(In U.S. dollars)

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

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

	Stage 1	Stage 2	Stage 3	Total
Balance, beginning of period	$ 81,360	$ –	$ –	$ 81,360
Recovery of credit losses:				
Remeasurement	(38,058)	–	–	(38,058)
Transfer to (from):				
Stage 1	–	–	–	–
Stage 2	–	–	–	–
Stage 3	–	–	–	–
Gross write-offs	–	–	–	–
Recoveries	–	–	–	–
Balance, end of period	$ 43,302	$ –	$ –	$ 43,302

As at December 31, 2021, the Company received an unsecured note receivable of $1,000,000 plus interest. The unsecured note receivable related to a first mortgage loan investment from a project located in the U.S. (the "U.S. Project") and was in consideration of unpaid interest. As at December 31, 2021, the Company determined that the collectability of the unsecured note receivable was remote and ascribed nil value and the amounts were written off.

As at June 30, the Company received the cash payment towards the unsecured note receivable. During the three months ended June 30, 2022, the Company recorded a recovery related to the unsecured note receivable of $213,239 which represented the Company's share of the unsecured note receivable, net of syndication of $865,687. The recovery was included within interest and fees earned in the interim condensed consolidated statements of income (loss) and comprehensive income (loss).

The following table presents details of the Company's ACL on loan and mortgage investments as at June 30, 2022:

	Stage 1	Stage 2	Stage 3	Total
Residential housing developments	$ 12,419	$ –	$ –	$ 12,419
Land and lot inventory	30,883	–	–	30,883
	$ 43,302	$ –	$ –	$ 43,302

(In U.S. dollars)

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

The following table presents the Company's ACL on loan and mortgage investments segmented by geography as at June 30, 2022:

IFRS 9	Stage 1	Stage 2	Stage 3	Total
Canada	$ 42	$ –	$ –	$ 42
U.S.	43,260	–	–	43,260
	$ 43,302	$ –	$ –	$ 43,302

5. Investment in finance leases:

As at June 30, 2022, the Company had 15 investment in finance leases (December 31, 2021 - 15). The following table represents details of the investment in finance leases and ACL as at June 30, 2022:

	June 30, 2022	December 31, 2021
Investment in finance leases	$ 63,965,157	$ 55,849,312
Allowance for credit losses	(98,350)	(120,443)
Balance, at period end	$ 63,866,807	$ 55,728,869

Investment in finance leases of $59,669,795 are financed through loans payable (note 12) (December 31, 2021 - $51,003,555).

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 13.7% per annum and the weighted average term of the leases is 2.17 years. The unearned finance income at June 30, 2022 was nil (December 31, 2021 - $139,376).

The income recognized from finance leases for the six months ended June 30, 2022, of $3,889,913 (six months ended June 30, 2021 - $1,978,682) was included within finance income in the interim condensed consolidated statements of income (loss) and comprehensive income (loss).

(In U.S. dollars)

5. Investment in finance leases (continued):

The following table summarizes the changes in the investment in finance leases for the six months ended June 30, 2022 and 2021:

Balance, December 31, 2020	$ 20,489,655
Investment made	24,976,357
Investments sold	(7,707,886)
Lease payments received	(1,937,660)
Finance income recognized	1,978,682
Allowance for credit losses	(258,110)
Balance, June 30, 2021	37,541,038
Investment made	28,920,975
Investments sold	(10,731,641)
Lease payments received	(3,091,435)
Finance income recognized	2,911,204
Allowance for credit losses	178,728
Balance, December 31, 2021	55,728,869
Investment made	21,195,814
Investments sold	(13,041,344)
Lease payments received	(3,928,538)
Finance income recognized	3,889,913
Allowance for credit losses	22,093
Balance, June 30, 2022	$ 63,866,807

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	$ 21,779,156	$ 10,857,991	$ 10,921,165
Greater than one year but less than 5 years	66,175,028	13,131,036	53,043,992
	$ 87,954,184	$ 23,989,027	$ 63,965,157

(In U.S. dollars)

TERRA FIRMA CAPITAL CORPORATION

5. Investment in finance leases (continued):

As at June 30, 2022, there are three net investments in finance leases that account for 12.7%, 10.3% and 10.0% of the net investments in finance leases. For the six months ended June 30, 2022, the Company has two net investments in finance leases that account for 12.4% and 11.3% of the Company's finance income.

