Grant Thornton

Financial Statements

Armada Mortgage Corporation

December 31, 2020

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, ("the Company"), which comprise the statement of financial position as at December 31, 2020, and the statements of income and comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, a summary of significant accounting policies, and other explanatory information.

In our opinion, the accompanying financial statements present fairly in all material respects, the financial position of the Company as at December 31, 2020, 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.

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 23, 2021

Chartered Professional Accountants

Armada Mortgage Corporation
Statement of Financial Position

December 31		2020		2019
Assets				
Accounts receivable	**$**	**3,500**	$	-
Interest receivable		**199,197**		187,468
Due from related parties (Note 8)		**450,819**		445,051
Mortgage receivable (Note 4)		**36,554,579**		34,919,829
Total assets	**$**	**37,208,095**	**$**	35,552,348
Liabilities				
Bank indebtedness (Note 5)	**$**	**1,471,605**	$	3,797,465
Accounts payable		**59,082**		48,390
Redemption payable (Note 7)		**-**		520,000
Dividends payable (Note 6)		**364,849**		1,164,948
Preferred shares (Note 7)		**35,364,495**		30,073,481
Total liabilities		**37,260,031**		35,604,284
Shareholders' deficiency				
Common shares (Note 7)		**95**		95
Deficit (Note 1)		**(52,031)**		(52,031)
Total shareholders' deficiency		**(51,936)**		(51,936)
Total liabilities and shareholders' deficiency	**$**	**37,208,095**	$	35,552,348

On behalf of the Board

DocuSigned by:
Edward Monteiro
1D6F2F99BD1D460... Director

DocuSigned by:
Steve Drew
2688B671FC5C404... Director

See accompanying notes to the financial statements.

Armada Mortgage Corporation
Statements of Income and Comprehensive Income

Year ended December 31		**2020**		2019
Revenue				
Mortgage Interest	**$**	**2,622,950**	$	2,373,856
Other fees		**81,225**		95,427
Lender fees		**295,681**		319,247
Total revenue		**2,999,856**		2,788,530
Expenses				
Advertising and promotion		**19,932**		25,844
Consulting fees (Note 8)		**18,000**		17,461
Insurance		**12,553**		15,565
Interest		**63,393**		86,664
Management fees (Note 8)		**534,490**		476,850
Net loss allowance		**74,000**		10,500
Office		**9,142**		10,016
Professional fees		**66,710**		43,387
Total expenses		**798,220**		686,287
Income before other item		**2,201,636**		2,102,243
Other item				
Dividend expense		**(2,201,636)**		(2,102,243)
Net income and comprehensive income	**$**	**-**	$	-

See accompanying notes to the financial statements.

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

	Common Shares	Deficit	Total
Balance, December 31, 2018	$ 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)**
Redemption of shares	(4)	-	(4)
Proceeds from issuance of shares	4	-	4
Balance, December 31, 2020	$ **95**	**$ (52,031)**	**$ (51,936)**

See accompanying notes to the financial statements.

Armada Mortgage Corporation
Statement of Cash Flows

Year ended December 31	2020	2019
Increase (decrease) in cash		
Operating activities		
Net income and comprehensive income	$ -	$ -
Items not affecting cash		
Mortgage interest	**(2,622,950)**	(2,373,856)
Dividends	**2,201,636**	2,102,243
Net loss allowance	**74,000**	10,500
Interest expense	**63,393**	86,664
	(283,921)	(174,449)
Change in non-cash operating working capital		
Accounts receivable	**(3,500)**	30,840
Accounts payable	**10,692**	(108,866)
Unearned lender fees	**(41,901)**	3,800
Due from a related party	**(5,768)**	(107,000)
	(40,477)	(181,226)
Cash flows relating to interest and dividends		
Interest received	**2,611,220**	2,358,656
Interest paid	**(63,393)**	(86,664)
Dividends paid	**(1,310,017)**	(1,252,331)
	1,237,810	1,019,661
Net cash derived from operating activities	**913,412**	663,986
Financing activities		
Common shares issued	**4**	4
Common shares redeemed	**(4)**	(4)
Preferred shares issued	**4,058,601**	5,306,079
Preferred shares redeemed	**(979,304)**	(760,209)
Proceeds from bank indebtedness	**12,790,000**	18,500,000
Repayment of bank indebtedness	**(15,115,860)**	(18,696,068)
Net cash derived from financing activities	**753,437**	4,349,802
Investing activities		
New mortgages funded	**(18,619,911)**	(22,664,195)
Mortgages repaid	**16,953,062**	17,650,407
Net cash (applied to) derived from investing activities	**$ (1,666,849)**	(5,013,788)
Increase in cash	**-**	-
Cash		
Beginning of year	**-**	-
End of year	**$ -**	$ -

See accompanying notes to the financial statements.

