TERRA FIRMA

Consolidated Financial Statements
(In United States dollars)

TERRA FIRMA CAPITAL CORPORATION

And Independent Auditor's Report thereon

Years ended December 31, 2022 and 2021

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INDEPENDENT AUDITOR'S 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, 2022 and 2021
- the consolidated statements of income and comprehensive income for the years then ended
- the consolidated statements of changes in shareholders' 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, 2022 and 2021, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2022.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have determined the matters described below to be the key audit matters to be communicated in our auditors' report.

Evaluation of allowance for credit losses over performing loan and mortgage investments

Description of the matter

We draw attention to Notes 2(e), 3(g), and 5 of the financial statements. The Entity has recorded an allowance for credit losses ("ACL") against its performing loan and mortgage investments for an amount of $50,948. The ACL is based on a range of possible outcomes and considers all available reasonable and supportable information, including internal and external ratings, historical credit loss experience, and expectations about future cash flows. The measurement of ACL is based on significant assumptions which are probability of default ("PD") and loss given default ("LGD").

Why the matter is a key audit matter

We identified the evaluation of ACL over performing loan and mortgage investments as a key audit matter. This matter represented an area of significant risk of material misstatement given the high degree of estimation uncertainty associated with the estimate of ACL. Significant audit effort was required to evaluate the results of our audit procedures regarding the Entity's significant assumptions. Further, specialized skills and knowledge was required to evaluate the Entity's methodology and significant assumptions.

How the matter was addressed in the audit

The primary procedures we performed to address this key audit matter included the following:

For a selection of performing loan and mortgage investments, we evaluated the Entity's use of selected inputs into the determination of PD and LGD. These values were evaluated by comparing them to contractual agreements, external evidence, including appraisals and industry databases, as applicable, considering the features of the specific underlying security. Our evaluation was based on information prepared by the Entity and assessed against source documents, as applicable.

We involved credit risk professionals with specialized skills and knowledge who assisted in:

- Evaluating the appropriateness of the Entity's ACL model methodology including the assessment of significant increases in credit risk in accordance with relevant accounting standards
- Evaluating the appropriateness of significant assumptions into the ACL calculation being PD and LGD.

Evaluation of allowance for credit losses over performing investment in finance leases

Description of the matter

We draw attention to Notes 2(e), 3(g), and 6 of the financial statements. The Entity has recorded an allowance for credit losses ("ACL") against its performing investment in finance leases for an amount of $67,866. The ACL is based on a range of possible outcomes and considers all available reasonable and supportable information, including internal and external ratings, historical credit loss experience, and expectations about future cash flows. The measurement of ACL is based on significant assumptions which are probability of default ("PD") and loss given default ("LGD").

Why the matter is a key audit matter

We identified the evaluation of ACL over performing investment in finance leases as a key audit matter. This matter represented an area of significant risk of material misstatement given the high degree of estimation uncertainty associated with the estimate of ACL. Significant audit effort was required to evaluate the results of our audit procedures regarding the Entity's significant assumptions. Further, specialized skills and knowledge was required to evaluate the Entity's methodology and significant assumptions.

How the matter was addressed in the audit

The primary procedures we performed to address this key audit matter included the following:

For a selection of performing investment in finance leases, we evaluated the Entity's use of selected inputs into the determination of PD and LGD. These values were evaluated by comparing them to contractual agreements, external evidence, including appraisals and industry databases, as applicable, considering the features of the specific underlying security. Our evaluation was based on information prepared by the Entity and assessed against source documents, as applicable.

We involved credit risk professionals with specialized skills and knowledge who assisted in:

- Evaluating the appropriateness of the Entity's ACL model methodology including the assessment of significant increases in credit risk in accordance with relevant accounting standards
- Evaluating the appropriateness of significant assumptions into the ACL calculation being PD and LGD.

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 auditor's 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 auditor's 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) as issued by the International Accounting Standards Board (IASB), 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.

Auditor's 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 auditor's report that includes our opinion.

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

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of 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 auditor's 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 auditor's 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 auditor's report is Saqib Jawed.

Toronto, Canada

April 25, 2023

TERRA FIRMA CAPITAL CORPORATION

Consolidated Statements of Financial Position
(In United States Dollars)

December 31, 2022 and 2021

	2022	2021
Assets		
Cash and cash equivalents	$ 16,636,083	$ 18,107,159
Funds held in trust	5,960,395	3,971,799
Amounts receivable and prepaid expenses (note 4)	916,225	817,558
Loan and mortgage investments (note 5)	46,111,079	47,007,834
Investment in finance leases (note 6)	67,779,627	55,728,869
Portfolio investments (note 7)	932,093	676,421
Investment in associates (note 8)	9,228,257	8,364,711
Investment property held in joint operations (note 9(b))	1,636,518	1,747,799
Convertible note receivable (note 10)	1,511,101	1,572,510
Right-of-use asset (note 15)	596,603	851,833
Income taxes recoverable (note 22)	67,571	459,474
Deferred income tax asset (note 22)	21,085	–
	$ 151,396,637	$ 139,305,967
Liabilities and Shareholders' Equity		
Liabilities:		
Unearned income	$ 669,950	$ 373,622
Loan and mortgage syndications (note 5)	16,034,041	22,043,144
Loans payable (note 12)	79,847,824	63,053,210
Mortgages payable (note 9(c))	895,492	1,018,183
Accounts payable and accrued liabilities (note 11)	9,221,168	7,793,961
Credit facilities (note 13)	(50,000)	(115,321)
Unsecured note payable (note 14)	–	289,744
Lease obligations (note 15)	633,326	881,314
Deferred income taxes payable (note 22)	–	388,890
	107,251,801	95,726,747
Shareholders' equity:		
Share capital (note 17(a))	25,364,104	25,293,007
Contributed surplus (note 18)	3,607,129	3,617,372
Foreign currency translation reserve	(6,885,398)	(6,885,398)
Retained earnings	22,059,001	21,554,239
Shareholders' equity	44,144,836	43,579,220
Commitments and contingencies (note 16)		
Subsequent events (notes 10 and 13)		
Related party transactions (notes 17 and 20)		
	$ 151,396,637	$ 139,305,967

See accompanying notes to consolidated financial statements.

The consolidated financial statements were approved
by the Board on April 25, 2023 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, 2022 and 2021

	2022	2021
Revenue:		
Interest and fees	$ 6,719,325	$ 11,180,082
Finance income	8,213,979	4,889,886
Rental (note 9(a))	169,335	171,191
	15,102,639	16,241,159
Expenses (income):		
Interest and financing costs (note 21)	9,531,660	8,588,981
General and administrative	4,071,989	4,228,189
Severance cost (note 20)	524,577	–
Property operating costs (note 9(a))	60,409	58,013
Share-based compensation (recovery) (note 17(c))	(97,306)	127,051
Recovery of loan and mortgage investments loss (note 5)	(243,412)	(683,159)
Allowance for (recovery of) investment in finance lease loss (note 6)	(52,577)	79,382
Realized and unrealized foreign exchange gain	53,531	(147,243)
Fair value adjustment – convertible note receivable (note 10)	128,364	-
Fair value adjustment - portfolio investments (note 7)	(776,065)	(205,556)
Preferred return from portfolio investments	(37,565)	(54,285)
Share of income from investment in associates (note 8)	(811,433)	(221,978)
	12,352,172	11,769,395
Income from operations before income taxes	2,750,467	4,471,764
Income taxes (note 22)	1,229,230	1,131,212
Net income and comprehensive income	$ 1,521,237	$ 3,340,552
Earnings per share (note 19):		
Basic	$ 0.27	$ 0.60
Diluted	0.27	0.59

See accompanying notes to consolidated financial statements.

