (533,732)	$ 121,675,979	$ 75,906,550	$ 45,769,429	100.0

The following table presents details of the Company's credit exposure on the gross carrying amount of loan and mortgage investments for which ACL allowance is recognized as at December 31, 2019:

IFRS 9	Stage 1	Stage 2	Stage 3	Total
Residential housing developments	$ 37,965,218	$ –	$ 2,103,847	$ 40,069,065
Land and lot inventory	71,996,517	–	–	71,996,517
Commercial retail development	4,755,000	–	–	4,755,000
	$ 114,716,735	$ –	$ 2,103,847	$ 116,820,582

(In United States dollars unless otherwise stated)

5. Loan and mortgage investments and loan and mortgage syndications (continued):

The following table presents details of the Company's credit exposure on the gross carrying amount of loan and mortgage investments, segmented by geography, for which ACL allowance is recognized as at December 31, 2019:

IFRS 9	Stage 1	Stage 2	Stage 3	Total
Canada	$ 12,083,100	$ –	$ 2,103,847	$ 14,186,947
United States	102,633,635	–	–	102,633,635
	$ 114,716,735	$ –	$ 2,103,847	$ 116,820,582

Scheduled principal repayments and loan and mortgage investments maturing in the next four years are as follows:

	Scheduled principal payments	Investments maturing during the year	Total loan and mortgage investments
2020	$ –	$ 49,866,017	$ 49,866,017
2021	–	30,717,296	30,717,296
2022	–	34,097,207	34,097,207
2023	–	2,140,062	2,140,062
	$ –	$ 116,820,582	$ 116,820,582

Scheduled principal repayments and maturity amounts of loan and mortgage syndications maturing in the next four years are as follows:

	Scheduled principal payments	Loans maturing during the year	Total loan and mortgage syndications
2020	$ –	$ 33,930,278	$ 33,930,278
2021	–	23,913,183	23,913,183
2022	–	28,705,953	28,705,953
2023	–	1,700,000	1,700,000
	$ –	$ 88,249,414	$ 88,249,414

5. Loan and mortgage investments and loan and mortgage syndications (continued):

Allowance for loan and mortgage investments loss:

During the year ended December 31, 2019, the Company funded no additional loan and mortgage investments and received $738,493 of loan and mortgage investments from a project owned by an entity controlled by the Borrower that was in arrears. During the year ended December 31, 2018, the Company funded an additional $407,209 of loan and mortgage investments and received $3,787,629, comprising a loan investment totaling $3,226,580 and interest and other receivable totaling $561,049 from a projects owned by an entity controlled by the Borrower that was in arrears.

During the year ended December 31, 2019, the Company recorded $226,108 of allowance for loan and mortgage investments loss and no write-off of loan and mortgage investments relating to loan and mortgage investments in arrears. During the year ended December 31, 2018, due to the uncertainty and timing related to a recovery of a loan and mortgage investments in arrears, the Company recorded an allowance for loan and mortgage investments loss of $2,403,182 and, subsequently a write-off of two loan and mortgage investments totaling $3,108,435.

At December 31, 2019, one project loan investment totaling $2,478,758 (2018 - $3,087,122), including interest receivable on this loan and fees incurred relating to collection of this loan totaling $374,911 (2018 - $357,124), to a project owned by an entity controlled by the Borrower is in arrears. The Company carries an allowance for loan and mortgage investments loss of $226,108 and nil at December 31, 2019 and 2018, respectively and an allowance for uncollectible receivable of $202,684 and $193,068 at December 31, 2019 and 2018, respectively, relating to these investments and receivables.

As at December 31, 2019 and 2018, based on the most recent valuations of the underlying assets and management's estimates, the Company carries no ACL balance, relating to certain loan and mortgage investments in arrears.

(In United States dollars unless otherwise stated)

5. Loan and mortgage investments and loan and mortgage syndications (continued):

The changes in the ACL on loan and mortgage investments during the year ended December 31, 2019 were as follows:

	IFRS 9				
	Balance at January 1, 2019	Provision for credit losses/ recovery	Net write offs	Other adjustments	Balance at December 31, 2019
Residential housing developments	$ 107,819	$ 236,065	$ –	$ –	$ 343,884
Land and lot inventory	422,258	(162,823)	–	–	259,435
Commercial retail development	3,655	966	–	–	4,621
	$ 533,732	$ 74,208	$ –	$ –	$ 607,940

The following table presents the changes in the Company's ACL between the beginning and the end of the year:

IFRS 9	Stage 1	Stage 2	Stage 3	Total
Balance, beginning of year	$ 533,732	$ –	$ –	$ 533,732
Provision for credit losses:	74,208	–	–	74,208
Remeasurement	–	–	–	–
Transfer to (from):				
Stage 1	–	–	–	–
Stage 2	–	–	–	–
Stage 3	–	–	–	–
Net write-offs	–	–	–	–
Balance, end of year	$ 607,940	$ –	$ –	$ 607,940

(In United States dollars unless otherwise stated)

5. Loan and mortgage investments and loan and mortgage syndications (continued):

The following table presents details of the Company's ACL on loan and mortgage investments as at December 31, 2019:

IFRS 9	Stage 1	Stage 2	Stage 3	Total
Residential housing developments	$ 343,884	$ –	$ –	$ 343,884
Land and lot inventory	259,435	–	–	259,435
Commercial retail development	4,621	–	–	4,621
	$ 607,940	$ –	$ –	$ 607,940

The following table presents the Company's ACL on loan and mortgage investments segmented by geography as at December 31, 2019:

IFRS 9	Stage 1	Stage 2	Stage 3	Total
Canada	$ 282,490	$ –	$ –	$ 282,490
United States	325,450	–	–	325,450
	$ 607,940	$ –	$ –	$ 607,940

6. Investment in finance leases:

The Company is a party to a fixed term contractual arrangements with builders whereby the Company acquires land for residential housing development from a third party and provides builders with the exclusive right to use and develop the land. The Company also a party to a fixed price contract with builders to complete all required development of the land based upon a fixed construction budget. The Company is committed to making additional investments for development of the land, subject to builders meeting certain funding conditions. Under this arrangement, builders have the option to acquire the developed land in the form of divided lots, at a pre-determined price and in accordance with the scheduled closing dates to build residential units. Builders provide the Company with a non-refundable deposit at each time of the closing of each acquisition. The builders' deposits are applied on a lot-by-lot basis, on acquisition of the lots by the builders

(In United States dollars unless otherwise stated)

6. Investment in finance lease (continued):

At December 31, 2019, the Company had four (2018 - one) such arrangements with builders. The Company determined that the arrangements contain a lease and that all the risks or rewards of ownership of the asset have been transferred to the builders and accounts for these arrangements as finance leases.

The investment in finance leases is the aggregate of gross lease payments and unearned finance income discounted at the interest rate implicit in the leases. The weighted average rate implicit in the leases is 13.4% per annum. The unearned finance income at December 31, 2019 was $96,454 (2018 - $46,084)

The finance income recognized from finance leases for the years ended December 31, 2019 and 2018 of $1,497,294 and $152,733, respectively, were included in the finance income in the consolidated statements of income and comprehensive income.