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 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 Company's deficit was a result of the recognition of increase in the allowance for impairment of mortgages of $52,031 at the date of initial application of IFRS 9, Financial Instruments, on January 1, 2018.

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

On March 11, 2020, the World Health Organization officially declared the COVID-19 outbreak a pandemic. The pandemic has forced governments to implement extraordinary measures to slow the progress of infections and to stabilize disrupted economies and financial markets. The Company has deployed initiatives in order to protect the health and safety of its employees, to support its mortgagors and mitigate the impact of the crisis while ensuring continuity of its activities. The pandemic has not had a significant impact on the Company's financial statements to date. As of this time, it is difficult to assess the impact on the Company's future results as it is dependent on the length and severity of the pandemic. Management will continue to monitor and assess the situation and respond accordingly.

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 23, 2021.

Basis for measurement
These financial statements are prepared on the historical cost basis, except for financial instruments classified as fair value through profit or loss that have been measured at fair value.

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 the expected credit loss for 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

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

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.

The Company’s financial assets are all categorized as amortized cost.

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’.

The Company considers a broad 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.

3. Summary of significant accounting policies (continued)

Financial instruments (continued)

In applying the 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 stage while 'lifetime expected credit losses' are recognized for the second stage.

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.

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.

3. Summary of significant accounting policies (continued)

Revenue recognition (continued)

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.	%		2020	No.	%		2019
First mortgages	89	76.8	$	**28,336,470**	84	74.4	$	26,233,989
Second mortgages	78	23.2		**8,577,697**	95	25.6		9,013,329
				36,914,167				35,247,318
Less: allowance for loan impairment				**204,847**				130,847
Less: unearned lender fees				**154,741**				196,642
			$	**36,554,579**			$	34,919,829

		2020		2019
The average mortgage balance is	$	**221,043**	$	196,912
The weighted average interest rate is		**7.30%**		7.66%
The weighted average return on mortgages is		**8.23%**		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.

At December 31, 2020 there were no mortgages in foreclosure proceedings (2019 – two mortgages totalling $466,607) and similar to 2019, no mortgage loans that are past due but not classified as impaired.

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, 2020, there were no significant mortgage amounts of over 4% of the overall value of mortgages receivable within the mortgage portfolio (2019 – no significant mortgages).

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

4. Mortgages receivable (continued)

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, 2020 or January 1, 2020, 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 activity 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, 2020 and 2019 were detailed as follows:

	Stage 1	Stage 2	Stage 3	Total
Mortgage balance as of December 31, 2020	36,176,431	737,736	-	**$** 36,914,167
Accumulated loss allowance 2020	51,168	153,679	-	**$** 204,847
Mortgage balance as of December 31, 2019	33,075,172	2,172,146	-	**$** 35,247,318
Accumulated loss allowance 2019	32,710	98,137	-	**$** 130,847

There was no reclassification 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.

	First mortgages	Second mortgages	2020	2019
Residential	$ **27,543,967**	$ **8,577,697**	$ **36,121,664**	$ 34,548,899
Construction	**792,503**	**-**	**792,503**	698,419
	$ **28,336,470**	$ **8,577,697**	$ **36,914,167**	$ 35,247,318

Location analysis

	First mortgages	Second mortgages	2020	2019
British Columbia	$ **18,806,193**	$ **7,047,646**	$ **25,853,839**	$ 27,810,594
Alberta	**841,956**	**140,386**	**982,342**	739,184
Ontario	**8,688,321**	**1,389,665**	**10,077,986**	6,697,540
	$ **28,336,470**	$ **8,577,697**	$ **36,914,167**	$ 35,247,318

4. Mortgages receivable (continued)

Delinquent mortgages

	2020	2019
Mortgages in the process of foreclosure	$ -	$ 747,157
	$ -	$ 747,157

Impairment allowance

	2020	2019
Balance, beginning of the year	$ 130,847	$ 60,347
Current year impairment allowance	74,000	70,500
Balance, end of year	**$ 204,847**	$ 130,847

Mortgage losses

	2020	2019
Increase in impairment allowance	**$ 74,000**	$ 70,500
Loss recovery	**-**	(60,000)
	$ 74,000	$ 10,500

	2020	2019
Mortgage contracts expiring within 12 months	**$ 34,669,708**	$ 33,082,890
Mortgage contracts expiring over 12 months	**2,244,459**	2,164,428
	$ 36,914,167	$ 35,247,318

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.

