Financial statements of

# Giavest Capital Mortgage Investment Corporation

December 31, 2022

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December 31, 2022

## Table of contents

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# Independent Auditor's Report

To the Shareholders of
Giavest Capital Mortgage Investment Corporation

## Opinion

We have audited the financial statements of Giavest Capital Mortgage Investment Corporation (the "Company") which comprise the statements of financial position as at December 31, 2022 and 2021 and the statements of loss and total comprehensive loss, changes in shareholders' (deficit) equity and cash flows for the periods then ended, and notes to the financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2022 and 2021 and its financial performance and its cash flows for the periods 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 ("Canadian GAAS"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company 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.

## Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with 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 Company'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 Company or to cease operations or has no realistic alternative but to do so.

## Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with Canadian GAAS 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 these financial statements.

As part of an audit in accordance with Canadian GAAS, 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 Company'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 Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company 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.

We 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.

Deloitte LLP

Chartered Professional Accountants
March 21, 2023

# Giavest Capital Mortgage Investment Corporation

## Statements of loss and total comprehensive loss
year ended December 31, 2022 and period from date of incorporation on May 6, 2021 to December 31, 2021
(In Canadian dollars)

| | Dec 31 2022 (365 days) | Dec 31 2021 (240 days) |
|---|---|---|
| | **$** | $ |
| **Revenue** | | |
| Finance income | **316,806** | 43,210 |
| | **316,806** | 43,210 |
| Expenses | | |
| Dividends on Class A shares | **236,983** | 33,250 |
| Management fee (Note 10) | **49,215** | - |
| Interest (Note 10) | **17,182** | - |
| Mortgage administration fee (Note 10) | **5,283** | - |
| Impairment of mortgages receivable (Note 6) | **4,816** | 7,179 |
| Bank charges and interest | **768** | 281 |
| Other | **70** | - |
| | **314,317** | 40,710 |
| Earnings before income taxes | **2,489** | 2,500 |
| Current income tax expense (Note 11) | **4,004** | 2,516 |
| **Net loss and total comprehensive loss** | **(1,515)** | (16) |

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

# Giavest Capital Mortgage Investment Corporation

## Statements of changes in shareholders' (deficit) equity year ended December 31, 2022 and period from date of incorporation on May 6, 2021 to December 31, 2021

(In Canadian dollars)

| | Capital stock | Deficit | Total |
|---|---|---|---|
| | $ | $ | $ |
| **Balance, May 6, 2021** | - | - | - |
| Issuance of capital stock (Note 7) | 100 | - | 100 |
| Net loss for the period and total comprehensive loss | - | (16) | (16) |
| **Balance, December 31, 2021** | 100 | (16) | 84 |
| Net loss for the period and total comprehensive loss | - | (1,515) | (1,515) |
| **Balance, December 31, 2022** | **100** | **(1,531)** | **(1,431)** |

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

# Giavest Capital Mortgage Investment Corporation

## Statements of financial position
## as at December 31, 2022 and 2021

(In Canadian dollars)

| | 2022 | 2021 |
|---|---|---|
| | $ | $ |
| **Assets** | | |
| Cash (Note 5) | **85,825** | 50,169 |
| Finance income receivable | **39,295** | 14,171 |
| Mortgages receivable - net of allowance (Note 6) | **4,294,656** | 2,087,317 |
| Income taxes receivable (Note 11) | **1,368** | - |
| | **4,421,144** | 2,151,657 |
| **Liabilities** | | |
| Accounts payable and accrued liabilities | **2,502** | - |
| Due to related companies (Note 10) | **5,851** | - |
| Dividends payable | **8,053** | 2,243 |
| Income taxes payable (Note 11) | **-** | 2,516 |
| Revolving line of credit (Note 10) | **436,754** | - |
| Class A shares (Note 8) | **3,969,415** | 2,146,814 |
| | **4,422,575** | 2,151,573 |
| **Shareholders' (deficit) equity** | | |
| Capital stock (Note 7) | **100** | 100 |
| Deficit | **(1,531)** | (16) |
| | **(1,431)** | 84 |
| | **4,421,144** | 2,151,657 |

Approved by the Board

_______________ Director

_______________ Director

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

# Giavest Capital Mortgage Investment Corporation

## Statement of cash flows
year ended December 31, 2022 and period from date of incorporation, May 6, 2021 to December 31, 2021
(In Canadian dollars)

| | **Dec 31 2022 (365 days)** | Dec 31 2021 (240 days) |
|---|---|---|
| | **$** | $ |
| **Operating activities** | | |
| Net loss | **(1,515)** | (16) |
| Finance income | **(316,806)** | (43,210) |
| Dividend expense | **236,983** | 33,250 |
| Income tax expense (Note 11) | **4,004** | 2,516 |
| Dividends reinvested (Note 8) | **(178,990)** | (26,732) |
| Changes in non-cash working capital (Note 12) | **5,851** | - |
| Impairment of mortgages receivable (Note 6) | **4,816** | 7,179 |
| Interest expense | **17,182** | - |
| Interest paid | **(14,680)** | - |
| Finance income received | **291,682** | 29,039 |
| Income taxes paid | **(7,888)** | - |
| Dividends paid | **(52,183)** | (4,275) |
| | **(11,544)** | (2,249) |
| **Investing activities** | | |
| Advances of mortgages receivable | **(5,031,384)** | (2,525,197) |
| Repayments of mortgages receivable | **2,819,229** | 430,701 |
| | **(2,212,155)** | (2,094,496) |
| **Financing activities** | | |
| Issuance of Class A shares (Note 8) | **1,925,110** | 2,146,814 |
| Retraction of Class A shares (Note 8) | **(102,509)** | - |
| Advances on revolving line of credit | **3,822,686** | - |
| Repayments on revolving line of credit | **(3,385,932)** | - |
| Issuance of capital stock (Note 7) | **-** | 100 |
| | **2,259,355** | 2,146,914 |
| Net increase in cash | **35,656** | 50,169 |
| Cash, beginning of year | **50,169** | - |
| **Cash, end of year** | **85,825** | 50,169 |

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

## 1. Nature of operations

Giavest Capital Mortgage Investment Corporation (the "Company") was incorporated under the Canada Business Corporations Act on May 6, 2021. The address of the registered office and principal place of business is Suite 1150, 510 Burrard Street, Vancouver BC V6C 3A8.

The Company operates as a mortgage investment corporation, carrying on the business of investing directly or indirectly in mortgages granted as security for loans to builders, developers and owners of commercial, industrial and residential real estate located in various provinces of Canada.

The Company invests in mortgages originated, structured, advanced and administered by CareVest Capital Inc. ("CCI") under an agreement with CCI.

The Company has appointed Carecana Management Corp. ("Carecana") as its investment fund manager and restricted portfolio manager pursuant to a management agreement.

The financial statements were approved by the directors, Mr. Jeevan Khunkhun and Mr. Mike Helfer, and authorized for issue on March 21, 2023.