TERRA FIRMA CAPITAL CORPORATION

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

Years ended December 31, 2022 and 2021

	Share capital		Foreign currency translation reserve	Contributed surplus	Retained earnings	Total shareholders' equity
	Number of shares	Amount				
		(note 17(a))	(note 3)	(note 18)		
Balance, December 31, 2020	5,564,968	$ 25,283,343	$ (6,885,398)	$ 3,618,440	$ 19,146,268	$ 41,162,653
Changes during the year:						
Proceeds from issuance of shares	2,500	9,664	–	(1,068)	–	8,596
Dividends on common shares (note 17(b))	–	–	–	–	(932,581)	(932,581)
Net income and comprehensive income	–	–	–	–	3,340,552	3,340,552
Balance, December 31, 2021	5,567,468	25,293,007	(6,885,398)	3,617,372	21,554,239	43,579,220
Changes during the year:						
Proceeds from issuance of shares	16,666	71,097	–	(10,243)	–	60,854
Dividends on common shares (note 17(b))	–	–	–	–	(1,016,475)	(1,016,475)
Net income and comprehensive income	–	–	–	–	1,521,237	1,521,237
Balance, December 31, 2022	5,584,134	$ 25,364,104	$ (6,885,398)	$ 3,607,129	$ 22,059,001	$ 44,144,836

See accompanying notes to consolidated financial statements.

TERRA FIRMA CAPITAL CORPORATION

Consolidated Statements of Cash Flows
(In United States dollars)

Years ended December 31, 2022 and 2021

	2022	2021
Cash provided by (used in):		
Operating activities:		
Net income and comprehensive income	$ 1,521,237	$ 3,340,552
Interest and fees earned	(6,719,325)	(11,180,082)
Finance income	(8,213,979)	(4,889,886)
Interest expense and financing costs	9,531,660	8,588,981
Unrealized foreign exchange gain	46,575	(101,440)
Share of income from investment in associates	(811,433)	(221,978)
Preferred return from portfolio investments	(37,565)	(54,285)
Non-cash items:		
Share-based compensation (recovery) (note 17(c))	(97,306)	127,051
Amortization of right-of-use asset	205,654	214,138
Amortization of deferred financing costs	(50,000)	–
Recovery of loan and mortgage investments loss	(243,412)	(683,159)
Provision for investment in finance lease loss	(52,577)	79,382
Fair value adjustment – convertible note receivable	128,364	-
Fair value adjustment - portfolio investments	(776,065)	(205,556)
Write down of uncollectible interest receivable	–	13,541
Income tax provision	1,229,230	1,131,212
Change in non-cash operating items:		
Decrease in other receivables	59,165	13,214
Decrease (increase) in prepaid expenses and deposits	(96,849)	(6,610)
Increase (decrease) in accounts payable and accrued liabilities	(655,079)	659,885
Interest and fees and finance income received	12,588,726	12,701,487
Interest paid	(8,022,341)	(6,401,547)
Distributions from investment in associates and portfolio investments	1,082,593	1,255,087
Income taxes paid	(1,247,302)	(2,030,632)
Cash provided by (used in) operating activities	(630,029)	2,349,355
Financing activities:		
Proceeds from loan and mortgage syndications	7,676,118	4,595,744
Proceeds from loans payable	44,027,718	66,962,099
Repayments of loan and mortgage syndications	(14,903,699)	(55,986,235)
Repayments from loans payable	(27,233,104)	(3,908,889)
Repayment of unsecured note payable	(289,744)	(1,504,406)
Repayments of mortgages payable	(56,033)	(46,230)
Proceeds from credit facilities	–	33,500,000
Repayments of credit facilities	–	(40,500,000)
Dividends paid	(1,035,651)	(883,284)
Proceeds from issuance of shares	60,854	8,596
Cash provided by financing activities	8,246,459	2,237,395
Investing activities:		
Funding of loan and mortgage investments	(29,771,649)	(22,739,758)
Repayments of loan and mortgage investments	32,909,269	72,649,681
Funding of investment in finance leases	(36,430,342)	(53,897,332)
Proceeds from finance leases payout	24,820,505	18,439,527
Funding of investment in convertible note receivable	–	(399,425)
Return of capital of portfolio investment	556,789	849,310
Return of capital of associate investment	129,172	992,082
Funding of investment in associates	(1,301,250)	(6,154,500)
Cash provided by (used in) investing activities	(9,087,506)	9,739,585
Increase (decrease) in cash and cash equivalents	(1,471,076)	14,326,335
Cash and cash equivalents, beginning of year	18,107,159	3,780,824
Cash and cash equivalents, end of year	$ 16,636,083	$ 18,107,159

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 U.S. 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.

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 Board ("IASB"), as well as Interpretations of the International Financial Reporting Interpretations Committee (the "IFRIC").

(b) Basis of consolidation:

The Company holds interests in certain loan and mortgage investments, investment in finance leases, investment in associates, and portfolio investments in its wholly-owned subsidiaries, which the Company controls. Control is achieved when the Company is exposed 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 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.

(In United States dollars unless otherwise stated)

2. Basis of presentation (continued):

The consolidated financial statements include the financial statements of the Company and the following significant entities as at December 31, 2022 and 2021:

	Country of incorporation	Interest % 2022	2021
TFCC International Ltd.	Canada	100	100
Terra Firma MA Ltd.	Canada	100	100
Terra Firma Queen Developments Inc.	Canada	100	100
TFCC LanQueen Ltd.	Canada	100	100
TFCC USA III Holdings Corporation	Canada	100	100
Terra Firma Senior Debt Fund Corporation	Canada	100	–
Terra Firma (Crowdfund) Corporation	Canada	100	100
TFCC USA LLC	U.S.A.	100	100
TFCC Kempston Place LLC	U.S.A.	100	100
TFCC USA II Corporation	U.S.A.	100	100
TFCC Saul's Ranch LLC	U.S.A.	100	100
TFCC Wilson Trace LLC	U.S.A.	100	100
TFCC Delray Inc.	U.S.A.	100	100
TFCC San Pablo LLC	U.S.A.	100	100
TFCC USA III Corporation	U.S.A.	100	100
TFCC Stafford LLC	U.S.A.	100	100
TFCC Sterling 5A LLC	U.S.A.	100	100
TFCC Sterling LLC	U.S.A.	100	100
TFCC Coburn LLC	U.S.A.	100	100
TFCC Dunn's Crossing LLC	U.S.A.	100	100
TFCC Jacksonville LLC	U.S.A.	100	100
TFCC Trailmark LLC	U.S.A.	100	100
TFCC Allen Farm LLC	U.S.A.	100	100
TFCC Arroyo LLC	U.S.A.	100	100
TFCC Windrose LLC	U.S.A.	100	–
TFCC Ellington LLC	U.S.A.	100	–
TFCC Scotland Heights LLC	U.S.A.	100	100
TFCC Coyote LLC	U.S.A.	100	–
TFCC Cambridge Angier LLC	U.S.A.	100	100
TFCC USA IV Corporation	U.S.A.	100	100

(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"), which are stated at their fair values.

2. Basis of presentation (continued):

(d) Functional and presentation currency:

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

(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(g), 5, and 6.

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) 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. As at December 31, 2022, short-term investments were $8,070,137 (December 31, 2021 - nil).

(b) 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.

(c) 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.

3. Significant accounting policies (continued):

(d) 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.

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. The 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.

(e) 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.

3. Significant accounting policies (continued):

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.

(f) 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.

(g) 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.

3. Significant accounting policies (continued):

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.

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
Funds held in trust	Amortized cost
Interest and other receivables (Note 4)	Amortized cost
Loan and mortgage investments	Amortized cost
Investment in finance leases	Amortized cost
Portfolio investments	FVTPL
Convertible note receivable	FVTPL
Liabilities	
Loan and mortgage syndications	Amortized cost
Loans payable	Amortized cost
Mortgages payable	Amortized cost
Accounts payable and accrued liabilities	Amortized cost
Credit facilities	Amortized cost
Unsecured note payable	Amortized cost

3. Significant accounting policies (continued):

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 are 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.

