Grant Thornton

Financial Statements

Armada Mortgage Corporation

December 31, 2019

Contents

Independent Auditor's Report

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To the Shareholders of
Armada Mortgage Corporation

Opinion

We have audited the financial statements of Armada Mortgage Corporation, which comprise the statement of financial position as at December 31, 2019, and the statements of income and comprehensive income, changes in equity, and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

Basis for opinion

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

Those charged with governance are responsible for overseeing the company’s financial reporting process.

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Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these 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 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.

Grant Thornton LLP

Vancouver, Canada
March 24, 2020

Chartered Professional Accountants

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Armada Mortgage Corporation
Statement of Financial Position

December 31	**2019**	2018
Assets		
Accounts receivable	**$ -**	$ 30,840
Interest receivable	**187,468**	172,268
Due from a related party (Note 8)	**445,051**	338,051
Mortgages receivable (Note 4)	**34,919,829**	29,920,340
Total assets	**$ 35,552,348**	$ 30,461,499
Liabilities		
Bank indebtedness (Note 5)	**$ 3,797,465**	$ 3,993,533
Accounts payable	**48,390**	157,256
Redemption payable (Note 7)	**520,000**	-
Dividend payable (Note 6)	**1,164,948**	1,138,456
Preferred shares (Note 7)	**30,073,481**	25,224,190
Total liabilities	**35,604,284**	30,513,435
Shareholders' deficiency		
Common shares (Note 7)	**95**	95
Deficit	**(52,031)**	(52,031)
Total shareholders' deficiency	**(51,936)**	(51,936)
Total liabilities and shareholders' deficiency	**$ 35,552,348**	$ 30,461,499

Subsequent events (Note 13)

On behalf of the board

Patricia Mikuski Director _______________ Director

Armada Mortgage Corporation
Statements of Income and Comprehensive Income

Year ended December 31	2019	2018
Revenue		
Mortgage interest	**$ 2,373,856**	$ 2,090,679
Other fees	**95,427**	95,505
Lender fees	**319,247**	246,464
	2,788,530	2,432,648
Expenses		
Advertising and promotion	**25,844**	33,315
Consulting fees (Note 8)	**17,461**	36,168
Insurance	**15,565**	11,703
Interest	**86,436**	94,665
Management fees (Note 8)	**476,850**	452,496
Mortgage losses (gains) - net	**10,500**	(101,684)
Office	**10,016**	4,960
Professional fees	**43,387**	82,188
	686,059	613,811
Income before other item and income taxes	**2,102,471**	1,818,837
Other item		
Dividend expense	**2,102,243**	1,818,837
Income before income taxes	**228**	-
Income taxes	**228**	-
Net income and comprehensive income	**$ -**	$ -

Armada Mortgage Corporation
Statement of Changes in Equity
Year ended December 31

	Common Shares	Deficit	Total
Balance, December 31 2017	$ 95	$ -	**$ 95**
Adjustment from the adoption of IFRS 9	-	(52,031)	**(52,031)**
Adjusted balance on January 1, 2018	95	(52,031)	**(51,936)**
Redemption of shares	(4)	-	**(4)**
Proceeds from issuance of shares	4	-	**4**
Balance, December 31, 2018	$ 95	$ (52,031)	**$ (51,936)**
Balance on January 1, 2019	95	(52,031)	**(51,936)**
Redemption of shares	(4)	-	**(4)**
Proceeds from issuance of shares	4	-	**4**
Balance, December 31, 2019	**$ 95**	**$ (52,031)**	**$ (51,936)**