## 2. Basis of presentation

*Statement of compliance*

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

*Basis of preparation*

The financial statements have been prepared on a going concern basis and measured at historical cost except for financial instruments classified as at fair value through profit or loss ("FVTPL"), which are measured at fair value. These financial statements are presented in Canadian dollars, which is the Company's functional and presentation currency. Historical cost is based on the fair value of the consideration given in exchange at the transaction date.

*General*

The Company's financial statements are prepared using the significant accounting policies described in Note 3. These policies have been applied throughout the period unless otherwise stated.

## 3. Significant accounting policies

*Cash*

The Company's policy is to present bank deposit balances under cash, including cash, cash held in trust and short term investments in money market instruments (if held). All components are liquid and any short-term investments have an original maturity of less than three months.

*Mortgages receivable*

Mortgages receivable are initially recorded at fair value plus any transaction costs and are subsequently measured at amortized cost using the effective interest method, less any impairment losses. The Company recognizes a loss allowance for mortgages receivable in accordance with the IFRS 9 expected credit loss ("ECL") model. The ECL is estimated as the difference between all contractual cash flows that are due to the Company in accordance with the mortgage contract agreement and all the cash flows that the Company expects to receive, discounted at the original effective interest rate.

The amount of ECL is updated at each reporting date to reflect the changes in credit risk since initial recognition for each of the respective mortgages receivable. The Company recognizes lifetime ECL when there has been a significant increase in credit risk since initial recognition on the mortgage

**3. Significant accounting policies (continued)**

*Mortgages receivable (continued)*

receivable. If, on the other hand, the credit risk on the mortgages receivable has not increased significantly since initial recognition, the Company measures the loss allowance for that mortgage receivable at an amount equal to 12-month ECL (“12m ECL”).

The Company measures the mortgage loss allowance on an individual basis, as the concentration of credit risk is limited due to the customer base being large and unrelated.

*Revenue recognition*

The Company purchases mortgage investments from CCI. Finance income is accounted for on an accrual basis and is measured at the fair value of the consideration received or receivable.

*Finance income*

Finance income is recognized when it is probable that the economic benefits will flow to the Company and the amount of revenue can be measured reliably. Finance income is accrued with the passage of time, by reference to the principal outstanding balance and at the terms of the mortgage commitment it relates to.

In the event of mortgage impairment, finance income will be recognized using the rate of interest used to discount the future cash flows in measuring the impairment.

*Income taxes*

The income tax expense includes current tax. This expense is recognized in the statements of loss and total comprehensive loss.

Income taxes recoverable and payable are obligations or claims for the current and prior periods to be paid to (or recovered from) taxation authorities that are still outstanding at the end of the reporting period. The tax currently payable or recoverable is based on taxable profit for the period. Taxable profit differs from profits as reported in the statements of loss and total comprehensive loss because of items of income or expense that are taxable or deductible in other periods and items that are never taxable or deductible. The Company’s asset or liability for current taxes is calculated using tax rates and legislation that have been enacted or substantively enacted by the end of the reporting period and includes any adjustments for taxes payable or recoverable in respect to prior periods.

*Provisions*

Provisions are recognized when the Company has a present obligation (legal or constructive), as a result of a past event, if it is probable that the Company will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably. Provisions are not recognized for future operating losses.

**3. Significant accounting policies (continued)**

*Financial instruments*

*Financial assets*

All financial assets are recognized and derecognized on the trade date in which the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs. All recognized financial assets are subsequently measured in their entirety at either amortized cost or fair value, depending on the classification of the financial assets.

Financial assets that meet the following conditions are subsequently measured at amortized cost:

- The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

As at December 31, 2022 there are no financial assets measured at fair value through other comprehensive income (“FVOCI”) or at fair value through profit or loss (“FVTPL”). All financial assets are measured at amortized cost.

*Effective interest method*

The effective interest method is a method of calculating the amortized cost of financial assets and liabilities and of allocating interest expense over the relevant period.

For financial instruments other than purchased or originated credit-impaired financial assets, the effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition. For purchased or originated credit impaired financial assets, a credit-adjusted effective interest rate is calculated by discounting the estimated future cash flows, including expected credit losses, to the amortized cost of the debt instrument on initial recognition.

The amortized cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortization using the effective interest method on any difference between that initial amount and the maturity amount, adjusted for any loss allowance.

The gross carrying amount of a financial asset is the amortized cost of a financial asset before adjusting for any loss allowance.

Finance income is recognized using the effective interest method for debt instruments. For financial instruments other than purchased or originated credit-impaired financial assets, finance income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see impairment of financial assets). For financial assets that have subsequently become credit-impaired, finance income is recognized by applying the effective interest rate to the amortized cost of the financial asset. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, finance income is recognized by applying the effective interest rate to the gross carrying amount of the financial asset.

For purchased or originated credit-impaired financial assets, the Company recognizes finance income by applying the credit-adjusted effective interest rate to the amortized cost of the financial asset from initial recognition. The calculation does not revert to the gross basis even if the credit risk of the financial asset subsequently improves so that the financial asset is no longer credit-impaired.

## 3. Significant accounting policies (continued)

*Financial instruments (continued)*

*Impairment of financial assets*

The Company recognizes a loss allowance for expected credit losses on investments in debt instruments that are measured at amortized cost as well as on loan commitments and financial guarantee contracts. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Company always recognizes the lifetime ECL for trade receivables. The expected credit losses on these financial assets are estimated using a provision matrix based on the Company's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For all other financial instruments, the Company recognizes lifetime ECL when there has been a significant increase in credit risk since initial recognition. If, on the other hand, the credit risk on the financial instrument has not increased significantly since initial recognition, the Company measures the loss allowance for that financial instrument at an amount equal to the 12m ECL. The assessment of whether the lifetime ECL should be recognized is based on significant increases in the likelihood or risk of a default occurring since initial recognition instead of on evidence of a financial asset being credit-impaired at the reporting date or an actual default occurring.

The Company writes off a mortgage receivable and the corresponding ECL when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery. Mortgages receivable written off may still be subject to enforcement activities under the Company's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognized in profit or loss.

*Financial assets – derecognition of financial assets*

The Company derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset. A transfer is considered to have occurred if the

Company transfers the contractual rights of the cash flows, or if it retains the rights to the contractual cash flows, but assumes an obligation to pay these cash flows to another recipient. If it is determined that the Company has transferred a financial asset, it evaluates the extent to which it retains the risks and rewards of ownership of the financial asset. If the entity transfers substantially all the risks and rewards of ownership of the financial asset, the Company will derecognize it. If the Company retains substantially all the risks and rewards of ownership of the financial asset, the Company will continue to recognize the asset. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognizes its retained interest in the asset and an associated liability for amounts it may have to pay.

| Type of financial asset | Treatment upon derecognition |
|---|---|
| **Financial asset measured at amortized cost** | The difference between the financial asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss. |

*Financial liabilities – classification as debt or equity*

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement. The Company has classified non-voting preferred shares redeemable at the option of the holder as liabilities.