Allowance for investment in finance leases loss:

The changes in the ACL on investment in finance leases during the six months ended June 30, 2022 were as follows:

	IFRS 9			
	Balance at January 1, 2022	Recovery of credit losses	Net write offs	Balance at June 30, 2022
Residential housing developments	$ 120,443	$ (22,093)	$ –	$ 98,350

The following table presents the changes in the ACL on investment in finance leases between the beginning and the end of the period:

	Stage 1	Stage 2	Stage 3	Total
Balance, beginning of period	$ 120,443	$ –	$ –	$ 120,443
Recovery of credit losses:				
Remeasurement	(22,093)	–	–	(22,093)
Transfer to (from):				
Stage 1		–	–	–
Stage 2		–	–	–
Stage 3		–	–	–
Gross write-offs		–	–	–
Recoveries		–	–	–
Balance, end of period	$ 98,350	$ –	$ –	$ 98,350

(In U.S. dollars)

6. Portfolio investments:

The following table presents details of the portfolio investments as at June 30, 2022 and December 31, 2021:

	June 30, 2022	December 31, 2021
Investment in the LanQueen Partnership	$ –	$ 521,892
Investment in the Savannah Partnership	304,528	154,528
Investment in the Valermo Partnership	–	1
	$ 304,528	$ 676,421

(a) The Company, through TFCC LanQueen Ltd. entered into a partnership agreement (the "Queen Agreement"), whereby TFCC LanQueen Ltd. is committed to investing in a redevelopment project located in Toronto, Ontario. During the six months ended the Company received distributions and return of capital of $556,788. As at June 30, 2022, a fair value gain of $36,065 (December 31, 2021 - $205,556) was recorded on the investment. As at June 30, 2022, the Company received its full return of capital on this investment and final distributions. The fair value of investment at June 30, 2022 was nil (December 31, 2021 - $521,892).

(b) The Company, through TFCC International Ltd. entered into a partnership agreement (the "Savannah Agreement"), whereby TFCC International committed to investing $2,000,000 through a partnership interest (the "Savannah Partnership") in a development project (the "Savannah Project") located in Savannah, Georgia. 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. As at June 30, 2022, the principal balance outstanding to be repaid on the above noted loan and mortgage investment was $16,785,021 (December 31, 2021 - $16,451,611). The syndicated principal loan and mortgage investment balance outstanding to be repaid was $16,785,021 (December 31, 2021 - $11,993,074). As at June 30, 2022, a fair value gain of $150,000 (December 31, 2021 - nil) was recorded on the investment. The fair value of the investment in the Savannah Partnership at June 30, 2022 was $304,528 (December 31, 2021 - $154,528).

(c) The Company, through TFVC, had a limited partnership interest in a partnership in Toronto. As at June 30, 2022, the Company disposed of its interest in the partnership.

(In U.S. dollars)

6. Portfolio investments (continued):

The following table summarizes the changes in the portfolio investments for the six months ended June 30, 2021 and December 31, 2020:

Balance, December 31, 2020	$ 2,292,991
Return of capital	(477,745)
Foreign exchange	59,893
Balance, June 30, 2021	1,875,139
Fair value adjustment	259,841
Return of capital	(1,435,049)
Foreign exchange	(23,510)
Balance, December 31, 2021	676,421
Fair value adjustment	186,065
Return of capital	(556,789)
Foreign exchange	(1,169)
Balance, June 30, 2022	$ 304,528

7. Investment in associates:

The following table presents details of the investment in associates as at June 30, 2022 and December 31, 2021:

	June 30, 2022	December 31 2021
Investment in the Lan Partnership	$ 514,183	$ 791,181
Investment in the TFCC Royal Palm Beach Inc.	1,508,231	1,383,346
Investment in Debt Fund I	2,700,793	2,174,053
Investment in Debt Fund II	4,311,863	4,016,131
	$ 9,035,070	$ 8,364,711

7. Investment in associates (continued):

(a) The Company has a partnership interest in a high-rise condominium development project located in Toronto, Ontario through a partnership interest (the "Lan Partnership"). During the six months ended June 30, 2022, the project was considered substantially complete, and the Company received distributions of $57,217 and a return of capital of $129,172. During the six months ended June 30, 2022, the Company recorded a fair value loss of $61,077. The fair value of the investment in the Lan Partnership was determined by management, using the residual method. The fair value of the investment at June 30, 2022 was $514,183 (December 31, 2021 - $791,181).

(b) The Company, through TFCC International Ltd., invested in TFCC Royal Palm Beach Inc. During the six months ended June 30, 2022, the Company recorded income of $141,799 (for the six months ended June 30, 2021 - $119,600) and received distributions of $20,419 (for the six months ended June 30, 2021 - $14,585), from TFCC Royal Palm Beach Inc. The fair value of the investment at June 30, 2022 was $1,507,643 (December 31, 2021 - $1,383,346).