Armada Mortgage Corporation
Statement of Cash Flows

Year ended December 31	**2019**	2018
Increase (decrease) in cash		
Operating		
Net income and comprehensive income	**$ -**	$ -
Items not affecting cash		
Mortgage interest	**(2,373,856)**	(2,090,679)
Dividends	**2,102,243**	1,818,837
Mortgage losses (gains) - net	**10,500**	(153,715)
Interest expense	**86,436**	94,665
	(174,677)	(330,892)
Change in non-cash operating working capital		
Accounts receivable	**30,840**	(1,840)
Accounts payable	**(108,866)**	109,257
Unearned lender fees	**3,800**	100,600
Due from a related party	**(107,000)**	(161,000)
	(181,226)	47,017
Cash flows relating to interest and dividends		
Interest received	**2,358,656**	2,049,340
Interest paid	**(86,436)**	(94,665)
Dividends paid	**(1,252,331)**	(1,032,531)
	1,019,889	922,144
	663,986	638,269
Financing		
Common shares issued	**4**	4
Common shares redeemed	**(4)**	(4)
Preferred shares issued	**5,306,079**	3,924,376
Preferred shares redeemed	**(760,209)**	(412,910)
Proceeds from bank indebtedness	**18,500,000**	18,010,000
Repayment of bank indebtedness	**(18,696,068)**	(18,163,712)
	4,349,802	3,357,754
Investing		
New mortgages funded	**(22,664,195)**	(20,114,846)
Mortgages repaid	**17,650,407**	16,118,823
	(5,013,788)	(3,996,023)
Increase in cash	**-**	-
Cash		
Beginning of year	**-**	-
End of year	**$ -**	$ -

1. Nature of operations

Armada Mortgage Corporation (the "company") is a mortgage investment corporation pursuant to Section 130.1 of the Income Tax Act. It was incorporated under the British Columbia Companies Act on December 29, 1995 and is also registered in Alberta, Manitoba and Ontario. The company's target return to investors is 3.75% over the Bank of Canada 3-5 year bond rate, a target that has been reached each year since operations began in 2001.

The address of the company's registered office is 11951 224 Street, Maple Ridge, BC V2X 6B2.

2. Basis of presentation

The financial statements were prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

These annual financial statements were authorized for issuance by the Board of Directors on March 24, 2020.

Functional and presentation currency
These financial statements are presented in Canadian dollars, which is also the company's functional currency.

Use of estimates and judgments
The preparation of financial statements in accordance with IFRS requires management to make estimates, assumptions and judgments that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the reporting date and the reported amounts of revenue and expenses during the reporting period.

Significant areas requiring the use of management estimates relate to the valuation of mortgages and provision for impaired loans.

Management believes that its estimates are appropriate, however, actual results could differ from the amounts estimated. Estimates and underlying assumptions are reviewed annually and revisions to accounting estimates are recognized in the period in which the estimate is revised and any future periods affected.

3. Summary of significant accounting policies

Financial instruments

Recognition and derecognition
Financial assets and financial liabilities are recognized when the company becomes a party to the contractual provisions of the financial instrument.

Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all the risks and rewards are transferred. A financial liability is derecognized when it is extinguished, discharged, cancelled or expires.

Classification upon recognition and initial measurement of financial assets

IFRS 9 eliminates the previous IAS 39 categories for financial assets held to maturity, financial assets available for sale, loans and other accounts receivable. All financial assets are initially measured at fair value. Financial assets, other than those designated and effective as hedging instruments, are classified into the following categories:

- amortized cost;
- fair value through other comprehensive income (“FVOCI”); or
- fair value through profit or loss (“FVTPL”).

In the periods presented, the company does not have any financial assets categorized as FVOCI or FVTPL.

The classification is determined by both:
- the entity’s business model for managing the financial asset; and
- the contractual cash flow characteristics of the financial asset.

Subsequent measurement of financial assets

The company's financial assets are all categorized as amortized cost.

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

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

After initial recognition, these are measured at amortized cost using the effective interest method.

3. Summary of significant accounting policies (continued)

Financial instruments (continued)

Impairment of financial assets

Impairment of financial assets is determined using forward-looking information to recognize expected credit losses – the ‘expected credit loss (ECL) model’. Instruments within the scope of the new requirements included loans, term deposits and other accounts receivable measured at amortized cost.

The company considers a broader range of information when assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.

In applying this forward-looking approach, a distinction is made between:

- financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk (‘Stage 1’) and
- financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low (‘Stage 2’).

‘Stage 3’ would cover financial assets that have objective evidence of impairment at the reporting date.

‘12-month expected credit losses’ are recognized for the first category while ‘lifetime expected credit losses’ are recognized for the second category.

Measurement of the expected credit losses is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

Classification and measurement of financial liabilities

The company's financial liabilities include bank indebtedness, accounts payable, redemption payable, dividends payable, and preferred shares.

Financial liabilities are initially measured at fair value, and, where applicable, adjusted for transaction costs unless the company designated a financial liability at fair value through profit or loss.

Subsequently, the company's financial liabilities are measured at amortized cost using the effective interest method.