**3. Significant accounting policies (continued)**

*Financial instruments (continued)*

*Financial liabilities – classification as debt or equity (continued)*

Financial liabilities are classified as amortized cost.

Financial liabilities at amortized cost, including borrowings, are initially measured at fair value, net of transaction costs. Financial liabilities at amortized cost are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

*(Deficit) Equity*

Capital stock is recorded at the value of the shares issued. Costs directly related to the issuance of shares are reported as a reduction from equity, net of tax effects.

Retained earnings (deficit) includes the earnings and losses from the reporting periods.

Dividends are included under liabilities in the period in which the dividend is declared and approved by the Board of Directors, until they are paid by the Company.

*Class A shares*

Class A shares, which are retractable and redeemable, are initially recorded at fair value, net of any costs that are directly related to the issuance of the shares. These are recorded and subsequently measured at the retraction price as discussed in Note 8. The dividends on these preferred shares and any retraction gains or losses are recognized in profit or loss.

*Dividends*

Dividends paid on preferred shares are accounted for as an expense of the Company and comprise the interest earned less all expenses of the Company.

**4. Critical accounting judgments and key source of estimation uncertainty**

In the application of the Company's significant accounting policies, which are described in Note 3, the Company is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated

assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

In the process of applying the Company's accounting policies, the directors have made the following judgments, estimates, and assumptions which have the most significant effect on the amounts recognized in the financial statements.

*Critical judgments in applying accounting policies*

*Recognition of ECL for mortgages*

The measurement of expected credit losses is a function of the probability of default, loss given default (the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. As for the exposure at default, for mortgage assets, this is represented by the assets' gross carrying amount at the reporting date.

**4. Critical accounting judgments and key sources of estimation uncertainty (continued)**

*Critical judgments in applying accounting policies (continued)*

*Recognition of ECL for mortgages (continued)*

For mortgage assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due to the Company in accordance with the contract and all the cash flows that the Company expects to receive, discounted at the original effective interest rate.

The following table summarizes the impairment requirements under IFRS 9:

**Change in credit quality since initial recognition**

| | *Stage 1* | *Stage 2* | *Stage 3* |
|---|---|---|---|
| *Status* | Initial recognition | Significant increase in credit risk since initial recognition | Credit-impaired assets |
| *Recognition of ECL* | 12m ECL | Lifetime ECL | Lifetime ECL |
| *Finance income recognition* | Applying the effective interest rate (“EIR”) to the gross carrying amount of the mortgage | Applying the EIR to the gross carrying amount of the mortgage | Applying the EIR to the net carrying amount of the mortgage |

- Lifetime ECL represents the ECL that will result from all possible default events over the expected life of a mortgage.
- 12m ECL represents the portion of lifetime ECL that is expected to result from default events on a mortgage that are possible within 12 months after the reporting date.

*Significant increase in credit risk for mortgage allowance*

In assessing whether the credit risk on a mortgage receivable has increased significantly since initial recognition, the Company compares the risk of a default occurring on the mortgage as at the reporting date with the risk of a default occurring on the mortgage as at the date of initial recognition. In making this assessment, the Company considers both quantitative and qualitative information that is reasonable

and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- An actual or expected significant deterioration in the mortgage’s credit rating by Carecana’s Credit Committee;
- Timing of receipts on future cash flows, including repayments from the borrower and estimates of the value and timing of the collateral underlying the loan;
- Existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the mortgage borrower‘s ability to meet its debt obligations; and
- An actual or expected significant adverse change in the regulatory or economic environment of the mortgage borrower that results in a significant decrease in the borrower’s ability to meet its debt obligations.

**4. Critical accounting judgments and key sources of estimation uncertainty (continued)**

*Critical accounting estimates and assumptions (continued)*

*Significant increase in credit risk for mortgage allowance (continued)*

Irrespective of the outcome of the above assessment, the Company presumes that the credit risk on a mortgage receivable has increased significantly since initial recognition when contractual payments are more than 30 days past due.

*Definition of default*

The Company considers that default on a mortgage receivable has occurred when:

- A mortgage is more than 90 days past due unless the Company has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate; or
- Information developed internally or obtained from external sources indicates that the debtor is unlikely to pay the Company, in full.

*Credit-impaired mortgage receivable*

A mortgage receivable is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that mortgage have occurred. Evidence that a mortgage receivable is credit-impaired includes observable data about the following events:

a) Significant financial difficulty of the mortgage borrower;

b) A breach of contract, such as a default or past due event; or

c) It is becoming probable that the borrower will enter bankruptcy or other financial reorganization.

*Critical accounting estimates and assumptions*

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

*Measurement of ECL for Mortgages*

The measurement of the ECL allowance for the mortgages receivable is an area that requires the use of significant assumptions about future economic conditions and credit behavior which includes the likelihood of borrower defaulting and the resulting losses. This involves a number of significant estimates and assumptions with respect to the value of the properties involved including, but not limited to, the value placed on collateralized assets, the timing of future cash inflows and outflows, costs to complete and costs to be incurred in making the sale. Valuation techniques include using the discounted cash flow model. Inputs into these models are taken from observable markets where possible, but where this is not feasible, estimations are required to establish fair values. A scenario analysis is used to determine the present value of future cash flows for the impaired mortgages receivable. Values are input with reference to quoted market prices when available, including third party appraisals, listing agreements, purchase agreements, and property tax assessments. Cash outflows include costs to complete and costs incurred to make the sale, including marketing and legal costs.

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL; and
- Establishing the number and relative weightings of forward-looking scenarios for each type of mortgage and the associated ECL.

(In Canadian dollars)

## 4. Critical accounting judgments and key sources of estimation uncertainty (continued)

*Critical accounting estimates and assumptions (continued)*

Retraction price

The retraction price of a Class A share is determined by the directors on a monthly basis, for which they must make estimates and assumptions over factors involved. Retraction price is set at Net Asset Value (“NAV”), which is detailed in Note 8. The intent of NAV is to provide additional useful information to investors to make investment decisions and does not have any standardized meaning under IFRS. NAV should therefore not be considered in isolation or used in substitute for measures of performance prepared in accordance with IFRS. Other issuers may calculate NAV differently. Factors that may be considered in determining NAV include the valuation of certain assets and liabilities to be included or deducted for the purpose of calculating NAV. The directors will review and, if required from time to time, consider the appropriateness of the valuation guidelines adopted by the Company.

## 5. Cash

For the purposes of the statement of cash flows, cash includes cash on deposit, petty cash and cash held-in-trust. Cash at the end of the reporting period as shown in the statement of cash flows can be reconciled to the related items in the statement of financial position as follows:

| | **2022** | 2021 |
|---|---|---|
| | **$** | $ |
| Operating deposit bank account | **579** | 183 |
| Cash held in trust | **85,246** | 49,986 |
| | **85,825** | 50,169 |

Cash held in trust consists of funds used for operations of the Company. There are no restrictions on the Company’s use of the cash held in trust.