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.

3. Significant accounting policies (continued):

SPPI assessment:

Instruments held within an 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.

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 the 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.

3. Significant accounting policies (continued):

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.

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 allowance for 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.

3. Significant accounting policies (continued):

(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.

ACL for investment in finance leases is always measured at an amount equal to credit losses expected over the remaining lifetime of the finance lease.

Allowance for credit losses:

Allowance for 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 allowance for 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.

Details of the statistical parameters that are significant assumptions used in the measurement of allowance for 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 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.

3. Significant accounting policies (continued):

An allowance for credit loss estimate is produced for each individual exposure. Relevant parameters are modeled on a collective basis using portfolio segmentation that allows for the appropriate incorporation of forward-looking information. Allowance for 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.

At each reporting date, the Company assesses whether there has been a SIR for exposures since initial recognition by comparing the risk of a 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 macroeconomic 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 depend 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 allowance for 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 require significant judgment.

3. Significant accounting policies (continued):

Macro-economic factors:

The PD, EAD, and LGD inputs used to estimate Stage 1 and Stage 2 credit loss allowances are modeled 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 allowance for 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.

Definition of default:

The definition of default used in the measurement of allowance for 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 the probability of the borrower entering a phase of bankruptcy or a financial reorganization and a 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.

3. Significant accounting policies (continued):

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 payment 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.

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 that 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.

3. Significant accounting policies (continued):

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.

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.

(h) 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.

(i) Unearned income:

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

(j) Share capital:

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

3. Significant accounting policies (continued):

(k) 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.

(l) 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):

(m) 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 deferred share units ("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.

The DSU Plan provides holders of DSUs to receive additional DSUs in respect of dividends payable on Shares. The number of the additional DSUs granted as of a dividend payment date is determined by dividing the aggregate amount obtained by multiplying the dividends paid on each Share by the number of DSUs in each participant's account on the dividend record date by the market value of the Shares on the dividend payment date.

(n) 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.

(o) 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 a business combination, or items recognized directly in equity, in which case, the income tax is also recognized directly in equity or other comprehensive income.

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. Deferred tax is not recognized for:

(i) Temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;

(ii) Temporary differences related to investments in subsidiaries and associates to the extent that the Company is able to control the timing of reversal of the temporary differences ad it is probably that they will not reverse in the foreseeable future; and

(iii) Taxable temporary differences arising on the initial recognition of goodwill.

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.

(p) 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.

3. Significant accounting policies (continued):

(q) 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 granted share options.

(r) Leases:

At the inception of a contract, the Company assesses whether a contract is, or contains a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Company as a Lessee:

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability 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 any improvements made to branches or office premises.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability 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.

Company as a Lessor:

When the Company acts as a lessor, it determines at lease inception whether the lease is a finance lease or an operating lease.

(In United States dollars unless otherwise stated)

3. Significant accounting policies (continued):

To classify each lease, the Company makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset.

The Company applies the derecognition and impairment requirements in IFRS 9 to the investment in finance leases.

4. Amounts receivable and prepaid expenses:

The following table presents details of the amounts receivable, prepaid expenses and ACL as at December 31, 2022:

	Gross carrying amount	ACL	Net carrying amount
Interest receivable	$ 477,663	$ –	$ 477,663
Other receivables and deposits	286,565	–	286,565
Prepaid expenses	151,997	–	151,997
Amounts receivable and prepaid expenses	$ 916,225	$ –	$ 916,225

The following table presents details of the amounts receivable, prepaid expenses and ACL as at December 31, 2021:

	Gross carrying amount	ACL	Net carrying amount
Interest receivable	$ 492,875	$ –	$ 492,875
Other receivables and deposits	243,669	–	243,669
Prepaid expenses and deposits	81,014	–	81,014
Amounts receivable and prepaid expenses	$ 817,558	$ –	$ 817,558

(In United States dollars unless otherwise stated)

4. Amounts receivable and prepaid expenses (continued):

Interest receivable balance as at December 31, 2022, includes a non-current balance of $316,942 (December 31, 2021 - $216,381) that is not contractually due in the next 12 months in accordance with contract terms. The current interest and other receivables and deposits are due in the next 12 months in accordance with contract terms.

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

The following table presents details of the loan and mortgage investments, ACL and loan and mortgage syndications as at December 31, 2022:

	Loan and mortgage investments	ACL	Net loan and mortgage investments	Loan and mortgage syndications	Net investments	% of net investments
Performing loans:						
Residential housing developments	$ 7,732,984	$ (8,863)	$ 7,724,121	$ 3,229,497	$ 4,494,624	14.9
Land and lot inventory	38,429,043	(42,085)	38,386,958	12,804,544	25,582,414	85.1
	$ 46,162,027	$ (50,948)	$ 46,111,079	$ 16,034,041	$ 30,077,038	100.0

The following table presents details of the loan and mortgage investments, ACL and loan and mortgage syndications as at December 31, 2021:

	Loan and mortgage investments	ACL	Net loan and mortgage investments	Loan and mortgage syndications	Net investments	% of net investments
Performing loans:						
Residential housing developments	$ 6,285,220	$ (13,342)	$ 6,271,878	$ 2,502,485	$ 3,769,393	15.1
Land and lot inventory	40,803,974	(68,018)	40,735,956	19,540,659	21,195,297	84.9
	$ 47,089,194	$ (81,360)	$ 47,007,834	$ 22,043,144	$ 24,964,690	100.0

The loan and mortgage investments carry a weighted average effective interest rate of 13.5% (December 31, 2021 - 13.7%) and a weighted average term to maturity of 1.19 years (December 31, 2021 - 1.10 years).

During the year ended December 31, 2022, the Company capitalized interest income of $2,297,932 (December 31, 2021 - $3,220,358), which is included in loan and mortgage investments. Loan and mortgage investments of $13,850,140 are financed through loans payable (note 12) (December 31, 2021 - $11,433,094).

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

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.

The Company accounts for its syndicated loan and mortgage investments on a gross basis. The principal balances of loan and mortgage syndications included in the loan and mortgage investments at December 31, 2022 was $16,034,041 (December 31, 2021 - $22,043,144). The loan and mortgage syndications carry a weighted average effective interest rate of 10.5% (December 31, 2021 - 10.3%) and a weighted average term to maturity of 0.84 years (December 31, 2021 - 0.98 years).

At December 31, 2022, the Company has a loan and mortgage investment totaling $4,571,377 (December 31, 2021 - $2,014,805) with a participation arrangement with a priority syndicate investor, whereby the priority syndicate investor holds a senior position for $2,269,663 (December 31, 2021 - $1,473,760) and the remainder of the investment is in a subordinated position of $2,301,714 (December 31, 2021 - $541,045). The Company retains a residual portion of $2,301,714 (December 31, 2021 - $541,045).

As at December 31, 2022, there are loan and mortgage investments to two separate projects in the U.S. before syndication, that account for 38.9% and 14.7% of the principal balance of loan and mortgage investments (2021 – three separate projects that accounted for 34.9%, 13.5% and 13.4%). For the year ended December 31, 2022, the Company has loan and mortgage investments in two separate projects in the U.S. before syndication, that account for 29.6%, and 16.8% of the Company's interest and fees revenue (2021 - 29.6%, 19.2%, and 16.0%).

Pursuant to certain lending agreements, the Company is committed to funding additional loan advances, subject to borrowers meeting certain funding conditions. The unfunded loan commitments under the existing loan and mortgage investments at December 31, 2022, were $48,597,094 (December 31, 2021 - $46,038,263). As at December 31, 2022, the Company has unfunded commitments relating to loan and mortgage investments in three separate projects in the U.S. before syndication that account for 38.3%, 32.0% and 22.9% of the total unfunded commitments (2021 - 52.7% and 40.0%).