Dividends

Dividends on new shares and redemptions are calculated on a pro-rated monthly basis.

3. Summary of significant accounting policies (continued)

Revenue recognition

Interest income on mortgages is recorded using the accrual method. The majority of the mortgages receivable are for a one year term and, therefore, loan fees and expenses are recognized in the year received or incurred. All discounts on mortgages are deferred at the time of acquisition. The discounts on mortgages purchased below face value are amortized to income over the mortgage term and recognized as revenue on a monthly basis until the earlier of the maturity date or pay out date.

Interest income on impaired loans ceases to accrue if it is determined that insufficient equity exists. Any interest income after that point is only recognized when received at the successful completion of the foreclosure action.

Interest and penalties received as a result of loan prepayments are recognized as income in the year in which the prepayment was made.

In foreclosure situations, the company will continue to accrue interest until management believes there will be no recovery of the mortgage and successful completion of the foreclosure action is inevitable. The company will carefully review the situation with these mortgages and recognize any impairment when it arises.

4. Mortgages receivable

The portfolio consists of the following:

	No.	%	**2019**	No.	%	2018
First mortgages	84	74.4	**$ 26,233,989**	68	72.1	$ 21,755,379
Second mortgages	95	25.6	**9,013,329**	94	27.9	8,418,151
			35,247,318			30,173,530
Less: allowance for loan impairment			**130,847**			60,347
Less: unearned lender fees			**196,642**			192,843
			$ 34,919,829			$ 29,920,340

	2019	2018
The average mortgage balance is	**$ 196,912**	$ 186,293
The weighted average interest rate is	**7.66 %**	7.62 %
The weighted average return on mortgages is	**8.42 %**	8.64 %

Mortgages are issued typically with terms between one to two years and are subject to approval based on lending criteria.

Due to the short-term nature of the loans, the carrying value of the mortgage receivable approximates fair value.

4. Mortgages receivable (continued)

At December 31, 2019 there were two mortgages of $466,607 in foreclosure proceedings (2018 - two mortgages totalling $368,111) and no mortgage loans that are past due but not classified as impaired (2018 - no mortgage loans that are past due but not classified as impaired).

The company recovered a loss of $60,000 (2018 - $110,000) from a mortgage foreclosure.

The majority of the mortgages are residential mortgages registered against properties in the major urban centres of British Columbia, Alberta and Ontario.

As at December 31, 2019 there were no significant mortgage amounts of over 4% of the overall value of mortgages receivable within the mortgage portfolio (2018 - no significant mortgage).

The mortgages bear interest at fixed rates, which are within the company's guidelines and are consistent with the equity based lending market.

The company applies the IFRS 9 general approach in measuring ECL wherein 12-month and lifetime expected loss allowance for all mortgages receivable are recognized based on the performance and credit risk characteristic, with reference to days the receivable are past due, of the mortgages.

The expected loss rates are based on the payment profiles of the mortgages over a period of 10 years before December 31, 2019 or January 1, 2019, respectively, and the corresponding historical credit losses experienced within such period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the mortgagees to settle the receivables. The company has identified the demand and supply of real estate properties affecting prices and the economic activitiy in the region, mortality rate, unemployment rate, inherent limitations on property appraisal values, and mortgaged property locations, among others, to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors. On the basis of the foregoing, the accumulated loss allowance as at December 31, 2019 and 2018 were detailed as follows:

	Stage 1	Stage 2	Stage 3	Total
Expected loss rate	0.09%	4.50%	%-	
Mortgage balance at December 31, 2019	33,075,172	2,172,146	-	$35,247,318
Accumulated loss allowance	32,710	98,137	-	$130,847

	Stage 1	Stage 2	Stage 3	Total
Expected loss rate	0.06%	1.40%	%-	
Mortgage balance at December 31, 2018	26,921,422	3,252,108	-	$30,173,530
Accumulated loss allowance	15,087	45,260	-	$60,347

There was no reclassication of losses between Stage 1 and Stage 2 categories.

Type of mortgage

The following is an analysis of the mortgages receivable showing the diversification of the mortgages by the type of property the mortgage has been advanced upon and the location of the mortgage. Also included is an analysis of the delinquent mortgages, allowance for loan impairment and losses expended during the year.