## 6. Mortgages receivable

The mortgages receivable consist of short-term financing for commercial, industrial, and residential mortgages and term loans for completed or substantially completed income producing properties in British Columbia and Alberta (2021 - British Columbia and Alberta).

As at December 31, 2022, the Company had mortgages receivable which earn fixed and variable interest rates ranging from 6.95% to 13.50% (2021 - 6.95% to 11.0%) per annum and are secured by real property. The mortgages receivable are typically due within 6-18 months.

| | **2022** | 2021 |
|---|---|---|
| | **$** | $ |
| Mortgages due within the next 12-month period, net of allowance | **4,193,050** | 1,790,106 |
| Mortgages due after the next 12-month period, net of allowance | **101,606** | 297,211 |
| | **4,294,656** | 2,087,317 |

The gross mortgage and loss allowance balances at the end of the period are impacted by a variety of factors, as described below:

- Transfers between Stage 1 and Stages 2 or 3 due to mortgages receivables experiencing significant increases (or decreases) of credit risk or becoming credit-impaired in the period, and the consequent “step up” (or “step down”) between 12m or lifetime ECL;
- Additional allowance for new mortgages recognized during the period, as well as releases for mortgages de-recognized during the period;

(In Canadian dollars)

**6. Mortgages receivable (continued)**

- Impact on the measurement of ECL due to changes in probability of default, loss given default and the exposure at default;
- Impact on the measurement of ECL due to changes made to models and assumptions;
- Discount unwind within ECL due to the passage of time, as ECL is measured on a present value basis; or
- Mortgages receivable derecognized during the period and write-offs of allowances related to assets that were written-off during the period.

The following is a reconciliation of the mortgage gross carrying amounts between the beginning and end of the reporting period.

**Reconcilation of mortgage gross carrying amount**

| | 2022 | | | |
|---|---|---|---|---|
| | **Stage 1 12m ECL** | **Stage 2 Lifetime ECL** | **Stage 3 Lifetime ECL** | **Total** |
| **Gross carrying amount as at January 1, 2022** | **2,094,496** | **-** | **-** | **2,094,496** |
| *Transfers* | | | | |
| Transfer from Stage 1 to Stage 2 | **-** | **-** | **-** | **-** |
| Transfer from Stage 1 to Stage 3 | **(8,177)** | **-** | **8,177** | **-** |
| Transfer from Stage 2 to Stage 3 | **-** | **-** | **-** | **-** |
| Transfer from Stage 3 to Stage 2 | **-** | **-** | **-** | **-** |
| Transfer from Stage 2 to Stage 1 | **-** | **-** | **-** | **-** |
| Mortgage assets derecognized other than write-offs | **-** | **-** | **-** | **-** |
| New mortgages originated | **5,031,384** | **-** | **-** | **5,031,384** |
| Paydowns on mortgages | **(2,819,229)** | **-** | **-** | **(2,819,229)** |
| Write offs | **-** | **-** | **-** | **-** |
| **Gross carrying amount as at December 31, 2022** | **4,298,474** | **-** | **8,177** | **4,306,651** |

(In Canadian dollars)

## 6. Mortgages receivable (continued)

Reconcilation of mortgage gross carrying amount

| | 2021 | | | |
|---|---|---|---|---|
| | Stage 1<br>12m ECL | Stage 2<br>Lifetime<br>ECL | Stage 3<br>Lifetime<br>ECL | Total |
| Gross carrying amount as at May 6, 2021 | - | - | - | - |
| *Transfers* | | | | |
| Transfer from Stage 1 to Stage 2 | - | - | - | - |
| Transfer from Stage 1 to Stage 3 | - | - | - | - |
| Transfer from Stage 2 to Stage 3 | - | - | - | - |
| Transfer from Stage 3 to Stage 2 | - | - | - | - |
| Transfer from Stage 2 to Stage 1 | - | - | - | - |
| Mortgage assets derecognized other than write-offs | - | - | - | - |
| New mortgages originated | 2,525,197 | - | - | 2,525,197 |
| Paydowns on mortgages | (430,701) | - | - | (430,701) |
| Write offs | - | - | - | - |
| Gross carrying amount as at December 31, 2021 | 2,094,496 | - | - | 2,094,496 |

The following table is a reconciliation of the mortgage loss allowance between the beginning and the end of the annual period.

**Reconcilation of mortgage loss allowance**

| | **2022** | | | |
|---|---|---|---|---|
| | **Stage 1**<br>**12m ECL** | **Stage 2**<br>**Lifetime**<br>**ECL** | **Stage 3**<br>**Lifetime**<br>**ECL** | **Total** |
| **Gross carrying amount as at January 1, 2022** | **7,179** | **-** | **-** | **7,179** |
| *Transfers* | | | | |
| Transfer from Stage 1 to Stage 2 | - | - | - | - |
| Transfer from Stage 1 to Stage 3 | (16) | - | 16 | - |
| Transfer from Stage 2 to Stage 3 | - | - | - | - |
| Transfer from Stage 3 to Stage 2 | - | - | - | - |
| Transfer from Stage 2 to Stage 1 | - | - | - | - |
| Impairment losses recognized | 4,816 | - | - | 4,816 |
| Impairment losses reversed | - | - | - | - |
| Write offs | - | - | - | - |
| **Gross carrying amount as at December 31, 2022** | **11,979** | **-** | **16** | **11,995** |

The Company does not hold any additional collateral or other credit enhancements over these balances nor does it have a legal right of offset against any amounts owed by the Company to the counterparty.

(In Canadian dollars)

## 6. Mortgages receivable (continued)

Reconcilation of mortgage loss allowance

| | 2021 | | | |
|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | |
| | 12m ECL | Lifetime ECL | Lifetime ECL | Total |
| Gross carrying amount as at May 6 | - | - | - | - |
| *Transfers* | | | | |
| Transfer from Stage 1 to Stage 2 | - | - | - | - |
| Transfer from Stage 1 to Stage 3 | - | - | - | - |
| Transfer from Stage 2 to Stage 3 | - | - | - | - |
| Transfer from Stage 3 to Stage 2 | - | - | - | - |
| Transfer from Stage 2 to Stage 1 | - | - | - | - |
| Impairment losses recognized | 7,179 | - | - | 7,179 |
| Impairment losses reversed | - | - | - | - |
| Write offs | - | - | - | - |
| Gross carrying amount as at December 31 | 7,179 | - | - | 7,179 |