(In United States dollars unless otherwise stated)

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

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 loan and mortgage investments segmented by risk as at December 31, 2022:

	Loan and mortgage investments	ACL	Net loan and mortgage investments	Loan and mortgage syndications	Net investments	% of net investments
1st mortgage loans	$ 43,000,462	$ (42,925)	$ 42,957,537	$ 15,074,206	$ 27,883,331	92.7
2nd mortgage loans	1,218,252	(118)	1,218,134	959,835	258,299	0.9
Unregistered loans	1,943,313	(7,905)	1,935,408	–	1,935,408	6.4
	$ 46,162,027	$ (50,948)	$ 46,111,079	$ 16,034,041	$ 30,077,038	100.0

The following table presents details of the Company's loan and mortgage investments segmented by geography as at December 31, 2022:

	Loan and mortgage investments	ACL	Net loan and mortgage investments	Loan and mortgage syndications	Net investments	% of net investments
Canada	$ 1,218,252	$ (118)	$ 1,218,134	$ 959,834	$ 258,300	0.9
U.S.	44,943,775	(50,830)	44,892,945	15,074,207	29,818,738	99.1
	$ 46,162,027	$ (50,948)	$ 46,111,079	$ 16,034,041	$ 30,077,038	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 loan and mortgage investments segmented by risk as at December 31, 2021:

	Loan and mortgage investments	ACL	Net loan and mortgage investments	Loan and mortgage syndications	Net investments	% of net investments
1st mortgage loans	$ 44,081,171	$ (73,003)	$ 44,008,168	$ 21,014,419	$ 22,993,749	92.1
2nd mortgage loans	1,305,690	(43)	1,305,647	1,028,725	276,922	1.1
Unregistered loans	1,702,333	(8,314)	1,694,019	–	1,694,019	6.8
	$ 47,089,194	$ (81,360)	$ 47,007,834	$ 22,043,144	$ 24,964,690	100.0

The following table presents details of the Company's loan and mortgage investments segmented by geography as at December 31, 2021:

	Loan and mortgage investments	ACL	Net loan and mortgage investments	Loan and mortgage syndications	Net investments	% of net investments
Canada	$ 1,305,690	$ (43)	$ 1,305,647	$ 1,028,725	$ 276,922	1.1
U.S.	45,783,504	(81,317)	45,702,187	21,014,419	24,687,768	98.9
	$ 47,089,194	$ (81,360)	$ 47,007,834	$ 22,043,144	$ 24,964,690	100.0

The following table presents details of the Company's credit exposure on the gross carrying amount of loan and mortgage investments by staging as at December 31, 2022:

IFRS 9	Stage 1	Stage 2	Stage 3	Total
Residential housing developments	$ 7,732,984	$ –	$ –	$ 7,732,984
Land and lot inventory	38,429,043	–	–	38,429,043
	$ 46,162,027	$ –	$ –	$ 46,162,027

(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 carrying amount of loan and mortgage investments, net of loan and mortgage syndications, for which ACL is recognized as at December 31, 2022:

IFRS 9	Stage 1	Stage 2	Stage 3	Total
Residential housing developments	$ 4,503,487	$ –	$ –	$ 4,503,487
Land and lot inventory	25,624,499	–	–	25,624,499
	$ 30,127,986	$ –	$ –	$ 30,127,986

The following table presents details of the Company's credit exposure on the gross carrying amount of loan and mortgage investments by staging as at December 31, 2021:

IFRS 9	Stage 1	Stage 2	Stage 3	Total
Residential housing developments	$ 6,285,220	$ –	$ –	$ 6,285,220
Land and lot inventory	40,803,974	–	–	40,803,974
	$ 47,089,194	$ –	$ –	$ 47,089,194

The following table presents details of the Company's credit exposure on the carrying amount of loan and mortgage investments, net of loan and mortgage syndications, for which ACL is recognized as at December 31, 2021:

IFRS 9	Stage 1	Stage 2	Stage 3	Total
Residential housing developments	$ 3,782,735	$ –	$ –	$ 3,782,735
Land and lot inventory	21,263,315	–	–	21,263,315
	$ 25,046,050	$ –	$ –	$ 25,046,050

(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 is recognized as at December 31, 2022:

IFRS 9	Stage 1	Stage 2	Stage 3	Total
Canada	$ 1,218,252	$ –	$ –	$ 1,218,252
U.S.	44,943,775	–	–	44,943,775
	$ 46,162,027	$ –	$ –	$ 46,162,027

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 is recognized as at December 31, 2021:

IFRS 9	Stage 1	Stage 2	Stage 3	Total
Canada	$ 1,305,771	$ –	$ –	$ 1,305,771
U.S.	45,783,423	–	–	45,783,423
	$ 47,089,194	$ –	$ –	$ 47,089,194

The following table presents details of the Company's credit exposure on the carrying amount of loan and mortgage investments net of syndication, segmented by geography, for which ACL is recognized as at December 31, 2022:

IFRS 9	Stage 1	Stage 2	Stage 3	Total
Canada	$ 258,418	$ –	$ –	$ 258,418
U.S.	29,869,568	–	–	29,869,568
	$ 30,127,986	$ –	$ –	$ 30,127,986

(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 carrying amount of loan and mortgage investments net of syndication, segmented by geography, for which ACL is recognized as at December 31, 2021:

IFRS 9	Stage 1	Stage 2	Stage 3	Total
Canada	$ 277,046	$ –	$ –	$ 277,046
U.S.	24,769,004	–	–	24,769,004
	$ 25,046,050	$ –	$ –	$ 25,046,050

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

	Scheduled principal payments	Investments maturing during the year
2023	$ –	$ 26,255,311
2024	–	10,218,434
2025	–	9,688,282
	$ –	$ 46,162,027

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

	Scheduled principal payments	Loans maturing during the year
2023	$ –	$ 13,764,378
2024	–	2,269,663
	$ –	$ 16,034,041

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.

(In United States dollars unless otherwise stated)

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

Allowance for loan and mortgage investments loss:

The changes in the ACL on loan and mortgage investments during the year ended December 31, 2022 were as follows:

	IFRS 9			
	Balance at January 1, 2022	Recoveries	Funding	Balance at December 31, 2022
Residential housing developments	$ 13,342	$ (4,479)	$ –	$ 8,863
Land and lot inventory	68,018	(30,272)	4,339	42,085
	$ 81,360	$ (34,751)	$ 4,339	$ 50,948

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

	Stage 1	Stage 2	Stage 3	Total
Balance, beginning of year	$ 81,360	$ –	$ –	$ 81,360
Provision for credit losses:				
Remeasurement	–	–	–	–
Transfer to (from):				
Stage 1	–	–	–	–
Stage 2	–	–	–	–
Stage 3	–	–	–	–
Fundings	4,339	–	–	4,339
Gross write-offs	–	–	–	–
Recoveries	(34,751)	–	–	(34,751)
Balance, end of year	$ 50,948	$ –	$ –	$ 50,948

As at December 31, 2021, the Company received an unsecured note receivable of $1,000,000 plus interest, which net of syndication is $865,687. The unsecured note receivable related to a first mortgage loan investment from a project located in the U.S. 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.

(In United States dollars unless otherwise stated)

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

On June 28, 2022, the Company received the cash payment towards the unsecured note receivable. During the year ended December 31, 2022, the Company recorded a recovery related to the unsecured note receivable of $213,000 which represented the Company's share of the unsecured note receivable. The recovery was included within recovery of loan and mortgage investments in the consolidated statements of income and comprehensive income.

