TERRA FIRMA

Consolidated Financial Statements
(In Canadian dollars)

TERRA FIRMA CAPITAL CORPORATION

Years ended December 31, 2018 and 2017

KPMG LLP
Bay Adelaide Centre
333 Bay Street, Suite 4600
Toronto ON M5H 2S5
Canada
Tel 416-777-8500
Fax 416-777-8818

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Terra Firma Capital Corporation

Opinion

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

- the consolidated statements of financial position as at December 31, 2018 and 2017
- the consolidated statements of income and comprehensive income for the years then ended
- the consolidated statements of changes in equity for the years then ended
- the consolidated statements of cash flows for the years then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

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

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

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

KPMG LLP, is a Canadian limited liability partnership and a member firm of the KPMG network of independent
member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.
KPMG Canada provides services to KPMG LLP.

Other Information

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

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

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

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

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

We have nothing to report in this regard.

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

We also:

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

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

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

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

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

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG

- 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.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

The engagement partner on the audit resulting in this auditors' report is Peter Hayes.

Toronto, Canada

March 27, 2019

TERRA FIRMA CAPITAL CORPORATION

Consolidated Statements of Financial Position
(In Canadian dollars)

December 31, 2018 and 2017

	2018	2017
Assets		
Cash and cash equivalents	$ 10,543,289	$ 2,691,049
Funds held in trust	1,494,940	3,014,606
Amounts receivable and prepaid expenses (note 5)	1,347,626	1,463,310
Loan and mortgage investments (note 6)	165,929,535	117,166,221
Investment in finance lease (note 7)	3,845,519	–
Investment property held in joint operations (note 8(b))	2,208,694	2,208,694
Portfolio investments (note 9)	2,591,586	13,575,623
Investment in associates (note 10)	2,927,842	2,927,842
Income taxes recoverable (note 21)	178,292	300,667
Deferred income tax assets (note 21)	–	126,283
	$ 191,067,323	$ 143,474,295
Liabilities and Equity		
Liabilities:		
Accounts payable and accrued liabilities (note 11)	$ 4,933,963	$ 6,236,233
Unearned income	1,777,129	1,505,576
Deferred income tax liabilities (note 21)	1,026,987	–
Credit facilities (note 12)	26,560,237	18,965,205
Loan and mortgage syndications (note 6)	103,513,760	63,299,522
Mortgages payable (note 8(f))	1,428,897	1,469,844
	139,240,973	91,476,380
Equity:		
Share capital (note 15(a))	29,801,466	32,864,287
Contributed surplus (note 16)	3,893,731	3,573,406
Retained earnings	18,131,153	15,305,581
	51,826,350	51,743,274
Non-controlling interest	–	254,641
	51,826,350	51,997,915
Commitments and contingencies (note 14)		
Subsequent events (note 26)		
	$ 191,067,323	$ 143,474,295

See accompanying notes to consolidated financial statements.

The consolidated financial statements were approved
by the Board on March 27, 2019 and signed on its behalf by:

"Seymour Temkin" Director

"John Kaplan" Director

TERRA FIRMA CAPITAL CORPORATION

Consolidated Statements of Income and Comprehensive Income
(In Canadian dollars)

Years ended December 31, 2018 and 2017

	2018	2017
Revenue:		
Interest and fees	$ 17,258,558	$ 14,528,778
Rental (note 8(a))	201,772	201,775
	17,460,330	14,730,553
Expenses (income):		
Property operating (note 8(a))	69,228	68,802
General and administrative	3,617,616	3,328,175
Share-based compensation (note 15(c))	(27,444)	456,749
Interest and financing costs (note 19)	10,322,969	8,570,815
Provision for uncollectible receivables (note 5)	186,140	1,591,883
Provision for loan and mortgage investments loss (note 6)	3,137,059	931,478
Gain on conversion of interest in joint operation (note 8(a)(ii))	–	(2,402,996)
Realized and unrealized foreign exchange (gain) loss (note 20)	(3,933,646)	1,097,925
Loss on redemption of portfolio investment (note 9)	224,212	–
Fair value adjustment - portfolio investments (note 9)	(75,866)	(412,616)
Share of income from investment in associates (note 10)	–	(612,428)
	13,520,268	12,617,787
Income from operations before income taxes	3,940,062	2,112,766
Income taxes (note 21)	1,169,131	588,961
Net income and comprehensive income	$ 2,770,931	$ 1,523,805
Net income and comprehensive income attributable to:		
Common shareholders	$ 2,825,572	$ 1,523,805
Non-controlling interest	(54,641)	–
	$ 2,770,931	$ 1,523,805
Earnings per share (note 17):		
Basic	$ 0.05	$ 0.02
Diluted	0.05	0.02

See accompanying notes to consolidated financial statements.

TERRA FIRMA CAPITAL CORPORATION

Consolidated Statements of Changes in Equity
(In Canadian dollars)

Years ended December 31, 2018 and 2017

	Share capital		Equity component of convertible debentures	Contributed surplus	Retained earnings	Total shareholders' equity	Non-controlling interest	Total equity
	Number of shares	Amount						
	(note 15(a) and (b))		(note 13)	(note 16)				
Balance, December 31, 2016	61,135,250	$ 31,789,819	$ 284,490	$ 2,514,073	$ 13,781,776	$ 48,370,158	$ 254,641	$ 48,624,799
Issuance of shares pursuant to private placement	5,000,000	2,661,223	–	536,881	–	3,198,104	–	3,198,104
Transfer of equity component of convertible debentures	–	–	(284,490)	284,490	–	–	–	–
Issuance of shares pursuant to share options plan	32,000	14,714	–	(5,114)	–	9,600	–	9,600
Repurchase of shares pursuant to normal course issuer bid	(2,391,400)	(1,601,469)	–	–	–	(1,601,469)	–	(1,601,469)
Share-based compensation	–	–	–	243,076	–	243,076	–	243,076
Net income and comprehensive income	–	–	–	–	1,523,805	1,523,805	–	1,523,805
Balance, December 31, 2017	63,775,850	32,864,287	–	3,573,406	15,305,581	51,743,274	254,641	51,997,915
Issuance of shares pursuant to share options plan	96,000	46,667	–	(17,867)	–	28,800	–	28,800
Repurchase of shares pursuant to normal course issuer bid	(5,236,014)	(3,109,488)	–	–	–	(3,109,488)	–	(3,109,488)
Share-based compensation	–	–	–	338,192	–	338,192	–	338,192
Disposition of non-controlling interest	–	–	–	–	–	–	(200,000)	(200,000)
Net income and comprehensive income	–	–	–	–	2,825,572	2,825,572	(54,641)	2,770,931
Balance, December 31, 2018	58,635,836	$ 29,801,466	$ –	$ 3,893,731	$ 18,131,153	$ 51,826,350	$ –	$ 51,826,350

See accompanying notes to consolidated financial statements.

TERRA FIRMA CAPITAL CORPORATION

Consolidated Statements of Cash Flows
(In Canadian dollars)

Years ended December 31, 2018 and 2017

	2018	2017
Cash provided by (used in):		
Operating activities:		
Net income and comprehensive income	$ 2,770,931	$ 1,523,805
Interest and fees earned	(17,258,558)	(14,528,778)
Unrealized foreign exchange loss (gain)	(3,565,531)	212,327
Interest expense and financing costs	10,322,969	8,570,815
Gain on conversion of interest in joint operation	–	(2,402,996)
Non-cash items:		
Share-based compensation (note 15(c))	(27,444)	456,749
Loss on sale of portfolio investment	224,212	–
Provision for loan and mortgage investments loss	3,137,059	931,478
Provision for uncollectible receivables	186,140	1,591,883
Fair value adjustment - portfolio investments	(75,866)	(412,616)
Share of income from investment in associates	–	(612,428)
Income tax provision	1,169,131	588,961
Change in non-cash operating items:		
Increase in other receivables	(669,494)	(918,933)
Decrease in prepaid expenses and deposits	39,292	163,348
Increase in accounts payable and accrued liabilities	475,715	2,342,396
Interest and fees received	11,484,860	18,167,754
Interest paid	(9,386,967)	(10,185,042)
Income taxes received (paid)	106,514	(691,818)
	(1,067,037)	4,796,905
Financing activities:		
Proceeds from loan and mortgage syndications	52,103,952	67,985,402
Repayments of loan and mortgage syndications	(19,591,954)	(58,175,630)
Repayments of convertible debentures	–	(10,850,000)
Repayments of mortgages payable	(43,803)	(42,508)
Proceeds from credit facilities	11,773,353	25,500,000
Repayments of credit facilities	(4,000,000)	(14,000,000)
Disposition of non-controlling interest	(200,000)	–
Repayment to joint operations partner (net)	–	(10,120,091)
Proceeds from construction loan payable	–	15,070,000
Proceeds from issuance of shares pursuant to the private placement, net of issue costs (note 15(a))	–	3,179,393
Proceeds from issuance of shares pursuant to share options plan	28,800	9,600
Repurchase of shares pursuant to normal course issuer bid	(3,109,488)	(1,601,469)
	36,960,860	16,954,697
Investing activities:		
Funding of loan and mortgage investments	(73,491,392)	(98,287,103)
Repayments of loan and mortgage investments	36,661,641	76,096,502
Funding of investment in finance lease	(3,675,053)	–
Capital additions to land under development (note 8(c))	–	(6,976,602)
Decrease (increase) in funds held in trust	1,627,530	(2,060,669)
Proceeds from redemption of portfolio investment	950,000	–
Proceeds from sale of portfolio investment	9,807,285	–
Proceeds from sale of interest in portfolio investment	78,406	101,823
Proceeds from conversion of interest in joint operation (note 7)	–	(4,286)
Funding of portfolio investment	–	(245,460)
	(28,041,583)	(31,375,795)
Increase (decrease) in cash and cash equivalents	7,852,240	(9,624,193)
Cash and cash equivalents, beginning of year	2,691,049	12,315,242
Cash and cash equivalents, end of year	$ 10,543,289	$ 2,691,049

See accompanying notes to consolidated financial statements.