**Maximum exposure to credit risk**

| | **Commercial Mortgages As at December 31, 2022** | | | |
|---|---|---|---|---|
| | **Stage 1** | **Stage 2** | **Stage 3** | |
| **# of days outstanding** | **12m ECL** | **Lifetime ECL** | **Lifetime ECL** | **Total** |
| current | **179,005** | **-** | **-** | **179,005** |
| less than 30 days | **-** | **-** | **-** | **-** |
| between 30 and 90 days | **-** | **-** | **-** | **-** |
| greater than 90 days | **-** | **-** | **-** | **-** |
| **Gross carrying amount** | **179,005** | **-** | **-** | **179,005** |
| Loss allowance | **895** | **-** | **-** | **895** |
| **Carrying amount** | **178,110** | **-** | **-** | **178,110** |

(In Canadian dollars)

### 6. Mortgages receivable (continued)

**Maximum exposure to credit risk (continued)**

| | Commercial Mortgages | | | |
|---|---|---|---|---|
| | As at December 31, 2021 | | | |
| | Stage 1 | Stage 2 | Stage 3 | |
| # of days outstanding | 12m ECL | Lifetime ECL | Lifetime ECL | Total |
| current | 242,080 | - | - | 242,080 |
| less than 30 days | - | - | - | - |
| between 30 and 90 days | - | - | - | - |
| greater than 90 days | - | - | - | - |
| Gross carrying amount | 242,080 | - | - | 242,080 |
| Loss allowance | 1,210 | - | - | 1,210 |
| Carrying amount | 240,870 | - | - | 240,870 |

| | **Residential Mortgages** | | | |
|---|---|---|---|---|
| | **As at December 31, 2022** | | | |
| | **Stage 1** | **Stage 2** | **Stage 3** | |
| **# of days outstanding** | **12m ECL** | **Lifetime ECL** | **Lifetime ECL** | **Total** |
| current | **4,119,469** | **-** | **-** | **4,119,469** |
| less than 30 days | **-** | **-** | **-** | **-** |
| between 30 and 90 days | **-** | **-** | **-** | **-** |
| greater than 90 days | **-** | **-** | **8,177** | **8,177** |
| **Gross carrying amount** | **4,119,469** | **-** | **8,177** | **4,127,646** |
| Loss allowance | **11,084** | **-** | **16** | **11,100** |
| **Carrying amount** | **4,108,385** | **-** | **8,161** | **4,116,546** |

(In Canadian dollars)

## 6. Mortgages receivable (continued)

### Maximum exposure to credit risk (continued)

| | Residential Mortgages | | | |
|---|---|---|---|---|
| | As at December 31, 2021 | | | |
| | Stage 1 | Stage 2 | Stage 3 | |
| # of days outstanding | 12m ECL | Lifetime ECL | Lifetime ECL | Total |
| current | 1,852,416 | - | - | 1,852,416 |
| less than 30 days | - | - | - | - |
| between 30 and 90 days | - | - | - | - |
| greater than 90 days | - | - | - | - |
| Gross carrying amount | 1,852,416 | - | - | 1,852,416 |
| Loss allowance | 5,969 | - | - | 5,969 |
| Carrying amount | 1,846,447 | - | - | 1,846,447 |

Mortgages classified as residential are provided for buildings and structures which are intended for human habitation, together with any property that is intended to be improved, converted or developed to provide housing accommodation, or services in support of housing accommodation, and property that is associated with housing accommodation. Commercial mortgages, in this context, would pertain to properties that are intended to generate ongoing income producing cash flow, including but not limited to office buildings, shopping complexes or industrial warehouses.

| | **As at December 31, 2022** | | | |
|---|---|---|---|---|
| | **Stage 1** | **Stage 2** | **Stage 3** | |
| **Province** | **12m ECL** | **Lifetime ECL** | **Lifetime ECL** | **Total** |
| Alberta | **376,803** | **-** | **-** | **376,803** |
| British Columbia | **3,909,692** | **-** | **8,161** | **3,917,853** |
| | **4,286,495** | **-** | **8,161** | **4,294,656** |

| | As at December 31, 2021 | | | |
|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | |
| Province | 12m ECL | Lifetime ECL | Lifetime ECL | Total |
| Alberta | 591,282 | - | - | 591,282 |
| British Columbia | 1,496,035 | - | - | 1,496,035 |
| | 2,087,317 | - | - | 2,087,317 |

(In Canadian dollars)

### 6. Mortgages receivable (continued)

| | As at December 31, 2022 | | | |
|---|---|---|---|---|
| **Type of Mortgage** | **Stage 1 12m ECL** | **Stage 2 Lifetime ECL** | **Stage 3 Lifetime ECL** | **Total** |
| Land | **1,421,288** | **-** | **8,161** | **1,429,449** |
| Construction | **1,941,093** | **-** | **-** | **1,941,093** |
| Inventory | **924,114** | **-** | **-** | **924,114** |
| | **4,286,495** | **-** | **8,161** | **4,294,656** |

| | As at December 31, 2021 | | | |
|---|---|---|---|---|
| Type of Mortgage | Stage 1 12m ECL | Stage 2 Lifetime ECL | Stage 3 Lifetime ECL | Total |
| Land | 633,215 | - | - | 633,215 |
| Construction | 1,431,656 | - | - | 1,431,656 |
| Inventory | 22,446 | - | - | 22,446 |
| | 2,087,317 | - | - | 2,087,317 |

Mortgages classified as land are provided to support land development, typically construction of services to produce serviced lots for sale. This could also include raw land expected to become actively developed within the short term. Mortgages classified as construction support the construction of buildings for eventual occupancy, including single family homes, townhomes and condominiums, as well as properties that are or have the potential to become income producing. Mortgages classified as inventory are provided to finance projects that are available for sale.

The Company recognizes lifetime ECL when there has been a significant increase in credit risk since initial recognition on the mortgage receivable. If, on the other hand, the credit risk on the mortgages receivable has not increased significantly since initial recognition, the Company measures the loss allowance for that mortgage receivable at an amount equal to the 12 month ECL.

In assessing whether the credit risk on a mortgage receivable has increased significantly since initial recognition, the Company compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Company considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

The Company measures the mortgage loss allowance on an individual basis as the concentration of credit risk is limited due to the customer base being large and unrelated.

Valuation techniques and assumptions are discussed in Note 4.

(In Canadian dollars)

## 7. Capital stock

*Authorized,* unlimited number

Voting shares redeemable

*Issued*

| | 2022 | 2021 |
|---|---|---|
| | **$** | $ |
| 100 voting shares (2021 - 100) | **100** | 100 |

Voting shares are fully paid, without a par value and carry one vote per share and redeemable at the option of the Company.

## 8. Class A shares

*Authorized,* unlimited number

Class A shares, non-voting, purchasable for cancellation, retractable and redeemable

Class B shares, non-voting, purchasable for cancellation, retractable and redeemable

Class C shares, non-voting, purchasable for cancellation, retractable and redeemable

Class F shares, non-voting, purchasable for cancellation, retractable and redeemable

Class I shares, non-voting, purchasable for cancellation, retractable and redeemable

The following table details the transactions that occurred during the period and total shares issued as at December 31, 2022 and 2021:

| | Class A shares |
|---|---|
| | # |
| Number of shares outstanding, May 6, 2021 | - |
| Shares issued for dividends | 26,732 |
| Shares issued | 2,120,082 |
| Shares retracted | - |
| Number of shares outstanding, December 31, 2021 | 2,146,814 |
| Shares issued for dividends | 178,990 |
| Shares issued | 1,746,120 |
| Shares retracted | (102,509) |
| Number of shares outstanding, December 31, 2022 | **3,969,415** |

At December 31, 2022, there were $126,632 (2021 – $Nil) Class A shares scheduled for retraction in the next fiscal year.