The following table presents details of the Company's ACL on loan and mortgage investments as at December 31, 2022:

	Stage 1	Stage 2	Stage 3	Total
Residential housing developments	$ 8,863	$ –	$ –	$ 8,863
Land and lot inventory	42,085	–	–	42,085
	$ 50,948	$ –	$ –	$ 50,948

The following table presents the Company's ACL on loan and mortgage investments segmented by geography as at December 31, 2022:

IFRS 9	Stage 1	Stage 2	Stage 3	Total
Canada	$ 118	$ –	$ –	$ 118
U.S.	50,830	–	–	50,830
	$ 50,948	$ –	$ –	$ 50,948

The following table presents details of the Company's ACL on loan and mortgage investments as at December 31, 2021:

	Stage 1	Stage 2	Stage 3	Total
Residential housing developments	$ 13,342	$ –	$ –	$ 13,342
Land and lot inventory	68,018	–	–	68,018
	$ 81,360	$ –	$ –	$ 81,360

(In United States dollars unless otherwise stated)

5. 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 December 31, 2021:

IFRS 9	Stage 1	Stage 2	Stage 3	Total
Canada	$ 43	$ –	$ –	$ 43
U.S.	81,317	–	–	81,317
	$ 81,360	$ –	$ –	$ 81,360

The principal amount of the loan and mortgage investments are subject to the Company's internal risk ratings for credit risk purposes.

The following table represents the internal risk ratings on the carrying amount of loan and mortgage investments as at December 31, 2022:

Categories of PD grades	Stage 1	Stage 2	Stage 3	Total
Low	$ 24,483,580	$ –	$ –	$ 24,483,580
Medium	17,974,703	–	–	17,974,703
High	3,703,744	–	–	3,703,744
	$ 46,162,027	$ –	$ –	$ 46,162,027

The following table represents the internal risk ratings on the carrying amount of loan and mortgage investments as at December 31, 2021:

Categories of PD grades	Stage 1	Stage 2	Stage 3	Total
Low	$ 19,792,583	$ –	$ –	$ 19,792,583
Medium	10,845,000	–	–	10,845,000
High	16,451,611	–	–	16,451,611
	$ 47,089,194	$ –	$ –	$ 47,089,194

(In United States dollars unless otherwise stated)

6. Investment in finance leases:

The Company is a party to fixed-term contractual land banking asset 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 is also a party to a fixed-price contract with builders to complete all required land development based upon a fixed construction budget. The Company is committed to making additional investments in developing 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 based on the lots by the builders.

The Company determined that the investments in land banking asset arrangements contain a lease as the contracts convey the right to control the use of an identified asset for a period of time in exchange for consideration. The Company also determined that all the risks or rewards of ownership of the asset are transferred to the builders and accounts for these arrangements as finance leases.

As at December 31, 2022, the Company had 15 investments in finance lease (December 31, 2021 - 15) arrangements with builders. The following table presents details of the investment in finance lease and ACL as at December 31, 2022:

	December 31, 2022	December 31, 2021
Investment in finance leases	$ 67,847,493	$ 55,849,312
Allowance for credit losses	(67,866)	(120,443)
Balance, at year end	$ 67,779,627	$ 55,728,869

Investment in finance leases of $65,741,383 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 13.5% (December 31, 2021 - 14.1%) per annum and the weighted average term of the leases is 2.00 years (December 31, 2021 - 2.09 years). The unearned finance income at December 31, 2022 was nil (December 31, 2021 - $139,376).

(In United States dollars unless otherwise stated)

6. Investment in finance leases (continued):

The income recognized from finance leases for the year ended December 31, 2022, of $8,213,979 (December 31, 2021 - $4,889,886) was included as 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, 2022 and 2021:

Balance, December 31, 2020	$ 20,489,655
Investment made	53,897,332
Investments paid out	(18,439,527)
Lease payments received	(5,029,095)
Finance income recognized	4,889,886
Allowance for credit losses	(79,382)
Balance, December 31, 2021	55,728,869
Investment made	36,430,342
Investments paid out	(24,820,505)
Lease payments received	(7,825,635)
Finance income recognized	8,213,979
Allowance for credit losses	52,577
Balance, December 31, 2022	$ 67,779,627

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	$ 28,139,112	$ 8,950,376	$ 19,188,736
Greater than one year but less than 5 years	57,094,157	8,435,400	48,658,757
	$ 85,233,269	$ 17,385,776	$ 67,847,493

(In United States dollars unless otherwise stated)

6. Investment in finance leases (continued):

As at December 31, 2022, there are six investments in finance leases that account for 14.7%, 14.0%, 11.3%, 11.1%, 11.0% and 10.5% of the investments in finance leases (December 31, 2021 – 14.8%, 13.0%, 12.5% and 12.4%). For the year ended December 31, 2022, the Company has four investments in finance leases that account for 14.4%, 14.0%, 11.7% and 10.8% of the Company's finance income (December 31, 2021 - 13.8%, 14.0%, 13.5% and 10.6%).

The investment in finance leases are subject to internal risk ratings used by the Company for credit risk purposes.

The following table represents the internal risk ratings on the carrying amount of investment in finance leases as at December 31, 2022:

Categories of PD grades	Stage 1	Stage 2	Stage 3	Total
Low	$ 60,324,054	$ –	$ –	$ 60,324,054
Medium	7,523,439	–	–	7,523,439
	$ 67,847,493	$ –	$ –	$ 67,847,493

The following table represents the internal risk ratings on the carrying amount of investment in finance leases as at December 31, 2021:

Categories of PD grades	Stage 1	Stage 2	Stage 3	Total
Low	$ 51,003,535	$ –	$ –	$ 51,003,535
Medium	4,845,777	–	–	4,845,777
	$ 55,849,312	$ –	$ –	$ 55,849,312

At December 31, 2022, the unfunded commitments for the development of the lands under the finance lease arrangements, subject to builders meeting certain funding conditions, were $57,152,740 (December 31, 2021 - $59,239,668).

(In United States dollars unless otherwise stated)

6. Investment in finance leases (continued):

Allowance for investment in finance leases loss:

The changes in the ACL on investment in finance leases during the year ended December 31, 2022 were as follows:

	IFRS 9			
	Balance at January 1, 2022	Fundings	Recoveries	Balance at December 31, 2022
Residential housing developments	$ 120,443	$ 9,835	$ (62,412)	$ 67,866

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

	Stage 1	Stage 2	Stage 3	Total
Balance, beginning of year	$ 120,443	$ –	$ –	$ 120,443
Provision for credit losses:				
Remeasurement	–	–	–	–
Transfer to (from):				
Stage 1	–	–	–	–
Stage 2	–	–	–	–
Stage 3	–	–	–	–
Fundings	9,835	–	–	9,835
Gross write-offs	–	–	–	–
Recoveries	(62,412)	–	–	(62,412)
Balance, end of year	$ 67,866	$ –	$ –	$ 67,866

(In United States dollars unless otherwise stated)

7. Portfolio investments:

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

	2022	2021
Investment in the LanQueen Partnership	$ –	$ 521,892
Investment in the Savannah Partnership	932,093	154,528
Investment in the Valermo Partnership	–	1
	$ 932,093	$ 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 year ended December 31, 2022 the Company received distributions and return of capital of $556,789. As at December 31, 2022, a fair value gain of $36,065 (December 31, 2021 - $205,556) was recorded on the investment. As at December 31, 2022, the Company received its full return of capital on this investment and final distributions. The fair value of investment at December 31, 2022 was nil (December 31, 2021 - $521,893).

(b) The Company, through TFCC International Ltd., entered into a partnership agreement (the "Savannah Agreement"), whereby TFCC International Ltd. committed to investing $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 the Savannah Partnership makes distributions to other partners at a rate equal to 11% per annum calculated and compounded monthly.

7. Portfolio investments (continued):

In 2017, TFCC International Ltd. committed and advanced 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. A repayment of $708,394 was received during the year resulting in a principal balance of $17,974,703 outstanding to be repaid on the above noted loan and mortgage investment as at December 31, 2022 (December 31, 2021 - $16,451,611). Additionally, TFCC International Ltd syndicated the loan and mortgage investments to investors and, as at December 31, 2022, the syndicated principal loan and mortgage investment balance was $12,804,543 outstanding to be repaid (December 31, 2021 - $11,993,074). Interest capitalized during the year ended December 31, 2022 was $1,287,369 (December 31, 2021 - $2,013,807). During the year ended December 31, 2022, an independent third party appraisal was obtained related to the residual lands which resulted in a fair value gain of $740,000 (December 31, 2021 - nil) recorded on the investment. The fair value of the residual land was determined through a combination of the sales comparison and income approach. The fair value of the investment in the Savannah Partnership at December 31, 2022 was $932,093 (December 31, 2021 - $154,528).