1. Reporting entity:

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

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

2. Basis of presentation:

(a) Statement of compliance:

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

(b) Basis of consolidation:

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

2. Basis of presentation (continued):

Non-controlling interest represents an equity interest in the Hill owned by an outside party. The share of net assets of the Hill attributable to non-controlling interest is presented as a component of equity.

(c) Basis of measurement:

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

(d) Functional and presentation currency:

These consolidated financial statements have been presented in Canadian dollars, which is 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(c), 6, 7, 8, 9 and 15.

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.

2. Basis of presentation (continued):

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.

(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 effective interest rate, 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):

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

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

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

(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.

3. Significant accounting policies (continued):

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

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

(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.

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.

3. Significant accounting policies (continued):

(g) Land under development:

Land under development is inventory and is measured at the lower of cost and estimated net realizable value ("NRV"). NRV is the estimated selling price in the ordinary course of the business at the dates of the consolidated statements of financial position, less costs to complete and estimated selling costs. Cost includes land acquisition costs, other direct costs of development and construction, borrowing costs, property taxes and legal costs. These costs are allocated to each phase of the project in proportion to saleable acreage.

(h) Financial instruments:

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

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

All other debt instruments are measured at FVTPL.

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;

3. Significant accounting policies (continued):

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

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

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 ("HTC&S"), and assets in this business model are managed on a fair value basis.

SPPI assessment:

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

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

3. Significant accounting policies (continued):

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

The Company currently has no financial assets measured at FVOCI.

Equity instruments:

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

ACL:

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

3. Significant accounting policies (continued):

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

The Company measures the ACL on each balance sheet date according to a three-stage expected credit loss impairment model:

(i) Performing financial instrument:

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

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

(ii) Impaired financial instrument:

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

Measurement of expected credit losses:

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

3. Significant accounting policies (continued):

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

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

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

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

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

Assessment of significant increase in credit risk:

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

3. Significant accounting policies (continued):

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

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

Use of forward-looking information:

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

Macro-economic factors:

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

3. Significant accounting policies (continued):

Definition of default:

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

Credit-impaired financial assets (Stage 3):

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

3. Significant accounting policies (continued):

Modified financial assets:

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

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

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

3. Significant accounting policies (continued):

Write-off policy:

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

Hedge accounting:

The Company does not have any hedges.

(i) Compound financial instruments:

Compound financial instruments issued by the Company comprise convertible debentures that can be converted to Shares of the Company at the option of the holder, and the number of Shares to be issued does not vary with changes in their fair value. The liability component of a compound financial instrument is recognized initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognized initially as the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. All transaction costs directly attributable to the issuance of the compound financial instrument are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the EIR. The equity component of a compound financial instrument is not remeasured subsequent to initial recognition. Interest, losses and gains relating to the financial liability are recognized in the consolidated statements of income and comprehensive income.

As at December 31, 2018 and 2017, the Company had no compound financial instruments.

3. Significant accounting policies (continued):

(j) 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 are 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.

(k) Unearned income:

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

(l) Share capital:

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

(m) 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.

3. Significant accounting policies (continued):

(ii) 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.

(n) 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.

(o) 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 (the "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.

3. Significant accounting policies (continued):

(p) 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.

(q) Income taxes:

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

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

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

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

3. Significant accounting policies (continued):

(r) Foreign currency translation:

Transaction amounts denominated in foreign currencies are translated into Canadian dollar 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.

(s) Earnings per share:

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

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

3. Significant accounting policies (continued):

(t) New accounting standards:

(i) IFRS 15, Revenue from Contracts with Customers ("IFRS 15"):

The Company adopted IFRS 15 with a date of initial application of January 1, 2018. IFRS 15 provides a single model of accounting for revenue arising from contracts with customers based on the identification and satisfaction of performance obligations, and revenue from contracts with customers will be distinguished from other sources and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognized when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18, Revenue ("IAS 18") and IAS 11, Construction Contracts and related interpretations. The Company's revenue recognition under IFRS 15 is consistent with the timing of revenue recognition in accordance with the previous standard, IAS 18. The adoption of IFRS 15 had no material impact on the Company's consolidated financial statements.

(ii) IFRS 9, Financial Instruments - Classification and Measurement ("IFRS 9"):

Effective January 1, 2018, the Company adopted IFRS 9. Consequently, upon adoption of IFRS 9, the Company's accounting policies were changed in the areas outlined below, and these new policies became applicable from January 1, 2018. As permitted by the transition provisions of IFRS 9, the Company elected not to restate comparative period results. Accordingly, all comparative period information is presented in accordance with the Company's previous accounting policies, as described in the Company's consolidated financial statements as at and for the year ended December 31, 2017. Adjustments to carrying amounts of financial assets and liabilities at the date of initial application, if applicable, were recognized in opening retained earnings and other components of equity in the current period. New or amended interim disclosures have been provided for the current period, where applicable, and comparative period disclosures are consistent with those made in the prior year.

3. Significant accounting policies (continued):

(iii) IAS 17, Leases ("IAS 17"):

An entity may enter into an arrangement comprising a transaction or a series of related transactions that do not take the legal form of lease but conveys a right to use an asset in return for a payment or series of payments. Determining whether an arrangement is, or contains, a lease is based on IFRIC Interpretation 4, Determining Whether an Arrangement Contains a Lease ("IFRIC 4"). The Interpretation requires that such arrangements are accounted for in accordance with IAS 17 where certain specified conditions are met.

The determination of whether an arrangement is, or contains a lease involves an assessment based on the substance of the arrangement at inception date of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use an asset. Arrangements meeting these criteria should be identified as either operating leases or finance leases.

The Company enters into agreements, comprising a transaction or series of related transactions that does not take the legal form of a lease but conveys the right to use the asset in return for a payment or series of payments.

In case of such arrangements, the Company applies the requirements of IFRIC 4.

At the inception of an arrangement, the Company considers whether the arrangement, is or contains, a lease. The Company also determines whether the fulfillment arrangement is dependent on the use of a specific asset and if the arrangement conveys the right to use the asset. Where it is determined that the arrangement contains a lease, the Company classifies the lease as either an operating or finance leases dependent on whether substantially all of the risks or rewards of ownership of the asset have been transferred.

3. Significant accounting policies (continued):

(u) New standards not yet adopted:

Certain new standards, amendments and interpretations have been published that are mandatory for the Company's accounting periods beginning on or after January 1, 2019 that the Company has decided not to early adopt. The following are standards, amendments and interpretations that may be relevant to the Company in preparing its consolidated financial statements in future years:

(i) IFRS 16, Leases ("IFRS 16"):

IFRS 16, issued in January 2016, sets out the principles for the recognition, measurement, presentation and disclosure of leases. The objective is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. This information gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of the entity. IFRS 16 supersedes IAS 17, and IFRIC 4. The standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. In lessor accounting, IFRS 16 substantially carries forward requirements in IAS 17. IFRS 16 is effective for annual periods beginning on or after January 1, 2019. The adoption of this new standard is not expected to have a material impact on the Company's financial statements as the Company does not currently have any material leases.

(ii) IFRIC Interpretation 23 - Uncertainty over Income Tax Treatments ("IFRIC 23"):

IFRIC 23 was issued by the IASB on June 7, 2017. IFRIC 23 provides guidance on the accounting for current and deferred tax liabilities and assets in circumstances in which there is uncertainty over income tax treatments. The Interpretation is applicable for annual periods beginning on or after January 1, 2019. Earlier application is permitted. The Company intends to adopt the Interpretation in its consolidated financial statements for the annual period beginning on January 1, 2019. The Company has concluded that no impact will result from the application of IFRIC 23 on its consolidated financial statements.

There are no other IFRS or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Company.