At December 31, 2020, the Company was in compliance with all bank covenants and had drawn $1,471,605 (2019 – $3,797,465). This balance consists of monies drawn from the line of credit totalling $1,470,000 (2019 – $3,770,000) and bank overdraft of $1,605 (2019 – $27,465).

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

6. Dividends payable

The Company follows a dividend policy in accordance with the provision of the Income Tax Act related to Mortgage Investment Corporations. Dividends are paid on a monthly basis at $0.0047 (2019 - $0.0032) per share and an annual dividend which has been calculated that will be paid at $0.0112 (2019 - $0.0387) per share.

Dividends previously declared on the preferred shares of the Company were distributed as follows:

		2020		2019
Dividends payable, beginning of year	**$**	**1,164,948**	$	1,138,456
Dividends paid in cash		**(1,310,017)**		(1,252,331)
Dividends paid in shares		**(1,691,717)**		(823,420)
Dividends declared during the year		**2,201,636**		2,102,243
Dividends payable, end of year	**$**	**364,849**	$	1,164,948

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.

	2020			2019		
	Shares		**Amount**	**Shares**		Amount
Common shares outstanding, beginning of year	**95**	**$**	**95**	95	$	95
Issued	4		4	4		4
Redeemed	(4)		(4)	(4)		(4)
Common shares outstanding, end of year	**95**	**$**	**95**	95	$	95
Preferred shares outstanding, beginning of year	**30,073,481**	**$**	**30,073,481**	25,224,191	$	25,224,191
Issued	**4,058,601**		**4,058,601**	5,306,079		5,306,079
Redeemed	**(459,304)**		**(459,304)**	(1,280,209)		(1,280,209)
Dividends issued as shares	**1,691,717**		**1,691,717**	823,420		823,420
Preferred shares outstanding, end of year	**35,364,495**	**$**	**35,364,495**	30,073,481	$	30,073,481

As at December 31, 2020, redemption of the Company's class A non-voting preferred shares amounting to $Nil remained unpaid (2019 – $520,000). 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 $534,490 (2019 - $476,850) and an amount of $48,336 (2019 - $45,338) was unpaid at the year end as part of accounts payable. Unpaid amounts are in 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 $18,000 (2019 - $17,461) 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 in 2017 to a related party, 1097617 BC Ltd, and currently has extended funds on a non-interest bearing basis for the amount of $350,819 (2019 – $345,051) for the renovation of the property.

The Company had previously advanced $80,000 to Armada Wealth Management Inc. (“AWM”) in the form of a subordinated loan that remains outstanding for the fiscal year ended (2019 - $80,000). The loan is unsecured, non-interest bearing, and is subordinated to the claims of the general creditors of AWM, pursuant to standard uniform subordination agreements in the form required by the British Columbia Securities Commission (“BCSC”). The loan is payable on demand, subject to the approval of the BCSC following a 10 day notice to the regulatory authority.

In addition to the subordinated loan, the Company had also previously advanced and unsecured and non-interest bearing loan to AMC amounting to $20,000, which remains outstanding for the fiscal year ended (2019 - $20,000). The loan is payable on demand.

The Company paid a total of $27,319 in expenses on behalf of AWM. These amounts are not expected to be recoverable. AWM was established in 2019 in order to facilitate the preferred share transaction of the Company as required by the BCSC.

The Company previously engaged the services of one of its Directors for hosting its website in the 2019 fiscal year for the amount of $1,365 and did not have this service provided for the 2020 fiscal year.

Directors, officers and related family members who have investments in the Company received $309,900 (2019 - $484,032) 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, 2020 each director owned one voting common share and an aggregate total of 13.61% (2019 – 19.83%) 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:

9. Fair value of financial instruments (continued)

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, 2020 and 2019 there are no financial instruments carried at fair value.

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, 2020.

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: currency rate risk, interest rate risk, fair value 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, 2020, earnings would have been reduced (increased) by approximately $341,050 (2019 - $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, 2020, earnings would have been reduced (increased) by approximately $20,149 (2019 - $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 or currency 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 the issuance of Class A and B 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.

11. Capital management (continued)

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, 2020, 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, 2020, the Company is in compliance with all financial covenants.

12. Rate of return

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

	2020	2019
Shares with interim dividend accrued	6.90%	7.61%
Shares with interim dividend paid in cash	6.75%	7.45%

The weighted average share capital for the 2020 fiscal year was 32,563,786 (2019 - 28,213,551).

The average rate of return for the last 17 years is 6.77%.