The following table summarizes the changes in the investment in finance lease for the years ended December 31, 2019 and 2018:

	2019	2018
Balance, beginning of year	$ 2,819,915	$ –
Investments made	23,518,262	2,865,999
Investments sold	(8,282,149)	–
Lease payments received	(1,593,948)	(198,817)
Finance income recognized	1,497,294	152,733
Balance, end of year	$ 17,959,374	$ 2,819,915

(In United States dollars unless otherwise stated)

6. Investment in finance lease (continued):

The following is a reconciliation of the undiscounted future minimum lease payments receivable and the present value of minimum lease payments receivable thereof:

	Future minimum lease receipts	Finance income	Present value of minimum lease receipts
Less than one year	$ 2,154,131	$ 2,254,243	$ (100,112)
Greater than one year but less than 5 years	20,376,768	2,317,282	18,059,486
	$ 22,530,899	$ 4,571,525	$ 17,959,374

7. Portfolio investments:

The following table presents details of the portfolio investments as at December 31, 2019 and December 31, 2018:

	2019	2018
Investment in the LanQueen Partnership	$ 2,001,936	$ 1,852,573
Investment in the Savannah Partnership	41,000	59,000
Investment in the Valermo Partnership	1	1
Investment in the Hill Partnership	–	–
	$ 2,042,937	$ 1,911,574

7. Portfolio investments (continued):

(a) The Company, through TFCC LanQueen Ltd. entered into a partnership agreement (the "Queen Agreement"), whereby TFCC LanQueen Ltd. is committed to invest in a redevelopment project located in Toronto, Ontario. The Queen Agreement allows TFCC LanQueen Ltd. to receive a 3% fee at the time of commitment and an amount by way of a preferred return equal to 10% per annum calculated and compounded annually on the amount of its investment in the partnership. TFCC LanQueen Ltd. does not have significant influence in the partnership and is accounting for this investment as a financial asset at FVTPL. As at December 31, 2019 and 2018, TFCC LanQueen Ltd. contributed $1,264,208 in the partnership. At December 31, 2019, the fair value of the investment was determined by management, using the direct comparison method. The fair value of the investment at December 31, 2019 was $2,001,936 (2018 - $1,852,573).

(b) The Company, through TFCC International Ltd. entered into a partnership agreement (the "Savannah Agreement"), whereby TFCC International Ltd. is committed to invest $2,000,000 through a partnership interest (the "Savannah Partnership") in a development project (the "Savannah Project") located in Savannah, Georgia. The Savannah Agreement allows TFCC International Ltd. to receive a preferred return equal to 11% per annum calculated and compounded monthly on the amount of its investment in the Savannah Partnership. TFCC International Ltd. is also entitled to receive 50% of the net profit after Savannah Partnership makes distributions to other partners at a rate equal to 11% per annum calculated and compounded monthly. TFCC International Ltd. does not have significant influence in the Savannah Partnership and is accounting for this investment as a financial asset at FVTPL. On September 20, 2017, TFCC International Ltd. contributed $200,000 to the Savannah Partnership. During the years ended December 31, 2019 and 2018, TFCC International Ltd. sold part of its interest in the Savannah Partnership to investors for $18,000 and $61,000, respectively. As at December 31, 2018, the cost of the investment in the Savannah Partnership is $59,000. During the year ended December 31, 2019, TFCC International Ltd. sold part of its interest in the Savannah Partnership to investors for $18,000. At December 31, 2019 and December 31, 2018, the fair value of the investment in the Savannah Partnership was determined by management, using the direct comparison method. The fair value of the remaining investment in the Savannah Partnership at December 31, 2019 and December 31, 2018 was $41,000 and $59,000, respectively.

(In United States dollars unless otherwise stated)

7. Portfolio investments (continued):

TFCC International Ltd. also committed to advance a principal amount of first mortgage loan up to $18,000,000 to the Savannah Project, subject to the Savannah Project meeting certain funding conditions. The loan carries interest at 11.0% per annum calculated and compounded monthly. As at December 31, 2019 and 2018, TFCC International Ltd. funded a loan and mortgage investment of $18,288,990, and $16,177,172, respectively and as at December 31, 2019 and 2018, syndicated the loan and mortgage investment funded to investors of $14,523,664 and $10,940,146, respectively.

(c) The Company, through TFVC has a limited partnership interest in a partnership that developed 98 residential dwelling units in Toronto. TFVC does not have significant influence in the Valermo Partnership and is accounting for this investment as a financial asset at FVTPL. During the year ended December 31, 2018, the Company received a return of capital in the Valermo Partnership of $7,821,269. The fair value of the investment was determined by management, using the direct comparison method. The fair value of the investment at December 31, 2019 was $1 (2018 - $1).

(d) The Company, through the Hill, had a partnership interest in a 94-unit mid-rise condominium development project located in Toronto, Ontario. The Company did not have significant influence in the partnership and accounted for this investment as a financial asset at FVTPL. On June 14, 2018, the Company sold its interest in the partnership for $727,858 and recorded a loss of $173,646, including the outside party's share of loss of $49,329. The Company disposed of the non-controlling interest of $153,233.

The following table summarizes the changes in the portfolio investments for the years ended December 31, 2019 and 2018:

	2019	2018
Balance, beginning of year	$ 1,911,574	$ 10,804,898
Return of investment	–	(7,821,268)
Redemption of investment	–	(727,858)
Loss on redemption of investment	–	(173,646)
Sale of investment	(18,000)	(61,000)
Fair value adjustment	56,124	57,413
Foreign exchange	93,239	(166,965)
Balance, end of year	$ 2,042,937	$ 1,911,574

(In United States dollars unless otherwise stated)

8. Investment in associates:

The following table presents details of the investment in associates as at December 31, 2019 and December 31, 2018:

	2019	2018
Investment in the Lan Partnership	$ 2,227,442	$ 2,146,984
Investment in the TF Royal Palm	870,505	–
	$ 3,097,947	$ 2,146,984

(a) The Company and certain syndicate investors invested in a 668-unit high-rise condominium development project located in Toronto, Ontario, through a partnership interest (the "Lan Partnership"). At December 31, 2019 and 2018, the Company's share of investment in the Lan Partnership was CAD $2,315,514.

At December 31, 2019 and 2018, the fair value of the investment in the Lan Partnership was determined by management, using the direct comparison method. The fair value of the investment in the Lan Partnership at December 31, 2019 was $2,227,442 (2018 - $2,146,984).

(b) The Company, through Royal Palm Beach Preferred Investment LLC (the "TF Royal Palm") entered into a limited liability company agreement (the "Royal Palm Agreement"), whereby TF Royal Palm committed to invest up to $7,000,000 in an assisted living development project located in Royal Palm Beach, Florida. The Royal Palm Agreement allows TF Royal Palm to receive a 2% fee at the time of commitment annual project management fee of $70,000, and a preferred return on the amount of its investment in the limited liability company. As at November 15, 2019, TF Royal Palm contributed $4,994,033 (2018 - nil) in the limited liability company and received $140,000 in fees. On November 29, 2019, the Company sold part of its interest in the TF Royal Palm to investors for $4,280,600. The Company accounts for its investment in TF Royal Palm as investment in associates using the equity method of accounting. During the year ended December 31, 2019, the Company recorded income of $382,814 and received distributions of $375,662 from TF Royal Palm.

At December 31, 2019 and 2018, the carrying value of investment is $870,505 (2018 - nil).

(In United States dollars unless otherwise stated)

8. Investment in associates (continued):

The following table summarizes the changes to the carrying value of investment in associates for the years ended December 31, 2019 and 2018:

	2019	2018
Balance, beginning of year	$ 2,146,984	$ 2,329,045
Investment funded	5,143,953	–
Sale of investment to investors	(4,280,600)	–
Income earned	356,435	–
Distributions received	(375,662)	–
Foreign exchange	106,837	(182,061)
Balance, end of year	$ 3,097,947	$ 2,146,984

9. Joint arrangements:

(a) Interests in joint operations:

The Company's interests in the following properties are subject to joint control and, accordingly, the Company records its proportionate share of the related assets, liabilities, revenue and expenses of the properties using the proportionate consolidation method.