(c) On February 5, 2021, the Company, through its wholly owned subsidiary TFCC USA III Holding Corporation (the "TFCC USA III Holding") and third-party investors, entered into a limited partnership agreement (the "Debt Fund I") whereby the investors and TFCC USA III Holding committed to advance total capital of $29,025,000 and $3,475,000, respectively. Debt Fund I entered into a loan agreement with the wholly-owned subsidiary of the Company TFCC USA III Corporation (the "TFCC USA III"). Debt Fund I also secured a $10,000,000 credit facility with a U.S. bank. Terra Firma Senior Debt Fund Corporation, a wholly-owned subsidiary of the Company, acts as a general partner of Debt Fund I. The Company exerts influence in Debt Fund I and accounts for this investment using the equity method of accounting.

As at June 30, 2022, Debt Fund I received capital contributions from investors and TFCC USA III Holding totaling $22,334,250 and $2,675,750, respectively. As at June 30, 2022, the Company through TFCC USA III Holding owns 10.69% partnership interest in Debt Fund I.

As at June 30, 2022, Debt Fund I had an outstanding balance of $1,442,892 against the credit facility and a loan payable balance of $26,168,441 to TFCC USA III (note 11). For the six months ended June 30, 2022, the Company recognized its share of income of $124,259 (six months ended June 30, 2021 - $47,454) and received distributions of $118,769 (six months ended June 30, 2021 - $47,144) from Debt Fund I.

7. Investment in associates (continued):

(d) On December 7, 2021, the Company, through its wholly owned subsidiary TFCC USA III Holding and third-party investors, entered into a limited partnership agreement ("Debt Fund II"). As at June 30, 2022, the investors and TFCC USA III Holding committed to advance total capital of $46,059,000 and 5,150,000, respectively. Debt Fund II entered into a loan agreement with TFCC USA IV Corporation (the "TFCC USA IV"). During the six months ended June 30, 2022, Debt Fund II also secured a $12,000,000 credit facility with a U.S. bank. Terra Firma Senior Debt Fund Corporation, a wholly-owned subsidiary of the Company, acts as a general partner of Debt Fund II. The Company exerts influence in Debt Fund II and accounts for this investment using the equity method of accounting. As at June 30, 2022, the Company through TFCC USA III Holding owns 10.06% partnership interest in Debt Fund II. Subsequent to the second quarter of 2022, Debt Fund II increased its LOC from $12,000,000 to $20,000,000.

As at June 30, 2022, Debt Fund II received capital contributions from investors and TFCC USA III Holding totaling $36,705,000 and $4,287,500, respectively. As at June 30, 2022, Debt Fund II had an outstanding balance of $3,868,000 against the credit facility and advanced a loan payable of $44,115,843 to TFCC USA IV (note 11). For the six months ended June 30, 2022, the Company recognized its share of income of $213,155 (six months ended June 30, 2021 - nil) and received distributions of $204,924 (six months June 30, 2021 - nil) from Debt Fund II.

(In U.S. dollars)

7. Investment in associates (continued):

Balance, December 31, 2020	$ 3,112,395
Investment funded	2,174,500
Income earned	167,055
Distributions received	(61,729)
Return of capital	(992,082)
Foreign exchange	78,295
Balance, June 30, 2021	4,478,434
Investment funded	3,980,000
Income earned	277,145
Distributions received	(129,874)
Fair value adjustment	(222,222)
Foreign exchange	(18,772)
Balance, December 31, 2021	8,364,711
Investment funded	808,750
Income earned	479,213
Distributions received	(401,328)
Return of capital	(129,172)
Fair value adjustment	(61,077)
Foreign exchange	(26,027)
Balance, June 30, 2022	$ 9,035,070

During the six months ended June 30, 2022, the Company recognized net income from investments in associates of $479,213 (six months ended June 30, 2021 - $167,055) and received distributions of $401,328 (six months ended June 30, 2021 - $61,729).

(In U.S. dollars)

8. Joint arrangements:

(a) Interests in joint operations:

Montreal Street JV:

The Company's ownership interest in the Montreal Street JV is 55.0%.

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

	June 30, 2022	December 31, 2021
Assets		
Cash and cash equivalents	$ 97,255	$ 133,582
Amounts receivable and prepaid expenses	124,886	84,775
Investment property	1,733,941	1,747,799
Right-of-use asset	610,379	643,815
	2,566,461	2,609,971
Liabilities		
Accounts payable and prepaid expenses	30,382	37,533
Mortgages payable	981,492	1,018,183
Lease obligations	652,764	678,166
	1,664,638	1,733,882
Net assets	$ 901,823	$ 876,089

(In U.S. dollars)

8. Joint arrangements (continued):

The table below details the results of operations for the three and six months ended June 30, 2022 and 2021, attributable to the Company from the Montreal Street JV:

	Three months ended		Six months ended	
	June 30, 2022	June 30, 2021	June 30, 2022	June 30, 2021
Revenue:				
Rental revenue	$ 42,618	$ 43,347	$ 86,031	$ 83,906
Expenses:				
Property operating costs	14,553	15,049	29,624	29,886
General and administrative	200	1,600	1,084	1,010
Interest	10,995	13,574	22,224	25,799
	25,748	30,223	52,932	56,695
Net income	$ 16,870	$ 13,124	$ 33,099	$ 27,211

(b) Investment property:

At June 30, 2022, the carrying value of the Company's proportionate share of investment property in the Montreal Street JV is $1,733,941 (CAD $2,208,694) (December 31, 2021 - $1,747,799 (CAD $2,208,694)). The capitalization rate used in the valuation of the property was 6.25% (December 31, 2021 - 6.25%).