(In Canadian dollars, unless otherwise stated)

4. Impact of adoption of IFRS 9:

(a) Mandatory reclassifications:

The combined application of the business model and SPPI tests on adoption of IFRS 9 resulted in the reclassification of the following financial assets and liabilities presented under IAS 39, Financial Instruments - Recognition and Measurement ("IAS 39"):

	IFRS 9 January 1, 2018		IAS 39 December 31, 2017	
	Measurement basis	Carrying amount	Measurement basis	Carrying amount
Assets				
Cash and cash equivalents	Amortized cost	$ 2,691,049	Loans and receivables	$ 2,691,049
Loan and mortgage investments	Amortized cost	118,998,984	Loans and receivables	118,998,984
Funds held in trust	Amortized cost	3,014,606	Loans and receivables	3,014,606
Amounts receivable and prepaid expenses	Amortized cost	3,055,193	Loans and receivables	3,055,193
Portfolio investments	FVTPL	13,575,623	FVTPL	13,575,623
Income taxes recoverable	Amortized cost	300,667	Loans and receivables	300,667
Deferred income tax assets	Amortized cost	126,283	Loans and receivables	126,283
Liabilities				
Accounts payable and accrued liabilities	Amortized cost	6,236,233	Other liabilities	6,236,233
Unearned income	Amortized cost	1,505,576	Other liabilities	1,505,576
Credit Facilities	Amortized cost	18,965,205	Other liabilities	18,965,205
Loan and mortgage syndications	Amortized cost	63,299,522	Other liabilities	63,299,522
Mortgages payable	Amortized cost	1,469,844	Other liabilities	1,469,844

(In Canadian dollars, unless otherwise stated)

4. Impact of adoption of IFRS 9 (continued):

(b) Presentation of the statements of financial position:

The adoption of the IFRS 9 impairment and classification and measurement requirements did not result in any changes to the Company's consolidated statements of financial position, presented under IAS 39.

(c) ACL:

The following table is a comparison of impairment allowances determined in accordance with IAS 39 and IAS 37, Provisions, Contingent Liabilities and Contingent Assets ("IAS 37") to the corresponding impairment allowance determined in accordance with IFRS 9 as at January 1, 2018:

	Impairment allowance under IAS 39 as at December 31, 2017	Remeasurement	Impairment allowance under IFRS 9 as at January 1, 2018
Loan and mortgage investments	$ 931,478	$ –	$ 931,478
Amounts receivable and prepaid expenses	1,591,883	–	1,591,883
	$ 2,523,361	$ –	$ 2,523,361

(In Canadian dollars, unless otherwise stated)

5. Amounts receivable and prepaid expenses:

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

	Gross carrying amount	ACL	Net carrying amount
Interest receivable	$ 245,118	$ –	$ 245,118
Other receivables	1,286,265	(263,287)	1,022,978
Prepaid expenses and deposits	79,530	–	79,530
Amounts receivable and prepaid expenses	$ 1,610,913	$ (263,287)	$ 1,347,626

The changes in the ACL on amounts receivable during the year ended December 31, 2018 were as follows:

	Balance at January 1, 2018	Provision for credit losses/ recovery	Net write offs	Other adjustments	Balance at December 31, 2018
Interest receivable	$ 812,016	$ (33,775)	$ (778,241)	$ –	$ –
Other receivables	779,867	219,915	(736,495)	–	263,287
	$ 1,591,883	$ 186,140	(1,514,736)	$ –	$ 263,287

The following table presents details of the amounts receivable and prepaid expenses as at December 31, 2017:

	Gross carrying amount	ACL	Net carrying amount
Interest receivable	$ 1,583,105	$ (812,016)	$ 771,089
Other receivables	1,353,266	(779,867)	573,399
Prepaid expenses and deposits	118,822	–	118,822
Amounts receivable and prepaid expenses	$ 3,055,193	$ (1,591,883)	$ 1,463,310

5. Amounts receivable and prepaid expenses (continued):

During the years ended December 31, 2018 and 2017, the Company incurred legal fees on the collection of loan investments to entities controlled by a Canadian borrower (the "Borrower") totaling $381,270 and $589,057, respectively, recorded an allowance for uncollectible receivables relating to loan and investments in arrears totaling $186,140 and $1,591,883, respectively and a write-off of interest and other receivables relating to loan and investments in arrears totaling $1,514,736 and nil, respectively. As at December 31, 2018 and 2017, interest receivable includes, interest receivable from loan investments to entities controlled by the Borrower that are in arrears of nil and $1,330,833, respectively. As at December 31, 2018 and 2017, other receivables include; other receivables relating to legal fees incurred on the collection of loan investments to entities controlled by the Borrower of $487,009 and $1,056,970, respectively. As at December 31, 2018 and 2017, the Company carries an allowance for uncollectible receivable balance of $263,287 and $1,591,883, respectively, related to certain interest and other receivables relating to loan and mortgage investments in arrears.

Included in interest receivable at December 31, 2018 is a non-current balance of $49,607 (2017 - $33,040). The remaining interest and other receivables are current and due in the next 12 months in accordance with their respective contract terms.

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

As at December 31, 2018 and 2017, the Company had a principal balance of loan and mortgage investments of $166,657,386 and $118,998,984, respectively. The loan and mortgage investments carry an EIR of 13.7% (2017 - 14.1%) and a weighted average term to maturity of 1.67 years (2017 - 1.85 years).

The Company syndicates certain of its loan and mortgage investments to private investors or to financial institutions, each participating in a prescribed manner per agreement and on an investment-by-investment basis. 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.

(In Canadian dollars, unless otherwise stated)

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

Since the loan and mortgage investments are initially advanced by the Company and syndicated at a later date, the Company accounts for the loan and mortgage investments on a gross basis. The principal balance of loan and mortgage syndications at December 31, 2018 and 2017 was $103,513,760 and $63,299,522, respectively. The loan and mortgage syndications carry a weighted average effective interest rate of 10.2% (2017 - 10.2%) and a weighted average term to maturity of 1.53 years (2017 - 1.74 years).

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

	Loan and mortgage investments	ACL	Net loan and mortgage investments	Loan and mortgage syndications	Net investments	% of net investments
Performing loans:						
Residential housing developments	$ 40,584,646	$ (147,036)	$ 40,437,610	$ 10,521,976	$ 29,915,634	47.9
Land and lot inventory	115,865,448	(575,834)	115,289,614	87,468,799	27,820,815	44.6
Commercial retail development	6,484,394	(4,981)	6,479,413	5,522,985	956,428	1.5
	162,934,488	(727,851)	162,206,637	103,513,760	58,692,877	94.0
Impaired loans:						
Residential housing developments	3,722,898	–	3,722,898	–	3,722,898	6.0
	$ 166,657,386	$ (727,851)	$ 165,929,535	$ 103,513,760	$ 62,415,775	100.0

The following table presents details of the loan and mortgage investments and loan and mortgage syndications as at December 31, 2017:

	Loan and mortgage investments	ACL	Net loan and mortgage investments	Loan and mortgage syndications	Net investments	% of net investments
Performing loans:						
Residential housing developments	$ 20,791,677	$ (22,904)	$ 20,768,773	$ 12,916,020	$ 7,852,753	14.6
Land and lot inventory	86,412,191	(567,888)	85,844,303	50,383,502	35,460,801	65.8
	107,203,868	(590,792)	106,613,076	63,299,522	43,313,554	80.4
Impaired loans:						
Residential housing developments	11,795,116	(1,241,971)	10,553,145	–	10,553,145	19.6
	$ 118,998,984	$ (1,832,763)	$ 117,166,221	$ 63,299,522	$ 53,866,699	100.0

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

For the year ended December 31, 2018, the Company has two loans and mortgage investments in the U.S, before syndication, that accounts for 10.9% and 13.2% of the Company's total interest and fees revenue, respectively. As at December 31, 2018, there are three loans in the U.S., before syndication, that account for 10.2%, 13.2% and 14.7% of the principal balance of loan and mortgage investments. For the year ended December 31, 2017, the Company had two loans and mortgage investments in the U.S, before syndication, that accounted for 12.9% and 11.7% of the Company's total interest and fees revenue, respectively. As at December 31, 2017, there were three loans in the U.S., before syndication, that accounted for 10.9%, 12.4% and 13.2% of the principal balance of loan and mortgage investments.

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

During the years ended December 31, 2018 and 2017, the Company capitalized interest income of $4,826,218 and $7,083,485, respectively, which is included in the loan and mortgage investments.

Pursuant to certain lending agreements, the Company is committed to fund additional loan advances, subject to borrowers meeting certain funding conditions. The unfunded loan commitments under the existing loan and mortgage investments at December 31, 2018 were $33,890,318, including $9,619,072 of capitalization of future interest relating to existing loan and mortgage investments (2017 - $46,714,363, including $13,988,176 of capitalization of future interest relating to existing loan and mortgage investments).

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.