Class A, B, C, F, and I shares are not entitled to vote. The Class A, B, C, F, and I shares are entitled to receive distributions. Any distribution declared on the respective class of shares will be payable out of that class of shares pro rata portion of the funds available with respect to all classes of shares. Class A, B, C, F and I shares can be purchased for cancellation or redeemable, at the option of the Company. Class A, B, C, F and I shares are retractable at the option of the holder.

**8. Class A shares (continued)**

In the event of liquidation, dissolution or winding-up of the Company, whether voluntary or involuntary, or on the occurrence of any other event as a result of which holders of shares are entitled to a distribution of assets of the Company for the purpose of winding-up its affairs, each class of shares shall rank equally with each other and the voting shares, but in priority to any shares ranking junior to each class of shares.

*Cancellation rights*

The Company may at any time purchase shares for cancellation at a price per share not exceeding the NAV per share of that class of share on the business day immediately prior to such purchase.

*Redemption provisions*

The Company may redeem at any time and from time to time in its sole discretion, by providing written redemption notice to the holder, any outstanding class of shares on payment in cash for each share of an amount not less than the NAV per share, calculated as at the end of the business day immediately preceding the redemption date.

*Retraction provisions*

Each holder of shares shall be entitled to present and surrender for retraction at any time during a quarterly retraction notice period, in respect of all or any part of shares registered. Each retracting shareholder who elects to present a retraction request to the Company for retracting shares must deliver a valid retraction request in the form specified by the Company, to such place or places in Canada as shall be specified by the Company from time to time. The retracting shareholder must surrender the original share certificates issued, if any, for the retracting shares. Retracting shareholders whose retracting shares are surrendered for retraction will be entitled to receive a retraction price per retraction share equal to the amount of the applicable NAV per share calculated as of the last business day of the month following the end of a retraction notice period. Payment of the proceeds of retraction will be made on or before the last business day of the month following the retraction date.

For any retraction date of the Company, the Company may elect to pay the retracting shareholders in advance of the retraction payment date, subject to the Company having access to sufficient cash, or other liquid assets.

Where the Company, in its sole discretion, using reasonable and recognized accounting methods, determines that the Company does not have sufficient cash or other liquid assets to honour all retraction requests, the Company will retract as many shares as can be retracted with the available cash, on a pro rata basis, and continue to retract on a pro rata basis as cash becomes available until all the shares tendered in the retraction notice period have been retracted, irrespective of the order in which the Company received the valid retraction request in the retraction notice period. Any subsequent retraction notice period will only be retracted once all the shares tendered for retraction in the previous retraction notice period have been fully retracted.

The Company may suspend the retraction of shares for any period that the Board of Directors, in their sole discretion, determines that conditions exists which render impractical the sale of assets comprising the portfolio, or which impair the ability of the Company to determine the value of the portfolio of assets, or determine that the suspension is in the best interests of the shareholders of the Company as a whole. The suspension may apply to all unpaid amounts of requests that were received prior to the suspension having been paid out in full. The suspension shall terminate on the first day on which the condition giving rise to the suspension ceases to exist.

*NAV*

The net asset value of the Company at any time means the aggregate value of all assets of the Company less the value of all liabilities of the Company at such time, provided that, for the purposes only of calculating the NAV, the liabilities will be reduced by the stated capital of any shares to the extent that such stated capital is included in the value of liabilities of the Company.

**8. Class A shares (continued)**

*Dividend Reinvestment Plan ("DRIP")*

The Company has adopted a DRIP under which holders of Class A Shares and Class C Shares may elect to reinvest cash dividends received from such shares to purchase additional shares of the same class or series.

**9. Financial instruments and risk management**

*Financial instruments*

*Fair value of financial instruments*

In determining the fair value of financial instruments, the Company maximizes the use of observable inputs and minimizes the use of unobservable inputs. Observable inputs reflect market-driven or market-based information obtained from independent sources, while unobservable inputs reflect the Company's estimate about market data. Based on the observability of significant inputs used, the Company classifies its fair value measurements in accordance with a three-level hierarchy. This hierarchy is based on the quality and reliability of the information used to determine fair value.

Level 1: Valuations are based on quoted prices in active markets for identical assets or liabilities. Since the valuations are based on quoted prices that are readily available in an active market, they do not entail a significant degree of judgement.

Level 2: Valuations are based on observable inputs other than quoted prices.

Level 3: Valuations are based on at least one unobservable input that is supported by little or no market activity and is significant to the fair value measurement.

In assigning the appropriate levels, the Company performs a detailed analysis of the financial assets and liabilities. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. The level within which the fair value measurement is categorized is based on the lowest level input that is significant to the fair value measurement in its entirety. Therefore, an item may be classified in Level 3 even though there may be other significant inputs that are readily observable.

The carrying value of cash and finance income receivable approximates its fair value due to its short-term nature and its fair value has been categorized as Level 1.

The carrying values of mortgages receivable approximate their fair values as they have a short-term to maturity and bear interest at rates that approximate current market rates.

The carrying values of Class A shares are measured and recorded at the retraction price which approximates their fair values.

(In Canadian dollars)

## 9. Financial instruments and risk management (continued)

*Financial instruments (continued)*

*Fair value of financial instruments (continued)*

The carrying value, fair value and fair value category for the Company's financial instruments are as follows:

| | | | | **2022** |
|---|---|---|---|---|
| | | **Fair value measurements using** | | |
| | **Carrying value** | **Level 1** | **Level 2** | **Level 3** |
| | **$** | **$** | **$** | **$** |
| Financial assets | | | | |
| Mortgages receivable - Stage 1 (Performing) | 4,286,495 | - | - | 4,286,495 |
| Mortgages receivable - Stage 2 (Doubtful) | - | - | - | - |
| Mortgages receivable - Stage 3 (Credit-impaired) | 8,161 | - | - | 8,161 |
| | **4,294,656** | **-** | **-** | **4,294,656** |
| Financial liabilities | | | | |
| Class A shares | **3,969,415** | **-** | **-** | **3,969,415** |

| | | | | 2021 |
|---|---|---|---|---|
| | | Fair value measurements using | | |
| | Carrying value | Level 1 | Level 2 | Level 3 |
| | $ | $ | $ | $ |
| Financial assets | | | | |
| Mortgages receivable - Stage 1 (Performing) | 2,087,317 | - | - | 2,087,317 |
| Mortgages receivable - Stage 2 (Doubtful) | - | - | - | - |
| Mortgages receivable - Stage 3 (Credit-impaired) | - | - | - | - |
| | 2,087,317 | - | - | 2,087,317 |
| Financial liabilities | | | | |
| Class A shares | 2,146,814 | - | - | 2,146,814 |

There were $Nil (2021 - $Nil) transfers into or out of Level 3 of the fair value hierarchy during the period.