Montreal Street JV:

In July 2009, the Company entered into a co-tenancy agreement (the "Montreal Street JV") with a development partner and developed a retail property in Ottawa, Ontario. The land on which the store was developed is subject to a 20-year land lease, with five renewal options of five years each. The Company's ownership interest in the Montreal Street JV is 55.0%.

(In United States dollars unless otherwise stated)

9. Joint arrangements (continued):

The financial information in respect of the Company's proportionate share of investments in joint operations is as follows:

	2019	2018
Assets		
Cash and cash equivalents	$ 54,031	$ 16,061
Amounts receivable and prepaid expenses	83,965	81,121
Investment property	1,700,303	1,619,633
Right of use asset	739,123	–
	2,577,422	1,716,815
Liabilities		
Accounts payable and prepaid expenses	35,772	34,230
Mortgages payable	1,067,440	1,047,809
Lease obligations	739,123	–
	1,842,335	1,082,039
Net assets	$ 735,087	$ 634,776

The table below details the results of operations for the years ended December 31, 2019 and 2018, attributable to the Company from its joint operations activities:

	2019	2018
Rental revenue	$ 155,720	$ 155,720
Property operating costs	53,427	53,427
General and administrative expenses	2,315	1,661
Interest expense	32,652	34,734
	88,394	89,822
Net income	$ 67,326	$ 65,898

(In United States dollars unless otherwise stated)

9. Joint arrangements (continued):

(b) Investment property:

The Company has interests in investment property that are subject to joint control and accordingly, the Company has recorded its proportionate share of the related assets, liabilities, revenue and expenses of the properties.

At December 31, 2019 and 2018, the fair value was determined by the Company's management. The Company determined the fair value of investment property in the Montreal Street JV using the direct capitalization method. Under the direct capitalization method, fair value was determined by capitalizing the estimated future normalized net operating income at the market capitalization rate. The capitalization rate used in the valuation of property was 6.25% (2018 - 6.25%). At December 31, 2019 and 2018, the carrying value of the Company's proportionate share of investment property in the Montreal Street JV is $1,700,303 (CAD $2,208,694) and $1,619,633 (CAD $2,208,694), respectively.

As at December 31, 2019 and 2018, a 25-basis-point decrease in the overall capitalization rate would increase the Company's proportionate share of value of investment property in the Montreal Street JV by CAD $92,400 and a 25-basis-point increase in the overall capitalization rate would decrease the Company's proportionate share of the value of investment property in the Montreal Street JV by CAD $85,250.

(c) Mortgages payable:

The Company's share of the principal balance of mortgages payable held in joint operations through the Montreal Street JV, at December 31, 2019 and 2018 was $1,070,973 and $1,053,274, respectively. The mortgages bear interest at 3.0% per annum and are amortized over 25 years and mature on July 1, 2021.

The details of the mortgages payable in respect of the Company's proportionate share of the joint operations at December 31, 2019 and 2018 are as follows:

	2019	2018
Mortgage principal	$ 1,070,973	$ 1,053,274
Unamortized financing costs	(3,533)	(5,465)
	$ 1,067,440	$ 1,047,809

(In United States dollars unless otherwise stated)

9. Joint arrangements (continued):

The following table summarizes the changes in the principal balance of mortgages payable for the years ended December 31, 2019 and 2018:

	2019	2018
Balance, beginning of year	$ 1,053,274	$ 1,177,435
Repayments made	(34,175)	(33,965)
Foreign exchange	51,874	(90,196)
Balance, end of year	$ 1,070,973	$ 1,053,274

Scheduled principal repayments and maturity amounts of mortgages payable at December 31, 2019 are as follows:

	Loans scheduled principal payments	Total maturing during the year	Loans and mortgages payable
2020	$ 35,807	$ –	$ 35,807
2021	18,296	1,016,870	1,035,166
	$ 54,103	$ 1,016,870	$ 1,070,973

(In United States dollars unless otherwise stated)

10. Convertible note receivable:

On January 29, 2019, the Company entered into a loan agreement with an unrelated Ontario corporation that provides web-based crowdfunding services and holds an Exempt Market Dealer license. The loan was provided to assist in expanding its operations. The loan was made in exchange for a convertible promissory note receivable (the "Convertible Note") with a face value of CAD $2,000,000. At signing, the Company advanced $752,349 (CAD $1,000,000) of the CAD $2,000,000 commitment. The remaining CAD $1,000,000 will be advanced in tranches upon the achievement of certain key performance indicators. The Convertible Note bears interest at the rate of 8.0% per annum, calculated and compounded semi-annually. No payments are required prior to maturity. The Company has the option to convert the principal and accrued interest into an equity interest. Unless the note is converted pursuant to the terms, the Convertible Note becomes receivable by demand any time after January 29, 2021, which shall be extended for a further twelve months, under certain conditions. The option to settle payments in common shares represents an embedded derivative in the form of a call option to the Company. The Convertible Note in its entirety is classified as a financial asset at FVTPL. During the year ended December 31, 2019, the Company capitalized interest income of $29,998 (2018 - nil). The fair value of the investment was determined by management. The fair value of the Convertible Note at December 31, 2019 was $800,531 (2018 - nil), being the principal amount and capitalized interest.

The following table summarizes the changes in the Convertible Note receivable for the years ended December 31, 2019 and 2018:

	2019	2018
Balance, beginning of year	$ –	$ –
Funding of investment	752,349	–
Interest capitalized	29,998	–
Foreign exchange	18,184	–
Balance, end of year	$ 800,531	$ –

(In United States dollars unless otherwise stated)

11. Accounts payable and accrued liabilities:

The following table presents details of the accounts payable and accrued liabilities as at December 31, 2019 and 2018:

	2019	2018
Interest payable	$ 721,087	$ 564,497
Interest reserve	1,590,814	604,322
Accounts payable, accrued liabilities and provisions	1,083,270	1,008,670
Funds held in trust	658,461	493,172
Share-based compensation payable (note 16(e)(ii))	1,291,160	947,406
Accounts payable and accrued liabilities	$ 5,344,792	$ 3,618,067

Accounts payable and accrued liabilities are current and payable in the 2020 fiscal year.

12. Credit facilities:

At December 31, 2019, the Company's credit facilities (the "Credit Facilities") consist of a $35,000,000 master credit facility (the "Master Facility"). At December 31, 2018, the Company’s Credit Facilities consisted of a CAD $20,000,000 secured revolving operating facility (the “Facility”) and a $20,000,000 Master Facility.

The following table presents details of the credit facilities as at December 31, 2019 and 2018:

	2019	2018
Revolving operating facility:		
Face value	$ –	$ 10,999,487
Unamortized financing costs	–	(33,439)
	–	10,966,048
Master credit facility:		
Face value	9,221,447	8,804,480
Unamortized financing costs	(342,608)	(306,422)
	8,878,839	8,498,058
	$ 8,878,839	$ 19,464,106

12. Credit facilities (continued):

(a) Revolving operating facility:

The Company had a revolving operating facility credit agreement (the "Facility Agreement") with a lending institution for a Facility that was originally set to mature on March 1, 2018. On March 1, 2018, the Company exercised its option to extend the term of the Facility for another six months for a maturity date to September 1, 2018 and paid the Facility extension fee of $100,000. On September 4, 2018, the Company amended the Facility Agreement (the "Amendment"), to extend further the maturity date to April 1, 2019. The Amendment provided the Company an option for two extensions of the Facility, each for a further term of seven months from the maturity date. The Facility carried an interest rate of 9.5% per annum until one month prior to the maturity date and any unpaid balance one month prior to the maturity date would have carried an interest rate of 12% per annum, until repaid. On April 1, 2019, the Company extended the term of the Facility for another seven months for a maturity date to November 1, 2019. On December 2, 2019, the Company repaid the Facility plus all accrued and unpaid interest in full and terminated the Facility Agreement.