As at June 30, 2022, 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 (December 31, 2021 - 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 (December 31, 2021 - CAD $85,250).

(c) Mortgages payable:

The Company's share of the principal balance of mortgages payable held in the Montreal Street JV, at June 30, 2022 was $981,492 (December 31, 2021 - $1,018,183). The mortgages bear interest at 3.0% per annum and are amortized over 25 years and matured on July 1, 2026.

(In U.S. dollars)

8. Joint arrangements (continued):

The details of the mortgages payable in respect of the Company's proportionate share of the Montreal Street JV at June 30, 2022 and December 31, 2021 are as follows:

	June 30, 2022	December 31, 2021
Mortgage principal	$ 981,492	$ 1,018,183

The following table summarizes the changes in the principal balance of mortgages payable for the six months ended June 30, 2022 and 2021:

Balance, December 31, 2020	$ 1,056,723
Repayments made	(19,075)
Foreign exchange	27,985
Balance, June 30, 2021	1,065,633
Repayments made	(27,155)
Foreign exchange	(20,295)
Balance, December 31, 2021	1,018,183
Repayments made	(28,720)
Foreign exchange	(7,971)
Balance, June 30, 2022	$ 981,492

Scheduled principal repayments and maturity amounts of mortgages payable at June 30, 2022 are as follows:

	Loans scheduled principal payments	Total maturing during the period	Loans and mortgages payable
Remainder of year	$ 39,361	$ –	$ 39,361
2023	58,823	–	58,823
2024	60,335	–	60,335
2025 and thereafter	98,726	724,247	822,973
Balance, June 30, 2022	$ 257,245	$ 724,247	$ 981,492

(In U.S. dollars)

9. Convertible note receivable:

The following table summarizes the changes in the Convertible Note receivable for the six months ended June 30, 2022:

Balance, December 31, 2021	$ 1,572,510
Interest capitalized	62,752
Foreign exchange	(29,664)
Balance, June 30, 2022	$ 1,605,598

During the six months ended June 30, 2022, the maturity of the Convertible Note was extended a further 12 months to January 29, 2023. During the six months ended June 30, 2022, the Company capitalized interest income of $62,752. The fair value of the investment was determined by management. The fair value of the Convertible Note as at June 30, 2022 was $1,605,598 (December 31, 2021 - $1,572,510), being the principal amount advanced and capitalized interest.

10. Accounts payable and accrued liabilities:

The following table presents details of the accounts payable and accrued liabilities as at June 30, 2022 and December 31, 2021:

	June 30, 2022	December 31, 2021
Interest payable	$ 615,221	$ 686,596
Interest reserve	3,815,017	750,842
Accounts payable, accrued liabilities and provisions	1,577,519	1,655,560
Funds held in trust	1,747,135	3,220,957
Share-based compensation payable (note 16(c)(ii))	1,453,707	1,480,006
Accounts payable and accrued liabilities	$ 9,208,599	$ 7,793,961

Accounts payable and accrued liabilities are current and payable in the next 12-month period.

Interest reserve held for the borrowers and trust liabilities payable to syndicate investors are contractual obligations of the wholly-owned subsidiary of the Company that administers loan and mortgage investments. The subsidiary holds cash balances in trust.

11. Loans payable:

(a) On February 5, 2021, the Company, through TFCC USA III, entered into a loan agreement with Debt Fund I. Debt Fund I agreed to advance up to a total of $32,500,000 in a loan payable to the Company to invest in certain finance leases. The loan carries an interest rate of 10.25% per annum, paid monthly in arrears and matures on February 5, 2024. The interest and principal on this loan are payable from the proceeds from these investments and has limited recourse from these investments in finance leases.

As at June 30, 2022, Debt Fund I advanced $26,168,441 to TFCC USA III and during the six months ended June 30, 2022 incurred interest expense of $1,255,144 on this loan. The interest and principal on this loan are payable from the proceeds from these investments.