(In Canadian dollars)

## 9. Financial instruments and risk management (continued)

*Financial instruments (continued)*

*Fair value of financial instruments (continued)*

A reconciliation of preferred shares at December 31, 2022 and 2021 is as follows:

| | |
|---|---|
| Class A shares, May 6, 2021 | - |
| Issuance of Class A shares | 2,146,814 |
| Retraction of Class A shares | - |
| Class A shares, December 31, 2021 | 2,146,814 |
| Issuance of Class A shares | 1,925,110 |
| Retraction of Class A shares | (102,509) |
| Class A shares, December 31, 2022 | **3,969,415** |

*Risk management*

The Company holds various financial instruments and its activities expose it to a variety of financial risks: credit risk and liquidity risk. The Company's directors have overall responsibility for the establishment and oversight of the Company's risk management framework.

i) *Credit risk*

The Company's principal financial assets are cash, finance income receivable and mortgages receivable, the carrying amount of which represents the Company's exposure to credit risk in relation to financial assets.

In order to reduce its risk, the Company has adopted investment restrictions that it will not:

a) make any investment or conduct any activity that would result in the Company failing to qualify as a mortgage investment corporation within the meaning of the Tax Act;

b) invest in securities other than mortgages, mortgage related investments and authorized interim investments;

c) guarantee securities or obligations of any person or Company;

d) borrow amounts greater than 30% of its total assets;

e) engage in securities lending;

f) engage in derivative transactions for any purpose, other than derivative transactions to hedge interest rate risk and not for speculative purposes; or

g) invest in asset-backed commercial paper or in securitized pools of sub-prime mortgages.

The Company assesses the creditworthiness of its customers on an ongoing basis as well as monitoring the amount and age of balances outstanding. Mortgages receivable are fully secured by a charge against the underlying assets. Mortgages receivable have a high credit quality as the Company only invests in mortgages receivable with counterparties that have been independently reviewed by CCI and are considered to be in good credit standings and have the ability to make both principal and interest payments as required.

(In Canadian dollars)

**9. Financial Instruments and risk management (continued)**

*Risk management (continued)*

*i) Credit risk (continued)*

The Company has tasked its credit committee to develop and maintain the Company's credit risk grading to categorize exposures according to their degree of risk of default. The Company's exposure and the credit ratings of its counterparties are continuously monitored.

| Category | Description | Basis for recognizing expected credit losses |
|---|---|---|
| **Performing** | The counterparty has a low risk of default and does not have any past-due amounts | 12m ECL<br>(Stage 1) |
| **Doubtful** | Amount is >30 days past due or there has been a significant increase in credit risk since initial recognition | Lifetime ECL – not credit impaired<br>(Stage 2) |
| **Credit-impaired** | Amount is >90 days past due or there is evidence indicating the asset is credit-impaired | Lifetime ECL – credit impaired<br>(Stage 3) |
| **Write-off** | There is evidence indicating that the debtor is in severe financial difficulty and the Company has no realistic prospect of recovery | Amount is written off |

The credit risk on cash on deposit is with Canadian chartered banks with high credit ratings assigned by Moody's and Standard and Poor's.

The tables below detail the credit quality of the Company's financial assets and other items, as well as the Company's maximum exposure to credit risk by credit risk rating grades:

| **December 31, 2022** | **# days past due** | **Category** | **12m of Lifetime ECL** | **Gross carrying amount** | **Loss allowance** | **Net carrying amount** |
|---|---|---|---|---|---|---|
| Cash (Note 5) | - | N/A | N/A | 85,825 | - | 85,825 |
| Finance income receivable | - | Stage 1 | 12m | 39,295 | - | 39,295 |
| Mortgages receivable (Note 6) | - | Stage 1 | 12m | 4,298,474 | 11,979 | 4,286,495 |
| Mortgages receivable (Note 6) | 90 | Stage 3 | Lifetime | 8,177 | 16 | 8,161 |
| | | **-** | **-** | **4,431,771** | **11,995** | **4,419,776** |

(In Canadian dollars)

**9. Financial Instruments and risk management (continued)**

*Risk management (continued)*

*i) Credit risk (continued)*

| December 31, 2021 | # days past due | Category | 12m of Lifetime ECL | Gross carrying amount | Loss allowance | Net carrying amount |
|---|---|---|---|---|---|---|
| Cash (Note 5) | - | N/A | N/A | 50,169 | - | 50,169 |
| Finance income receivable | - | Stage 1 | 12m | 14,171 | - | 14,171 |
| Mortgages receivable (Note 6) | - | Stage 1 | 12m | 2,094,496 | 7,179 | 2,087,317 |
| | | - | - | 2,158,836 | 7,179 | 2,151,657 |

The credit exposure related to mortgages receivable is outlined in Note 6.

Although the Company seeks to manage its credit risk exposure, there can be no assurance that the Company will be successful in eliminating the potential adverse impact of such risks.

*ii) Interest rate risk*

The Company is exposed to interest rate risk on the variable interest rate mortgages receivable to the extent of changes in the prime interest rate. As of December 31, 2022 the Company currently has 38 variable interest bearing mortgages totaling $3,680,627 (2021 - 30 mortgages, $1,923,447). The variable rate mortgages existing are protected by individual floor rates. In 2021, for some mortgages, the floor rate was already be higher than the prime plus variable rate and therefore was not fully impacted or impacted at all by an increase in prime rate of 0.5%. In 2021 no mortgages were impacted by a decrease in prime rate. In 2022, with all other variables constant, a 0.5% increase in prime rate would result in an increase in net earnings of $18,307 (2021 - $5,805), while a 0.5% decrease in prime rate would result in a decrease of net earnings of $18,307 (2021 - $Nil).

The Company is also exposed to interest risk on its variable interest rate revolving line of credit as it bears interest equal to Scotia Bank Prime Rate plus 0.85% per annum. Any fluctuation in this Prime Rate would impact the interest expense on the balance outstanding.

*iii) Liquidity risk*

Ultimate responsibility for liquidity risk management rests with management which has established an appropriate liquidity risk management for the management of the Company's short, medium, and long-term funding and liquidity management requirements. The Company's objective is to have sufficient liquidity to meet its liabilities when due. The Company manages liquidity risk by maintaining adequate reserves and banking facilities, by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities.

The following tables detail the Company's remaining contractual maturities for its financial liabilities with agreed repayment periods. These tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Company can be required to pay. The tables include both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curves at the end of the reporting period. The contractual maturities are based on the earliest date on which the Company may be required to pay.