During the years ended December 31, 2019 and 2018, the Company borrowed an aggregate of $1,871,678 and nil, respectively and repaid $13,169,985 and $2,948,548, respectively, against the Facility.

(b) Master credit facility:

On August 20, 2018, the Company entered into a Revolving Guidance Facility Agreement (the "Master Facility Agreement") with a lending institution in the U.S. for a $20,000,000 Master Facility to finance the loan and mortgage investments made by the Company. The Master Facility is available on a project by project basis as a project loan. The Master Facility carries an interest rate of three-month LIBOR plus three percent (3.00%) per annum, with a floor rate of five percent (5.00%) per annum. On April 30, 2019, the Master Facility Agreement was amended to increase the available principal balance under the Master Facility to $35,000,000. The Master Facility will expire thirty-six months from after the date of the applicable project loan is advanced, unless otherwise approved by the lender.

During the years ended December 31, 2019 and 2018, the Company borrowed an aggregate of $12,230,809 and $8,804,480, respectively, against the Master Facility, and repaid $12,219,956 and nil, respectively, against the Master Facility.

(In United States dollars unless otherwise stated)

12. Credit facilities (continued):

In connection with the Master Facility in 2019, the Company incurred lender and other third-party costs of $176,319 (2018 - $355,504). The costs associated with the Master Facility have been deferred and are being amortized over the term of the Master Facility as interest expense using the effective-interest amortization method.

Subsequent to year end, the Company terminated the Master Facility Agreement and entered into a $40,000,000 secured line of credit (the “LOC”) with a same lending institution in the U.S. The LOC provides for an increase to $50,000,000 over time subject to approval by the lending institution (note 27).

The following table summarizes the changes in the Credit Facilities for the years ended December 31, 2019 and 2018:

	2019	2018
Balance, beginning of year	$ 19,803,967	$ 15,114,151
Proceeds from Facilities	14,102,487	8,804,480
Repayment of Facilities	(25,389,941)	(2,948,548)
Interest capitalized	406,114	–
Foreign exchange	298,820	(1,166,116)
Balance, end of year	$ 9,221,447	$ 19,803,967

For the years ended December 31, 2019 and 2018, amortization of deferred financing costs reported as interest expense and financing costs relating to the credit facilities totaled $248,038 and $223,187, respectively.

The terms of the Credit Facilities require the Company to comply with certain covenants. If the Company fails to comply with these covenants the lenders may declare an event of default. At December 31, 2019 and 2018, the Company was in compliance with these covenants.

13. Unsecured note payable:

During the year ended December 31, 2019, the Company issued an unsecured promissory note payable (the "Unsecured Note") to a syndicate investor for $3,000,000. The Unsecured Note provides the holder to receive a percentage of return on the Company's certain investments, up to a return equivalent to interest of 15% per annum compounded annually, payable monthly. The Unsecured Note matures on December 31, 2022. Proceeds from the Unsecured Note were used to fund certain loan and mortgage investments.

(In United States dollars unless otherwise stated)

13. Unsecured note payable (continued):

For the years ended December 31, 2019 and 2018, interest and financing costs relating to the Unsecured Note, reported as interest expense and financing costs totaled $138,750 and nil, respectively

14. Lease obligations:

The Company has a lease commitment on its head office premises located at 22 St. Clair Avenue East, Toronto, Ontario, and a land lease on the Montreal Street JV located in Ottawa, Ontario, with a lease term greater than 12 months resulted in the recognition of a right-of-use asset and a corresponding lease liability.

The right-of-use asset represents the Company's right to control the use of the head office premises and the land lease on the Montreal Street JV for the lease term. The right-of-use asset at December 31, 2019 and 2018 was $912,436 and nil, respectively. The lease obligations represent the present value of the Company's future lease payments on its head office premises over the expected lease term. The lease obligations at December 31, 2019 and 2018 was $913,129 and nil, respectively.

The future minimum lease payments, which includes estimated operating costs for the next five years and thereafter, are as follows:

2020	$ 237,811
2021	59,276
2022	59,276
2023	59,276
2024 and thereafter	668,482
	$ 1,084,121

15. Commitments and contingencies:

Pursuant to certain lending agreements, the Company is committed to fund additional loan advances, subject to borrowers meeting certain funding conditions. The unfunded loan commitments under the existing lending agreements at December 31, 2019 were $33,095,786 (2018 - $23,791,223).

(In United States dollars unless otherwise stated)

15. Commitments and contingencies (continued):

At December 31, 2019 and 2018, the unfunded commitments to make additional investments, for development of the lands under the finance lease arrangements, subject to builders meeting certain funding conditions were $9,143,864 and $2,392,126, respectively.

The Company is also committed to provide additional capital to joint operations in accordance with contractual agreements.

The Company, from time to time, may be involved in various claims, legal and tax proceedings and complaints arising in the ordinary course of business. The Company is not aware of any pending or threatened proceedings that would have a material adverse effect on the financial condition or future results of the Company.

16. Shareholders' equity:

(a) Share consolidation:

On September 20, 2019, the Company consolidated its share capital on the basis of one post-consolidation Share for each ten pre-consolidation Shares. All references to the number of shares and per share amounts have been retroactively restated to reflect the consolidation.

(b) Shares issued and outstanding:

The following table summarizes the changes in Shares for the years ended December 31, 2019 and 2018:

	Shares	Amount
Outstanding, December 31, 2017	6,377,585	$ 28,887,862
Issuance of Shares pursuant to the Plan	9,600	22,544
Repurchase of Shares pursuant to normal course issuer bid	(523,601)	(2,390,442)
Transferred from contributed surplus upon exercise of share options	–	13,986
Outstanding, December 31, 2018	5,863,584	26,533,950
Repurchase of Shares pursuant to normal course issuer bid	(298,550)	(1,250,607)
Share consolidation adjustment	(66)	–
Outstanding, December 31, 2019	5,564,968	$ 25,283,343

16. Shareholders' equity (continued):

On May 14, 2018, directors of the Company exercised 96,000 options that had been granted to purchase the Shares at CAD $3.00 per Share. The consideration of $22,544 received on exercising the options was recorded as share capital and the related contributed surplus of $13,986 was transferred to share capital (note 17).

(c) Normal course issuer bid:

On November 23, 2018, following the expiry of the Normal Course Issuer Bid (the "NCIB") on November 6, 2018, the Company renewed the NCIB (the "Renewed NCIB"). Under the terms of the Renewed NCIB, the Company was permitted to acquire up to 4,186,319 Shares, being 10% of the public float of common shares issued and outstanding as of November 27, 2018, as defined by the policies of the TSX-V. The Renewed NCIB commenced through the TSX-V on November 27, 2018 and concluded on November 26, 2019, being the expiry date of the Renewed NCIB.

During the years ended December 31, 2019 and 2018, the Company purchased 298,550 and 523,601 Shares, respectively on the TSX-V for $1,250,607 (CAD $1,624,538) and $2,390,442 (CAD $3,105,184), respectively.