(b) On December 6, 2021, the Company, through TFCC USA IV, entered into a loan agreement with Debt Fund II. Debt Fund II agreed to advance up to a total of $150,000,000 in a loan payable to the Company to invest in certain finance leases. The loan carries an interest rate of 10% per annum, paid monthly in arrears and matures on December 6, 2024. The interest and principal on this loan are payable from the proceeds from these investments and has limited recourse from these investments in finance leases and loan and mortgage investments.

As at June 30, 2022, Debt Fund II advanced $44,115,843 to TFCC USA IV and during the six months ended June 30, 2022 incurred interest expense of $2,048,834. The interest and principal on this loan are payable from the proceeds from these investments.

12. Credit facilities:

As at June 30, 2022, the Company closed, with a different U.S. lending institution, on a $20,000,000 secured line of credit (the "LOC") which includes an additional $20,000,000 accordion feature, replacing the Company's previous facility. The LOC matures on April 25, 2023, and the interest rate is the greater of 5% or prime plus 0.75%. The LOC is subject to a borrowing capacity, calculated monthly as a percentage of eligible loan and mortgage investments and investment in finance leases and subject to certain adjustments. As at June 30, 2022, the Company had drawn nil (December 31, 2021 - nil) on the LOC. As at June 30, 2022, the borrowing capacity with the LOC was $20,000,000.

(In U.S. dollars)

12. Credit facilities (continued):

The following table presents details of the Credit Facilities as at June 30, 2022 and December 31, 2021:

	June 30, 2022	December 31, 2021
Unamortized financing costs	$ (83,330)	$ (115,321)

The following table summarizes the changes in the principal balance of Credit Facilities for the six months ended June 30, 2022 and 2021:

Balance, December 31, 2020	$ 7,000,000
Proceeds from Credit Facilities	23,000,000
Repayment of Credit Facilities	(23,250,000)
Balance, June 30, 2021	6,750,000
Proceeds from Credit Facilities	10,500,000
Repayment of Credit Facilities	(17,250,000)
Balance, December 31, 2021	–
Proceeds from Credit Facilities	–
Repayment of Credit Facilities	–
Balance, June 30, 2022	$ –

During the six months ended, in connection with the LOC, the Company incurred lender and third-party costs of $100,000. The costs associated with the LOC have been deferred and are being amortized over the term of the LOC as interest expense using the effective-interest amortization method. The accumulated amortization as at June 30, 2022 was $16,337 (December 31, 2021 - $635,018).

For the six months ended June 30, 2022, amortization of deferred financing costs reported as interest and financing costs totaled $131,991 (six months ended June 30, 2021 - $211,258) which included deferred financing costs of $115,654 related to the Company's previous facility that were written off and was included within interest expense in the interim condensed consolidated statements of income (loss) and comprehensive income (loss).

The terms of the Credit Facilities require the Company to comply with certain covenants. At June 30, 2022, the Company was in compliance with these covenants.

(In U.S. dollars)

13. Unsecured note payable:

For the three and six months ended June 30, 2022, interest and financing costs relating to the unsecured note payable (the "Unsecured Note"), reported as interest expense and financing costs totaled nil and $3,398 (three and six months ended June 30, 2021 - $32,854 and nil), respectively. During the six months ended June 30, 2022, the Company made a repayment of $289,744. The Unsecured Note payable was fully repaid as at March 31, 2022 (December 31, 2021 - $289,744).

14. Lease obligations:

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

The Company's lease commitment related to its head office provides for the Company to lease the premises for two years and four months commencing on January 1, 2021.

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 June 30, 2022 was $738,365 (December 31, 2021 - $851,833). The lease obligations represent the present value of the Company's future lease payments on its head office premises and the land lease on the Montreal Street JV over the expected lease term. The lease obligations at June 30, 2022 was $772,748 (December 31, 2021 - $881,314).

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

2022 remainder of year	$ 130,952
2023	128,111
2024	59,815
2025 and thereafter	674,558
	$ 993,436

(In U.S. dollars)

15. Commitments and contingencies:

Pursuant to certain lending agreements, the Company is committed to fund additional loan advances. The future funding commitments under the existing lending agreements on loan and mortgage investments at June 30, 2022 were $60,439,806 (December 31, 2021 - $46,038,263).

At June 30, 2022, the future funding commitments to make additional investments for the development of the lands under the finance lease arrangements, subject to builders meeting certain funding conditions, were $67,075,274 (December 31, 2021 - $59,239,668).

As at June 30, 2022, the future funding commitments from Debt Fund I and Debt Fund II, through its third-party investors and TFCC USA III Holding, were $17,706,500 (December 31, 2021 - $12,350,000).