(In Canadian dollars)

**9. Financial Instruments and risk management (continued)**

*Risk management (continued)*

*iii)* *Liquidity risk (continued)*

The Company has the following financial liabilities at the reporting date:

| | | | | **2022** |
|---|---|---|---|---|
| | **Carrying value** | **Current 0 to 60 days** | **Due between 61 to 365 days** | **Due greater than 365 days** |
| | **$** | **$** | **$** | **$** |
| Accounts payable and accrued liabilities | **2,502** | **2,502** | **-** | **-** |
| Dividends payable | **8,053** | **8,053** | **-** | **-** |
| Due to related companies | **5,851** | **5,851** | **-** | **-** |
| Revolving line of credit | **436,754** | **436,754** | **-** | **-** |
| Class A shares | **3,969,415** | **30,792** | **95,840** | **3,842,783** |
| | **4,422,575** | **483,952** | **95,840** | **3,842,783** |

| | | | | 2021 |
|---|---|---|---|---|
| | Carrying value | Current 0 to 60 days | Due between 61 to 365 days | Due greater than 365 days |
| | $ | $ | $ | $ |
| Dividends payable | 2,243 | 2,243 | - | - |
| Class A shares | 2,146,814 | - | - | 2,146,814 |
| | 2,149,057 | 2,243 | - | 2,146,814 |

Mortgage investments tend to be relatively illiquid, with the degree of liquidity generally fluctuating in relation to demand for and the perceived desirability of the investment. Such illiquidity may tend to limit the Company's ability to vary its mortgage investments promptly in response to changing economic or investment conditions. If the Company were required to liquidate its real property mortgage investments, the proceeds to the Company might be significantly less than the total value of its investments. The Company will be subject to the risks associated with debt financing, including the risk that mortgage indebtedness secured by the properties of the Company will not be able to be refinanced or that the terms of refinancing will not be as favourable as the terms of the existing indebtedness.

**10. Related party transactions**

The Company invests in mortgages originated, structured and advanced by CCI under an agreement with CCI. The entities are related by virtue of common shareholders. Under this agreement, CCI receives a mortgage administration fee of 0.15% per annum, plus applicable taxes, of the gross outstanding aggregate principal balance of all mortgages in the mortgage portfolio, calculated daily, aggregated and paid monthly in arrears and prorated for any partial month. Due to the start up nature of the Company, fees were waived for 2021.

The Company has appointed Carecana as its sole and exclusive investment fund manager and restricted portfolio manager pursuant to a management agreement. The entities are related by virtue of

(In Canadian dollars)

## 10. Related party transactions (continued)

common management, directors and shareholders. Under this agreement, Carecana receives a management fee of 1.35% per annum, plus applicable taxes, of the gross assets of the Company attributable to the Class A shares, calculated daily, aggregated and paid monthly in arrears and prorated for any partial month. Due to the start up nature of the Company, fees were waived for 2021.

The Company has appointed CVC Market Point Inc. as its agent to sell the shares under the offering memorandum. The entities are related through common shareholders. In return for the agent's services, Carecana has agreed to pay the agent a commission of up to 2.0% of the gross proceeds of each Class A share sold through the agent. The commission is payable only on completed sales and will be paid to the agent within three weeks following the closing date of each sale.

The Company has entered into a loan agreement with 2038231 Alberta Ltd. ("Lender") whereby the Lender has agreed to lend the Company up to an aggregate principal amount of $500,000. The entities are related by virtue of common management and directors. The loan is variable and dependent upon the operational needs of the Company and operates as a revolving line of credit. The loan may be drawn upon and repaid as required by the Company. The outstanding balance of the loan bears interest at a rate equal to the Scotia Bank Prime Rate plus 0.85% per annum. Interest is calculated and payable monthly.

During the reporting periods, the Company entered into the following transactions with related companies:

| | **Dec 31 2022 (365 days)** | Dec 31 2021 (240 days) |
|---|---|---|
| | **$** | $ |
| Management fee | | |
| Carecana Management Corp. | **49,215** | - |
| Mortgage administration fee | | |
| CareVest Capital Inc. | **5,283** | - |
| Interest expense | | |
| 2038231 Alberta Ltd. | **17,182** | - |
| | **71,680** | - |

These transactions were in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

The following balances were outstanding at the end of the reporting periods:

| | **2022** | 2021 |
|---|---|---|
| | **$** | $ |
| Due to | | |
| Carecana Management Corp. | **5,279** | - |
| CareVest Capital Inc. | **572** | - |
| | **5,851** | - |
| Revolving line of credit | | |
| 2038231 Alberta Ltd. | **436,754** | - |
| | **436,754** | - |

(In Canadian dollars)

## 10. Related party transactions (continued)

*Compensation of key management personnel*

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of the Company. The Company had no employees and there was $Nil remuneration for directors during the reporting periods.

## 11. Income taxes

*Income taxes recognized in net earnings*

| | **Dec 31 2022 (365 days)** | Dec 31 2021 (240 days) |
|---|---|---|
| | **$** | $ |
| Tax expense | | |
| Current tax expense | **4,004** | 2,516 |

*Income taxes reconciliation*

| | **Dec 31 2022** | Dec 31 2021 |
|---|---|---|
| | **$** | $ |
| Earnings before income taxes | **2,489** | 2,500 |
| Tax expense | | |
| Effects of expenses that are not deductible in determining taxable profit | | |
| Stage 1 impairment of mortgages receivable $4,816 (2021 $7,179) | **2,760** | 2,516 |
| Other - adjusted 2021 tax expense | **1,244** | - |
| Tax expense recognized in net earnings | **4,004** | 2,516 |

The tax rate used for the 2022 reconciliation above is the corporate tax rate of 36.00% (2021 - 36.00%) payable by corporate entities in Canada on taxable profits under tax law in applicable jurisdictions. The entity is taxable in multiple jurisdictions with different provincial tax rates.

*Current tax assets and liabilities*

| | **2022** | 2021 |
|---|---|---|
| | **$** | $ |
| Current tax (asset) liability | | |
| Income taxes (receivable) payable | **(1,368)** | 2,516 |

(In Canadian dollars)

## 12. Changes in non- cash working capital

| | **2022** | 2021 |
|---|---|---|
| | **$** | $ |
| Due to related companies | **5,851** | - |
| | **5,851** | - |

## 13. Capital disclosures

The Company defines capital as Class A shares and capital stock as recognized in the financial statements. The Company's management of capital is to safeguard the Company's ability to continue as a going concern in order to provide shareholders with sustainable income while preserving capital for distribution or reinvestment by investing in mortgages receivable commensurately with the Company's investment policies.

The Company manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, or sell assets.

The Company has the following capital outstanding at the reporting date.

| | **2022** | 2021 |
|---|---|---|
| | **$** | $ |
| Capital stock | 100 | 100 |
| Class A shares | 3,969,415 | 2,146,814 |
| | **3,969,515** | 2,146,914 |