(c) The Company, through TFVC, had a limited partnership interest in a partnership in Toronto. During the year ended December 31, 2022, the Company disposed of its interest in the partnership.

(In United States dollars unless otherwise stated)

7. Portfolio investments (continued):

The following table summarizes the changes in the portfolio investments for the years ended December 31, 2022 and 2021:

Balance, December 31, 2020	$ 2,292,991
Return of investment	(1,912,794)
Preferred return earned	54,285
Fair value adjustment	205,556
Foreign exchange	36,383
Balance, December 31, 2021	676,421
Return of investment	(556,789)
Preferred return earned	37,565
Fair value adjustment	776,065
Foreign exchange	(1,169)
Balance, December 31, 2022	$ 932,093

8. Investment in associates:

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

	2022	2021
Investment in the Lan Partnership	$ 102,976	$ 791,181
Investment in the TFCC Royal Palm Beach Inc.	1,650,831	1,383,346
Investment in TFCC Senior Debt Fund I LP	2,691,388	2,174,053
Investment in TFCC US Senior Real Estate Fund II Funding LP	4,783,062	4,016,131
	$ 9,228,257	$ 8,364,711

(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"). During the year ended December 31, 2022, the project was considered substantially complete, and the Company received distributions of $366,121 and a return of capital of $129,172. During the year ended December 31, 2022, the Lan Partnership recorded a fair value loss of $152,063 (December 31, 2021 - $222,222). At December 31, 2022, the fair value of the investment in the Lan Partnership was determined by management, using the residual method. The fair value of the investment in the Lan Partnership at December 31, 2022 was $102,976 (December 31, 2021 - $791,181).

8. Investment in associates (continued):

(b) The Company, through TFCC International Ltd, and third-party investors incorporated an entity (the "TFCC Royal Palm Beach Inc.") to invest up to $7,000,000 in an assisted living development project located in Royal Palm Beach, Florida. The arrangement allows TFCC International Ltd. to receive a 2% fee at the time of commitment, an annual project management fee of $70,000, and a preferred return on the amount of its investment in the TFCC Royal Palm Beach Inc. The Company accounts for its investment in TFCC Royal Palm Beach Inc. as an investment in associates using the equity method of accounting. During the year ended December 31, 2022, the Company recorded income of $299,012 (December 31, 2021 - $251,918) and received distributions of $35,004 (December 31, 2021 - $35,004) from the TFCC Royal Palm Beach Inc. At December 31, 2022, the fair value of investment is $1,650,831 (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 ("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 a 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 December 31, 2022, the Company through TFCC USA III Holding owns 10.70% (December 31, 2021 – 10.69%) partnership interest in Debt Fund I.

During the year ended December 31, 2022, Debt Fund I received capital contributions from investors and TFCC USA III Holding totaling $4,338,750 and $521,250, respectively (2021 - $17,995,500 and $2,154,500), borrowed $3,774,512 against the credit facility (2021 - $5,920,786) and advanced a loan payable of $28,459,840 to TFCC USA III (2021 - $25,669,114) (note 12). For the year ended December 31, 2022, the Company recognized its share of income of $254,271 (2021 - $176,151) and received distributions of $258,186 (2021 - $156,599) from Debt Fund I.

(In United States dollars unless otherwise stated)

8. 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 December 31, 2022, the investors and TFCC USA III Holding committed to advance total capital of $53,139,000 and $5,950,000, respectively. Debt Fund II entered into a loan agreement with TFCC USA IV Corporation (the "TFCC USA IV"). During the year ended December 31, 2022, Debt Fund II increased its line of credit from $12,000,000 to $20,000,000 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 December 31, 2022, the Company through TFCC USA III Holding owns 10.49% (December 31, 2021 - 10.64%) partnership interest in Debt Fund II.

During the year ended December 31, 2022, Debt Fund II received capital contributions from investors and TFCC USA III Holding totaling $7,372,321 and $780,000, respectively (2021 - $33,415,479 and 4,000,000), borrowed $6,485,312 against the credit facility (2021 - nil) and advanced a loan payable of $51,387,984 (2021 - $37,384,096) to TFCC USA IV (note 12). For the year ended December 31, 2022, the Company recognized its share of income of $410,213 (2021 - $16,131) and received distributions of $423,282 (2021 - nil) from Debt Fund II.

The following table summarizes the changes to the carrying value of investment in associates for the years ended December 31, 2022 and 2021:

	2022	2021
Balance, beginning of year	$ 8,364,711	$ 3,112,395
Investment funded	1,301,250	6,154,500
Fair value adjustment	(152,063)	(222,222)
Income earned	963,496	444,200
Distributions received	(1,082,593)	(191,603)
Return of capital	(129,172)	(992,082)
Foreign exchange	(37,372)	59,523
Balance, end of year	$ 9,228,257	$ 8,364,711

(In United States dollars unless otherwise stated)

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%.

The financial information in respect of the Company's proportionate share of investments in Montreal Street JV is as follows:

	2022	2021
Assets		
Cash and cash equivalents	$ 24,699	$ 133,582
Amounts receivable and prepaid expenses	46,621	84,775
Investment property	1,636,518	1,747,799
Right-of-use asset	548,085	643,815
	2,255,923	2,609,971
Liabilities		
Accounts payable and prepaid expenses	38,427	37,533
Mortgages payable	895,492	1,018,183
Lease obligations	595,092	678,166
	1,529,011	1,733,882
Net assets	$ 726,912	$ 876,089

(In United States dollars unless otherwise stated)

9. Joint arrangements (continued):

The table below details the results of operations for the years ended December 31, 2022 and 2021, attributable to the Company from Montreal Street JV:

	2022	2021
Revenue:		
Rental	$ 169,335	$ 171,191
Expenses:		
Property operating costs	60,409	58,013
General and administrative	1,273	1,202
Interest	43,228	48,992
	104,910	108,207
Net income	$ 64,425	$ 62,984

(b) Investment property held in joint operations:

At December 31, 2022 and December 31, 2021, the carrying value of the Company's proportionate share of investment property in the Montreal Street JV is $1,636,518 (CAD $2,208,694) respectively. The capitalization rate used in the valuation of the property was 6.25% (December 31, 2021 - 6.25%).

As at December 31, 2022 and 2021, a 25-basis-point decrease in the overall capitalization rate would increase the Company's proportionate share of the value of investment property in the Montreal Street JV by CAD $90,300 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 $84,000.

(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, 2022 and 2021 was $895,492 and $1,018,183, respectively. The mortgages bear interest at 2.5% per annum and are amortized over 25 years and mature on July 1, 2026.

(In United States dollars unless otherwise stated)

9. Joint arrangements (continued):

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

	2022	2021
Mortgage principal	$ 895,492	$ 1,018,183

The following table summarizes the changes in the principal balance of mortgages payable for the years ended December 31, 2022 and 2021:

Balance, December 31, 2020	$ 1,056,723
Repayments made	(46,230)
Foreign exchange	7,690
Balance, December 31, 2021	1,018,183
Repayments made	(56,033)
Foreign exchange	(66,658)
Balance, December 31, 2022	$ 895,492

Scheduled principal repayments and maturity amounts of mortgages payable at December 31, 2022 are as follows:

	Loans scheduled principal payments	Total maturing during the year	Loans and mortgages payable
2023	$ 55,920	$ –	$ 55,920
2024	57,358	–	57,358
2025	58,833	–	58,833
2026 and thereafter	35,015	688,366	723,381
	$ 207,126	$ 688,366	$ 895,492

(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. During the year ended December 31, 2022, the Company capitalized interest income of $173,969 (December 31, 2021 - $88,974). As at December 31, 2022, the Company recorded a fair value loss on the Convertible Note of $128,364. The fair value of the Convertible Note as at December 31, 2022 was $1,511,101 (December 31, 2021 - $1,572,510).