4. Mortgages receivable (continued)

	First mortgages	Second mortgages	2019	2018
Residential	$ 25,535,570	$ 9,013,329	$ 34,548,899	$ 29,764,453
Construction	698,419	-	698,419	409,077
	$ 26,233,989	$ 9,013,329	$ 35,247,318	$ 30,173,530

Location analysis

	First mortgages	Second mortgages	2019	2018
British Columbia	$ 20,603,427	$ 7,207,167	$ 27,810,594	$ 24,958,014
Alberta	597,502	141,682	739,184	696,453
Ontario	5,033,060	1,664,480	6,697,540	4,519,063
	$ 26,233,989	$ 9,013,329	$ 35,247,318	$ 30,173,530

Delinquent mortgages

	2019	2018
Mortgages in the process of foreclosure	**$ 747,157**	$ 368,111

Impairment allowance

	2019	2018
Balance, beginning of the year	**$ 60,347**	$ -
Effect of IFRS 9 adoption	**-**	52,031
Current year impairment allowance	**70,500**	8,316
Balance, end of year	**$ 130,847**	$ 60,347

Mortgage losses (gains)

	2019	2018
Increase in impairment allowance	**$ 70,500**	$ 60,347
Loss recovery	**(60,000)**	(110,000)
	$ 10,500	$ (49,653)

4. Mortgages receivable (continued)

	2019	2018
Mortgage contracts expiring within 12 months	**$ 33,082,890**	$ 27,547,438
Mortgage contracts expiring over 12 months	**2,164,428**	2,626,092
	$ 35,247,318	$ 30,173,530

5. Bank indebtedness

The company has a credit facility with TD Canada Trust for a demand operating loan to a maximum of $5,000,000. Interest is charged at the bank's prime lending rate plus 0.50% per annum. The maximum amount of the loan shall not exceed the aggregate of 75% of eligible residential properties principal balance and appraised value; 65% of interest only eligible residential mortgages principal balance, and 50% on eligible commercial and industrial properties. The credit facility is secured by a commercial security agreement covering all eligible mortgages in the portfolio.

At December 31, 2019, the company was in compliance with all bank covenants and had drawn $3,797,465 (2018 - $3,993,533). This number consists of monies drawn from the line of credit totaling $3,770,000 (2018 - $3,930,000) and bank overdraft of $27,465 (2018 - $63,533).

The bank overdraft is included under the credit facility with TD Canada Trust following the same terms.

6. Dividend payable

The company follows a dividend policy in accordance with the provisions of the Income Tax Act related to Mortgage Investment Corporations. Dividends are paid on a monthly basis at $0.0032 (2018 - $0.0038) per share and an annual dividend after the year end which has been calculated that will be paid at $0.0387 (2018 - $0.0450) per share.

Dividend previously declared on the preferred shares of the company were distributed as follows:

	2019	2018
Dividend payable, beginning of the year	**$ 1,138,456**	$ 874,289
Dividends paid in cash	**(1,252,331)**	(1,032,531)
Dividend paid in shares	**(823,420)**	(522,139)
Dividend declared during the year	**2,102,243**	1,818,837
	$ 1,164,948	$ 1,138,456

7. Share capital

Authorized

Unlimited Common voting shares without par value.
Unlimited Class A non-voting preferred shares with a par value of $1.00 each.
Unlimited Class B non-voting preferred shares without par value.

	2019		2018	
	Shares	Amount	Shares	Amount
Shares outstanding, beginning of year	**$ 95**	$ 95	$ 95	$ 95
Issued	**4**	4	4	4
Redeemed	**(4)**	(4)	(4)	(4)
	$ 95	$ 95	$ 95	$ 95

	2019		2018	
	Shares	**Amount**	Shares	Amount
Shares outstanding, beginning of year	25,224,191	**$ 25,224,191**	21,190,586	$ 21,190,586
Issued	5,306,079	**5,306,079**	3,924,376	3,924,376
Redeemed	(1,280,209)	**(1,280,209)**	(412,910)	(412,910)
Dividends issued as shares	823,420	**823,420**	522,139	522,139
	30,073,481	**$ 30,073,481**	25,224,191	$ 25,224,191

As at December 31, 2019, redemption of the company's class A non-voting preferred shares amounting to $520,000 remain unpaid (2018 - nil). All preferred shares are equally eligible to receive dividends and the repayment of capital. Each common share represents one vote at the shareholders' meeting.