(In Canadian dollars, unless otherwise stated)

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

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

	Loan and mortgage investments	ACL	Net loan and mortgage investments	Loan and mortgage syndications	Net investments	% of net investments
Canada	$ 16,625,313	$ (48,377)	$ 16,576,936	$ 9,158,276	$ 7,418,660	11.9
United States	150,032,073	(679,474)	149,352,599	94,355,484	54,997,115	88.1
	$ 166,657,386	$ (727,851)	$ 165,929,535	$ 103,513,760	$ 62,415,775	100.0

The following table presents details of the Company's principal balances of loan and mortgage investments segmented by geography as at December 31, 2017:

	Loan and mortgage investments	ACL	Net loan and mortgage investments	Loan and mortgage syndications	Net investments	% of net investments
Canada	$ 34,586,791	$ (1,267,662)	$ 33,319,129	$ 14,416,021	$ 18,903,108	35.1
United States	84,412,193	(565,101)	83,847,092	48,883,501	34,963,591	64.9
	$ 118,998,984	$ (1,832,763)	$ 117,166,221	$ 63,299,522	$ 53,866,699	100.0

The following table presents details of the Company's credit exposure on the gross carrying amount of loan and mortgage investments, net of loan and mortgage syndications, for which ACL allowance is recognized as at December 31, 2018:

IFRS 9	Stage 1	Stage 2	Stage 3	Total
Residential housing developments	$ 30,062,670	$ –	$ 3,722,898	$ 33,785,568
Land and lot inventory	28,396,649	–	–	28,396,649
Commercial retail development	961,409	–	–	961,409
	$ 59,420,728	$ –	$ 3,722,898	$ 63,143,626

(In Canadian dollars, unless otherwise stated)

6. 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, net of loan and mortgage syndications segmented by geography, for which ACL allowance is recognized as at December 31, 2018:

IFRS 9	Stage 1	Stage 2	Stage 3	Total
Canada	$ 3,744,139	$ –	$ 3,722,898	$ 7,467,037
United States	55,676,589	–	–	55,676,589
	$ 59,420,728	$ –	$ 3,722,898	$ 63,143,626

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

	Scheduled principal payments	Investments maturing during the year	Total loan and mortgage investments
2019	$ –	$ 46,564,530	$ 46,564,530
2020	–	68,830,448	68,830,448
2021	–	26,819,993	26,819,993
2022	–	24,442,415	24,442,415
	$ –	$ 166,657,386	$ 166,657,386

(In Canadian dollars, unless otherwise stated)

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

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

	Scheduled principal payments	Loans maturing during the year	Total loan and mortgage syndications
2019	$ –	$ 35,652,994	$ 35,652,994
2020	–	42,682,627	42,682,627
2021	–	8,737,123	8,737,123
2022	–	16,441,016	16,441,016
	$ –	$ 103,513,760	$ 103,513,760

Allowance for loan and mortgage investments loss:

At December 31, 2017, four project loan investments totaling $14,182,918, including interest receivable on these loans and fees incurred relating to collection of these loans totaling $2,387,802, for projects owned by entities controlled by the Borrower are in arrears. The foreclosure process has commenced and is proceeding on these project loans to enforce the security. During the year ended December 31, 2018, the Company funded an additional $520,357 of loan and mortgage investments and received $5,100,094, comprising a loan investment totaling $4,350,604 and interest and other receivable totaling $749,490 from a project owned by an entity controlled by the Borrower that was in arrears. During the year ended December 31, 2018, due to the uncertainty and timing related to a recovery of a loan and mortgage investments in arrears, the Company recorded an allowance for loan and mortgage investments loss of $3,000,000 and, subsequently a write-off of two loan and mortgage investments totaling $4,241,971. At December 31, 2018, one project loan investment totaling $4,209,907, including interest receivable on this loan and fees incurred relating to collection of this loan totaling $487,009, to a project owned by an entity controlled by the Borrower is in arrears. As at December 31, 2018 and 2017, based on the most recent valuations of the underlying assets and management's estimates, the Company carries an allowance for credit loss balance of nil and $1,241,971, respectively, relating to certain loan and mortgage investments in arrears.

(In Canadian dollars, unless otherwise stated)

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

The changes in the ACL on loan and mortgage investments during the year ended December 31, 2018 were as follows:

	IFRS 9				
	Balance at January 1, 2018	Provision for credit losses/ recovery	Net write offs	Other adjustments	Balance at December 31, 2018
Residential housing developments	$ 1,264,875	$ 3,124,132	$ (4,241,971)	$ –	$ 147,036
Land and lot inventory	567,888	7,946	–	–	575,834
Commercial retail development	–	4,981	–	–	4,981
	$ 1,832,763	$ 3,137,059	$ (4,241,971)	$ –	$ 727,851

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

IFRS 9	Stage 1	Stage 2	Stage 3	Total
Balance, beginning of year	$ 590,792	$ –	$ 1,241,971	$ 1,832,763
Provision for credit losses:				
Remeasurement	137,059	–	3,000,000	3,137,059
Transfer to (from):				
Stage 1	–	–	–	–
Stage 2	–	–	–	–
Stage 3	–	–	–	–
Net write-offs	–	–	(4,241,971)	(4,241,971)
Balance, end of year	$ 727,851	$ –	$ –	$ 727,851

The following table presents details of the Company's ACL on loan and mortgage investments as at December 31, 2018:

IFRS 9	Stage 1	Stage 2	Stage 3	Total
Residential housing developments	$ 147,036	$ –	$ –	$ 147,036
Land and lot inventory	575,834	–	–	575,834
Commercial retail development	4,981	–	–	4,981
	$ 727,851	$ –	$ –	$ 727,851

(In Canadian dollars, unless otherwise stated)

6. 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, 2018:

IFRS 9	Stage 1	Stage 2	Stage 3	Total
Canada	$ 48,377	$ –	$ –	$ 48,377
United States	679,474	–	–	679,474
	$ 727,851	$ –	$ –	$ 727,851

7. Investment in finance lease:

On April 16, 2018, the Company entered into a fixed term contractual arrangement with a builder whereby the Company acquired land for residential housing development from a third party for total cash consideration of $3,724,474 (U.S. $2,920,000) and provided the builder with the exclusive right to use and develop the land. The Company is committed to make additional investments of $4,453,884 (U.S. $3,266,029) for development of the land, subject to the builder meeting certain funding conditions. During the year ended December 31, 2018, the Company made additional investments of $1,169,195 (U.S. $873,903) for development of the land. The remaining unfunded commitment on this arrangement at December 31, 2018 amounts to $3,262,142 (U.S. $2,392,126). The Company also entered into a fixed price contract with the builder to complete all required development based upon a fixed construction budget. Under this arrangement, the builder has an 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 in order to build residential units. The builder provided the Company a non-refundable deposit of $1,218,616 (U.S. $927,904) and the Company paid $2,505,858 (U.S. $1,992,096) at the time of the closing of the acquisition. The builder's deposit will be applied on a lot-by-lot basis, upon acquisition of the lots by the builder. At the inception, the Company determined that the arrangement contains a lease and that all of the risks or rewards of ownership of the asset have been transferred and accounts for the arrangement as a finance lease.

The investment in the finance lease is the aggregate of gross lease payments and unearned finance income discounted at the interest rate implicit in the lease. The rate implicit in the lease is 12.9% per annum. The unearned finance income at December 31, 2018 was $57,125 (2017 - nil).

(In Canadian dollars, unless otherwise stated)

7. Investment in finance lease (continued):

The following table summarizes the changes in the investment in finance lease for the years ended December 31, 2018 and 2017:

	2018	2017
Balance, beginning of year	$ –	$ –
Investments made	3,675,053	–
Lease payments received	(256,432)	–
Finance income recognized	199,307	–
Unrealized foreign exchange gain	227,591	–
Balance, end of year	$ 3,845,519	$ –

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	$ 1,405,107	$ 467,789	$ 937,318
Greater than one year but less than 5 years	3,538,953	630,752	2,908,201
	$ 4,944,060	$ 1,098,541	$ 3,845,519

8. 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.

8. Joint arrangements (continued):

(i) Montreal Street JV:

In July 2009, the Company entered into a co-tenancy agreement (the "Montreal Street JV") with a development partner to develop a store for a national pharmacy chain 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%.

(ii) Valermo Homes JV:

One of the Company's loan and mortgage investments provided the Company an option to purchase a 50% interest in the Valermo Homes JV, owned by affiliates of the Company's Borrower. Valermo Homes JV is a residential real estate development consisting of approximately 98 residential dwelling units. On April 15, 2016, the Company through TFVC, exercised its option and acquired a 50% interest in the Valermo Homes JV for $7,000,000. The Company incurred $624,681 in closing costs.

On December 28, 2017, the co-owners of the Valermo Homes JV entered into a limited partnership (the "Valermo Partnership") agreement (the "Valermo LP Agreement") and agreed to transfer their respective interest in the Valermo Homes JV into the Valermo Partnership and hold their respective interests as limited partners of the Valermo Partnership. On the transfer of interest made as of December 31, 2017, TFVC relinquished control of the project and TFVC now accounts for its interest in the Valermo Partnership as a portfolio investment (note 9).

(In Canadian dollars, unless otherwise stated)

8. Joint arrangements (continued):

The fair value of TFVC's interest in the identifiable assets transferred and liabilities assumed in the Valermo Homes JV at the date of transfer of interest to the Valermo Partnership is as follows:

		Total
Net assets of the Valermo Homes JV transferred:		
Land under development	$	33,188,172
Amounts receivable and prepaid expenses		488,601
Cash and cash equivalents		4,286
Loan and mortgage investments		(870,389)
Due to joint operations partner (note 8(d))		(1,043,549)
Construction loan payable (note 8(e))		(15,070,000)
Accounts payable and accrued liabilities		(6,889,835)
Value of assets transferred on conversion to partnership interest	$	9,807,286
Partnership interest in the Valermo Partnership received:		
Investment in the Valermo Partnership	$	9,807,286
Value of investment received on conversion	$	9,807,286

The carrying value of TFVC's interest in identifiable assets transferred and liabilities assumed in the Valermo Homes JV at the date of conversion of interest in joint operations to limited partnership interest in the Valermo Partnership was $7,404,290. The Company recognized a gain on conversion of interest in joint operations to limited partnership interest in the Valermo Partnership of $2,402,996.