(d) Dividends:

On June 12, 2019, the Board declared a quarterly dividend of CAD $0.05 per Share, payable on October 15, 2019, to shareholders of record as of the close of business on September 30, 2019.

On November 13, 2019, the Board declared a quarterly dividend of CAD $0.05 per Share, payable on January 15, 2020, to shareholders of record as of the close of business on December 31, 2019.

On March 5, 2020, the Board declared a quarterly dividend of CAD $0.05 per common share, payable on April 15, 2020, to shareholders of record as of the close of business on March 31, 2020.

The Board determines the level of dividend payments. Although the Company does not have a formal dividend policy, it started dividend payments and plans to maintain regular quarterly dividends.

(In United States dollars unless otherwise stated)

16. Shareholders' equity (continued):

Dividends are recognized in the period in which they are formally declared by the Board. For the year ended December 31, 2019, the Company recorded dividends of $421,111 (CAD $547,023) (2018 - nil).

(e) Share-based payments:

The share-based payments that have been recognized in these consolidated financial statements are as follows:

	2019	2018
Share option Plan	$ 176,307	$ 260,819
DSU Plan	297,861	(276,647)
	$ 474,168	$ (15,828)

(i) Share option plan:

The Company has a Plan to grant eligible directors, officers, senior management and consultants to grant options to purchase Shares. The exercise price of an option shall be determined by the Board and in accordance with the Plan and the policies of the TSX-V. Subject to the policies of the TSX-V, the Board may determine the time during which options shall vest and the method of vesting, or that no vesting restriction shall exist, provided that no option shall be exercisable after seven years from the date on which it is granted.

On June 12, 2019, the Company granted options to its Chairman of the Board (the "Chairman") to purchase up to 20,000 common shares of the Company at a price of CAD $5.60 per share with the expiry date of June 11, 2026. 10,000 options vested immediately, and the remaining 10,000 options shall vest in equal instalments on a quarterly basis over a six-month period.

On June 12, 2019, the Company granted options to its President and Chief Executive Officer to purchase up to 24,000 common shares of the Company at a price of CAD $5.60 per share with the expiry date of June 11, 2026. The options shall vest in equal installments on a quarterly basis over a three-year period.

(In United States dollars unless otherwise stated)

16. Shareholders' equity (continued):

On August 23, 2018, the Company granted options to the Chairman to purchase up to 40,000 common shares of the Company at a price of CAD $6.40 per share with the expiry date of August 24, 2025. 20,000 options vested immediately, and the remaining 20,000 options shall vest in equal instalments on a quarterly basis over a six-month period.

The fair value of the share options granted was estimated on each of the dates of grant, using the Black-Scholes option pricing model, with the following assumptions:

	June 12, 2019	August 23, 2018
Average expected life	7.00 years	7.00 years
Average risk-free interest rate	1.41%	2.21%
Average expected volatility	74.56%	81.92%
Average dividend yield	0.00%	0.00%

The fair value of options granted on June 12, 2019 and August 23, 2018, was $128,293 and $145,564, respectively.

The following is the summary of changes in share options for the years ended December 31, 2019 and 2018:

	2019		2018	
	Number of options	Weighted average exercise price in CAD	Number of options	Weighted average exercise price in CAD
Outstanding, beginning of year	528,500	$ 7.00	500,166	$ 7.00
Granted	44,000	5.60	40,000	6.40
Exercised	–	–	(9,600)	3.00
Cancelled	–	–	(1,000)	8.50
Expired	(221,411)	6.86	(1,066)	3.00
Outstanding, end of year	351,089	6.95	528,500	7.00
Number of options exercisable	315,073	$ 7.05	467,838	$ 7.10

(In United States dollars unless otherwise stated)

16. Shareholders' equity (continued):

The following summarizes the Company's outstanding share options as at December 31, 2019:

Number of options outstanding	Expiry date	Number of options exercisable	Exercise price in CAD	Market price at date of grant in CAD
97,089	May 11, 2020	97,089	8.50	8.50
10,000	September 25, 2020	10,000	6.90	6.90
20,000	March 31, 2023	20,000	7.70	7.70
50,000	June 28, 2023	50,000	5.70	5.20
56,000	December 27, 2023	51,336	6.50	6.50
34,000	December 21, 2024	22,648	6.70	6.70
40,000	August 24, 2025	40,000	6.70	6.70
44,000	June 11, 2026	24,000	5.60	5.60
351,089		315,073		

(ii) DSU Plan:

The Company has a DSU Plan to promote a greater alignment of interests between directors, officers and employees and the shareholders of the Company by linking a portion of the annual director retainer and annual bonus to officers or employees to the future value of the Shares.

Effective September 30, 2019, the Board modified the DSU Plan. Employees or the directors no longer can elect to receive their annual bonus or retainer, respectively, in DSUs. At the beginning of each year, the Board will determine which board members or employees will be eligible to participate in the DSU Plan and the dollar amount that can be contributed to the DSU Plan. Unless authorized by the Board, the directors and employees will continue to receive their annual retainer and bonus, respectively, in cash.

(In United States dollars unless otherwise stated)

16. Shareholders' equity (continued):

Prior to the amendment, the Board determined the amount, timing, and vesting conditions associated with each award of DSUs. Except for the Chairman, directors were obligated to contribute, on the last day of each quarter, a minimum of 50% and may elect to receive up to 100% of their annual retainer in DSUs. Employees were elect to receive up to 25% of their annual bonus in DSUs. DSUs granted pursuant to such an election were fully vested on the date of grant. In addition, when the directors elect to receive more than 50% of their fees in DSUs, the Company granted additional DSUs equal to 50% of the value of the DSUs that were over the 50% minimum received by them. When the employees elected to receive their bonus in DSUs, the Company granted additional DSUs of up to 20% of the value of DSUs granted to them. Of the additional DSUs granted by the Company to the directors, 50% vested in six months from the date of grant and 50% of the additional DSUs vested in 12 months from the date of grant. The additional DSUs granted to the employees vested 33.33% annually.

Each DSU has the same value as one Share (based on the five-day volume weighted average trading price). DSUs must be retained until the director leaves the Board or termination of employment of officers or employees, at which time, the redemption payment equal to the value of the DSUs, calculated as the volume weighted average closing price of the Shares for the last five days preceding the redemption date, net of applicable taxes are paid out.

The following is the summary of changes in DSUs for the years ended December 31, 2019 and 2018:

	2019	2018
DSUs outstanding, beginning of year	286,220	251,556
Granted	18,115	34,664
Settled	(1,964)	–
DSUs outstanding, end of year	302,371	286,220
Number of DSUs vested	299,511	280,865

The total cost recognized with respect to DSUs, including the change in fair value of DSUs during the years ended December 31, 2019 and 2018, were $297,861 and ($276,647), respectively.

(In United States dollars unless otherwise stated)

16. Shareholders' equity (continued):

Each DSU has the same value as one Share (based on the five day volume weighted average trading price) and, in the event dividends are paid on the Shares, accrues dividend equivalents in the form of additional DSUs based on the amount of the dividend paid on a Share. The carrying amount of the liability, included in accounts payable and accrued liabilities, relating to the DSUs at December 31, 2019 and 2018 is $1,291,160 and $947,406, respectively.

(f) Warrants:

At December 31, 2019 and 2018, the Company has 500,000 Warrants outstanding. Each warrant is exercisable for one share at a price of CAD $8.50 per share, with an expiry date of August 15, 2020.