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) Shares issued and outstanding:

The following table summarizes the changes in Shares for the six months ended June 30, 2022 and 2021:

	Shares	Amount
Outstanding, December 31, 2020	5,564,968	$ 25,283,343
Outstanding, June 30, 2021	5,564,968	25,283,343
Proceeds from issuance of shares under share option	2,500	9,664
Outstanding, December 31, 2021	5,567,468	$ 25,293,007
Outstanding, June 30, 2022	5,567,468	$ 25,293,007

(In U.S. dollars)

16. Shareholders' equity (continued):

(b) Dividends:

The Board of Directors (the "Board") determines the level of dividend payments. Although the Company does not have a formal dividend policy, it started dividend payments, and it plans to maintain regular quarterly dividends. Dividends are recognized in the period in which they are formally declared by the Board. The Company's dividends are eligible dividends for Canada Revenue Agency purposes.

Quarterly dividends declared to common shareholders during the period ended June 30, 2022 and year ended December 31, 2021 were as follows:

	June 30, 2022		December 31, 2021	
	Per Share in CAD	Amount in CAD	Per Share in CAD	Amount in CAD
March	$ 0.06	$ 334,048	$ 0.05	$ 279,620
June	0.06	334,048	0.05	283,704
September	–	–	0.05	275,977
December	–	–	0.06	339,201
	$ 0.12	$ 668,096	$ 0.21	$ 1,178,502

(c) Share-based payments:

The share-based payments that have been recognized for the three and six months ended June 30, 2022 and 2021 are as follows:

	Three months ended		Six months ended	
	June 30, 2022	June 30, 2021	June 30, 2022	June 30, 2021
Share option plan	$ 7,654	$ –	$ 7,654	$ –
Deferred share unit plan	135,031	302,662	844	362,733
	$ 142,685	$ 302,662	$ 8,498	$ 362,733

(In U.S. dollars)

16. Shareholders' equity (continued):

(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 TSXV. 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.

The following is the summary of changes in share options for the six months ended June 30, 2022 and the year ended December 31, 2021:

	June 30, 2022		December 31, 2021	
	Number of options	Weighted average exercise price in CAD	Number of options	Weighted average exercise price in CAD
Outstanding, beginning of period	514,000	$ 5.00	499,000	$ 4.96
Granted	–	–	20,000	5.95
Exercised	–	–	(2,500)	4.28
Cancelled	–	–	(2,500)	4.28
Outstanding, end of period	514,000	$ 5.00	514,000	5.00
Number of options exercisable	403,581	$ 5.12	316,248	$ 5.30

(In U.S. dollars)

16. Shareholders' equity (continued):

The following summarizes the Company's outstanding share options as at June 30, 2022:

Number of options outstanding	Expiry date	Number of options exercisable	Exercise price CAD	Market price at date of grant CAD
50,000	June 28, 2023	50,000	5.70	5.20
56,000	December 27, 2023	56,000	6.50	6.50
34,000	December 21, 2024	34,000	6.70	6.70
24,000	June 11, 2026	24,000	5.60	5.60
25,000	January 06, 2027	18,747	5.70	5.70
280,000	April 06, 2027	199,167	4.28	4.28
25,000	June 26, 2027	16,667	4.05	4.28
20,000	November 28, 2028	5,000	5.95	5.95
514,000		403,581		

(ii) Deferred share unit plan:

The Company has a cash-settled deferred share unit plan (the "DSU Plan"). 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.

The following is the summary of changes in deferred share units ("DSUs") for the six months ended June 30, 2022 and year ended December 31, 2021:

	June 30 2022	December 31, 2021
DSUs outstanding, beginning of period	314,295	304,344
Granted	5,509	9,951
DSUs outstanding, end of period	319,804	314,295
Number of DSUs vested	319,804	314,295

(In U.S. dollars)

16. Shareholders' equity (continued):

The total cost (recovery) recognized with respect to DSUs, including the change in fair value of DSUs during the six months ended June 30, 2022 were $844 (six months ended June 30, 2021 - $362,733).

The carrying amount of the liability, included in accounts payable and accrued liabilities relating to the DSUs at June 30, 2022, is $1,453,707 (December 31, 2021 - $1,480,006).

17. Contributed surplus:

The following table presents the details of the contributed surplus balances as at June 30, 2022 and December 31, 2021:

Balance, December 31, 2020	$ 3,618,440
Balance, June 30, 2021	3,618,440
Fair value of share-based compensation	(1,068)
Balance, December 31, 2021	3,617,372
Balance, June 30, 2022	$ 3,617,372

(In U.S. dollars)

18. Earnings (loss) per share:

The calculation of earnings (loss) per share of the three and six months ended June 30, 2022 and 2021 is as follows:

	Three months ended June 30, 2022	Three months ended June 30, 2021	Six months ended June 30, 2022	Six months ended June 30, 2021
Numerator for basic and diluted earnings (loss) per share:				
Income (loss) attributable to common shareholders	$ 258,103	$ 619,281	$ 835,679	$ 1,438,037
Diluted income (loss) attributable to common shareholders	$ 258,103	$ 619,281	$ 835,679	$ 1,438,037
Denominator basic and diluted earnings per share:				
Weighted average number of Shares outstanding	5,567,468	5,564,968	5,567,468	5,564,968
Dilutive effect of share-based payments	79,967	93,568	66,342	79,378
Weighted average number of diluted Shares outstanding	5,647,435	5,658,536	5,633,810	5,644,346
Earnings (loss) per share:				
Basic	$ 0.05	$ 0.11	$ 0.15	$ 0.26
Diluted	0.05	0.11	0.15	0.25

(In U.S. dollars)

19. Transactions with related parties:

Except as disclosed elsewhere in the interim condensed 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.

As at June 30, 2022, the Company recorded a severance allowance of $667,000 CAD related to the departure of the former Chief Financial Officer & Corporate Secretary. This severance allowance is recorded in accounts payable and accrued liabilities and severance expenses.

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 June 30, 2022, the loan and mortgage investments syndicated by officers and directors was $1,279,887 (December 31, 2021 - $1,297,658).

20. Interest and financing costs:

The following table presents the interest incurred for the three and six months ended June 30, 2022 and 2021:

	Three months ended		Six months ended	
	June 30, 2022	June 30, 2021	June 30, 2022	June 30, 2021
Interest on loan and mortgage syndications	$ 296,750	$ 40,969	$ 1,079,753	$ 1,700,484
Interest on loans payable	1,647,478	1,773,590	3,303,978	1,917,509
Interest on credit facilities	44,523	270,692	98,464	428,862
Montreal Street JV	10,995	13,574	22,224	25,799
Interest on lease obligations	10,855	14,142	21,891	26,091
	$ 2,010,601	$ 2,112,967	$ 4,526,310	$ 4,098,745

(In U.S. dollars)

21. Income taxes:

The following table specifies the current and deferred tax components of income taxes on continuing operations in the interim condensed consolidated statements of income (loss) and comprehensive income (loss):

	Three months ended June 30, 2022	Three months ended June 30, 2021	Six months ended June 30, 2022	Six months ended June 30, 2021
Current income tax provision	$ 718,663	$ 203,436	$ 828,763	$ 476,183
Deferred income tax provision (recovery)	(255,382)	(142,247)	(311,885)	(309,197)
Total tax provision	$ 463,281	$ 61,189	$ 516,878	$ 166,986

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

	Three months ended June 30, 2022	Three months ended June 30, 2021	Six months ended June 30, 2022	Six months ended June 30, 2021
Income from operations before taxes	$ 721,384	$ 680,470	$ 1,352,557	$ 1,605,023
Combined statutory income taxes	26.50%	26.50%	26.50%	26.50%
Income tax provision based on statutory income taxes	$ 191,166	$ 180,324	$ 358,427	$ 425,331
Increase (decrease) in income tax due to:				
Non-taxable items	585	41	833	615
Non-deductible stock-based compensation	2,028	–	2,028	–
Effect of changes in foreign exchange rates	269,502	(119,176)	155,590	(258,960)
Total tax provision	$ 463,281	$ 61,189	$ 516,878	$ 166,986

(In U.S. dollars)

21. Income taxes (continued):

The composition of the Company's recognized deferred income tax assets and liabilities for the six months ended June 30, 2022 is as follows:

	Opening balance	Recognized in income	Closing balance
Investment property	$ 179,692	$ 19,093	$ 198,785
Portfolio investments	287,931	22,668	310,599
Incorporation costs	(336)	(14)	(350)
DSUs	(254,909)	33,445	(221,464)
Allowance for credit losses	(135,319)	(146,171)	(281,490)
Unrealized foreign exchange gain	352,259	408,936	761,195
Shares and Credit Facilities issue costs	(134,537)	(97,651)	(232,188)
Deferred revenue	94,109	10,714	104,823
Tax losses	–	(562,905)	(562,905)
Deferred income tax payable (recoverable)	$ 388,890	$ (311,885)	$ 77,005

The composition of the Company's recognized deferred income tax assets and liabilities for the six months ended June 30, 2021 is as follows:

	Opening balance	Recognized in income	Closing balance
Investment property	$ 178,766	$ (872)	$ 177,894
Portfolio investments	236,836	27,055	263,891
Incorporation costs	(360)	12	(348)
DSUs	(221,241)	(96,124)	(317,365)
Allowance for credit losses	(295,299)	(29,850)	(325,149)
Unrealized foreign exchange gain (loss)	386,772	(207,717)	179,055
Shares and Credit Facilities issue costs	(134,907)	(14,056)	(148,963)
Deferred revenue	68,770	12,355	81,125
Deferred income tax payable (recoverable)	$ 219,337	$ (309,197)	$ (89,860)

(In U.S. dollars)

22. Capital management:

The Company defines its capital as the aggregate of shareholders' equity, loan and mortgage syndications, Credit Facilities, unsecured note payable 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 earn a good return for the shareholders.