(In Canadian dollars, unless otherwise stated)

8. Joint arrangements (continued):

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

	2018	2017
Assets		
Cash and cash equivalents	$ 21,903	$ 63,090
Amounts receivable and prepaid expenses	110,624	108,142
Investment property	2,208,694	2,208,694
	2,341,221	2,379,926
Liabilities		
Accounts payable and prepaid expenses	46,680	46,625
Mortgages payable	1,428,897	1,469,844
	1,475,577	1,516,469
Net assets	$ 865,644	$ 863,457

The table below details the results of operations for the years ended December 31, 2018 and 2017, attributable to the Company from its joint operations activities:

	2018	2017
Rental revenue	$ 201,772	$ 201,775
Property operating costs	69,228	68,802
General and administrative expenses (recovery)	2,522	(45,872)
Interest expense	44,612	45,841
	116,362	68,771
Net income	$ 85,410	$ 133,004

(In Canadian dollars, unless otherwise stated)

8. Joint arrangements (continued):

(b) Investment property:

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

At December 31, 2018 and 2017, the fair value was determined by the Company's management. The Company determined the fair value of investment property in the Montreal Street JV using the direct capitalization method. Under the direct capitalization method, fair value was determined by capitalizing the estimated future normalized net operating income at the market capitalization rate. The capitalization rate used in the valuation of property was 6.25% (2017 - 6.25%). At December 31, 2018 and 2017, the carrying value of the Company's proportionate share of investment property in the Montreal Street JV is $2,208,694.

As at December 31, 2018 and 2017, a 25-basis-point decrease in the overall capitalization rate would increase the Company's proportionate share of value of investment property in the Montreal Street JV by $92,400 and a 25-basis-point increase in the overall capitalization rate would decrease the Company's proportionate share of the value of investment property in the Montreal Street JV by $85,250.

(c) Land under development:

The following table summarizes the changes in the Company's proportionate share of the land under development for the years ended December 31, 2018 and 2017:

	2018	2017
Balance, beginning of year	$ –	$ 23,808,574
Additions, capital expenditures	–	6,976,602
Conversion to portfolio investments	–	(30,785,176)
Balance, end of year	$ –	$ –

8. Joint arrangements (continued):

(d) Due to joint operations partner:

Prior to December 31, 2017, the co-ownership agreement for the Valermo Homes JV provided that the Company was not required to make any other contributions in respect of expenses or development costs and the development partner would loan the applicable amounts to the co-ownership at an interest rate between 7% and 9% per annum. The interest was calculated using the formula specified in the co-ownership agreement.

On December 31, 2017, TFVC's share of the amount due to joint operations partners assumed by the Valermo Partnership at the date of conversion of its interest in the Valermo Homes JV to limited partnership interest in the Valermo Partnership was $1,043,549. At December 31, 2018 and 2017, the amount due to the joint operations partner is nil.

(e) Construction loan payable:

On February 23, 2017, the Valermo Homes JV entered into secured revolving and non-revolving demand facilities (the "Facilities") with a lending institution for $65.6 million to finance the construction of homes. Interest on advanced funds under the Facilities carries an interest rate at prime plus 0.75% per annum.

On December 31, 2017, upon conversion of Valermo Homes JV into the Valermo Partnership, the Valermo Partnership assumed the Company's share of the construction loan payable of $15,070,000. At December 31, 2018 and 2017, the construction loan payable was nil.

(f) Mortgages payable:

On June 16, 2016, the Montreal Street JV refinanced the mortgage totaling $2,800,000. The Company's share of the mortgage, net of deferred financing costs is $1,524,826. The original mortgage had an interest rate of 4.2% per annum, with a maturity date of June 16, 2016. The refinanced mortgage bears interest at 3.0% per annum, and is amortized over 25 years and matures on July 1, 2021.

(In Canadian dollars, unless otherwise stated)

8. Joint arrangements (continued):

The details of the mortgages payable in respect of the Company's proportionate share of the joint operations at December 31, 2018 and 2017 are as follows:

	2018	2017
Mortgage principal	$ 1,436,350	$ 1,480,153
Unamortized financing costs	(7,453)	(10,309)
	$ 1,428,897	$ 1,469,844

Scheduled principal repayments and maturity amounts of mortgages payable over the next three years are as follows:

	Loans scheduled principal payments	Total maturing during the year	Loans and mortgages payable
2019	$ 45,138	$ –	$ 45,138
2020	46,513	–	46,513
2021	23,785	1,320,914	1,344,699
	$ 115,436	$ 1,320,914	$ 1,436,350

9. Portfolio investments:

(a) The Company had invested through the Hill, in a partnership interest in a 94-unit mid-rise condominium development project located in Toronto, Ontario. The Company did not have significant influence in the partnership and accounted for this investment as a financial asset at FVTPL. On June 14, 2018, the Company elected to sell its interest in the partnership for $950,000 and recorded a loss of $224,212, which includes the share of loss on investment owned by an outside party of $54,641. The disposed non-controlling interest amounted to $200,000. As at December 31, 2018, the cost of the investment is nil (2017 - $954,630), and the cost of the investment in the Hill owned by an outside party is nil (2017 - $200,000). At December 31, 2017, the fair value of the investment in the Hill, determined by management, was $1,174,212 and the investment owned by an outside party, included in the non-controlling interest was $254,641.

(b) The Company, through TFCC LanQueen Ltd. entered into a partnership agreement (the "Queen Agreement"), whereby TFCC LanQueen Ltd. is committed to invest in a redevelopment project located in Toronto, Ontario. The Queen Agreement allows TFCC LanQueen Ltd. to receive a 3% fee at the time of commitment and an amount by way of a preferred return equal to 10% per annum calculated and compounded annually on the amount of its investment in the partnership. TFCC LanQueen Ltd. does not have significant influence in the partnership and is accounting for this investment as a financial asset at FVTPL. As at December 31, 2018 and 2017, TFCC LanQueen Ltd. contributed $1,724,000 in the partnership. At December 31, 2018, the fair value of the investment was determined by management, using the direct comparison method. The fair value of the investment at December 31, 2018 was $2,526,354 (2017 - $2,450,488).

9. Portfolio investments (continued):

(c) The Company, through TFCC International Ltd. entered into a partnership agreement (the "Savannah Agreement"), whereby TFCC International Ltd. is committed to invest U.S. $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 partnership making distributions to Savannah Partnership and other partners at a rate equal to 11% per annum calculated and compounded monthly. TFCC International Ltd. does not have significant influence in the Savannah Partnership and is accounting for this investment as a financial asset at FVTPL. On September 20, 2017, TFCC International Ltd. contributed $245,460 (U.S. $200,000) to the Savannah Partnership. TFCC International Ltd. sold part of its interest in the Savannah Partnership to investors for $180,228 (U.S. $141,000). As at December 31, 2018, the cost of the investment in the Savannah Partnership is $65,231 (U.S. $59,000) (2017 - $143,637 (U.S. $120,000)). At December 31, 2018 and 2017, the fair value of the investment in the Savannah Partnership was determined by management, using the direct comparison method. The fair value of the investment in the Savannah Partnership at December 31, 2018 is $65,231 (2017 - $143,637).

TFCC International Ltd. also committed to provide a first mortgage loan up to U.S. $18,000,000, including capitalization of interest, subject to the Savannah Project meeting certain funding conditions. The loan carries an interest rate of 11% per annum calculated and compounded monthly. As at December 31, 2018, TFCC International Ltd. had a loan investment balance of $24,442,412 (U.S. $17,923,599) (2017 - $14,707,685 (U.S. $11,699,964)) and syndicated $16,441,016 (U.S. $12,056,183) of the loan investment to investors (2017 - $5,875,990 (U.S. $4,674,242)).

(In Canadian dollars, unless otherwise stated)

9. Portfolio investments (continued):

(d) On December 28, 2017, TFVC entered into the Valermo LP Agreement and transferred its interest in the Valermo Homes JV in exchange for limited partnership units in the Valermo Partnership (note 8). The fair value of TFVC's interest in identifiable assets and liabilities transferred at the date of conversion of interest in the Valermo Homes JV to a 50% limited partnership interest in the Valermo Partnership was $9,807,286 (note 8(a)(ii)). TFVC does not have significant influence in the Valermo Partnership and accounts for this investment as a financial asset at FVTPL. During the year ended December 31, 2018, the Company received a return of capital in the Valermo Partnership of $9,807,285. The fair value of the investment determined by management, using the direct comparison method at December 31, 2018, after receipts of capital of $9,807,285, was $1 (2017 - $9,807,286).

The following table summarizes the changes in the portfolio investments for the years ended December 31, 2018 and 2017:

	2018	2017
Balance, beginning of year	$ 13,575,623	$ 3,212,084
Investments made	–	245,460
Return of investment	(9,807,285)	–
Redemption of investment	(950,000)	–
Conversion of interest in joint operations to limited partnership units	–	9,807,286
Loss on redemption of investment	(224,212)	–
Sale of investment	(78,406)	(101,823)
Fair value adjustment	75,866	412,616
Balance, end of year	$ 2,591,586	$ 13,575,623

The following table presents details of the portfolio investments as at December 31, 2018 and 2017:

	2018	2017
Investment in the Hill Partnership	$ –	$ 1,174,212
Investment in the LanQueen Partnership	2,526,354	2,450,488
Investment in the Valermo Partnership	1	9,807,286
Investment in the Savannah Partnership	65,231	143,637
	$ 2,591,586	$ 13,575,623

(In Canadian dollars, unless otherwise stated)

10. Investment in associates:

The Company, together with certain syndicate investors had invested in a 668 unit high-rise condominium development project (the "Lan Project") located in Toronto, Ontario, through a partnership interest (the "Lan Partnership") on February 20, 2015.