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. Pursuant to the terms of the loan agreement, the Company has the option to convert the principal and accrued interest into an equity interest. The Convertible Note was receivable by demand any time after January 29, 2023. Subsequent to December 31, 2022, the maturity of the Convertible Note was extended a further 12 months to January 29, 2024. The option to settle payments in Shares represented an embedded derivative in the form of a call option to the Company. The Convertible Note in its entirety was classified as a financial asset at FVTPL.

The following table summarizes the changes in the Convertible Note receivable for the years ended December 31, 2022 and 2021:

Balance, December 31, 2020	$ 1,080,536
Investment made	399,425
Interest capitalized	88,974
Foreign exchange	3,575
Balance, December 31, 2021	1,572,510
Investment made	–
Fair value adjustment	(128,364)
Interest capitalized	173,969
Foreign exchange	(107,014)
Balance, December 31, 2022	$ 1,511,101

(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, 2022 and 2021:

	2022	2021
Interest payable	$ 990,748	$ 686,596
Interest reserve	3,975,192	750,842
Accounts payable, accrued liabilities and provisions	998,162	1,655,560
Funds held in trust	1,985,203	3,220,957
Share-based compensation payable (note 17(c)(ii))	1,271,863	1,480,006
Accounts payable and accrued liabilities	$ 9,221,168	$ 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 Company's wholly owned subsidiary that administers loan and mortgage investments. The subsidiary holds cash balances in trust.

12. 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 December 31, 2022, Debt Fund I advanced $28,459,840 (2021 - $25,669,114) to TFCC USA III and incurred interest expense of $2,803,160 (December 31, 2021 - $1,702,360) on this loan. The interest and principal on this loan are payable from the proceeds from these investments.

(In United States dollars unless otherwise stated)

12. Loans payable (continued):

(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 December 31, 2022, Debt Fund II advanced $51,387,984 (2021 - $37,384,096) to TFCC USA IV and incurred interest expense of $4,277,713 (December 31, 2021 - $215,149). The interest and principal on this loan are payable from the proceeds from these investments.

13. Credit facilities:

The Company has a $20,000,000 secured credit line (the LOC) with a US financial lending institution which includes an additional $20,000,000 accordion feature. 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 December 31, 2022, the Company had drawn nil (December 31, 2021 - nil) on the LOC. As at December 31, 2022, the borrowing capacity with the LOC was $20,000,000.

The following table presents details of the credit facilities as at December 31, 2022 and 2021:

	2022	2021
Unamortized financing costs	$ (50,000)	$ (115,321)

(In United States dollars unless otherwise stated)

13. Credit facilities (continued):

The following table summarizes the changes in the principal balance of the credit facilities for the years ended December 31, 2022 and 2021:

Balance, December 31, 2020	$ 7,000,000
Proceeds from credit facilities	33,500,000
Repayment of credit facilities	(40,500,000)
Interest capitalized	–
Balance, December 31, 2021 and 2022	$ –

During the year ended December 31, 2022, 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 December 31, 2022 was $50,000 (December 31, 2021 - $635,018).

For the year ended December 31, 2022, amortization of deferred financing costs relating to the credit facilities totaled $165,650 (December 31, 2021 - $384,528), which included deferred financing costs of $115,654 related to the Company's previous facility that were written off.

The terms of the credit facilities require the Company to comply with certain covenants. At December 31, 2022, the Company was in compliance with these covenants.

14. Unsecured note payable:

For the year ended December 31, 2022, interest and financing costs relating to the unsecured note payable (the "Unsecured Note"), reported as interest expense totaled $3,398 (December 31, 2021 - $97,745), respectively. During the year ended December 31, 2022, the Company made a repayment of $289,744. The Unsecured Note payable was fully repaid as at December 31, 2022 (December 31, 2021 - $289,744).

(In United States dollars unless otherwise stated)

15. 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 recognition of a right-of-use asset and a corresponding lease liability.

The Company's lease commitment related to its head office premises provides 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 December 31, 2022 was $596,603 (December 31, 2021 - $851,833). The lease obligations at December 31, 2022 was $633,326 (December 31, 2021 - $881,314).

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

2023	$ 121,764
2024	56,852
2025	62,943
2026	62,943
2027 and thereafter	515,253
	$ 819,755

(In United States dollars unless otherwise stated)

16. Commitments and contingencies:

Pursuant to certain lending agreements, the Company is committed to funding additional loan advances. The unfunded loan commitments under the existing lending agreements on loan and mortgage investments as at December 31, 2022 were $48,597,094 (December 31, 2021 - $46,038,263).

As at December 31, 2022, the unfunded commitments to make additional investments for the development of the lands under the finance lease arrangements, subject to builders meeting certain funding conditions, were $57,152,740 (December 31, 2021 - $59,239,668).

The Company is also committed to providing 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.

17. Shareholders' equity:

(a) Shares issued and outstanding:

The following table summarizes the changes in Shares for the years ended December 31, 2022 and 2021:

	Shares	Amount
Outstanding, December 31, 2021	5,567,468	$ 25,293,007
Proceeds from issuance of shares under share option	16,666	71,097
Outstanding, December 31, 2022	5,584,134	$ 25,364,104

(In United States dollars unless otherwise stated)

17. Shareholders' equity (continued):

(b) Dividends:

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 years ended December 31, 2022 and 2021 were as follows:

	December 31, 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	0.06	334,048	0.05	275,977
December	0.06	334,048	0.06	339,201
	$ 0.24	$ 1,336,192	$ 0.21	$ 1,178,502

(c) Share-based payments:

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

	2022	2021
Share option plan	$ 16,192	$ –
DSU Plan	(113,498)	127,051
	$ (97,306)	$ 127,051

(In United States dollars unless otherwise stated)

17. 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 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 November 18, 2021, the Company granted options to one of its consultants to purchase up to 20,000 Shares at a price of CAD $5.95 per Share, with the expiry date of November 18, 2028. The options shall vest in equal installments on a quarterly basis over a three-year 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:

	November 18, 2021
Average expected life	7.00 years
Average risk-free interest rate	0.98%
Average expected volatility	25.95%
Dividend yield	1.01%

(In United States dollars unless otherwise stated)

17. Shareholders' equity (continued):

The following is the summary of changes in share options for the years ended December 31, 2022 and 2021:

	December 31, 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 year	514,000	$ 5.00	499,000	$ 4.96
Granted	–	–	20,000	5.95
Exercised	(16,666)	–	(2,500)	4.28
Cancelled	(33,334)	–	(2,500)	4.28
Outstanding, end of year	464,000	4.96	514,000	5.00
Number of options exercisable	413,996	$ 4.98	316,248	$ 5.30

The following summarizes the Company's outstanding share options as at December 31, 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
41,000	December 27, 2023	41,000	6.50	6.50
24,000	December 21, 2024	24,000	6.70	6.70
24,000	June 11, 2026	24,000	5.60	5.60
25,000	January 6, 2027	20,830	5.70	5.70
255,000	April 6, 2027	225,000	4.28	4.28
25,000	June 26, 2027	20,833	4.05	4.28
20,000	November 28, 2028	8,333	5.95	5.95
464,000		413,996		

(In United States dollars unless otherwise stated)

17. Shareholders' equity (continued):

(ii) Deferred share unit plan:

The Company has a cash-settled deferred share unit 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.

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 was paid out.