17. Contributed surplus:

The following table presents the details of the contributed surplus balances as at December 31, 2019 and 2018:

	2019	2018
Balance, beginning of year	$ 3,264,388	$ 3,017,555
Share options	176,307	260,819
Transferred to share capital on exercise of options	–	(13,986)
Balance, end of year	$ 3,440,695	$ 3,264,388

(In United States dollars unless otherwise stated)

18. Earnings per share:

The calculation of earnings per share for the years ended December 31, 2019 and 2018 is as follows:

		2019		2018
Numerator for basic and diluted earnings per share:				
Income attributable to common shareholders	$	3,077,757	$	2,215,783
Diluted income attributable to common shareholders	$	3,077,757	$	2,215,783
Denominator for basic and diluted earnings per share:				
Weighted average number of Shares outstanding		5,675,671		6,178,067
Dilutive effect of share-based payments		–		7,659
Weighted average number of diluted Shares outstanding		5,675,671		6,185,726
Earnings per share:				
Basic	$	0.54	$	0.36
Diluted		0.54		0.36

19. Transactions with related parties:

Except as disclosed elsewhere in the consolidated financial statements, the following are the related party transactions:

Related party transactions are measured at the exchange amount, which is the amount of consideration established and offered by related parties.

At December 31, 2019 and 2018, the Chairman, indirectly through a wholly owned subsidiary, owned approximately 8.5% and 8.1%, respectively, of the issued and outstanding Shares.

(In United States dollars unless otherwise stated)

19. Transactions with related parties (continued):

(a) Key management personnel compensation:

Aggregate compensation for key management personnel was as follows:

	2019	2018
Short-term employee benefits	$ 1,404,828	$ 1,266,608
Share-based compensation	449,335	(79,721)
	$ 1,854,163	$ 1,186,887

The key management personnel of the Company include the President and Chief Executive Officer, Chief Financial Officer, Managing Director and the Board.

(b) Loan and mortgage investments:

The Company had a loan investment of $1,362,592 to a company controlled by the Chairman at an interest rate of 12% per annum. On May 2, 2018, the Company received the repayment of the loan investment in full, together with accrued interest. During the years ended December 31, 2019 and 2018, the Company recognized interest and fees revenue of nil and $58,082, respectively. This transaction was incurred during the normal course of operations on similar terms and conditions to those entered into with unrelated parties (note 5).

(c) Loan and mortgages syndications:

Certain of the Company's loan and mortgage investments are syndicated with other investors of the Company, which may include officers or directors of the Company. The Company ranks equally with other members of the syndicate as to payment of principal and interest.

At December 31, 2019 and 2018, the loan and mortgage investments syndicated by officers and directors were $556,466 and $467,659, respectively.

(In United States dollars unless otherwise stated)

19. Transactions with related parties (continued):

(d) Occupancy and office costs:

The Company sub-leased a portion of the office premises to a company controlled by the Chairman, pursuant to a lease agreement corresponding to the terms of the Company's lease. During the year ended December 31, 2019, the Company received $49,880 for the occupancy and office costs (2018 - $59,047).

20. Interest and financing costs:

The following table presents the interest incurred for the years ended December 31, 2019 and 2018:

	2019	2018
Interest on loan and mortgage syndications	$ 7,568,285	$ 6,255,559
Interest on Credit Facilities	1,558,228	1,656,989
Interest on Montreal Street JV	32,652	34,734
Interest on lease obligations	2,094	–
	$ 9,161,259	$ 7,947,282

21. Income taxes:

The following table specifies the current and deferred tax components of income taxes in the consolidated statements of income and comprehensive income:

	2019	2018
Current income tax provision	$ 1,320,411	$ 12,238
Deferred income tax	(311,453)	889,800
Total tax provision	$ 1,008,958	$ 902,038

(In United States dollars unless otherwise stated)

21. Income taxes (continued):

Income tax expense is different from the amount that would result from applying the combined federal and provincial income tax rates to income from operations before income taxes. These differences result from the following items:

	2019	2018
Income from operations before income taxes	$ 4,086,715	$ 3,068,492
Combined federal and provincial statutory income taxes	26.5%	26.5%
Income tax provision based on statutory income taxes	$ 1,082,979	$ 813,150
Increase (decrease) in income tax due to:		
Non-taxable items	3,200	1,655
Non-deductible stock-based compensation	46,721	63,722
Other items	(123,942)	23,511
Total tax provision	$ 1,008,958	$ 902,038

The following table summarizes the changes to the current income tax recoverable and payable for the years ended December 31, 2019 and 2018:

	2019	2018
Balance, beginning of year	$ (130,741)	$ (239,175)
Current income tax provision	1,320,411	12,238
Income taxes received (paid)	(1,455,996)	78,367
Foreign exchange	18,607	17,829
Balance, end of year	$ (247,719)	$ (130,741)

(In United States dollars unless otherwise stated)

21. Income taxes (continued):

The composition of the Company's recognized deferred income tax assets and liabilities for the year ended December 31, 2019 is as follows:

	Opening balance	Recognized in income	Foreign exchange	Closing balance
Investment property	$ 178,684	$ (11,150)	$ –	$ 167,534
Portfolio investment	262,668	7,814	16,294	286,776
Incorporation costs	(358)	(26)	–	(384)
DSUs	(273,282)	78,933	–	(194,349)
Allowance for loan and mortgage investment loss	(192,603)	(100,760)	–	(293,363)
Unrealized foreign exchange loss	892,106	(293,064)	(7,913)	591,129
Debentures, Shares and revolving operating facility issue costs	(114,126)	(38,750)	–	(152,876)
Deferred revenue	–	45,550	–	45,550
	$ 753,089	$ (311,453)	$ 8,381	$ 450,017

The composition of the Company's recognized deferred income tax assets and liabilities for the year ended December 31, 2018 is as follows:

	Opening balance	Recognized in income	Foreign exchange	Closing balance
Investment property	$ 178,384	$ 14,987	$ (14,687)	$ 178,684
Portfolio investment	811,254	(510,475)	(38,111)	262,668
Incorporation costs	(418)	29	31	(358)
DSUs	(373,612)	74,835	25,495	(273,282)
Allowance for loan and mortgage investment loss	(721,925)	497,553	31,769	(192,603)
Unrealized foreign exchange loss	216,210	728,930	(53,034)	892,106
Debentures, Shares and revolving operating facility issue costs	(210,349)	83,941	12,282	(114,126)
	$ (100,456)	$ 889,800	$ (36,255)	$ 753,089

(In United States dollars unless otherwise stated)

22. Capital management:

The Company defines its capital as the aggregate of shareholders' equity, non-controlling interest, convertible debentures, loan and mortgage syndications, short-term notes payable, revolving operating facility, due to joint operations partner and mortgages payable. The Company's capital management is designed to ensure that the Company has sufficient financial flexibility, short-term and long-term, and to grow cash flow and solidify the Company's long-term creditworthiness, as well as a good return for the shareholders.

The following table presents the capital of the Company as at December 31, 2019 and 2018:

	2019	2018
Loan and mortgage syndications	$ 88,249,414	$ 75,906,550
Credit facilities	8,878,839	19,464,106
Unsecured note payable	3,000,000	–
Mortgages payable	1,067,440	1,047,809
Equity	39,635,372	38,053,026
	$ 140,831,065	$ 134,471,491

The Company is free to determine the appropriate level of capital in context with the cash flow requirements, overall business risks and potential opportunities. As a result, the Company will make adjustments to its capital structure in response to lending opportunities, the availability of capital and anticipated changes in general economic conditions. The Company's overall strategy with respect to capital remained unchanged during the years ended December 31, 2019 and 2018.