At December 31, 2018 and 2017, the Company's share of investment in the Lan Partnership, after taking into account of sale of some of its interest in the Lan Partnership to syndicate investors, was $2,315,414.

At December 31, 2018 and 2017, the Lan Partnership has invested $13,333,333 in the Lan Project. The Company acts as a general partner of the Lan Partnership and is entitled to receive a carried interest at 10% at the end of the Lan Partnership's life. The Company does not earn carried interest until the limited partners in the Lan Partnership have achieved cumulative investment returns on invested capital in excess of a 10% hurdle rate. The Company exerts significant influence in the Lan Partnership and accounts for this investment using the equity method of accounting.

At December 31, 2018 and 2017, the fair value of the investment in the Lan Partnership was determined by management, using the direct comparison method. The fair value of the investment in the Lan Partnership at December 31, 2018 and 2017 was $2,927,842.

The following table summarizes the changes to the carrying value of investment in associates for the years ended December 31, 2018 and 2017:

	2018	2017
Balance, beginning of year	$ 2,927,842	$ 2,315,414
Share of income from investment in associates	–	612,428
Balance, end of year	$ 2,927,842	$ 2,927,842

(In Canadian 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, 2018 and 2017:

	2018	2017
Interest payable	$ 769,812	$ 647,152
Interest reserve	824,114	2,356,821
Accounts payable and accrued liabilities	2,048,059	1,574,646
Share-based compensation payable (note 15(c)(ii))	1,291,978	1,657,614
	$ 4,933,963	$ 6,236,233

Accounts payable and accrued liabilities are current and payable in the 2019 fiscal year.

12. Credit facilities:

The Company's credit facilities (the "Credit Facilities") consist of a $20,000,000 secured revolving operating facility (the "Facility") and a U.S. $20,000,000 master credit facility (the "Master Facility").

(a) Revolving operating facility:

The Company has a revolving operating facility credit agreement (the "Facility Agreement") with a lending institution for a Facility that was originally set to mature on March 1, 2018. On March 1, 2018, the Company exercised its option to extend the term of the Facility for another six months for a maturity date to September 1, 2018 and paid the Facility extension fee of $100,000. The extension fee was deferred and amortized over the six-month extension term of the Facility. The Facility carried an interest rate of 9.5% per annum. The Facility was subject to a redetermination of a borrowing base, calculated as a percentage of eligible loan and mortgage investments and subject to certain adjustments. As security for its obligations under the Facility, the Company entered into certain security documents, including a general security agreement, a specific assignment of the Company's current and future participating loan interests in certain real estate investments located throughout Canada and the United States. The Facility allowed the Company to fund and warehouse new investments while raising syndicate on and/or co-investment capital.

12. Credit facilities (continued):

On September 4, 2018, the Company amended the Facility Agreement (the "Amendment"), to extend further the maturity date to April 1, 2019. The Amendment provides the Company an option for two extensions of the Facility, each for a further term of seven months from the maturity date. Pursuant to the Amendment, the Facility carries an interest rate of 9.5% per annum until one month prior to the maturity date. Any unpaid balance one month prior to the maturity date will carry an interest rate of 12% per annum, until repaid.

In connection with the Amendment, the Company incurred lender and other third-party costs of $100,000. The costs associated with the Amendment have been deferred and are being amortized over the current term of the Facility as interest expense using the EIR method.

During the years ended December 31, 2018 and 2017, the Company borrowed an aggregate of nil and $25,500,000, respectively and repaid $4,000,000 and $14,000,000, respectively, against the Facility.

On March 1, 2019, the Company filed an extension notice to extend the term of the Facility for another seven months for a maturity date to November 1, 2019.

(b) Master credit facility:

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

(In Canadian dollars, unless otherwise stated)

12. Credit facilities (continued):

During the years ended December 31, 2018 and 2017, the Company borrowed an aggregate of $11,773,353 (U.S. $8,804,480) and nil, respectively, against the Master Facility. During the years ended December 31, 2018 and 2017, the Company made no repayments to the Master Facility

In connection with the Master Facility in 2018, the Company incurred lender and other third-party costs of $465,036 (2017 - nil). The costs associated with the Master Facility have been deferred and are being amortized over the term of the Master Facility as interest expense using the effective-interest amortization method.

For the years ended December 31, 2018 and 2017, amortization of deferred financing costs reported as interest expense and financing costs relating to the credit facilities totaled $290,018 and $139,757, respectively.

The following table presents details of the credit facilities as at December 31, 2018 and 2017:

	2018	2017
Revolving operating facility:		
Face value	$ 15,000,000	$ 19,000,000
Unamortized financing costs	(45,600)	(34,795)
	14,954,400	18,965,205
Master credit facility:		
Face value	12,006,669	–
Unamortized financing costs	(400,832)	–
	11,605,837	–
	$ 26,560,237	$ 18,965,205

The terms of the Credit Facilities require the Company to comply with certain covenants. If the Company fails to comply with these covenants the lenders may declare an event of default. At December 31, 2018 and December 31, 2017, the Company was in compliance with these covenants.

13. Convertible debentures:

The Company had unsecured subordinated convertible debentures (the "Debentures") in the principal amount of $10,850,000. The Debentures bore interest at an annual rate of 7%, payable quarterly on the last business day of each calendar quarter and were to mature on September 27, 2017. The fair value of the liability component of the Debentures was calculated by discounting the stream of future principal and interest payments at the rate of 8.0% which represents the rate of interest prevailing at the date of issue for instruments of similar terms and risks. The debt component was assigned a value of $10,486,460 (net of transaction costs of $76,962) and the equity component was assigned a value of $284,490 (net of transaction costs of $2,088). The EIR of the Debentures was 8.53%.

On September 12, 2017, the Company repaid in cash, all of its outstanding Debentures in the aggregate principal amount of $10,850,000 plus all accrued and unpaid interest owed. On September 12, 2017, upon repayment of the Debentures, the Company transferred the assigned equity component value of $284,490 to contributed surplus (note 16).

14. Commitments and contingencies:

Pursuant to certain lending agreements, the Company is committed to fund additional loan investments, subject to borrowers meeting certain funding conditions. The unfunded loan commitments under the existing lending agreements at December 31, 2018 were $33,890,318 (2017 - $46,714,363). The unfunded commitment under the existing investment in finance lease at December 31, 2018 was $3,262,142 (2017 - nil).

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

As at December 31, 2017, the Company had a guarantee outstanding on the construction loan payable in the Valermo Partnership to the third party lender (note 8(e)).

(In Canadian dollars, unless otherwise stated)

14. Commitments and contingencies (continued):

The Company has a lease commitment on its head office premises located at 22 St. Clair Avenue East, Toronto, Ontario and its previous head office premises located at 5000 Yonge Street, Toronto, Ontario. The future minimum lease payments, which includes estimated operating costs of the office spaces as at December 31, 2018, are as follows:

2019	$ 223,428
2020	223,428
	$ 446,856

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.

15. Shareholders' equity:

(a) Shares issued and outstanding:

The following table summarizes the changes in Shares for the years ended December 31, 2018 and 2017:

	Shares	Amount
Outstanding, December 31, 2016	61,135,250	$ 31,789,819
Issuance of Shares pursuant to private placement	5,000,000	2,661,223
Issuance of Shares pursuant to the Plan	32,000	9,600
Repurchase of Shares pursuant to normal course issuer bid	(2,391,400)	(1,601,469)
Transferred from contributed surplus upon exercise of share options	–	5,114
Outstanding, December 31, 2017	63,775,850	32,864,287
Issuance of Shares pursuant to the Plan	96,000	28,800
Repurchase of Shares pursuant to normal course issuer bid	(5,236,014)	(3,109,488)
Transferred from contributed surplus upon exercise of share options	–	17,867
Outstanding, December 31, 2018	58,635,836	$ 29,801,466

15. Shareholders' equity (continued):

On May 14, 2018, directors of the Company exercised 96,000 options that had been granted to purchase the Shares at $0.30 per Share. The consideration of $28,800 received on exercising the options was recorded as share capital and the related contributed surplus of $17,867 was transferred to share capital (note 16).

On December 19, 2017, a director of the Company exercised 32,000 options that had been granted to purchase the Shares at $0.30 per Share. The consideration of $9,600 received on exercising the options was recorded as share capital and the related contributed surplus of $5,114 was transferred to share capital (note 16).

On August 15, 2017, the Company completed a non-brokered private placement offering consisting of 5,000,000 units (the "Units") at a purchase price of $0.65 per Unit, for gross proceeds of $3,250,000. Each Unit is comprised of one Share and one Warrant (note 15(d)). Each Warrant is exercisable for one Share at a price of $0.85 per Share, with an expiry date of August 15, 2020. The Company incurred share issuance costs of $588,777, consisting of cost of Warrants of $536,881 (note 15(d)), cash costs of $70,607, offset by a deferred tax benefit of $18,711.