The company follows the IFRS recommendations for accounting for financial instruments, therefore issued share capital which is redeemable at the request of the shareholder and has the attributes of a financial liability is presented as such.

8. Related party transactions

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

The company contracted Armada Capital Corp. to manage the mortgage portfolio for a fee which is calculated at one twelfth of 1.50% of the mortgage portfolio per month plus GST. Armada Capital Corp. is owned by Gordon Hone, a shareholder and director of the company.

Management fees for the fiscal year total $476,850 (2018 - $452,496) and an amount of $45,338 (2018 - $77,428) was unpaid at the year end as part of accounts payable. Unpaid amounts are in

8. Related party transactions (continued)

the normal course of business, non-interest bearing and were paid within 30 days of the year end.

The company uses an internally generated mortgage program, Mortgage Pro, created by Armada Capital Corp. During the year, the company fully paid $17,461 (2018 - $19,592) on behalf of Armada Capital Corp. for system maintenance; which is considered to be the consulting fees for the use of the program.

The company sold a mortgage in foreclosure to a related party, 1097617 BC Ltd, in the prior year and has extended funds on a non-interest bearing basis for the amount of $445,051 (2018 - $338,051) for the renovation of the property.

The company paid certain start up expenses on behalf of Armada Wealth Management Inc. ("AWM") at no cost to AWM.

The company engages the services of one of its Directors for hosting its website for $1,365 (2018 - $1,365).

Directors, officers and related family members who have investments in the company received $484,032 (2018 - $419,901) in dividend income. In all cases, the dividends received were based on the same criteria as all other investors holding the same class of shares in the company.

At December 31, 2019 each director owned one voting common share and an aggregate total of 19.83% (2018 - 23.77%) of non-voting preferred shares, either directly or indirectly.

9. Fair value of financial instruments

The following provides an analysis of financial instruments that are measured, subsequent to initial recognition, at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

Level 1 - quoted prices in active markets for identical investments

Level 2 - inputs other than quoted prices included in Level 1 that are observable for the investment, either directly (i.e. as prices) or indirectly (i.e. derived from prices)

Level 3 - inputs for the investments that are not based on observable market data

The level in the fair value hierarchy within which the financial asset or financial liability is categorized is determined on the basis of the lowest level of input that is significant to the fair value measurement. Financial assets and financial liabilities are classified in their entirety into only one of three levels.

As at December 31, 2019 and 2018 there are no financial instruments carried at fair value and consequently, no financial instruments categorized into Levels 1, 2 or 3 or transfers between Level 1 and 2 for the years then ended.

10. Financial instruments

The company's financial instruments consist of accounts receivable, due from a related party, interest receivable, mortgages receivable, bank indebtedness, accounts payable, redemption payable, dividends payable, and preferred shares. The company is exposed to various risks through its financial instruments and has a comprehensive risk management framework to monitor, evaluate and manage these risks. The following analysis provides information about the company's risk exposure and concentration as of December 31, 2019.

Credit risk
Credit risk arises from the potential that a counter party will fail to perform its obligations. The company is exposed to credit risk in that the mortgagor will fail to discharge the obligation causing the company to incur a financial loss. In order to reduce its credit risk, the company ensures that the collateral value of the security fully protects first, second and subsequent mortgage advances and that there is a viable exit strategy for each loan. Credit risks policies include the following:

- General mortgage policy statements including approval of lending policies, eligibility for loans, exceptions to policy, policy violations, liquidity and loan administration;
- Mortgage lending limits and criteria set by the Board of Directors;
- Review of mortgages by the Board of Directors; and
- Mortgage delinquency controls regarding procedures followed for loans in arrears.

Market risk
Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises four types of risk: fair value risk, interest rate risk, currency risk, and other price risk. The company is mainly exposed to interest rate risk and other price risk.

Fair value risk
Fair value risk is the potential for loss from an adverse movement in the value of a financial instrument. The company is not impacted by fair value risk.

10. Financial instruments (continued)

Interest rate risk
Interest rate risk is the risk that the value of a financial instrument might be adversely affected by a change in the interest rates. The mortgages receivable are advanced for mainly one year terms, with the rate of interest fixed for that term. Interest rates on mortgages receivable reflect credit risk and prime interest rates. Upon renewal of the mortgage, the company has the option of adjusting the interest rate to respond to changes in credit risk or the prime interest rate.