During the years ended December 31, 2019 and 2018, the Company had no externally-imposed capital requirements.

23. Fair value measurement:

The Company, as part of its operations, carries a number of financial instruments. The Company's financial instruments consist of cash and cash equivalents, funds held in trust, amounts receivable, loan and mortgage investments, portfolio investments, accounts payable and accrued liabilities, loan and mortgage syndications, unsecured note payable, mortgages payable, and Credit Facilities.

23. Fair value measurement (continued):

The fair value of amounts receivable, funds held in trust and accounts payable and accrued liabilities approximate their carrying values due to their short-term maturities.

The fair value of loan and mortgage investments, loan and mortgage syndications and unsecured note payable approximate their carrying values as they are short-term in nature. There is no quoted price in an active market for the loans and mortgage investments, mortgage syndications, unsecured note payable, mortgages payable or Credit Facilities. The Company makes its determination of fair value based on its assessment of the current lending market for these instruments of same or similar terms. As a result, the fair values are based on Level 3 of the fair value hierarchy.

The Company uses various methods in estimating the fair values recognized in the consolidated financial statements. The fair value hierarchy reflects the significance of inputs used in determining the fair values.

- Level 1 - quoted prices in active markets;
- Level 2 - inputs other than quoted prices in active markets or valuation techniques where significant inputs are based on observable market data; and
- Level 3 - valuation techniques for which significant inputs are not based on observable market data.

The fair value of the Company's investment properties, portfolio investments, investment in associates and non-controlling interest are determined using Level 3 inputs at December 31, 2019 and 2018 and no amounts were transferred between fair value levels during 2019 or 2018. Notes 9(b), 7 and 8 outline the key assumptions used by the Company in determining fair value of its investment properties, portfolio investments and investment in associates.

24. Risk management:

In the normal course of business, the Company is exposed to a number of risks that can affect its operating performance. These risks and the actions taken to manage them are as follows:

(a) Market risk:

Market risk is the risk that the value of an investment will fluctuate as a result of changes in market price whether the changes are caused by factors specific to the investment or factors affecting all securities in the market.

The Company's objective of managing this risk is to minimize the volatility of earnings. The Company mitigates this risk by charging interest rates which are significantly above normal banking rates.

(b) Credit risk:

Credit risk is the risk of financial loss from the failure of a borrower, for any reason, to fully honour its financial or contractual obligations to the Company, primarily arising from the Company's loan and mortgage investment activities. Fluctuations in real estate values may increase the risk of default and may also reduce the net realizable value of the collateral property to the Company. Credit losses occur when a borrower fails to meet its obligations to the Company and the value realized on the sale of the underlying security deteriorates below the carrying amount of the exposure.

The Company is exposed to credit risk on all financial assets and its exposure is generally limited to the carrying amount on the consolidated statements of financial position.

The Company mitigates the risk of credit losses on its loan and mortgage investments by maintaining strict credit policies and conducting thorough investment due diligence, ensuring loans and mortgages have risk-adjusted loan to value, together with personal guarantees by the borrowers and parties related to the borrowers, review and approval of new loans and mortgages and continued monitoring of change in value of underlying securities.

24. Risk management (continued):

The Company regularly reviews the loan and mortgage investments and interest receivable listing for balances in arrears and follows up with clients as needed regarding payment. For individual accounts in arrears where discussion with the client has not succeeded, foreclosure proceedings commence. Balances receivable include accrued interest and legal and other costs related to attempts at collection. Where loan investments are collateralized by real property, losses are recognized to the extent that recovery of the balance through sale of the underlying property is not reasonably assured.

As at December 31, 2019, $2,478,759 (2018 - $2,792,998) of the loan and mortgage investments to entities controlled by the Borrower and $374,911 (2018 - $357,124) of interest receivable and fees paid on these loans are in arrears.

(c) Interest rate risk:

Interest rate risk arises due to exposure to the effects of future changes in the prevailing level of interest rates.

The Company is exposed to interest rate risk arising from fluctuations in interest rates primarily on its loan and mortgage investments, loan and mortgage syndications, revolving operating facility and mortgages payable.

The Company mitigates its exposure to this risk by entering into contracts having either fixed interest rates or interest rates pegged to prime for its loan and mortgage investments and loans and mortgage syndications and asset liability matching. Such risk is further mitigated by the general short-term nature of loan and mortgage investments.

(In United States dollars unless otherwise stated)

24. Risk management (continued):

The Company has no floating rate financial liabilities. At December 31, 2019, if interest rates had been 100-basis-points lower or higher, with all other variables held constant, net income and comprehensive income and equity for the year would be affected as follows:

	Lower 100- basis-points	Higher 100- basis-points
Interest and fees	$ (2,049,299)	$ 2,049,299

The Company has no floating rate financial liabilities. At December 31, 2018, if interest rates had been 100-basis-points lower or higher, with all other variables held constant, net income and comprehensive income and equity for the year would be affected as follows:

	Lower 100- basis-points	Higher 100- basis-points
Interest and fees	$ (2,257,235)	$ 2,257,235

(d) Liquidity risk:

Liquidity risk is the risk the Company will not be able to meet its financial obligations as they come due. The Company's approach to managing liquidity risk is to ensure, to the extent possible, that it always has sufficient liquidity to meet its liabilities when they come due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's creditworthiness.

The Company manages liquidity risk by forecasting cash flows from operations and anticipated investing and financing activities.

If the Company is unable to continue to have access to its loans and mortgage syndications, revolving operating facility and convertible debentures, the size of the Company's loan and mortgage investments will decrease and the income historically generated through holding larger investments by utilizing leverage will not be earned.

(In United States dollars unless otherwise stated)

24. Risk management (continued):

Contractual obligations as at December 31, 2019 are due as follows:

	Less than 1 year	Over 2 years	Total
Accounts payable and accrued liabilities	$ 5,344,792	$ –	$ 5,344,792
Credit Facilities	–	9,221,447	9,221,447
Mortgages payable	–	1,070,973	1,070,973
Total liabilities and contractual obligations	$ 5,344,792	$ 10,292,420	$ 15,637,212

25. Supplementary information:

The following table reconciles the changes in the consolidated statements of cash flows from financing activities for loan and mortgage syndications, mortgages payable and Credit Facilities.

	Loan and mortgage syndications	Mortgages payable	Credit facilities
Balance, beginning of year	$ 75,906,550	$ 1,053,274	$ 19,803,967
Financing cash flow activities:			
Proceeds from loan and mortgage syndications	49,602,355	–	–
Repayments of loan and mortgage syndications	(39,327,209)	–	–
Repayments of mortgages payable	–	(34,175)	–
Proceeds from credit facilities	–	–	14,102,487
Repayments of credit facilities	–	–	(25,389,941)
Total cash flow from (used in) financing activities	10,275,146	(34,175)	(11,287,454)
Financing non-cash activities:			
Foreign exchange	414,316	51,874	298,820
Interest capitalized	1,690,370	–	406,114
Capitalized interest paid	(36,968)	–	–
Total non-cash flow from financing activities	2,067,718	51,874	704,934
Balance, end of year	$ 88,249,414	$ 1,070,973	$ 9,221,447

26. Effect of change in presentation currency:

As set out in note 3, the Company elected to change its presentation currency to USD, effective January 1, 2019.