(b) Normal course issuer bid:

On November 23, 2018, following the expiry of the Normal Course Issuer Bid (the "NCIB") on November 6, 2018 (the "Prior NCIB"), the Company renewed the NCIB (the "Renewed NCIB"). Under the terms of the Renewed NCIB, the Company may be permitted to acquire up to 4,186,319 Shares, being 10% of the public float of common shares issued and outstanding as of November 27, 2018, as defined by the policies of the TSX-V. The Renewed NCIB commenced through the TSX-V on November 17, 2018 and will conclude on the earlier of: (i) November 26, 2019, (ii) the date on which the Company has purchased the maximum number of Shares to be acquired pursuant to the renewed NCIB, or (iii) the Company providing a notice of termination to the TSX-V.

The Prior NCIB commenced on November 14, 2017, permitted the Company to purchase up to an aggregate maximum of 4,255,765 Shares. The Prior NCIB concluded on November 6, 2018, being the date on which the Company has purchased the maximum number of Shares permitted to be acquired pursuant to the Prior NCIB.

During the years ended December 31, 2018 and 2017, the Company purchased 5,236,014 and 2,391,400 Shares, respectively on the TSX-V for $3,109,488 and $1,601,469, respectively.

(In Canadian dollars, unless otherwise stated)

15. Shareholders' equity (continued):

(c) Share-based payments:

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

	2018	2017
Share option Plan	$ 338,192	$ 243,076
DSU Plan	(365,636)	213,673
	$ (27,444)	$ 456,749

(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 August 23, 2018, the Company granted options to its Chairman to purchase up to 400,000 common shares of the Company at a price of $0.64 per share with the expiry date of August 24, 2025. 200,000 options vested immediately and the remaining 200,000 options shall vest in equal instalments on a quarterly basis over a six-month period.

On December 21, 2017, the Company granted options to certain officers and employees of the Company to purchase an aggregate of 340,000 Shares at $0.67 per Share, with the expiry date of December 21, 2024. Each of the option grants shall vest in equal instalments on a quarterly basis over a three-year period.

(In Canadian dollars, unless otherwise stated)

15. Shareholders' equity (continued):

On September 25, 2017, the Company granted options to its investor relations consultant to purchase up to 100,000 common Shares of the Company at a price of $0.69 per Share with the expiry date of September 25, 2020. Each of the option grants shall vest in four equal instalments every three months.

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:

	August 23, 2018	December 21, 2017	September 25, 2017
Average expected life	7.00 years	7.00 years	3.00 years
Average risk-free interest rate	2.21%	1.72%	1.65%
Average expected volatility	81.92%	59.09%	48.70%
Average dividend yield	0.00%	0.00%	0.00%

The fair value of options granted on August 23, 2018, December 21, 2017 and September 25, 2017 were $190,099, $168,103 and $37,358, respectively.

The following is the summary of changes in share options for the years ended December 31, 2018 and 2017:

	2018		2017	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding, beginning of year	5,001,671	$ 0.70	5,278,671	$ 0.67
Granted	400,000	0.64	440,000	0.67
Exercised	(96,000)	0.30	(32,000)	0.30
Cancelled	(10,000)	0.85	(100,000)	0.50
Expired	(10,667)	0.30	(585,000)	0.50
Outstanding, end of year	5,285,004	0.70	5,001,671	0.70
Number of options exercisable	4,678,384	$ 0.71	4,295,367	$ 0.70

(In Canadian dollars, unless otherwise stated)

15. Shareholders' equity (continued):

The following summarizes the Company's outstanding share options as at December 31, 2018:

Number of options outstanding	Expiry date	Number of options exercisable	Exercise price	Market price at date of grant
50,000	February 23, 2019	50,000	$ 0.50	$ 0.42
515,000	May 20, 2019	515,000	0.50	0.47
599,115	November 28, 2019	599,115	0.68	0.85
1,050,000	November 28, 2019	1,050,000	0.79	0.85
970,889	May 11, 2020	970,889	0.85	0.85
100,000	September 25, 2020	100,000	0.69	0.69
200,000	March 31, 2023	200,000	0.77	0.77
500,000	June 28, 2023	500,000	0.57	0.57
560,000	December 27, 2023	280,044	0.65	0.65
340,000	December 21, 2024	113,336	0.67	0.67
400,000	August 24, 2025	300,000	0.64	0.64
5,285,004		4,678,384		

(ii) Deferred Share Unit Plan:

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

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

(In Canadian dollars, unless otherwise stated)

15. Shareholders' equity (continued):

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

The following is the summary of changes in DSUs for the years ended December 31, 2018 and 2017:

	2018	2017
DSUs outstanding, beginning of year	2,515,561	2,394,066
Granted	346,641	302,254
Settled	–	(173,925)
Cancelled	–	(6,834)
DSUs outstanding, end of year	2,862,202	2,515,561
Number of DSUs vested	2,808,648	2,474,051

The total cost recognized with respect to DSUs, including the change in fair value of DSUs during the years ended December 31, 2018 and 2017, were ($365,636) and $213,673, respectively.

On December 19, 2017, a member of the Board settled 173,925 DSUs for $114,720 upon his resignation.

The carrying amount of the liability, included in accounts payable and accrued liabilities, relating to the DSUs at December 31, 2018 and 2017 is $1,291,978 and $1,657,614, respectively.

(d) Warrants:

The Company completed a non-brokered private placement offering on August 15, 2017 of 5,000,000 Units comprised of 5,000,000 Shares and Warrants. Each Warrant is exercisable for one Share at a price of $0.85 per Share, with an expiry date of August 15, 2020. The fair value of Warrants granted on August 15, 2017 was $536,881.

(In Canadian dollars, unless otherwise stated)

15. Shareholders' equity (continued):

The fair value of Warrants was estimated at the grant date using the Black-Scholes option pricing model with the following assumptions:

	August 15, 2017
Average expected life	3.00 years
Average risk-free interest rate	1.27%
Average expected volatility	48.7%
Average dividend yield	–

16. Contributed surplus:

The following table presents the details of the contributed surplus balances as at December 31, 2018 and 2017:

	2018	2017
Balance, beginning of year	$ 3,573,406	$ 2,514,073
Fair value of share-based compensation	338,192	243,076
Fair value of Warrants	–	536,881
Transferred to share capital on exercise of options	(17,867)	(5,114)
Transferred from equity component of Debentures on repayment of Debentures	–	284,490
Balance, end of year	$ 3,893,731	$ 3,573,406

(In Canadian dollars, unless otherwise stated)

17. Earnings per share:

The calculation of earnings per share for the years ended December 31, 2018 and 2017 is as follows:

	2018	2017
Numerator for basic and diluted earnings per share:		
Income attributable to common shareholders	$ 2,825,572	$ 1,523,805
Diluted income attributable to common shareholders	$ 2,825,572	$ 1,523,805
Denominator for basic and diluted earnings per share:		
Weighted average number of Shares outstanding	61,780,671	61,875,327
Dilutive effect of share-based payments	76,593	382,042
Weighted average number of diluted Shares outstanding	61,857,264	62,257,369
Earnings per share:		
Basic	$ 0.05	$ 0.02
Diluted	0.05	0.02

18. Transactions with related parties:

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

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

At December 31, 2018 and 2017, the Chairman, indirectly through a wholly owned subsidiary, owned approximately 8.1% of the issued and outstanding Shares.

(In Canadian dollars, unless otherwise stated)

18. Transactions with related parties (continued):

(a) Key management personnel compensation:

Aggregate compensation for key management personnel was as follows:

	2018	2017
Short-term employee benefits	$ 1,641,524	$ 1,393,846
Share-based compensation	(103,318)	339,198
	$ 1,538,206	$ 1,733,044

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

(b) Loan and mortgage investments:

The Company advanced a loan investment of $1,756,381 to a Company controlled by the Chairman at an interest rate of 12% per annum. During the years ended December 31, 2018 and 2017, the Company recognized interest and fees revenue of $73,677 and $209,307, respectively. On May 2, 2018, the Company received the repayment of the loan investment in full, together with accrued interest. At December 31, 2018 and 2017, the loan investment balance outstanding is nil and $1,756,381, respectively. This transaction was incurred during the normal course of operations on similar terms and conditions to those entered into with unrelated parties (note 6).

(c) Loan and mortgages syndications:

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

At December 31, 2018 and 2017, the loan and mortgage investments syndicated by officers and directors were $637,747 and $614,690, respectively.

(In Canadian dollars, unless otherwise stated)

18. Transactions with related parties (continued):

(d) Occupancy and office costs:

The Company sub-leased a portion of the office premises to a company controlled by the Chairman, pursuant to a lease agreement corresponding to the terms of the Company's lease. During the year ended December 31, 2018, the Company received $76,531 for the occupancy and office costs (2017 - $73,643).