In seeking to minimize the risks from interest rate fluctuations, the company manages exposure through its normal operating and financing activities. The company is also exposed to interest rate risk through its floating interest rate bank indebtedness and credit facilities.

If interest rates on mortgage receivable had been one percent point higher (lower) during the year ended December 31, 2019, earnings would have increased (reduced) by approximately $306,375 during the year, assuming that no changes had been made to the interest rates at which new mortgage loans were entered into. Similarly, if interest rates on debt had been one percent point higher (lower) during the year ended December 31, 2019, earnings would have been reduced (increased) by approximately $15,417 during the year.

Currency risk
Currency risk is the risk to the company's earnings that arise from fluctuations of foreign exchange rates and the degree of volatility of these rates. The company does not hold any financial instruments in foreign currency, therefore it is not exposed to foreign currency risk.

Other price risk
Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. The company does not hold financial instruments traded in the active market.

Included in other price risk is the real estate property that provides the underlying security for mortgages receivable. The company aims to minimize other price risk through maintaining sufficient loan to value ratios on the advance of mortgages.

11. Capital management

The company's objective when managing capital is to continue operations as a going concern so that it can provide its shareholders with a safe, superior-yielding and liquid investment that also qualifies as an eligible investment for Registered Retirement Savings Plan, Registered Retirement Income Funds and Tax-Free Savings Accounts.

The company defines capital as being the funds raised through bank indebtedness and the issuance of common and preferred shares of the company. The overall objective of capital management is to ensure that the company has sufficient capital to maintain its operations based on current activities and expected business developments in the future and to provide a return to the shareholders commensurate with the risk of the business and comparable to other similar companies.

The company is required to comply with Section 130.1(6) of the Income Tax Act which defines the requirements for Mortgage Investment Corporations. These guidelines give specific externally imposed capital requirements. During the year the company complied with these requirements.

The company's investment restrictions and asset allocation models incorporate various restrictions and investments parameters to manage the risk profile of the mortgage investments. The investment restrictions also permit the company to maintain constant leverage. The aggregate amount of borrowing may not exceed 75% of the principal balance of reducing and non-reducing mortgages on eligible properties, up to a maximum of 75% of appraised property value. As at December 31, 2019, the company was in compliance with its investment restrictions.

Pursuant to the terms of the credit facility, the company is required to meet certain financial requirements, including a maximum debt to tangible net worth ratio and a minimum interest coverage ratio. At December 31, 2019, the company is in compliance with all financial covenants.

12. Rate of return

The effective annual yield on adjusted share capital is as follows:

	2019	2018
Shares with interim dividend accrued	**7.61%**	7.88%
Shares with interim dividend paid in cash	**7.45%**	7.81%

The weighted average share capital for the 2019 fiscal year was 28,213,551 (2018 - 23,505,521).

The average rate of return for the last 17 years is 6.8**%.**

13. Subsequent events

Subsequent to year end, foreclosure processes were commenced for a mortgage of $747,147 with the amount remaining unsettled. Furthermore, another mortgage of $334,193 that was in foreclosure before year end was fully settled with the payment of $344,608 representing outstanding principal and interest.

Subsequent to year end, the Company settled the outstanding liability for the December 2019 redemption of its 520,000 preferred shares on January 2020 for $520,000.

Since December 31, 2019, the spread of COVID-19 has severely impacted many local economies around the globe. In many countries, including Canada, businesses are being forced to cease or limit operations for long or indefinite periods of time. Measures taken to contain the spread of the virus, including travel bans, quarantines, social distancing, and closures of non-essential services have triggered significant disruptions to businesses worldwide, resulting in an economic slowdown. Global stock markets have also experienced great volatility and a significant weakening. Governments and central banks have responded with monetary and fiscal interventions to stabilize economic conditions. The company continuously evalutes and monitors its arrangements to mitigate any significant effects that the existing conditions may have on its business.

The company's management has determined that these events are non-adjusting subsequent events. Accordingly, the financial position and results of operations as of and for the year ended December 31, 2019 have not been adjusted to reflect their impact. The duration and impact of the COVID-19 pandemic, as well as the effectiveness of government and central bank responses, remains unclear at this time. It is not possible to reliably estimate the duration and severity of these consequences, as well as their impact on the financial position and results of the company for future periods.