The following table presents the capital structure of the Company as at June 30, 2022 and December 31, 2021:

	June 30, 2022	December 31, 2021
Loan and mortgage syndications	$ 20,368,710	$ 22,043,144
Credit Facilities	(83,330)	(115,321)
Unsecured note payable	–	289,744
Mortgages payable	981,492	1,018,183
Loans payable	70,284,284	63,053,210
Shareholders' equity	43,888,080	43,579,220
Total capital	$ 135,439,236	$ 129,868,180

The Company is not restricted to determining 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 three and six months ended June 30, 2022 and 2021.

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, interest and other receivables, convertible note receivable, loan and mortgage investments, investment in finance leases, accounts payable, loans payable, portfolio investments, lease obligations, loan and mortgage syndications, mortgages payable, and Credit Facilities.

23. Fair value measurement (continued):

The fair values of interest and other receivables, convertible note receivable, funds held in trust and accounts payable and accrued liabilities approximate their carrying values due to their short-term maturities.

The fair values of loan and mortgage investments and loan and mortgage syndications 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, loan and mortgage syndications, convertible note receivable, mortgages payable or Credit Facilities and 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 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 property held in joint operations, portfolio investments, and investment in associates are determined using Level 3 inputs at June 30, 2022 and no amounts were transferred between fair value levels during the three and six months ended June 30, 2022. Notes 6, 7 and 8 outline the key assumptions used by the Company in determining fair value of its portfolio investments, investment in associates and investment property held in joint operations.

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 consistent with those disclosed in the 2021 financial statements.

(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 that are significantly above normal banking rates.

(b) Credit risk:

The Company syndicates its loan and mortgage investments with investors on a pari--passu basis. The syndicated portion of the loan and mortgage investments are owned by syndicate investors. The Company neither has beneficial ownership in the syndicated assets nor has any obligation with regards to the syndicated loans. The Company assesses its credit risk and its ACL on loan and mortgage investments, net of syndication.

(c) Interest rate risk:

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, loan and mortgage syndications, mortgages payable and asset liability matching. Such risk is further mitigated by the general short-term nature of loan and mortgage investments.

24. Risk management (continued):

(d) Currency risk:

Currency risk is the risk that the fair value or future cash flows of the Company's foreign currency-denominated loan portfolio, loan syndications, and cash and cash equivalents will fluctuate based on changes in foreign currency exchange rates.

Currently, the Company does not use derivative instruments to reduce its exposure to foreign currency risk. Consequently, the Company is subject to currency fluctuations that may impact its financial position and results. The Company manages its currency risk on loan portfolio by syndicating and or borrowing in the same currency.

(e) 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 credit worthiness.

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 mortgages syndications and revolving operating facility, 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.

24. Risk management (continued):

(f) General business risk:

The Company is subject to general business risks and to risks inherent in the commercial and residential real estate lending, including both the making of loans secured by real estate and the development and ownership of real property. Income and gains from the Company's investments may be adversely affected by:

(i) civil unrest, acts of God, including earthquakes and other natural disasters, acts of terrorism or war and public health crises such as the current outbreak of the novel coronavirus,

(ii) changes in national or local economic conditions,

(iii) changes in real estate assessed values and taxes payable on such values and other operating expenses,

(iv) the inability of developers to sell development land,

(v) changes in demand for newly constructed residential units,

(vi) changes in real estate assessed values and taxes payable on such values and other operating expenses, or

(vii) changes in interest rates and in the availability, cost and terms of any mortgage or other development financing.

Any of the foregoing events could impact the ability of borrowers to timely repay (if at all) loans made by the Company, negatively impact the value or viability of a development project in which the Company has invested or negatively impact the value of portfolio properties of the Company or their ability to generate positive cash flow.

In addition, the Company may be unable to identify and complete investments that fit within its investment criteria. The failure to make a sufficient number of these investments would impair the future growth of the Company.

24. Risk management (continued):

(g) Other price risk:

Other price risk is the risk that the fair value of financial instruments will fluctuate as a result of changes in market prices (other than those arising from currency risk or interest rate risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in a market.

Unexpected volatility or illiquidity could occur due to legal, political, regulatory, economic or other developments, such as public health emergencies, including an epidemic or pandemic, natural disasters, war and related geopolitical risks, and may impair the Company's ability to carry out the objectives of the Company or cause the Company to incur losses. Neither the duration nor ultimate effect of any such market conditions, nor the degree to which such conditions may worsen can be predicted.