19. Interest and financing costs:

The following table presents the interest incurred for the years ended December 31, 2018 and 2017:

	2018	2017
Interest on loan and mortgage syndications	$ 8,129,408	$ 6,804,733
Interest on credit facilities	2,148,949	1,093,890
Interest on Debentures	–	626,351
Interest on mortgages payable	44,612	45,841
	$ 10,322,969	$ 8,570,815

20. Foreign exchange:

For the years ended December 31, 2018 and 2017, the Company recorded a realized and unrealized foreign exchange gain and (loss), respectively, of $3,933,646 and ($1,097,925), respectively. During the year ended December 31, 2018, the U.S. dollar strengthened by approximately 8.5% against the Canadian dollar from C$1.2571 to C$1.3637. As at December 31, 2018 and 2017, U.S. dollar-denominated net monetary assets were U.S. $40,086,756 and U.S. $27,476,532, respectively.

(In Canadian dollars, unless otherwise stated)

21. Income taxes:

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

	2018	2017
Current income tax provision	$ 15,861	$ 368,209
Deferred income tax	1,153,270	220,752
Total tax provision	$ 1,169,131	$ 588,961

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:

	2018	2017
Income from operations before income taxes	$ 3,940,062	$ 2,112,766
Combined federal and provincial statutory income taxes	26.50%	26.50%
Income tax provision based on statutory income taxes	$ 1,044,116	$ 559,883
Increase (decrease) in income tax due to:		
Non-taxable items	2,079	2,327
Non-deductible stock-based compensation	89,621	64,415
Other items	33,315	(37,664)
Total tax provision	$ 1,169,131	$ 588,961

(In Canadian dollars, unless otherwise stated)

21. Income taxes (continued):

The following table summarizes the changes to the current income tax recoverable and payable for the years ended December 31, 2018 and 2017:

	2018	2017
Balance, beginning of year	$ 300,667	$ (22,942)
Current income tax provision	(15,861)	(368,209)
Income taxes (received) paid	(106,514)	691,818
Balance, end of year	$ 178,292	$ 300,667

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

	Opening balance	Recognized in income	Closing balance
Investment property	$ (224,247)	$ (19,425)	$ (243,672)
Fair value adjustments of investments	(1,019,827)	661,626	(358,201)
Incorporation costs	525	(37)	488
Deferred share units	469,668	(96,994)	372,674
Allowance for loan and mortgage investments loss	907,532	(644,879)	262,653
Unrealized foreign exchange loss	(271,798)	(944,765)	(1,216,563)
Debentures, Shares and revolving operating facility issue costs	264,430	(108,796)	155,634
	$ 126,283	$ (1,153,270)	$ (1,026,987)

(In Canadian dollars, unless otherwise stated)

21. Income taxes (continued):

The composition of the Company's recognized deferred income tax assets and liabilities for the year ended December 31, 2017 is as follows:

	Opening balance	Recognized in income	Closing balance
Investment property	$ (205,224)	$ (19,023)	$ (224,247)
Fair value adjustments of investments	(111,397)	(908,430)	(1,019,827)
Incorporation costs	564	(39)	525
Deferred share units	413,045	56,623	469,668
Allowance for loan and mortgage investments loss	238,842	668,690	907,532
Unrealized foreign exchange loss	(328,056)	56,258	(271,798)
Debentures, Shares and revolving operating facility issue costs	320,550	(56,120)	264,430
	$ 328,324	$ (202,041)	$ 126,283

In addition, for the year ended December 31, 2018, the Company recorded a deferred tax benefit of nil (2017 - $18,711), relating to share issue costs.

22. Capital management:

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

The following table presents the capital of the Company as at December 31, 2018 and 2017:

	2018	2017
Loan and mortgage syndications	$ 103,513,760	$ 63,299,522
Credit Facilities	26,560,237	18,965,205
Mortgages payable	1,428,897	1,469,844
Non-controlling interest	–	254,641
Equity	51,826,350	51,743,274
	$ 183,329,244	$ 135,732,486

22. Capital management (continued):

The Company is free to determine the appropriate level of capital in context with the cash flow requirements, overall business risks and potential opportunities. As a result, the Company will make adjustments to its capital structure in response to lending opportunities, the availability of capital and anticipated changes in general economic conditions. The Company's overall strategy with respect to capital remained unchanged during the years ended December 31, 2018 and 2017.

During the years ended December 31, 2018 and 2017, the Company had no externally-imposed capital requirements.

23. Fair value measurement:

The Company, as part of its operations, carries a number of financial instruments. The Company's financial instruments consist of cash and cash equivalents, funds held in trust, interest and other receivables, loan and mortgage investments, portfolio investments, accounts payable and accrued liabilities, loan and mortgage syndications, mortgages payable, and credit facilities.

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

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

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

- Level 1 - quoted prices in active markets;

- Level 2 - inputs other than quoted prices in active markets or valuation techniques where significant inputs are based on observable market data; and

23. Fair value measurement (continued):

- Level 3 - valuation techniques for which significant inputs are not based on observable market data.

The fair value of the Company's investment properties, portfolio investments, investment in associates and non-controlling interest are determined using Level 3 inputs at December 31, 2018 and 2017 and no amounts were transferred between fair value levels during 2018 or 2017. Notes 8(b), 9 and 10 outline the key assumptions used by the Company in determining fair value of its investment properties, portfolio investments and investment in associates.

24. Risk management:

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

(a) Market risk:

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

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

(b) Credit risk:

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

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

24. Risk management (continued):

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

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

As at December 31, 2018, $3,722,898 (2017 - $14,182,918) of the loan and mortgage investments to entities controlled by the Borrower and $487,009 (2017 - $2,387,802) of interest receivable and fees paid on these loans are in arrears.

(c) Currency risk:

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

24. Risk management (continued):

The following table presents the amounts denominated in United States dollars as at December 31, 2018 and 2017:

	2018	2017
Cash and cash equivalents	$ 6,766,687	$ 473,516
Amounts receivable and prepaid expenses	126,727	75,036
Loan and mortgage investments	110,018,384	67,148,352
Investment in finance lease	2,819,915	–
Portfolio investments	59,000	120,000
Accounts payable and accrued liabilities	(405,524)	(261,152)
Unearned income	(1,303,161)	(1,193,290)
Credit Facilities	(8,804,480)	–
Loan and mortgage syndications	(69,190,793)	(38,885,930)
	$ 40,086,755	$ 27,476,532

Consequently, the Company is subject to currency fluctuations that may impact its financial position and results of operations. The Company manages its currency risk on loan and mortgage investments by syndicating in the same currency.

A change in the exchange rate of the Canadian dollar against the U.S. dollar by 5% will change the net income and comprehensive income and equity for the years ended December 31, 2018 and 2017 by $2,733,917 and $1,723,465, respectively.

(d) Interest rate risk:

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

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

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

(In Canadian dollars, unless otherwise stated)

24. Risk management (continued):

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

	Lower 100- basis-points	Higher 100- basis-points
Interest and fees	$ (2,701,711)	$ 2,701,711

At December 31, 2017, 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	$ (1,728,274)	$ 1,728,274

(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 creditworthiness.

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

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

(In Canadian dollars, unless otherwise stated)

24. Risk management (continued):

Contractual obligations as at December 31, 2018 are due as follows:

	Less than 1 year	Over 2 years	Total
Accounts payable and accrued liabilities	$ 4,933,963	$ –	$ 4,933,963
Credit Facilities	15,000,000	12,006,669	27,006,669
Mortgages payable	45,138	1,391,212	1,436,350
Total liabilities and contractual obligations	$ 19,979,101	$ 13,397,881	$ 33,376,982

25. Supplementary information:

The following table reconciles the changes in the consolidated statements of cash flows from financing activities for loan and mortgage syndications, convertible debentures, mortgages payable, revolving operating facility, due to joint operations partner and construction loan payable.

	Loan and mortgage syndications	Mortgages payable	Credit Facilities
Balance, beginning of year	$ 63,299,522	$ 1,480,153	$ 19,000,000
Financing cash flow activities:			
Proceeds from loan and mortgage syndications	52,103,952	–	–
Repayments of loan and mortgage syndications	(19,591,954)	–	–
Repayments of mortgages payable	–	(43,803)	–
Proceeds from Credit Facilities	–	–	11,773,353
Repayments of Credit Facilities	–	–	(4,000,000)
Total cash flow from (used in) financing activities	32,511,998	(43,803)	7,773,353
Financing non-cash activities:			
Foreign exchange loss	6,449,482	–	233,316
Interest capitalized to loan syndication	1,572,351	–	–
Capitalized interest paid	(319,593)	–	–
Total non-cash flow from financing activities	7,702,240	–	233,316
Balance, end of year	$ 103,513,760	$ 1,436,350	$ 27,006,669

26. Subsequent events:

Subsequent to year end, interest receivable of $76,546 (U.S. $56,351) from one loan investment of $7,684,646 (U.S. $5,635,144) of which $4,772,950 (U.S. $3,500,000) has been syndicated to investors is 60 days in arrears. The Company determined that the borrower is unlikely to make the payment of interest in full without the recourse action on the Company's part and the Company will classify the loan investment as stage 3 in computing the allowance credit losses. Based on the assessment, the Company expects to recover the loan and the related interest receivable amounts in full.

On March 24, 2019, the courts approved a settlement between the Company and the Israeli Functionary (the "Functionary"), pursuant to which the lawsuit filed by the Functionary against the Company in Israel has been withdrawn in exchange for the assignment of the Company's rights in connection with a claim brought in the Borrower's insolvency, which had previously been denied, and certain other rights of the Company. The agreement did not include any cash payment or other consideration by the Company.