The following is the summary of changes in DSUs for the year ended December 31, 2022 and year ended December 31, 2021:

	2022	2021
DSUs outstanding, beginning of year	314,295	304,344
Granted	10,583	9,951
DSUs outstanding, end of year	324,878	314,295
Number of DSUs vested	324,878	314,295

During the year ended December 31, 2022, the Company granted 10,583 (December 31, 2021 - 9,951) of DSUs based on the dividend paid on Shares.

The total cost (recovery) recognized with respect to DSUs, including the change in fair value of DSUs during the year ended December 31, 2022 was $(113,498) (December 31, 2021 - $127,051).

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, 2022 was $1,271,863 (December 31, 2021 - $1,480,006).

(In United States dollars unless otherwise stated)

18. Contributed surplus:

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

	Amount
Balance, December 31, 2020	$ 3,618,440
Fair value of share-based compensation	(1,068)
Balance, December 31, 2021	3,617,372
Exercise of options transferred to share capital	(10,243)
Balance, December 31, 2022	$ 3,607,129

19. Earnings per share:

The calculation of earnings per share for the years ended December 31, 2022 and 2021 is as follows:

	2022	2021
Numerator for basic and diluted earnings per share:		
Income attributable to common shareholders	$ 1,521,237	$ 3,340,552
Diluted income attributable to common shareholders	$ 1,521,237	$ 3,340,552
Denominator for basic and diluted earnings per share:		
Weighted average number of Shares outstanding	5,575,710	5,565,323
Dilutive effect of share-based payments	44,398	79,339
Weighted average number of diluted Shares outstanding	5,620,108	5,644,662
Earnings per share:		
Basic	$ 0.27	$ 0.60
Diluted	0.27	0.59

(In United States dollars unless otherwise stated)

20. 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.

On July 15, 2022, the Company paid a severance allowance of $524,577 ($667,000 CAD) related to the departure of the former Chief Financial Officer & Corporate Secretary. This severance allowance is recorded in severance expenses.

(a) Key management personnel compensation:

Aggregate compensation (excluding the severance allowance noted above) for key management personnel was as follows:

	2022	2021
Short-term employee benefits	$ 1,909,517	$ 1,905,165
Share-based compensation	110,057	130,674
	$ 2,019,574	$ 2,035,839

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

(b) 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, 2022, the loan and mortgage investments syndicated by officers and directors was $466,000 (December 31, 2021 - $1,297,658).

(In United States dollars unless otherwise stated)

21. Interest and financing costs:

The following table presents the interest incurred for the years ended December 31, 2022 and 2021:

	2022	2021
Interest on loan and mortgage syndications	$ 2,153,033	$ 5,721,565
Interest on loans payable	7,080,873	1,917,509
Interest on financing fee	165,650	384,528
Interest on credit facilities	–	474,875
Interest on Montreal Street JV	43,228	48,992
Interest on lease obligations	42,438	41,512
Interest to investors	46,438	-
	$ 9,531,660	$ 8,588,981

22. Income taxes:

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

	2022	2021
Current income tax provision	$ 1,639,205	$ 961,659
Deferred income tax (recovery)	(409,975)	169,553
Total tax provision	$ 1,229,230	$ 1,131,212

(In United States dollars unless otherwise stated)

22. 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:

	2022	2021
Income from operations before income taxes	$ 2,750,467	$ 4,471,764
Combined federal and provincial statutory income taxes	26.50%	26.50%
Income tax provision based on statutory income taxes	$ 728,874	$ 1,185,017
Increase (decrease) in income tax due to:		
Non-taxable items	24,565	1,462
Non-deductible stock-based compensation	4,291	(39,020)
Non-taxable portion of capital gains	(130,343)	–
Effect of changes in foreign exchange rates	601,843	(16,247)
Total tax provision	$ 1,229,230	$ 1,131,212

The following table summarizes the changes to the current income tax (recoverable) payable for the years ended December 31, 2022 and 2021:

	2022	2021
Balance, beginning of year	$ (459,474)	$ 609,499
Current income tax provision	1,639,205	961,659
Income taxes paid	(1,247,302)	(2,030,632)
Balance, end of year	$ (67,571)	$ (459,474)

(In United States dollars unless otherwise stated)

22. Income taxes (continued):

The composition of the Company's recognized deferred income tax assets and liabilities for the year ended December 31, 2022 is as follows:

	Opening balance	Recognized in income	Closing balance
Investment property	$ 179,692	$ 12,947	$ 192,639
Portfolio investment	287,931	(204,729)	83,202
Incorporation costs	(336)	(4)	(340)
DSUs	(254,909)	63,746	(191,163)
Allowance for loan and mortgage investment loss	(135,319)	(44,926)	(180,245)
Unrealized foreign exchange loss	1,341,076	1,057,271	2,398,347
Debentures, Shares and revolving operating facility issue costs	(134,537)	(44,635)	(179,172)
Deferred revenue	94,109	(159,052)	(64,943)
Tax losses	(988,817)	(1,090,593)	(2,079,410)
Deferred income taxes payable (asset)	$ 388,890	$ (409,975)	$ (21,085)

The composition of the Company's recognized deferred income tax assets and liabilities for the year ended December 31, 2021 is as follows:

	Opening balance	Recognized in income	Closing balance
Investment property	$ 178,766	$ 926	$ 179,692
Portfolio investment	236,836	51,095	287,931
Incorporation costs	(360)	24	(336)
DSUs	(221,241)	(33,668)	(254,909)
Allowance for loan and mortgage investment loss	(295,299)	159,980	(135,319)
Unrealized foreign exchange loss	932,293	408,783	1,341,076
Debentures, Shares and revolving operating facility issue costs	(134,907)	370	(134,537)
Deferred revenue	68,770	25,339	94,109
Tax losses	(545,521)	(443,296)	(988,817)
Deferred income taxes payable	$ 219,337	$ 169,553	$ 388,890

(In United States dollars unless otherwise stated)

23. Capital management:

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

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

	2022	2021
Loan and mortgage syndications	$ 16,034,041	$ 22,043,144
Credit facilities	(50,000)	(115,321)
Unsecured note payable	–	289,744
Mortgages payable	895,492	1,018,183
Loans payable	79,847,824	63,053,210
Shareholders' equity	44,144,836	43,579,220
	$ 140,872,193	$ 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 year ended December 31, 2022 and 2021.

During the years ended December 31, 2022 and 2021, except for the covenant requirements under the credit facilities (note 13), the Company had no externally-imposed capital requirements.

24. 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 and accrued liabilities, loans payable, portfolio investments, lease obligations, loan and mortgage syndications, mortgages payable, and credit facilities.

24. 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, 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 or disclosed 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 property held in joint operations, portfolio investments, investment in associates are determined using Level 3 inputs at December 31, 2022 and December 31, 2021. During the year ended December 31, 2022 no amounts were transferred between Levels 1, 2 and 3. Notes 7, 8 and 9 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, respectively.

25. 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 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:

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, credit facilities 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, 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.

(In United States dollars unless otherwise stated)

25. Risk management (continued):

At December 31, 2022, 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	$ (461,620)	$ 461,620

At December 31, 2021, 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	$ (470,891)	$ 470,891

(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.

(In United States dollars unless otherwise stated)

25. Risk management (continued):

(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 LOC, 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.

Contractual obligations as at December 31, 2022 are due as follows:

	Less than 1 year	Over 1 year	Total
Accounts payable and accrued liabilities	$ 9,221,168	$ –	$ 9,221,168
Loans payable	–	79,847,824	79,847,824
Mortgages payable	55,920	839,572	895,492
Total liabilities and contractual obligations	$ 9,277,088	$ 80,687,396	$ 89,964,484

25. 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, specifically identified as "COVID-19" (discussed below),

(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.

25. 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.

26. Subsequent event:

Subsequent to the year ended December 31, 2022, the Company received additional repayments of $26,994,035 and repaid $3,719,862 of its loan and mortgage syndications. Subsequent to the year ended December 31, 2022, unfunded commitments related to loan and mortgage investments and investment in finance leases were $26,197,893 and $52,821,031, respectively.