For comparative purposes, the consolidated statements of financial position as at January 1, 2018 and December 31, 2018 includes adjustments to reflect the change in the accounting policy resulting from the change in presentation to the USD. The amounts previously reported in CAD as shown below have been translated into USD at January 1, 2018 and December 31, 2018 exchange rates (note 3). The effect of the translation is as follows:

December 31, 2018	USD	CAD
Assets		
Cash and cash equivalents	$ 7,731,379	$ 10,543,289
Funds held in trust	1,095,669	1,494,940
Amounts receivable and prepaid expenses	1,013,935	1,347,626
Loan and mortgage investments	121,675,979	165,929,535
Investment in finance leases	2,819,915	3,845,519
Investment properties	1,619,633	2,208,694
Portfolio investment	1,911,574	2,591,586
Interest in associates	2,146,984	2,927,842
Income taxes recoverable	130,741	178,292
	$ 140,145,809	$ 191,067,323
Liabilities and Equity		
Liabilities:		
Accounts payable and accrued liabilities	$ 3,618,067	$ 4,933,963
Unearned income	1,303,162	1,777,129
Deferred income tax liabilities	753,089	1,026,987
Credit facilities	19,464,106	26,560,237
Loan and mortgage syndication	75,906,550	103,513,760
Mortgages payable	1,047,809	1,428,897
	102,092,783	139,240,973
Equity:		
Share capital	26,533,950	29,801,466
Contributed surplus	3,264,388	3,893,731
Cumulative translation adjustment	(6,885,398)	–
Retained earnings	15,140,086	18,131,153
	38,053,026	51,826,350
	$ 140,145,809	$ 191,067,323

26. Effect of change in presentation currency (continued):

For comparative purposes, the consolidated statements of income and comprehensive income for the year ended December 31, 2018 include adjustments to reflect the change in accounting policy resulting from the change in presentation currency to USD. The amounts previously reported in CAD as shown below have been translated into USD at the average exchange rates (note 3). The effect of the translation is as follows:

December 31, 2018	USD	CAD
Revenue:		
Interest and fees earned	$ 13,292,451	$ 17,258,558
Rental income	155,720	201,772
	13,448,171	17,460,330
Expenses:		
Property operating costs	53,427	69,228
General and administrative	2,775,430	3,617,616
Share based compensation	(15,828)	(27,444)
Interest and financing costs	7,947,282	10,322,969
Loss on sale of portfolio investment	173,646	224,212
Fair value adjustment - portfolio investment	(57,413)	(75,866)
Provision on loan and mortgage investments	2,403,182	3,137,059
Provision for uncollectible receivables	134,940	186,140
Realized and unrealized foreign exchange gain	(3,034,987)	(3,933,646)
	10,379,679	13,520,268
Income from operations before income taxes	3,068,492	3,940,062
Income tax expense	902,038	1,169,131
Net income and comprehensive income	$ 2,166,454	$ 2,770,931
Net income (loss) and comprehensive income (loss) attributable to:		
Common shareholders	$ 2,215,783	$ 2,825,572
Non-controlling interest	(49,329)	(54,641)
Net income and comprehensive income	$ 2,166,454	$ 2,770,931

26. Effect of change in presentation currency (continued):

For comparative purposes, the consolidated statements of cash flows for the year ended December 31, 2018 include adjustments to reflect the change in accounting policy resulting from the change in presentation currency to USD. The amounts previously reported in CAD as shown below have been translated into USD at the average exchange rates (note 3). The effect of the translation is as follows:

December 31, 2018	USD	CAD
Cash provided by (used in):		
Operating activities:		
Net income and comprehensive income	$ 2,166,454	$ 2,770,931
Interest and fees earned	(13,292,451)	(17,258,558)
Interest expense and financing costs	7,947,282	10,322,969
Unrealized foreign exchange gain	(3,230,915)	(3,565,531)
Non-cash items:		
Share-based compensation (note 16(e))	(15,828)	(27,444)
Loss on sale of portfolio investment	173,646	224,212
Provision for loan and mortgage investments loss	2,403,182	3,137,059
Provision for uncollectible receivables	134,940	186,140
Fair value adjustment - portfolio investments	(57,413)	(75,866)
Income tax provision	902,038	1,169,131
Changes in working capital:		
Increase in other receivables	(482,855)	(669,494)
Increase in prepaid expenses and deposits	41,235	39,292
Increase in accounts payable and accrued liabilities	223,204	475,715
Interest and fees received	8,862,839	11,484,860
Interest paid	(7,238,873)	(9,386,967)
Income taxes paid	78,367	106,514
	(1,385,148)	(1,067,037)
Financing activities:		
Proceeds from loan and mortgage syndications	40,424,380	52,103,952
Repayments of loan and mortgage syndications	(15,143,072)	(19,591,954)
Repayments of mortgages payable	(33,965)	(43,803)
Proceeds from credit facilities	8,804,480	11,773,353
Repayments of credit facilities	(2,948,548)	(4,000,000)
Disposition of non-controlling interest	(153,233)	(200,000)
Proceeds from issuance of shares pursuant to share options plan	22,544	28,800
Repurchase of shares pursuant to normal course issuer bid	(2,390,442)	(3,109,488)
	28,582,144	36,960,860

(In United States dollars unless otherwise stated)

26. Effect of change in presentation currency (continued):

December 31, 2018	USD	CAD
Investing activities:		
Funding of loan and mortgage investments	(56,851,087)	(73,491,392)
Repayments of loan and mortgage investments	28,237,829	36,661,641
Funding of investment in finance leases	(2,865,999)	(3,675,053)
Decrease in funds held in trust	1,261,548	1,627,530
Proceeds from redemption of portfolio investment	727,858	950,000
Proceeds from sale of interest in portfolio investment	61,000	78,406
Return of capital of portfolio investment	7,821,268	9,807,285
	(21,607,583)	(28,041,583)
Increase in cash and cash equivalents	5,589,413	7,852,240
Cash and cash equivalents, beginning of year	2,141,966	2,691,049
Cash and cash equivalents, end of year	$ 7,731,379	$ 10,543,289

27. Subsequent events:

On January 14, 2020, the Company entered into a $40,000,000 secured LOC with Texas Capital Bank. The LOC replaces the Master Facility Agreement the Company had with Texas Capital for a $35,000,000 Master Facility. The LOC provides for an increase in the borrowing limit to $50,000,000 over time subject to approval by Texas Capital.

On February 14, 2020, the Company appointed Mr. Y Dov Meyer as an Executive Chairman of the Board, effective February 14, 2020, replacing John Kaplan, who was the Executive Chairman since 2013.

On March 11, 2020, the Board declared a quarterly dividend of CAD $0.05 per common share, payable on April 15, 2020, to shareholders of record as of the close of business on March 31, 2020.

27. Subsequent events (continued):

Subsequent to year-end, there was a global outbreak of COVID-19, which has had a significant impact on businesses through the restrictions put in place by the Canadian and U.S. governments regarding travel, business operations and isolation/quarantine orders. At this time, it is unknown the extent of the impact the COVID-19 outbreak may have on the Company as this will depend on future developments that are highly uncertain and that cannot be predicted with confidence. These uncertainties arise from the inability to predict the ultimate geographic spread of the disease, and the duration of the outbreak, including the duration of travel restrictions, business closures or disruptions, and quarantine/isolation measures that are currently, or may be put, in place by Canada, U.S. and other countries to fight the virus. The Company continues to monitor its investments and assess the impact COVID-19 will have on its business activities. The extent of the effect of the COVID-19 pandemic on the Company is uncertain.